REPORT OF THE

CAPITAL DEBT AFFORDABILITY COMMITTEE

ON

RECOMMENDED DEBT AUTHORIZATIONS

FOR FISCAL YEAR 2007

SUBMITTED TO

THE GOVERNOR AND GENERAL ASSEMBLY

OF MARYLAND

SEPTEMBER 2005

September 22, 2005

The Honorable Robert L. Ehrlich, Jr.
Governor of Maryland
State House
Annapolis, Maryland 21404

The Honorable Thomas V. M. Miller, Jr.
President of the Senate of Maryland
State House
Annapolis, Maryland 21404

The Honorable Michael E. Busch
Speaker of the House
State House
Annapolis, Maryland 21404

Gentlemen:

The Capital Debt Affordability Committee, created pursuant to Section 8-104, *et seq*., of the State Finance and Procurement Article, is required to submit to the Governor and the General Assembly 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.

We are pleased to present to you the Committee's annual report, with the recommendations relating to the fiscal 2007 capital program.

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Nancy K. Kopp
State Treasurer
Chair

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William D. Schaefer
State Comptroller

____
Cecilia Januszkiewicz, Secretary
Budget and Management

____
Robert L. Flanagan, Secretary
Department of Transportation

____
Paul B. Meritt
Public Member

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EXECUTIVE SUMMARY

The Capital Dept Affordability Committee (CDAC or the Committee), established by Chapter 43 of the Laws of Maryland 1978, is charged by State law with reviewing on a continuing basis the size and condition of State tax supported debt, and advising the Governor and General Assembly each year regarding the maximum amount of new general obligation debt that prudently may be authorized for the next fiscal year. Since its original creation in 1978, the Committee's charge has been enlarged to include continuing review of higher education debt and annual estimates concerning the prudent maximum authorization of academic facilities bonds to be issued by the University System of Maryland, Morgan State University and St. Mary's College of Maryland (Chapter 93, Laws of Maryland 1989). In 2004, the Committee's charge was also enlarged by the Public School Facilities Act of 2004 (Chapters 306, 307, Laws of Maryland 2004) to include examination and recommendations for potential means of funding the State's share of the $3.85 billion which that law declares is needed to meet school construction needs (see Section V of this report).

The Committee recommends a $ 690 million limit for new general obligation debt authorization for fiscal year 2007 to support the 2007 capital program, with the projection of an annual increase of 3% in future years. The $690 million includes $5 million previously authorized for the Southern Maryland Regional Strategy-Action Plan for Agriculture.

The analysis indicates that the Committee's projection of general obligation bond authorizations is currently affordable and that the risks of exceeding the affordability criteria are limited. None of the potential risks – limited growth of personal income, accelerated sales of general obligation bonds, and increased authorizations of either general obligation bonds or other components – pose a serious threat of exceeding the affordability criteria.

The Committee believes that the $690 million authorization recommendation in the first year of the current five year program (a 3% increase over the 2006 authorization level) and 3% annual increases for the next four is prudent and within current projections of capacity. The projections eliminate the drop in authorizations in 2009 that had been assumed in the past. Within these levels, relying upon prudent timing of authorization and issuances, the Committee believes that the current projected needs in school construction, transportation, higher education and other essential areas can be met.

Based on its review of the condition of State debt in light of the debt affordability guidelines, the Committee recommends a limit of $25 million for new academic facilities bonds for the University System of Maryland for fiscal year 2007.

Pursuant to its charge under the Public School Facilities Act, the Committee's 2004 Report recognized the documented need for at least $1.2 billion in additional school construction funding over the $800 million then projected in the State's Capital Improvements Program in order to meet "2003 standards of basic minimum adequacy and provide sufficient capacity for presently anticipated enrollments." At that time, the authorization of $1.2 billion in general obligation debt for this purpose would not have resulted in violation of debt affordability

criteria, though it would have consumed a significant portion of the State's unused debt capacity thus limiting the ability of the State to address other capital needs. The Committee recommended that, prior to authorizing the full $1.2 billion, exploration be undertaken of alternatives, such as reducing or postponing other capital projects or identifying new streams of revenue, such as video lottery terminals, a portion of which could be dedicated to school construction.

