**MTBMA MAA Testimony SB60.pdf**
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MTBMA
MARYLAND TRANSPORTATION BUILDERS AND MATERIALS ASSOCIATION

MARYLAND ASPHALT ASSOCIATION
SINCE 1954

Senator Guy Guzzone, Chair
Budget and Taxation Committee
3 West, Miller Senate Office Building
Annapolis, MD 21401

**SUPPORT**

January 21, 2021

**RE: SB 60 – SUPPORT – State Debt – Annuity Bond Fund – Use of Bond Premiums**

Dear Chairman Guzzone and Members of the Senate Budget and Taxation Committee:

The Maryland Transportation Builders and Materials Association ("MTBMA") and the Maryland Asphalt Association ("MAA") collectively represent tens of thousands of Marylanders who operate in the areas of transportation construction, production and engineering. Together, for nearly 100 years these organizations have served as the voice of the transportation construction industry. The mission of both MTBMA and MAA is to encourage, develop, and protect the prestige of the transportation construction and materials industry in Maryland by establishing and maintaining respected relationships with federal, state, and local public officials. We proactively work with regulatory agencies and governing bodies to represent the interests of the transportation industry, and also advocate for adequate state and federal funding for Maryland's multimodal transportation system.

We greatly appreciate the Sponsor's goals in this piece of legislation and ask that this committee show unwavering support for SB 60. This bill would alter the use of existing assets from the sale of State bonds transferred to the Annuity Bond Fund, to be appropriated for supporting capital projects in our State. Decreases in funding and the economic effects of COVID-19 have left our industry in a vulnerable state, and this legislation would provide our members with unmatched opportunities to more effectively serve and support Maryland's growing infrastructure network, which is the essence of our economy.

We thank you for your time and consideration of this bill and urge a FAVORABLE report on Senate Bill 60.

Sincerely,

Michael Sakata
President & CEO, MTBMA

Marshall Klinefelter
President, MAA

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Maryland STATE TREASURER
Investing for Maryland's future.

**Nancy K. Kopp**
State Treasurer

**Bernadette T. Benik**
Chief Deputy Treasurer

**Testimony of the Maryland State Treasurer's Office**

**Support**

**Senate Bill 60 - State Debt - Annuity Bond Fund - Use of Bond Premiums**

**January 26, 2021**

Senate Bill 60 ("SB60") would conform the allowable uses of bond premium under State law with applicable federal laws and regulations. Under current State law, bond premium attained from the State's General Obligation ("G.O.") bond sales is deposited into the Annuity Bond Fund and may only be used to pay for expenses related to the issuance of G.O. bonds and debt service on the State's G.O. bonds. SB60 would add capital projects and, when appropriate, any other use authorized by federal laws and regulations to this list of allowable uses.

This legislation is necessary to provide flexibility to the State in its efforts to maintain the tax-exempt status of interest on the State's G.O. bonds. The State's Bond Counsel has recently revised its guidance regarding the use of premium on the State's G.O. bonds. This revised guidance has the effect of shrinking the universe of debt service permitted to be paid from premium. After reviewing the revised guidance, the Office of the Attorney General has recommended that the State comply. The State Treasurer's Office agrees that the revised guidance should be implemented in order to protect the tax-exempt status of the State's G.O. bonds.

Given the large amounts of premium generated in the current low interest rate environment, it is anticipated that the amount of bond premium in future bond issues will outpace the amount of debt service permitted to be paid with premium. Without the passage of SB60 or some other legislation, the State could be left with premium without a permitted use which could jeopardize the tax-exempt status of the State's future bonds.

The Treasurer's Office does not anticipate that the practice of the Governor and General Assembly using the capital budget to direct bond premium to specific projects would change if SB60 is passed. This legislation would only provide the State with the statutory authority to allocate bond premium if needed to protect the tax-exempt status of the State's G.O. bonds.

The State Treasurer's Office respectfully requests a favorable report on SB60.

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## SB 60 Use of Bond Prems (Peters) OPPOSE B&T 1.26.2

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Position: UNF

LARRY HOGAN
*Governor*

BOYD K. RUTHERFORD
*Lieutenant Governor*

Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

DAVID R. BRINKLEY
*Secretary*

MARC L. NICOLE
*Deputy Secretary*

**SENATE BILL 60 State Debt – Annuity Bond Fund – Use of Bond Premiums (Peters)**

**POSITION: OPPOSE**

**DATE: January 26, 2021**

**COMMITTEE: Senate Budget and Taxation**

**SUMMARY OF BILL:** SB 60 expands the authorized uses of bond premiums to include paying for capital projects or other uses authorized by the Internal Revenue Code of 1986.

**EXPLANATION:** Under current Maryland law, Bond Premium funds can only be used for debt service, unless specifically authorized for projects by the legislature. This helps the operating budget in the year the premiums are received. As Bond Premiums have become more common and larger, the municipal bond industry has begun to frown on their use for operating expenses. Based on IRS regulation on the allowable uses of tax-exempt bond proceeds, Maryland's Bond Counsel has advised that we must limit the use for debt service to three years of interest on the current bond sale. The remaining premium can be used to: (1) fund additional capital projects; (2) pay for already-authorized projects with premium rather than issuing debt; or (3) resizing bond sales, which decreases debt outstanding and debt service.

HB 589/SB 493 (p. 20, lines 1-22) - Budget Reconciliation and Financing Act includes a provision that would allow the use of bond premiums for capital projects, and, beginning in FY 2024, restrict the use of bond premiums to interest to the extent permitted and to resizing current or future bond sales.

This arrangement would begin to take advantage of Maryland's bond premium earnings to sustainably reduce long-term general fund debt service costs - by far the fastest growing segment of the general fund budget. General Fund Debt Service is projected to grow over 17% annually from FY 2022 - FY 2026, which is four times the projected growth rate of revenues. *In fact, the Department of Legislative Services likewise recommended to the Spending Affordability Committee at its October 27, 2020 meeting that it consider use of bond premiums to resize bond sales to minimize the impact of debt service on the General Fund.* Spending Affordability Briefing, Oct. 27, 2020, p. 21

DBM recommends that the General Assembly adopt the BRFA provision, in lieu of enacting SB 60. Otherwise, the Department respectfully requests the Committee to amend SB 60 to conform to the BRFA provisions.

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