

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.