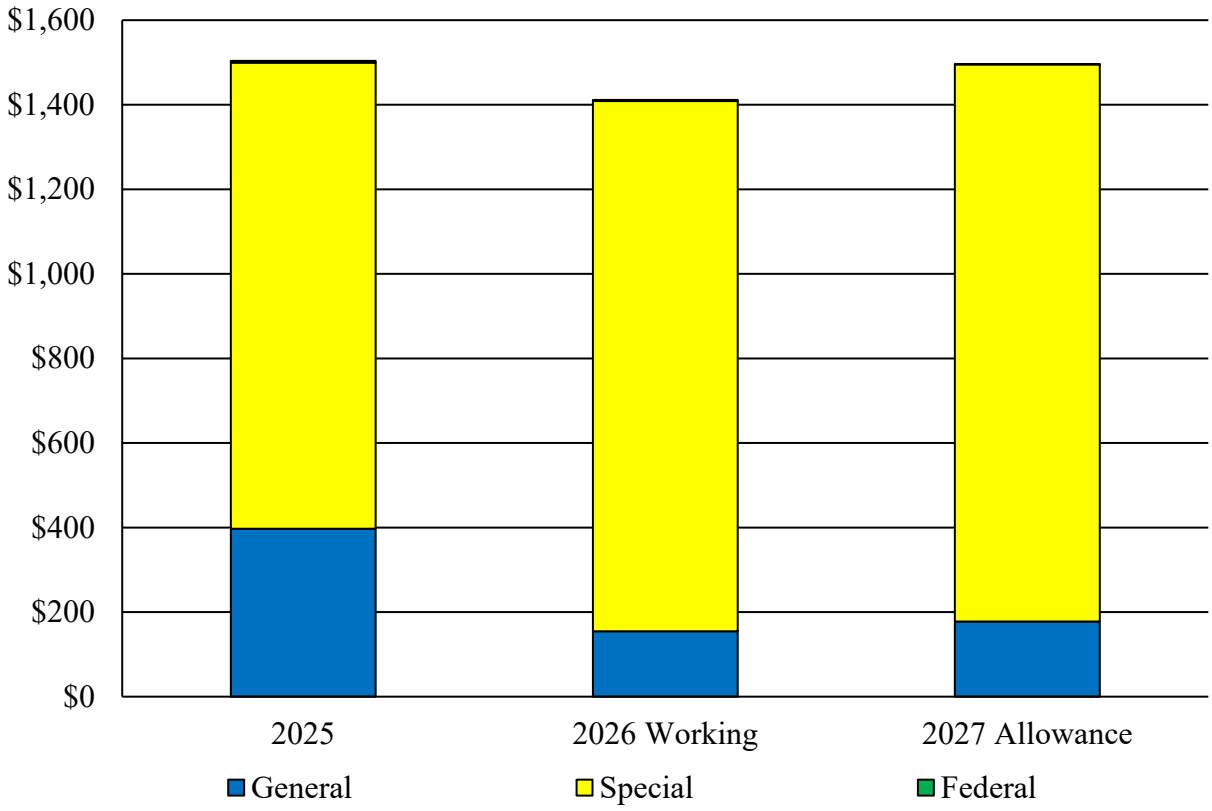
X00A00
Public Debt

Executive Summary

The Public Debt program appropriates funds for general obligation (GO) bonds' debt service principal and interest payments. GO bonds support the State's general construction program. GO bonds do not pledge specific revenues but rather pledge the State's full faith and credit. Debt service payments are supported by the Annuity Bond Fund (ABF), whose largest revenue source is the State property tax. At the current State property tax rate of $0.112 per $100 of assessable base, property tax revenues are insufficient to fund all debt service costs, so general funds are also appropriated.

Operating Budget Summary

Fiscal 2027 Budget Increases $85.0 Million, or 6.0%, to $1,496.4 Million
($ in Millions)



Note: Numbers may not sum due to rounding.

For further information contact: Patrick S. Frank patrick.frank@mga.maryland.gov

Key Observations

- ***Moody's Investors Service (Moody's) Downgrades Maryland GO Bonds to Aa1:*** Prior to the June 2025 GO bond sale, Maryland received AAA bond ratings from two of the three major rating agencies, S&P Global Ratings (S&P) and Fitch Ratings (Fitch). However, Moody's downgraded Maryland's rating. Maryland is a high-debt State, and Moody's cited projected structural budget deficits, federal actions, and anticipated reductions in general fund reserves. Issue 1 reviews rating agency comments and State debt.

- ***ABF Forecast Assumes $80 Million in Bond Sale Premiums:*** Interest rates are more than twice as much as they were three years ago. Rates are also volatile. Financial benefits of buying bonds at a premium have declined. Taken together, these suggest that now is a poor time to estimate large bond sale premiums. Issue 2 reviews the link between interest rates, GO bond values, and premiums.

- ***ABF Forecast Assumes Increasing Levels of Authorized but Unissued Debt:*** The Department of Budget and Management (DBM) has revised GO bond issuance assumptions so that less bonds are issued, and unissued debt increases by over $0.5 billion annually. Issuance policies are examined in Issue 3.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

X00A00
Public Debt

Operating Budget Analysis

Program Description

The Public Debt program appropriates funds for GO bonds' debt service payments. This includes principal and interest payments. The Capital Debt Affordability Committee (CDAC) develops State debt policies and recommends limits on State debt. The Spending Affordability Committee advises the legislature on debt policies. GO bonds support the State's general construction program, which includes grants to local Public School Construction, other grants to local jurisdictions and nonprofit organizations, higher education facilities, and State facilities. GO bonds do not pledge specific revenues but rather pledge the State's full faith and credit. Past issuances include:

- tax-exempt bonds sold to institutional investors;
- tax-exempt bonds sold to retail investors;
- taxable bonds sold to institutional investors;
- Build America Bonds that are taxable bonds for which the State receives a direct subsidy from the federal government;
- Qualified Zone Academy Bonds (QZAB) that support specific education projects. Depending on the date of issuance, these bonds have received federal tax credits or direct federal subsidies;
- Qualified School Construction Bonds that supported specific education projects. Depending on the date of issuance, these bonds have received federal tax credits or direct federal subsidies; and
- Qualified Energy Conservation Bonds (QECB) that are direct federal subsidy bonds that support energy efficiency capital expenditures in public buildings, renewable energy production, and other related projects.

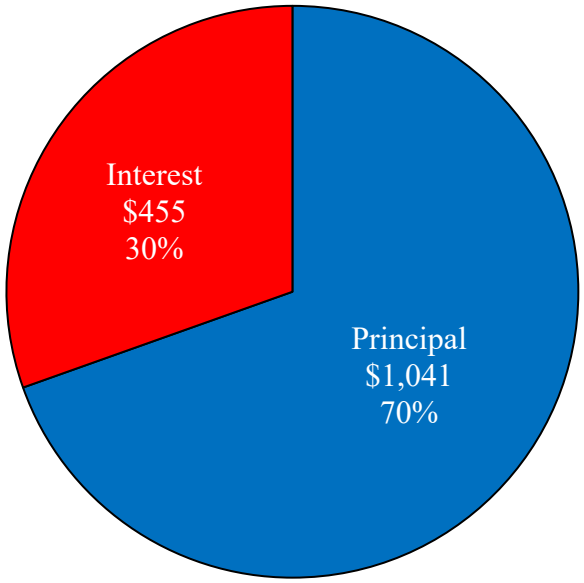
GO bond debt service payments are supported by the ABF. ABF revenues include State property tax revenues; federal subsidies; bond sale premiums; and repayments from certain State agencies, subdivisions, and private organizations. General funds may subsidize debt service if these funds are insufficient.

The State usually issues tax-exempt GO bonds to institutional investors twice a year. Other bonds are issued as they become authorized as needed (taxable) or as they are in demand (retail bonds). Each issuance's goal is to minimize the bonds' debt service costs.

Fiscal 2027 Overview of Public Debt Spending

Exhibit 1 shows that 70% of debt service costs are principal payments. This is an uncommonly high level of principal payments and is attributable to Maryland GO bonds' relatively short maturities. The State constitution requires that State debt is retired withing 15 years after it is issued. To level out debt service payments, each issuance sells tranches of bonds that mature between 3 and 15 years, with an average maturity of 10 years. Maryland tends to have higher debt service payments for the level of debt that is outstanding and retires debt more quickly.