The current year's analysis indicates that there is considerably less unused debt capacity than projected last year. The increased estimates of personal income have been more than offset by increased tax supported debt outstanding to the extent that use of general obligation bond authorizations alone for the State share for school construction is not affordable in the timeframe previously envisioned.

During its 2005 meetings, the Committee addressed a number of other related issues in addition to developing its primary recommendation regarding general obligation debt authorizations and authorizations for higher education academic facilities. In response to legislative interest, the Committee this year, assisted by representatives of the Department of Legislative Services and the Department of Budget and Management, examined its debt affordability criteria, including a review of the practices of other AAA rated States, and the history and development of Maryland's process and guidelines. The review found that Maryland's process and guidelines have been cited by bond rating agencies, academicians and other fiscal authorities as a major strength in our State's system of financial management, and a model for other states. The Committee agrees that it is appropriate both to examine on an on-going basis the use and impact of the guideline criteria and to project and "stress-test" debt scenarios as they are proposed, to highlight the effect on the operating budget and bond annuity fund (Exhibit 1 and Table 4).

The Committee also received information and a proposal from the Inter-Agency Committee on School Construction (IAC) regarding school capital plant maintenance, and how to assure that the State's significant investment in public school facilities is protected, particularly in light of contemplated substantial increases in school construction funding (Section V.) The Committee recognized that, while school maintenance is a local responsibility, and operating funds for maintenance are incorporated in the Bridge to Excellence funding, the State also has a significant interest in monitoring and assuring a sufficient level of maintenance to protect its large capital investment.

I. INTRODUCTION

A. Background

The creation of the Capital Debt Affordability Committee was an outgrowth of two events: the dramatic increase in outstanding debt during the mid-1970's and the release of the Department of Legislative Services' two year study on the State's debt picture, titled "An Analysis and Evaluation of the State of Maryland's Long-Term Debt: 1958 - 1988."

In response to this study and the rising level of State debt, the 1978 General Assembly enacted the current State Finance and Procurement Article, Section 8-104, et seq., which created the Committee as a unit of the Executive Department. The members currently are the Treasurer (Chair), the Comptroller, the Secretaries of the Departments of Budget and Management and Transportation, one public member appointed by the Governor, and (as of 2005) as non-voting members, the Chairs of the Maryland Senate and House of Delegates Capital Budget Subcommittees. The Committee is required to review the size and condition of the State debt on a continuing basis and to submit to the Governor, by September 10 of each year, an estimate of the total amount of new State debt that prudently may be authorized for the next fiscal year. Although the Committee's estimates are advisory only, the Governor is required to give due consideration to the Committee's findings in determining the total authorizations of new State debt and in preparing a preliminary allocation for the next fiscal year. The Committee is required to consider:

- The amount of State tax supported debt that will be outstanding and authorized but unissued during the next fiscal year;
- The capital program and the capital improvement and school construction needs during the next five fiscal years;
- Projected debt service requirements for the next ten years;
- Criteria used by recognized bond rating agencies to judge the quality of State bond issues;
- Other factors relevant to the ability of the State to meet its projected debt service requirements for the next five years or relevant to the marketability of State bonds; and
- The effect of new authorizations on each of the factors enumerated above.

In addition to these tasks, the Committee has generally reviewed and made recommendations concerning other types of public debt issued by State or State-created authorities or agencies. In keeping with a narrow interpretation of its statutory charge, the

Committee's efforts through 1986 focused mainly on bringing the State's general obligation debt in line with certain parameters. In 1987, however, the Committee began to adopt a more comprehensive view of State debt that included all tax supported debt in addition to general obligation debt.

This broader view was adopted in recognition of the fact that the rating agencies and investment community take a more comprehensive view of a state's debt when analyzing that state's obligations. Discussions with rating analysts over several years indicated that analysts were interested in all tax supported debt. Summaries of rating agency reports indicated that the measure of debt used was "net tax supported debt" - the sum of general obligation debt, consolidated and county transportation debt (net of sinking funds), capital lease commitments, and tax or bond anticipation notes.

