HJ 19

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Joint Resolution 19 (Delegate Klima, *et al.*)
Appropriations

Debt Affordability - Protection of Maryland from the Growth of Excessive State Debt

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This joint resolution declares that the net new authorization of general obligation debt shall not exceed $322 million in the 2001 session and that surplus operating budget funds be used to finance other planned and necessary capital projects.

Fiscal Summary

State Effect: General fund expenditures for debt service could decrease by $617,000 in FY 2002 and by $12.4 million in FY 2006. General obligation bond revenues would decrease by $153 million over a five-year period.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenues	$0	$0	$0	$0	$0
GF Expenditure	(.6)	(2.5)	(4.6)	(9.2)	(12.4)
Net Effect	$.6	$2.5	$4.6	$9.2	$12.4

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: The Capital Debt Affordability Committee is required to review annually the size and condition of the State's debt and to submit to the Governor and the General Assembly, by September 10 of each year, an estimate of the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. The committee is also required to submit an estimate of the amount of new bonds for academic facilities that prudently may be authorized. While the committee's recommendations are not binding, the Governor is required to give due consideration to the committee's findings in determining the total authorization of new State debt and in preparing a preliminary allocation for the next fiscal year.

Background: The Capital Debt Affordability Committee is comprised of five members; one individual appointed by the Governor, the Comptroller, the Treasurer, the Secretary of Budget and Management, and the Secretary of Transportation. The committee was established in 1978 in response to a dramatic increase in outstanding debt during the mid-1970s and the release of a two-year study of the State's debt by the Department of Legislative Services.

State Fiscal Effect: The Capital Debt Affordability Committee recommended a $475 million limit for new general obligation debt authorization for the 2001 session. This was a $15 million increase over the 2000 debt limit. Bonds authorized in a given year are not all issued immediately. The Capital Debt Affordability Committee assumes that on average, it takes five years for an authorization to be fully issued as follows:

1st Year	**2nd Year**	**3rd Year**	**4th Year**	**5th Year**
31%	25%	20%	15%	9%

Limiting the new debt authorization to $322 million would reduce the issuance of State general obligation bonds by $153 million over time, thus lowering the State's annual debt service. **Exhibit 1** shows the projected decrease in general obligation debt issuances using the Capital Debt Affordability Committee issuance rate assumptions and the resulting savings in debt service for the next five years. Savings would continue to accrue for the 15-year term the bonds would have been outstanding for a total savings of approximately $193.2 million. Estimated savings are based on an assumed interest rate of 5.25% for the first bond sale in fiscal 2002. Subsequent bond sales reflect a 5.5% annual interest rate.

Exhibit 1
Projected Savings From Lower Bond Authorization

Fiscal Year	**CDAC's Current Issuance Stream**	**Decrease in GO Issuance**	**Debt Service Savings**
2002	31%	$47 million	$617,000
2003	25%	$38 million	$2.5 million
2004	20%	$31 million	$4.6 million
2005	15%	$23 million	$9.2 million
2006	9%	$14 million	$12.4 million

Additional Information

Prior Introductions: A similar joint resolution was introduced in the 2000 session as HJ 16. The Appropriations Committee did not take action on the joint resolution.

Cross File: None.

Information Source(s): Department of Legislative Services

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