Exhibit 1
Overview of Public Debt Spending
Fiscal 2027 Allowance
($ in Millions)



Source: Comptroller's Office; Department of Budget and Management; Department of Legislative Services

Exhibit 2 shows that just over 96% of the fiscal 2027 debt service cost is for debt that has already been issued, most of which is fixed-rate, tax-exempt bonds sold to institutional investors. The State has also issued taxable bonds and has $252 million taxable debt outstanding at the beginning of fiscal 2027, of which $116 million will be retired during the fiscal year. QZAB and QECB issuances are structured to take advantage of federal tax credits or subsidies. Debt service payments for these issuances are less than traditional GO bonds. At the beginning of fiscal 2027, $45 million of the State's GO debt outstanding is attributable to these bonds, of which $24 million is retired in fiscal 2027.

Exhibit 2
Debt Service Costs
Fiscal 2027
($ in Millions)

Type of Debt	Principal	Interest	Total	Share of Total
Previously Issued Debt				
GO Bonds Sold to Institutional Investors	$900.6	$388.6	$1,289.2	86.2%
Taxable Bonds	116.4	10.9	127.3	8.5%
Qualified Zone Academy Bonds	17.5	0.8	18.2	1.2%
Qualified Energy Conservation Bonds	6.5	0.1	6.6	0.4%
Subtotal	***$1,040.9***	***$400.5***	***$1,441.4***	***96.3%***
Debt to Be Issued				
Post-session Fiscal 2026 Bond Sale	$0.0	$40.0	$40.0	2.7%
Summer Fiscal 2027 Bond Sale	0.0	15.0	15.0	1.0%
Total	**$1,040.9**	**$455.5**	**$1,496.4**	**100.0%**

GO: general obligation

Sources: Department of Budget and Management; State Treasurer's Office; Comptroller's Office

Operating Budget and Annuity Bond Fund Forecast

Exhibit 3 presents the six-year annuity debt service forecast. The exhibit shows that most of the revenues supporting GO bond debt service are derived from State property taxes. Fiscal 2026 debt service costs are $5 million less than budgeted, attributable to savings from the June 2025 bond sale. The Department of Legislative Services (DLS) uses the actual estimate in its forecast. These savings result in canceled special funds derived from State property tax revenues that add to the fiscal 2026 end-of-year fund balance in the ABF.

Exhibit 3
Revenues Supporting Debt Service
Fiscal 2026-2031
($ in Millions)

	2026	2027	2028	2029	2030	2031	Annual % Change
Special Fund Revenues							
Prior Year ABF Fund Balance Transferred	$80	$52	$0	$1	$1	$1	-55.0%
State Property Tax Receipts	1,118	1,176	1,225	1,250	1,276	1,302	3.1%
Other Revenues	2	2	2	2	2	2	0.0%
Bond Premium Capitalized Interest Expenditures	160	50	42	0	0	0	-100.0%
Bond Premium Deposits	80	80	0	0	0	0	-100.0%
Capital Authorizations	-90	0	0	0	0	0	-100.0%
Subtotal	***$1,349***	***$1,360***	***$1,269***	***$1,252***	***$1,279***	***$1,306***	***-0.7%***
General Funds	$155	$178	$251	$298	$360	$414	21.8%
Transfer Tax Special Funds	2	0	0	0	0	0	-100.0%
Federal Funds	2	1	0	0	0	0	-100.0%
Total Revenues	**$1,508**	**$1,538**	**$1,521**	**$1,550**	**$1,639**	**$1,720**	**2.7%**
Debt Service Expenditures	**$1,406**	**$1,496**	**$1,520**	**$1,549**	**$1,638**	**$1,718**	**4.1%**
End-of-year ABF Balance	**$102**	**$42**	**$1**	**$1**	**$1**	**$1**	
Reserve for Future Capitalized Interest Expenditures	-$50	-$42	$0	$0	$0	$0	
Net End-of-year ABF Balance	**$52**	**$0**	**$1**	**$1**	**$1**	**$1**	

ABF: Annuity Bond Fund

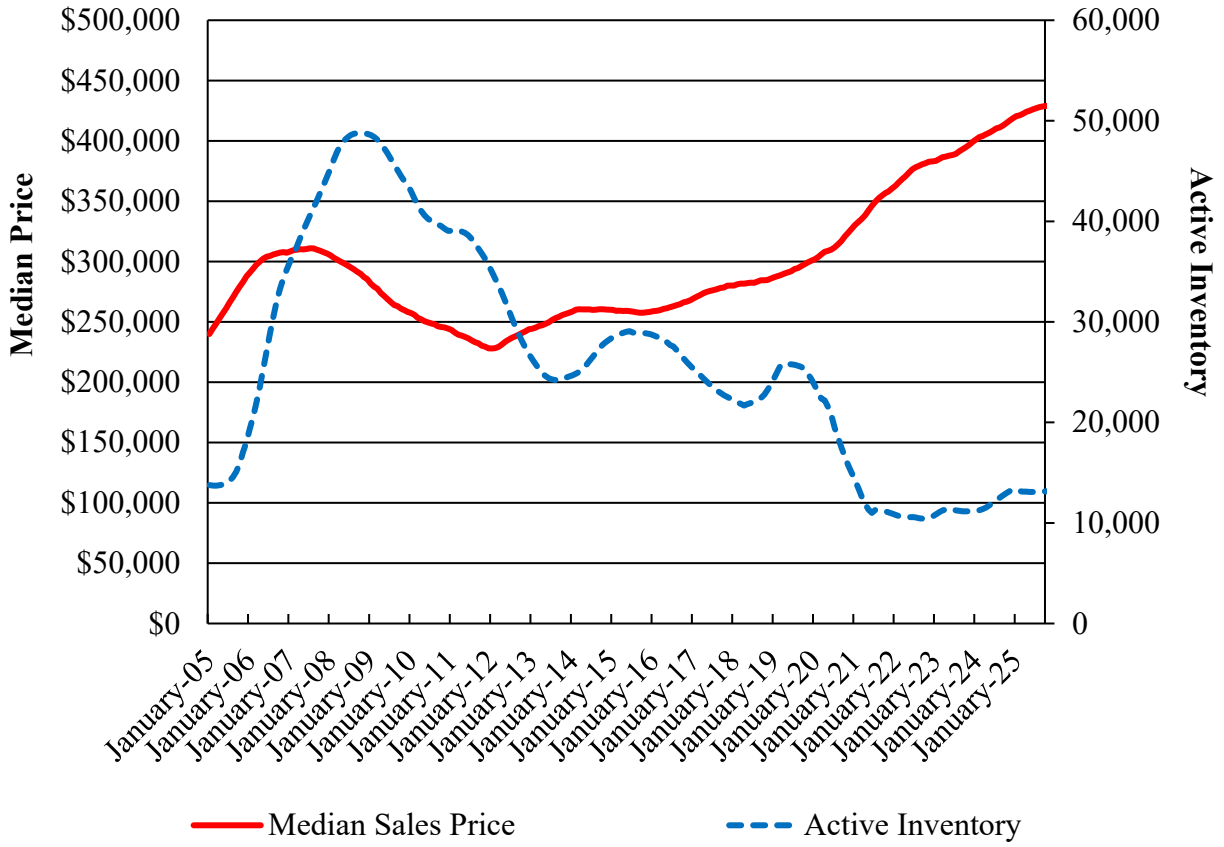
Source: Department of Legislative Services

Annuity Bond Fund Six-year Forecast

State property tax collections are influenced by trends in the housing market. **Exhibit 4** shows that the median home price has increased steadily since calendar 2012, with prices increasing more sharply in calendar 2020 and 2021. More pronounced is the decline in the inventory of houses for sale. Inventories since September 2021 have been lower than the number of inventories since before calendar 2000. DLS notes that inventories have been revised upward modestly in recent years, so the decline in calendar 2024 may not be as pronounced as the data

suggests. Home sales in Maryland have also declined substantially since calendar 2021 from approximately 106,800 sales in calendar 2021 to 67,200 in calendar 2025. One hypothesis about slowing sales is that homeowners with low-interest-rate mortgages are reluctant to sell their home and lose a mortgage that is now below market rates.