The more comprehensive view of debt also recognized that other forms of long-term commitments were becoming more common. Capital leases, particularly lease purchase obligations, were more visible, if not more widely used. The bonds to be issued by the Maryland Stadium Authority for the Baltimore stadium were to be supported by lease arrangements; the State had consolidated a significant amount of equipment lease obligations; and the Motor Vehicle Administration was using the capital lease method for expanding or relocating its service center network. Although these leases do not represent debt in the constitutional sense, any default on these leases would be viewed by the market as similar to a default on State bonds.

This broader view was ultimately codified and included in the Committee's statutory charge by Chapter 241, Laws of Maryland, 1989.

The 1989 General Assembly further expanded the Committee's charge as part of legislation relating to higher education debt (Chapter 93, Laws of Maryland, 1989). As enacted, the statute directs the Committee to review on a continuing basis the size and condition of any debt of the University System of Maryland, Morgan State University, and St. Mary's College of Maryland; take any debt issued for academic facilities into account as part of the Committee's affordability analysis with respect to the estimate of new authorizations of general obligation debt; and, finally, to submit to the Governor and the General Assembly an estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland. The 1994 General Assembly added Baltimore City Community College to the list of higher education institutions that the Committee reviews.

The 2004 General Assembly added to the duties of the Committee in passage of the Public School Facilities Act of 2004 (Chapters 306, 307, Laws of Maryland, 2004, uncodified Section 11), in which it directed the Committee to annually “review the additional school construction funding needs as identified in the 2004 Task Force to Study Public School Facilities report and …make a specific recommendation regarding additional funding for school

construction when recommending the State's annual debt limit." The State also directs that the Committee "include a multiyear funding recommendation that will provide stability in the annual funding for school construction."

Most recently, the 2005 General Assembly expanded the Committee's charge in Chapters 471, 472, Laws of Maryland, 2005, by explicitly recognizing debt issued by the Maryland Department of Transportation (MDOT) under Title 4, Subtitle 6 of the Transportation Article, or by the Maryland Transportation Authority (MdTA) under Title 4, Subtitle 3 of that Article, when "secured by a pledge of future federal aid from any source" (e.g., GARVEE bonds) as "tax supported debt. Thus, this type of debt must be taken into account both in the annual authorization recommendation and in the amount of tax supported debt outstanding.

It is useful to note that the bond rating agencies are not uniform in their treatment of the federal-revenue backed debt when assessing the State's situation. Two of the agencies do include GARVEEs as tax supported debt outstanding; the remaining agency considers it a "gray area" and would not include them as long as the bonds are "stand alone." that is, not backed by the State's full faith and credit. All three agencies also noted that to the extent the State includes GARVEEs as tax supported, it would be appropriate to include the supporting federal revenue stream that backs the bonds when considering the 8% debt service affordability criterion. This stream of revenue has not been incorporated into previous CDAC ratios.

Further, one of the two bond rating agencies that include GARVEEs as tax supported debt stated that they did so for their own analytic purposes, but would expect and understand if a State did otherwise for affordability determination purposes.

The 2005 Session of the General Assembly also expanded the membership of the Committee with the addition of the Chair of the Capital Budget Subcommittee of the Senate Budget and Taxation Committee and the Chair of the Capital Budget Subcommittee of the House Committee on Appropriations as non-voting *ex officio* members. Chapter 445, Laws of Maryland, 2005.

B. 2004 Recommendations and Subsequent Events

The following lists the recommendations of the Capital Debt Affordability Committee to the 2005 General Assembly for the fiscal year 2006 capital program and the subsequent events related to those recommendations.

