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Informational Testimony of the Maryland State Treasurer's Office

House Bill 506: Procurement – Economic Development – Transformational Project Financing Program – Establishment

House Economic Matters & Ways and Means Committees

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The State Treasurer's Office (STO) appreciates the opportunity to provide information regarding House Bill 506 for the Committees' consideration. Given that the bill establishes a new type of debt that is backed by State income tax revenue, the new debt would likely be considered State debt and may even be considered constitutional debt. In addition, House Bill 506 provides limited State oversight and control over how much debt would be issued and how the money would be spent. It is a policy decision for the General Assembly whether this new type of debt should potentially impact the State's debt profile in this manner.

Impact on the State's Debt

Any debt that is supported by State tax revenues has the potential to add to the State's debt profile, impact affordability ratios, and limit the State's ability to fund the other, more traditional parts of the capital program. Examples of these important capital projects that could be impacted include the Maryland Department of Transportation's needs, capital grants, school construction, and State facilities and infrastructure. The potential impact on State debt arises regardless of which agency or entity issues the debt.

Although House Bill 506 would have the Maryland Economic Development Corporation (MEDCO) serve as the issuer of debt, the pledge of State income tax revenue to back any debt issued would likely result in a determination that the debt is State debt. This is because, while the State's full faith and credit is not being directly pledged, the pledge of State taxes indirectly pledges the State's full faith and credit. The debt may even be considered constitutional debt because of this nexus.

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The new type of debt proposed under the bill also presents higher risk than what is traditionally included in the State's credit portfolio. If the new debt were to receive a lower bond rating or negatively impact the State's credit, the cost of the State's other debt transactions could increase.

Limitations on State Control of Transactions

The bill does not appear to provide a mechanism for State entities such as the Board of Public Works, Capital Debt Affordability Committee, or STO to provide insight into how much debt would be issued and how the money would be spent. MEDCO, a quasi-corporate State entity, would have broad ability to issue debt and pledge State tax dollars absent the traditional approval and oversight safeguards. With MEDCO serving as a conduit issuer, the State would have little control in determining the sufficiency of the revenue stream or verifying that the bonds are actually paid.

With the enhanced link of the State's credit profile to other issuers, it is becoming increasingly important for STO to be apprised of and involved in debt activity that goes beyond the traditional General Obligation bond program or other traditional CDAC reporting components. Any legislation, such as House Bill 506, that grants another entity the ability to issue bonds supported by State tax revenues must include specific guidelines for notifying STO early in the planning process. This type of notice is necessary to assess both the impact on the State's debt and the requisite level of support needed by STO.

Treasurer Davis and STO hope that this information is useful as the Committees consider House Bill 506. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.