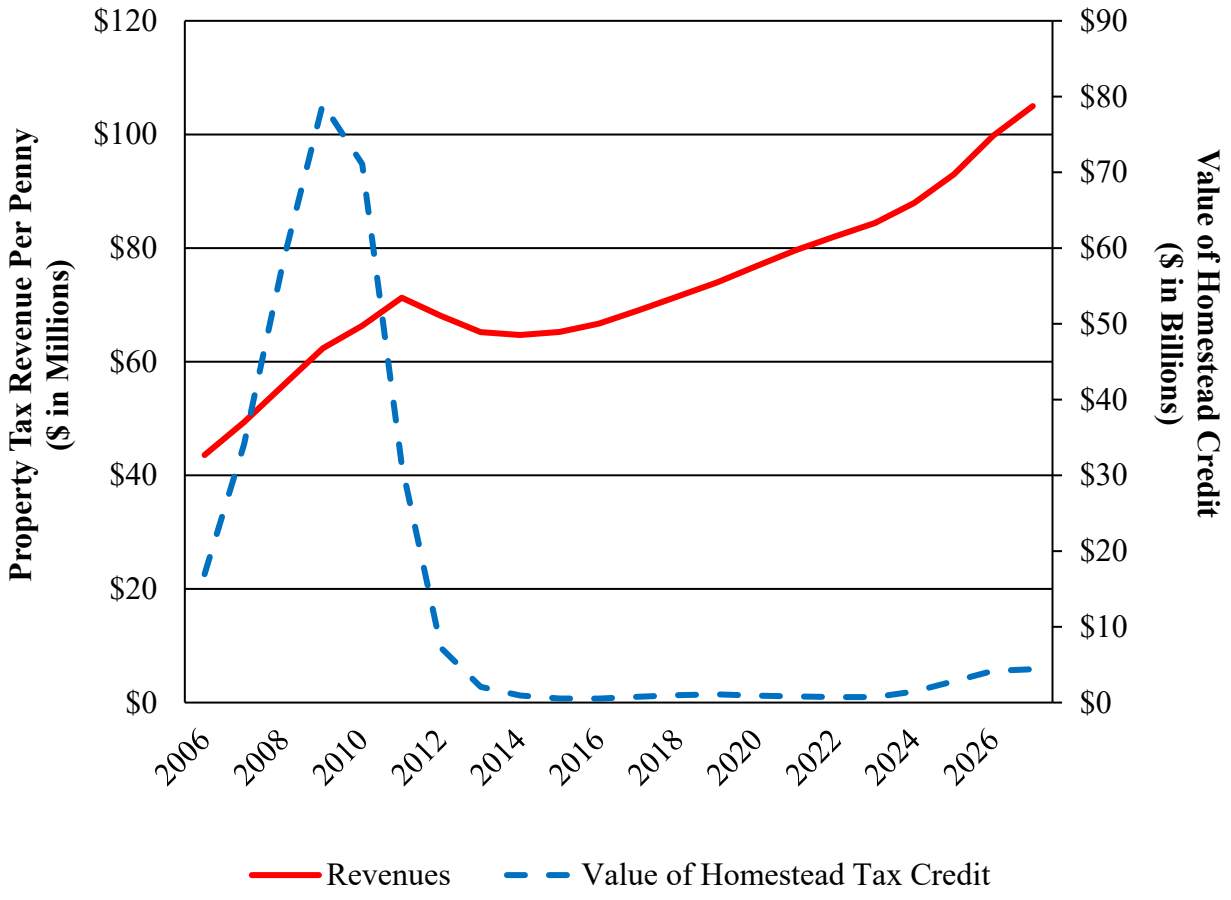
Exhibit 4
Maryland Housing
Median Prices and Active Inventory 12-month Moving Average
January 2005 to December 2025



Source: Maryland Association of Realtors; Department of Legislative Services

Exhibit 5 shows how much revenue one cent on the State property tax has generated since fiscal 2005. State property tax receipts generated per one cent of tax increased through fiscal 2011, even as home values peaked in fiscal 2007. Revenues declined from fiscal 2012 to 2014 but have generally increased since fiscal 2015. The recent increase is more modest than during the housing boom. Revenues would have grown faster during the housing boom if not for the Homestead Tax Credit, which moderated the growth in State property tax revenues.

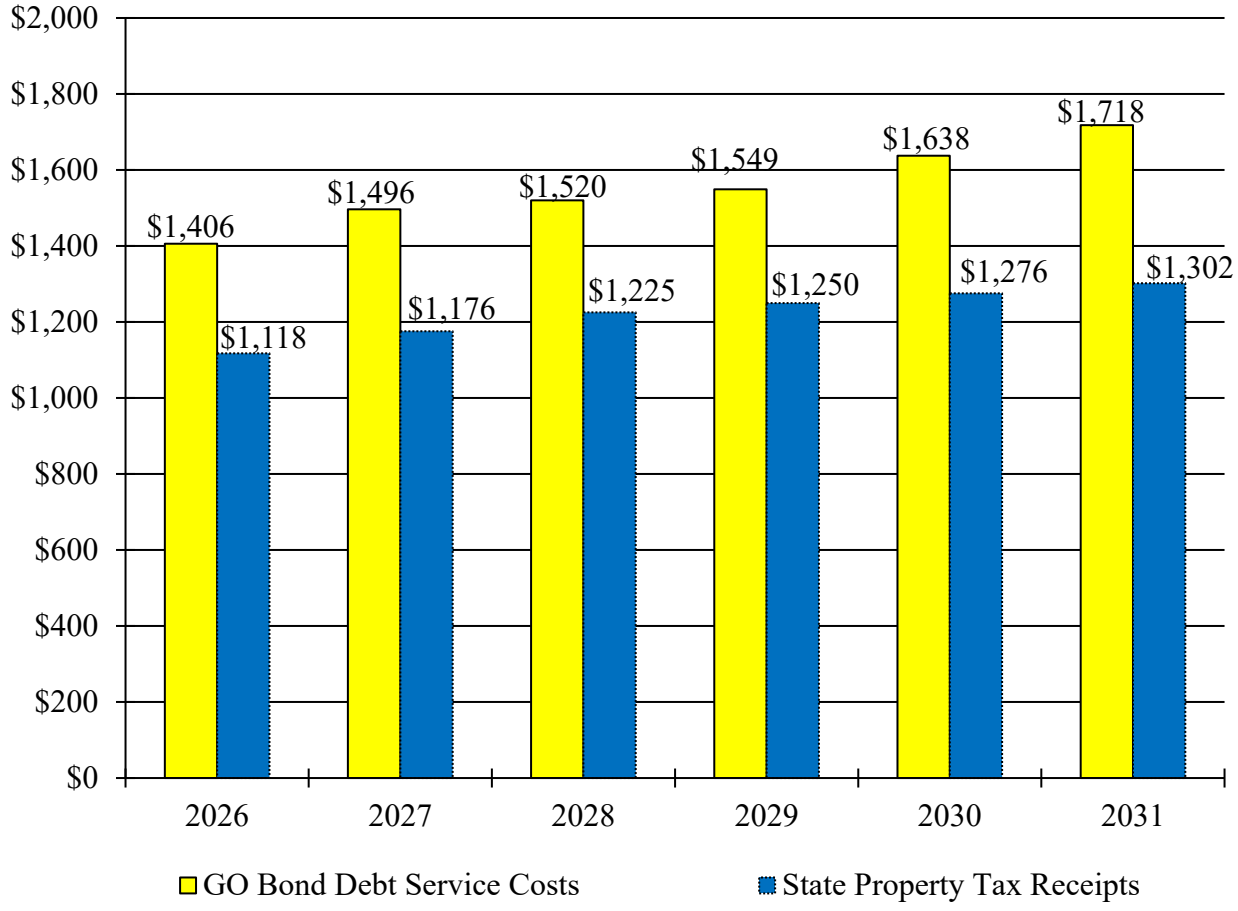
Exhibit 5
State Property Tax Homestead Tax Credits and Property Tax Receipts
Fiscal 2005-2027



Source: State Department of Assessments and Taxation; Department of Budget and Management; Department of Legislative Services

State property tax revenues are estimated to increase annually at a 3.1% rate from fiscal 2026 to 2031. An increase of 5.2% from fiscal 2026 to 2027 is anticipated. State property tax rates have been $0.112 per $100 of assessable base since fiscal 2007. This policy keeps taxes low but requires general fund appropriations to fund GO bond debt service. **Exhibit 6** shows that steady increases in State property tax revenues and debt service costs are projected and that debt service will continue to exceed State property tax revenues. DLS' out-year debt service costs assume the issuances consistent with the recommendation of the 2025 study group that included staff from the State Treasurer's Office (STO), DBM, and DLS. This is discussed in Issue 3.

Exhibit 6
GO Bond Debt Service Costs and State Property Tax Revenue Collections
Fiscal 2026-2031
($ in Millions)



GO: general obligation

Source: State Department of Assessments and Taxation; Department of Legislative Services

Issues

1. Moody's Downgrades Maryland GO Bond Rating to Aa1

Prior to the spring 2025 sale, State officials briefed Fitch, S&P, and Moody's on economic, financial, fiscal, and governance issues affecting Maryland State government. Fitch and S&P rated Maryland AAA stable. Moody's downgraded Maryland's debt to Aa1. Since they began rating Maryland debt, this is the first sale for which Maryland did not have a AAA rating from all rating agencies. STO also contracted with Kroll Bond Rating Agency, LLC. Kroll rated Maryland GO bonds AAA Stable, in January 2026. The report can be found on the STO website. Although Maryland no longer has AAA ratings from all rating agencies, Maryland debt remains highly rated debt. The bond sale had six bidders for all four issuance groups, which is high for such a large bond sale. All three rating agencies acknowledge the State's longstanding credit strengths, which are:

- high wealth and income levels;
- a broad and diverse economy;
- strong and well-embedded financial practices;
- strong debt affordability management and rapid debt amortization; and
- adequate reserves and liquidity.

Maryland Is a High-debt State

Each year, Moody's compares State debt levels. Among states rated AAA by the three major rating agencies (Moody's, S&P, and Fitch), Maryland has the second highest debt service to revenues ratio, debt outstanding to personal income ratios, net pension liability, and Other Post Employment Benefits liabilities. **Exhibit 7** shows that Maryland has the highest total liabilities ratio.

Exhibit 7
Ranking Maryland and AAA-rated States' Long-term Liabilities
Fiscal 2024

State	Total Long-term Liabilities to Revenues	State Debt to Personal Income	Implied Debt Service to Revenues	Pension Liability to Revenues	OPEB Liability to Revenues	Capital Asset Depreciation Ratio
Maryland	**7**	**12**	**9**	**8**	**6**	**7**
Delaware	8	4	7	23	3	36
Ohio	30	21	14	32	40	11
Texas	17	34	31	15	8	49
Missouri	22	42	37	18	16	23
South Carolina	14	39	41	7	18	43
Georgia	35	27	19	33	34	16
Minnesota	38	22	26	38	32	18
Florida	36	34	29	35	23	22
Virginia	34	16	17	44	30	46
Indiana	40	43	43	29	43	1
North Carolina	39	34	31	39	17	50
Iowa	47	44	43	45	35	20
Utah	44	34	31	40	48	42
Tennessee	49	44	46	48	27	33

OPEB: Other Post Employment Benefits

Note: Rankings compare 50 states and do not include the Washington, D.C. or territories. Lower rankings signify higher liabilities. Maryland and AAA-rated states ranked higher than Maryland are shaded. Moody's Investor Services includes debt supported by lottery revenues in its state debt comparisons. Implied debt service normalizes debt service costs so that all debt is amortized over 20 years. Pension liabilities are normalized with a standard discount rate.

Source: Moody's Investor Services, September 2025

In addition to the GO bond program, the State authorizes revenue bonds to support various non-State assets. Since calendar 2019, the General Assembly has authorized over $4.5 billion in Maryland Stadium Authority (MSA) debt to support the following projects:

- $2.2 billion for Built to Learn school construction projects;
- $1.2 billion for stadium improvements to the Baltimore Orioles and Ravens stadiums;
- $400 million for constructing and renovating Blue Line Corridor projects in Prince George's County;
- $375 million for improvements to horse racing at Pimlico and Laurel Park;
- $220 million for minor league sports stadiums and entertainment facilities;
- $59.5 million for constructing the Hagerstown Multi-Use Sports and Events Facility;
- $55 million for renovating and expanding the Baltimore City Convention Center;
- $25 million for a Supplemental Facilities Fund; and
- $24.5 million for renovating and expanding the Ocean City Convention Center.

Prior to fiscal 2010, MSA bonds supported by lottery revenues were classified as State debt. Bond counsel advised that this debt can be structured so that it is not State debt if the Comptroller's Office deposits the lottery funds with a trustee for the bondholders. Stadium bond sales in calendar 2013 and 2014 were structured as non-State sales. Of MSA's $5.7 billion in total authorized debt, $5.5 billion is counted by the State as non-State debt.

Moody's Downgrade and Factors That Could Lead to Upgrade

Moody's recognizes that Maryland is a high-debt State and is weighing long-term liabilities more heavily now than in the past. In downgrading Maryland's rating, Moody's cited Maryland's vulnerability to federal job reductions and evolving U.S. government policies. Moody's noted that Maryland's gross domestic product (GDP) growth from December 2018 to December 2024 was half of U.S. real GDP growth. Moody's anticipates that federal actions will extend Maryland's economic underperformance. Factors that could lead to an upgrade in the rating are:

- economic outperformance demonstrated by real GDP growth, exceeding the national pace by at least 0.3% (30 basis points);

- demonstrating reduced vulnerability to federal actions; and

- eliminating the structural deficit.

Rating Agencies Are Also Considering Reserves

Rating agencies also consider reserves when evaluating a State's creditworthiness. In October 2025, the Pew Research Center released data showing how long each state could fund its fiscal 2025 budget with Rainy Day Fund funds alone. The median rate was 47 days. Maryland's rate was 29 days, assuming a 7.9% Rainy Day Fund balance. Maryland's target is that the Rainy Day Fund's balance is 8% of revenues.

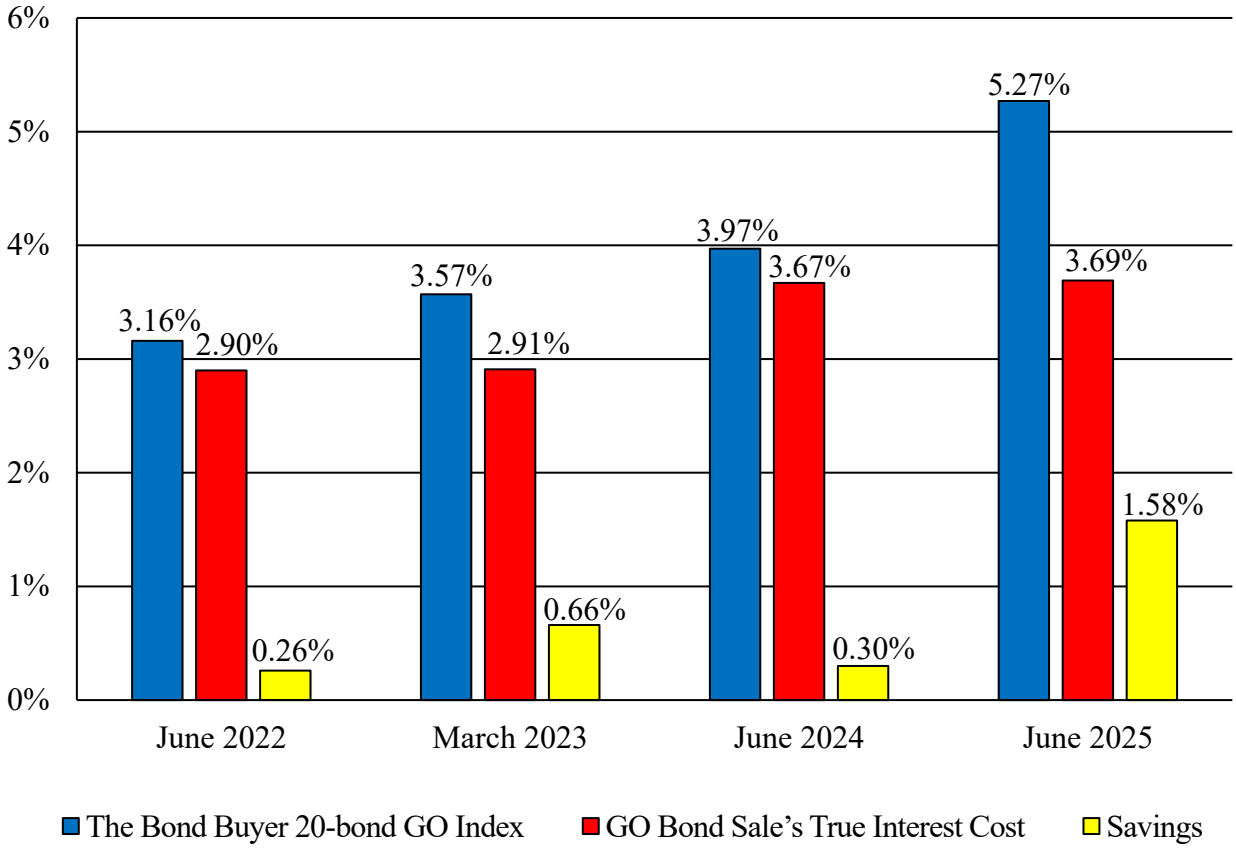
Curiously, Aa1-rated Bonds Sold at Relatively Lower Rate Than Previous Aaa-rated Bonds

Each fall, DLS prepares a statistical analysis of the factors that influence the true interest cost (TIC), which is a bond sale's interest rate. The results are reported in DLS's *Effect of Long-term Debt on the Financial Condition of the State*, which was posted on the DLS website in December 2025. In the most recent sum of least squares analysis, DLS estimated that four factors were statistically significant at a 95% confidence interval: (1) *The Bond Buyer* 20-bond Index; (2) Maryland personal income to U.S. personal income; (3) issuing callable bonds; and (4) years to maturity.

DLS analyzed the effect of Moody's downgrade of Maryland GO bonds but could not find a statistically significant variable. Though not significant, independent dummy variables for bonds sold in June 2025 suggest that Maryland's bonds performed relatively better than most sales, despite the downgrade. Although this is counterintuitive, there is an explanation. STO advises that its financial advisor observed a "flight to quality" in June 2025. This occurs when there is a substantial amount of uncertainty in financial markets. Since Maryland's bonds received the highest rating from two agencies, this would positively affect Maryland bonds.[1] This can be shown by comparing Maryland's highly rated bonds to market indices. The GO bonds consistently outperform indices. **Exhibit 8** shows that the GO bonds' TIC was 22 basis points (0.22%) to 66 basis points (0.66%), less than *The Bond Buyer* 20-bond Index in calendar 2022 to 2024 sales. This increased to 158 basis points (1.58%) in the June 2025 sale.

[1] Another example of uncertainty is that DLS' equation is less confident now than it was one year ago. Using the same variables, the adjusted R-square is less now than a year ago (0.879 to 0.889), and the standard error is larger (0.284 to 0.269). This measures how much the equation explains. A lower value suggests that less is explained.

Exhibit 8
Maryland Interest Costs Compared to 20 Bond-Bond Index
Calendar 2022-2025



GO: general obligation

Source: *The Bond Buyer*; Public Resources Advisory Group

The State Treasurer should be prepared to brief the committees on the State's GO bond rating and the June 2025 bond sale.

2. Bond Market Conditions Suggest That It Is Not the Right Time to Project Bond Sale Premiums in the ABF Forecast

The fiscal 2026 budget proposed by the Governor Wes Moore Administration projected $134 million in bond sale premiums. **Exhibit 9** shows that this estimate has since been revised to $127 million. The estimate included $2 million in unallocated proceeds. DBM advises that $5 million authorized in the 2025 capital budget will be clawed back and will not be spent.

Exhibit 9
Estimated Bond Premiums
June 2025 Bond Sale
($ in Millions)

	Amount
Estimated Premiums in Allowance	$134
Less:	
Unallocated Premiums	-2
Canceled Premium Authorized in MCCBL of 2026	-5
Revised Premium Estimate	**$127**

MCCBL: Maryland Consolidated Capital Bond Loan

Source: Public Resources Advisory Group; Maryland Consolidated Capital Bond Loan of 2026

The June 2025 sale realized $91.8 million in bond sale premiums. This is $35.2 million less than the downwardly revised projection. The 2026 capital budget authorizes another $5 million in premiums for projects. **Exhibit 10** shows that the $40.2 million is required to fund the shortfall from the 2025 bond sale and the proposed authorization in the 2026 capital budget**. DBM should discuss how the State will manage the projected shortfall.**

Exhibit 10
June 2025 Bond Sale Estimated and Actual Fiscal Effects
($ in Millions)

Description	Amount
Premiums Supporting Debt Service	$44.0
Premiums Supporting Capital Projects[1]	83.0
Total Estimated Premiums	**$127.0**
Actual Premiums	$91.8
Difference (Shortfall)	**-$35.2**
Authorization in the MCCBL of 2026[1]	5.0
Total Premium Needed	**-$40.2**

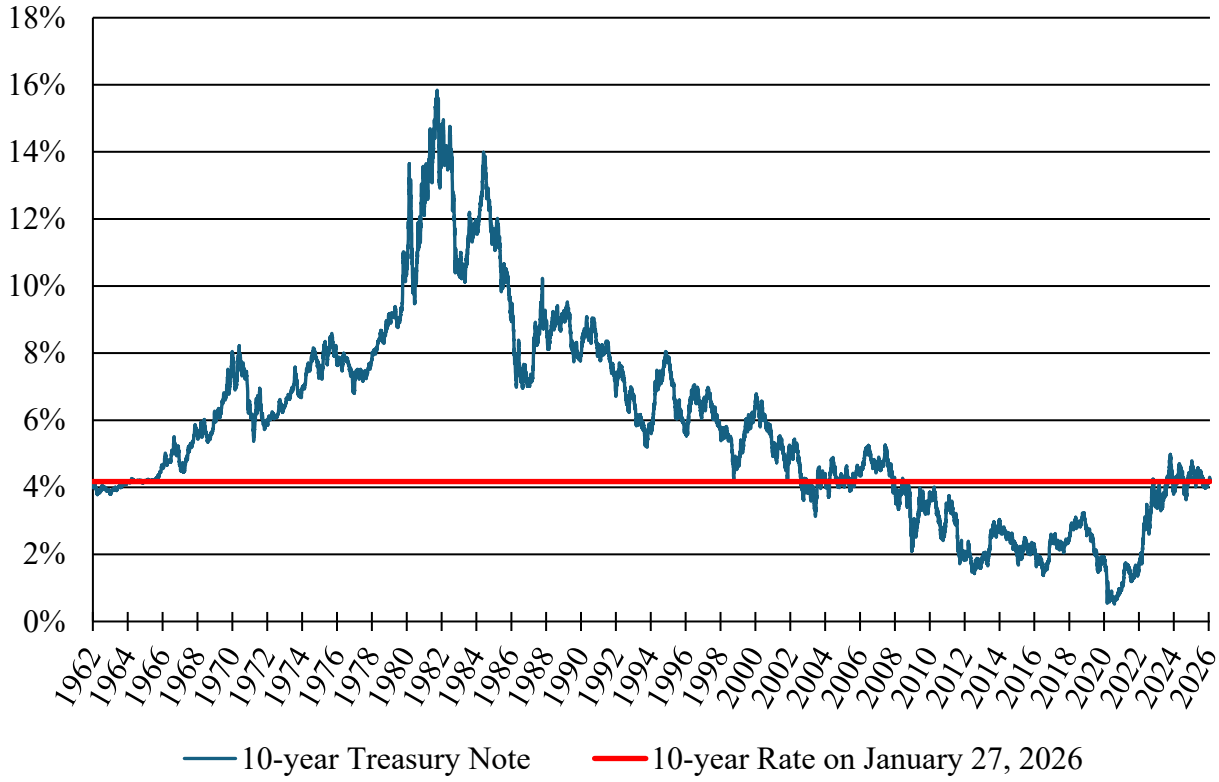
MCCBL: Maryland Consolidated Capital Bond Loan

[1] Capital excludes a $5 deficiency appropriation that is proposed to be removed in SB 283/HB391, the MCCBL of 2026.

Source: State Treasurer's Office; Public Resources Advisory Group

Although recent increases in interest rates are above what the economy is accustomed to since the Great Recession, interest rates are low when compared to rates over the last 64 years. State GO bonds are structured to mature between 3 and 15 years after issuance. The average maturity is 9.8 years. So, DLS uses 10-year maturity indices when evaluating bonds. **Exhibit 11** shows U.S. Treasury Note yields since fiscal 1962 through January 27, 2026, the most recent day that data was available when this analysis was prepared. Over this period, 68% of yields exceeded the 4.24% yield from January 27, 2026. Almost all hyper-low yields were after the Great Recession. It is unclear how interest rates will change moving forward, but it is reasonable to expect that they will not return to the unusually low rates experienced over the last 16 years.

Exhibit 11
Interest Rates for 10-year U.S. Treasury Notes
January Fiscal 1962 to January 2026

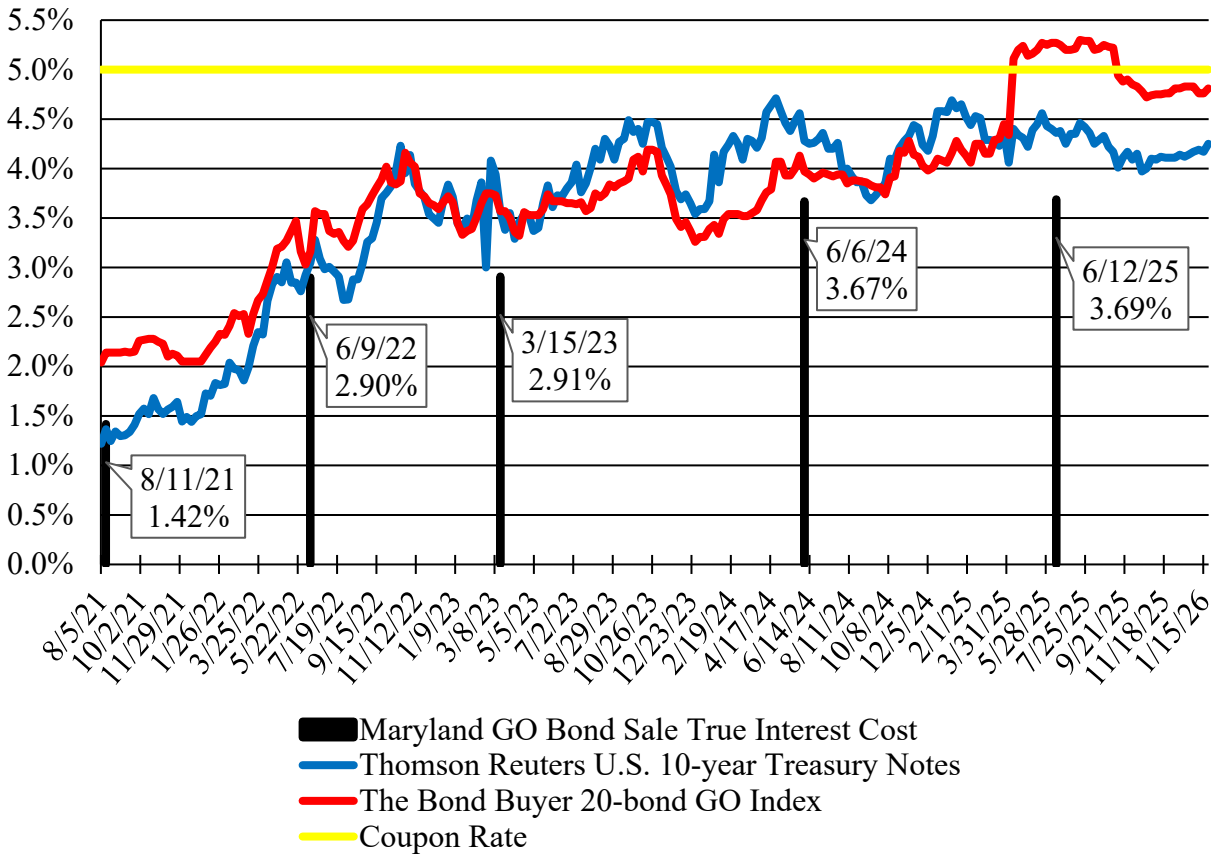


Source: Board of Governors of the Federal Reserve System

Interest Rates Are Currently Higher and More Volatile Than in Recent Years

Bond sales since calendar 2020 have offered a 5.00% coupon rate, and this rate is assumed in the out-years. **Exhibit 12** shows that *The Bond Buyer* 20-bond Index[2] was over 5.00% from April to September 2025. STO's financial advisor notes that it observed a flight to quality due to market uncertainty during this period. Rates have increased or decreased by more than 50 basis points (0.50%) over just six or less weeks several times. The data suggests that the State should estimate interest rates cautiously.

Exhibit 12
Interest Rates and GO Bond's True Interest Cost
August 5, 2021 to January 22, 2026



GO: general obligation

Source: *The Bond Buyer*; Public Resources Advisory Group

[2] *The Bond Buyer* 20-bond Index includes GO bonds maturing in 20 years, with an average rating equivalent to Moody's Aa2 and S&P's AA.

Projecting Large Premiums Could Result in Capital Shortfall Again

Buying bonds at a premium can provide financial benefits under certain circumstances. There is an inverse relationship between a bond's value and interest rates; when interest rates increase, bond values decline. If interest rates are expected to increase, bonds lose value. Buying bonds at a premium minimizes the value lost if interest rates increase. **Appendix 1** shows how a $5,000 bond sold in July 2015 retains more value when it is bought at a premium.

Exhibit 12 shows that interest rates are more than twice as much as they were three years ago. Interest rates are also volatile, so estimating what they will be in more than a month is an inexact process. In this environment, Maryland should be cautious.

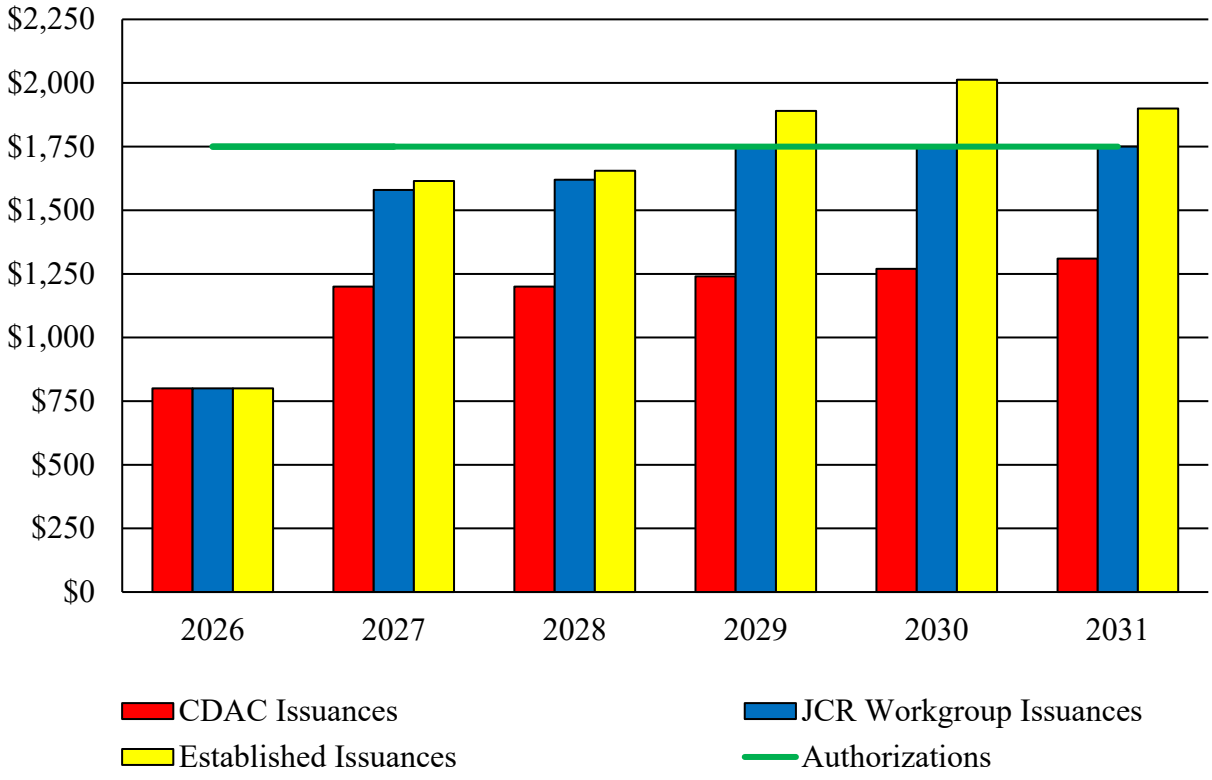
The fiscal 2027 allowance includes $80 million in projected bond premium revenues. This level of premium is aggressive given that higher interest rates than in the recent past will reduce the incentive for investors to purchase bonds at a premium. **DBM should brief the committees on the decision to assume bond premium revenues in the fiscal 2027 budget. The State Treasurer should comment on whether a bond premium of this magnitude is attainable based on planned issuances in fiscal 2027 and the current interest rate environment.**

3. DBM Issuance Assumptions Decouple Issuances from Authorizations

The 2025 operating budget *Joint Chairmen's Report* directed STO to work with DBM and DLS to convene a workgroup evaluating the issuance assumptions used by CDAC. The workgroup examined historical data and recommended revising issuance assumptions for new authorizations. Specifically, the workgroup recommended that the new debt issuance assumptions should be based on the 10-year weighted moving average of actual project expenditures per the capital budget bill. The workgroup findings were reported to CDAC on October 9, 2025.

CDAC did not adopt the workgroup's recommendations. Instead, CDAC assumes that issuances will total $1.2 billion in fiscal 2027 and increase steadily to $1.31 billion in fiscal 2031. **Exhibit 13** shows that the proposed issuances are $0.38 billion to $0.51 billion less than the workgroup's recommendation from fiscal 2027 to 2031.

Exhibit 13
General Obligation Bond Authorizations and Issuances
Fiscal 2026-2031
($ in Millions)



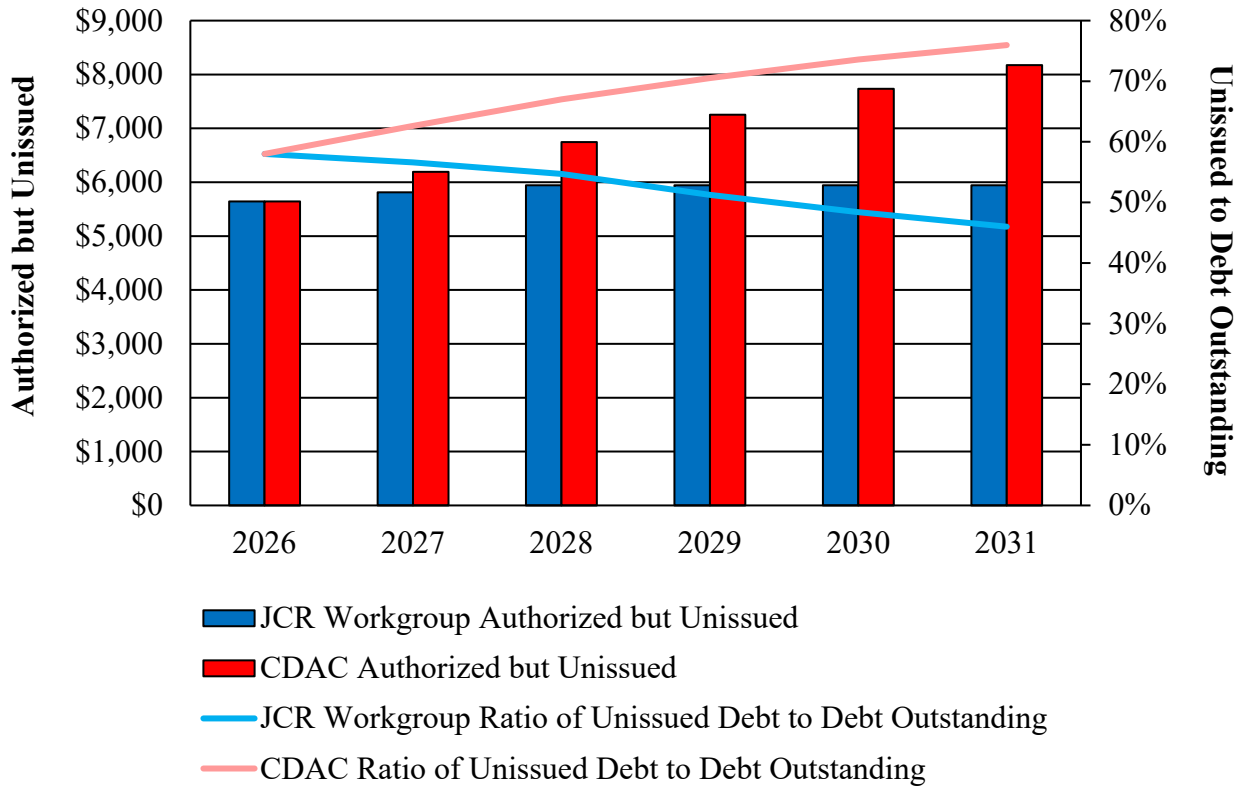
CDAC: Capital Debt Affordability Committee
JCR: *Joint Chairmen's Report*

Source: Capital Debt Affordability Committee; State Treasurer's Office; Comptroller's Office; Department of Legislative Services

GO bonds authorizations are what the State commits to do. Issuances are anticipated cash flows needed for capital projects that reflect what the State expects to do each year. DBM's issuance assumptions imply that the State will complete fewer capital projects over the forecast period. **Exhibit 14** shows that the amount of debt that is authorized and unissued increases from $5.6 billion in fiscal 2026 to $8.2 billion in fiscal 2031, an annual average increase of $0.5 billion. Under the workgroup's assumptions, authorized and unissued debt remains about $5.6 billion. The workgroup assumptions expect that the State can complete authorized capital projects consistently as in the past, while the DBM assumptions imply an increasing backlog in projects to be done. The exhibit also shows that under DBM assumptions, the ratio of authorized but unissued debt to debt outstanding increases from 58% in fiscal 2026 to 76% in fiscal 2031. This ratio is unusually

high in fiscal 2026 because in December 2023, fiscal 2025 GO bond authorizations were increased from a planned amount of $1.25 billion to $1.75 billion. This was maintained in fiscal 2026, so approximately $1 billion was added above the planned amount in those two fiscal years. Historically, this ratio has generally been below 50%.

Exhibit 14
Comparing 10-year Average Issuances to CDAC Recommendation
Fiscal 2026-2031
($ in Millions)

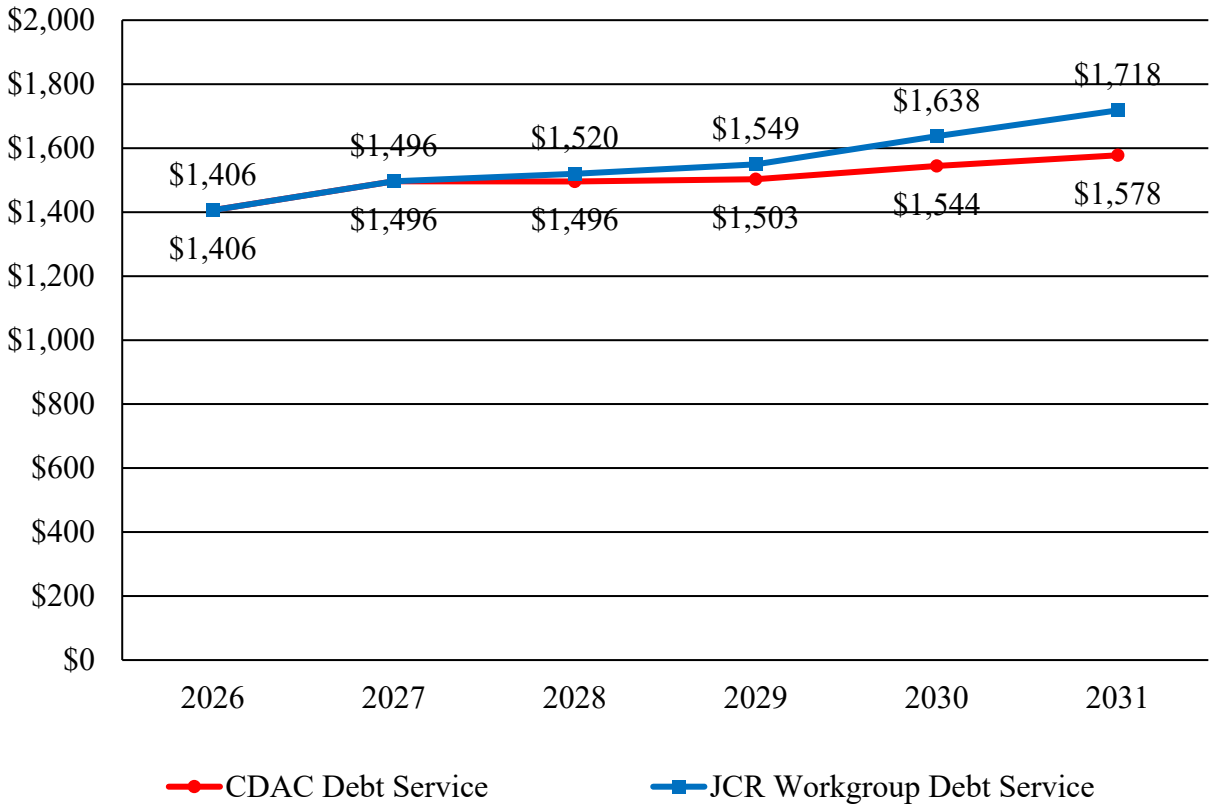


CDAC: Capital Debt Affordability Committee
JCR: *Joint Chairmen's Report*

Source: Capital Debt Affordability Committee; State Treasurer's Office; Comptroller's Office; Department of Legislative Services

If capital project spending does not increase as authorizations are increased and less GO bonds are issued, debt service costs will be less. **Exhibit 15** shows that DLS estimates that DBM issuance assumption costs are $140 million less than the workgroup's assumptions in fiscal 2031.

Exhibit 15
Comparing 10-year Average Debt Service Costs to CDAC Recommendation
Fiscal 2026-2031
($ in Millions)



CDAC: Capital Debt Affordability Committee
JCR: *Joint Chairmen's Report*

Source: Capital Debt Affordability Committee; State Treasurer's Office; Comptroller's Office; Department of Legislative Services

The JCR workgroup analyzed historical data to evaluate GO bond issuance assumptions that were set more than 30 years prior to the budget committees' request to review them. The STO, DBM, and DLS consensus recommendation was to use a 10-year weighted moving average of actual project expenditures per capital budget bill to estimate expected issuances from new debt. The CDAC assumptions imply that capital program spending will average $0.5 billion below annual authorizations. The workgroup did not find any data suggesting that issuances should be substantially below annual authorizations throughout the forecast period. **STO and DBM should be prepared to brief the committees on anticipated GO bonds issuances and the State's ability to complete authorized capital projects.**

Operating Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Economics of Bond Sale Premiums

When bonds are sold, they have a par value (principal) and a coupon rate (interest rate paid to the bondholder based on par value). When the bonds are bid, STO determines how many bonds are sold (par value of the bonds) and when the bonds mature. The underwriter determines the coupon rate (interest rate the issuer pays) and the sale price of the bonds, which is awarded to the underwriter with the lowest interest cost. If the coupon rate is greater than the market rate, the bonds sell at a premium, and the State's bond proceeds exceed the par value of the bonds.

For example, at the bond sale in July 2015, the State issued $450 million in tax-exempt GO bonds (par value). The average coupon rate was 3.92%, and the TIC (market interest rate) was 2.83%. Since the coupon rate exceeded the market interest rate, the bonds sold at premium, and total bond proceeds totaled $494 million (after deducting the underwriters discount and cost of issuance expenses). This additional $44 million is the bond premium.

Why Do Bonds Sell at a Premium?

Economic theory tells us that in a world without uncertainty, there will be no difference in value between bonds selling at a high coupon rate or bonds selling at a low coupon rate. If bonds sell at a high coupon rate, the seller receives a large premium that offsets the high interest cost.

However, we do live in an uncertain world. Investors may see advantages in purchasing bonds at a premium. For investors of Maryland bonds, the primary risk is that the bonds will lose value if interest rates rise. Since Maryland bonds offer a fixed interest rate, the value of Maryland bonds declines if interest rates rise.

How investors value bonds is relative and depends on what interest rates the market offers. If risk rates, such as U.S. government bonds, are low, the State will be able to issue bonds at a lower rate than if these interest rates are high. In other words, a 2% interest rate can be a good deal if everyone else is offering less than 2%, but it is not such a good deal if everyone else is offering 3% or more.

In previous years, interest rates were more likely to increase than decrease, since interest rates were historically low. In this environment, it made sense for investors to protect themselves against rising interest rates, and this is done by purchasing bonds at a premium. However, this is no longer the case. *The Bond Buyer* 20-bond Index peaked at 5.30% in August 2025, which is 300 basis points (3.00%) more than rates in late calendar 2020 and early calendar 2021, as shown in Exhibit 12.

How Increasing Interest Rates Reduce the Yield on a Fixed Rate Bond

Exhibit 1 examines a tranche of $36,125,000 in bonds sold with an eight-year maturity in the July 2015 bond sale. The top half of the exhibit compares the return if an investor buys bonds at par and at a premium. It shows that paying $6,080 and getting a 5.0% interest rate yields the same return as paying $5,000 and getting a 2.06% interest rate, since the TIC for both is 2.06%. The bottom half shows what happens if market interest rates increase. In both examples, the bonds are worth less. The difference is that bonds sold at a premium lost 17.8% of their value, while bonds selling at par lost 19.2% of their value. For investors that are intent on preserving wealth or cash, this matters.

Exhibit 1
Effect of Higher Interest Rates on the Value of Bonds
July 2015 Bond Sale

	Premium Bonds	Sold at Par	Explanation
Par Value of Bonds	$5,000	$5,000	This is the principle you get back.
Coupon Rate	5.00%	2.06%	This is the interest rate on the bond's par value.
Premium	$1,080	$0	This is what you pay extra for the higher rate.
Value at Sale	6,080	5,000	This is what you pay.
Yield or TIC	2.06%	2.06%	This is what matters, rate of return.
If the Market Interest Rate Increases to 5%:			
Value at Sale	$6,080	$5,000	This is what you paid for the bonds.
Value after Interest Rates Increase	5,000	4,038	This is what your bonds are now worth.
Total Loss	-1,080	-962	This is how much you lose due to rate change.
Percent Loss	-17.8%	-19.2%	This is what matters, value lost.

TIC: true interest cost

Source: Public Financial Management, July 2015; Department of Legislative Services, November 2015

In conclusion, why do bonds sell at a premium? Because buying bonds at a premium is a hedge against increasing interest rates, and it looks like interest rates are going to increase. Since it is now less likely that interest rates will increase, there is less incentive to buy bonds at a premium. If rates continue to increase, there may be a disincentive.

Appendix 2
Fiscal Summary
Public Debt

Program/Unit	FY 25 Actual	FY 26 Wrk Approp	FY 27 Allowance	FY 26 - 27 $ Change	FY 26 - 27 % Change
01 Redemption and Interest on State Bonds	$1,503,737,345	$1,411,400,000	$1,496,361,462	$84,961,462	6.0%
Total Expenditures	**$1,503,737,345**	**$1,411,400,000**	**$1,496,361,462**	**$84,961,462**	**6.0%**
General Funds	$397,100,000	$154,700,000	$177,693,158	$22,993,158	14.9%
Special Funds	1,102,586,096	1,254,100,000	1,317,844,568	63,744,568	5.1%
Federal Funds	4,051,249	2,600,000	823,736	-1,776,264	-68.3%
Total Appropriations	**$1,503,737,345**	**$1,411,400,000**	**$1,496,361,462**	**$84,961,462**	**6.0%**

Note: The fiscal 2026 appropriation includes proposed deficiency appropriations. The fiscal 2027 allowance does not include contingent reductions or statewide salary adjustments budgeted within the Department of Budget and Management.