- ***New authorizations of general obligation debt should be limited to $670 million, including $5 million for the Southern Maryland Regional Strategy-Action Plan for Agriculture Loan of 2005.***

The net general obligation debt authorized for fiscal year 2006 (effective June 1, 2005) totaled $679 million (including Qualified Zone Academy Bonds, special federally-authorized tax-credit bonds which do not pay interest):

$670	New general obligation debt authorized by the 2005 General Assembly, including $5 million authorized for Southern Maryland Regional Strategy-Action Plan for Agriculture Loan of 2005)
$ 9	Qualified Zone Academy Bond Loan of 2005
($.4)	De-authorized in the Maryland Consolidated Capital Bond Loan of 2005
$679.4	

- ***New authorizations for academic facilities at the University System of Maryland should be limited to an aggregate of $25 million.***

The 2005 General Assembly authorized the University System of Maryland to issue $25.0 million in new academic facility bonds - $13.125 million to finance various capital projects and $11.875 million to finance capital facility renewal projects.

- ***The Committee recognized the documented need for at least $1.2 billion in additional school construction funding in addition to the $800 million previously projected in the Department of Budget and Management's Capital Improvement Program (CIP) and noted that this debt could be financed through increased issuance of general obligation bonds without breaching the debt affordability guidelines, but that such issuance would absorb a significant portion of the State's remaining unallocated debt capacity. The Committee urged further study of alternative funding mechanisms, new revenue streams, or reprioritizing/retiming other capital projects before authorizing an additional $1.2 billion in general obligation bonds.***

The General Assembly examined alternatives, revenues and priorities and through shifting projects and use of operating funds, and allocated the full $250 million for school construction for fiscal year 2006. Discussion now focuses on achieving $250 million funding for fiscal year 2007.

The 2005 General Assembly added GARVEEs as State tax supported debt.

II. TAX SUPPORTED DEBT - TRENDS AND OUTLOOK

The State of Maryland has issued four types of tax supported debt in recent years: (1) general obligation debt, which pledges the full faith and credit of the State; (2) bonds and notes issued by the Department of Transportation and backed by the operating revenues and pledged taxes of the Department; (3) capital leases; and (4) revenue bonds issued by the Maryland Stadium Authority secured by a lease with the State. In addition, there are two categories of State tax supported debt that will be issued in the near future – bonds for the purpose of Bay restoration secured by the revenue from a Statewide fee, and bonds for transportation projects supported by federal revenue (GARVEE bonds). The Treasurer is also authorized to issue up to $100 million in either tax anticipation notes or bond anticipation notes, both of which must be repaid within 180 days. This authority has not been used to this point.

A. General Obligation Bonds

General obligation bonds are authorized and issued to provide funds for: (1) general construction and capital improvements to State-owned facilities, including institutions of higher education; (2) grants to local educational authorities for construction and capital improvements to public schools; and (3) financial assistance in the form of loans or grants to local governments and the private sector for individual capital projects in which a State interest or need has been demonstrated. The latter category includes water quality improvements, jails and detention facilities, community colleges, economic development, community health facilities, historic preservation, private higher education, and other community projects.

Trends in Outstanding General Obligation Debt. Graph 1 depicts the substantial growth between 1975 and 2005 in the State's total general obligation debt. During the 1975-1978 periods, the growth in general obligation debt outstanding accelerated principally as a result of the expanded State role in financing public school construction. Between 1978 and 1991, the annual amount authorized and issued for school construction was significantly reduced from earlier years and, consequently, the level of outstanding debt grew modestly and then declined. Since 1991, the level of new authorizations and issuances has increased significantly, resulting in an increased level of outstanding general obligation debt. This increase has generally been accompanied by a growth in personal income and State revenue, however, so that the debt ratios have remained significantly below affordability criteria.

($ in thousands)

Fiscal	Average Annual General Obligation Debt		Average Annual SPSCL Debt	
Period	**Authorized**	**Issued**	**Authorized**	**Issued**
1974-1981	$234,198	$259,680	$87,500	$130,726
1982-1989	238,624	198,774	40,413	49,018
1990-1997	370,278	340,849	83,375	74,992
1998-2005	588,478	490,893	140,180	116,239

As depicted in Graph 2, adjusted general obligation debt service represents the burden on the general fund and State property tax for debt service. Adjusted debt service includes total principal and interest payments on general obligation bonds.

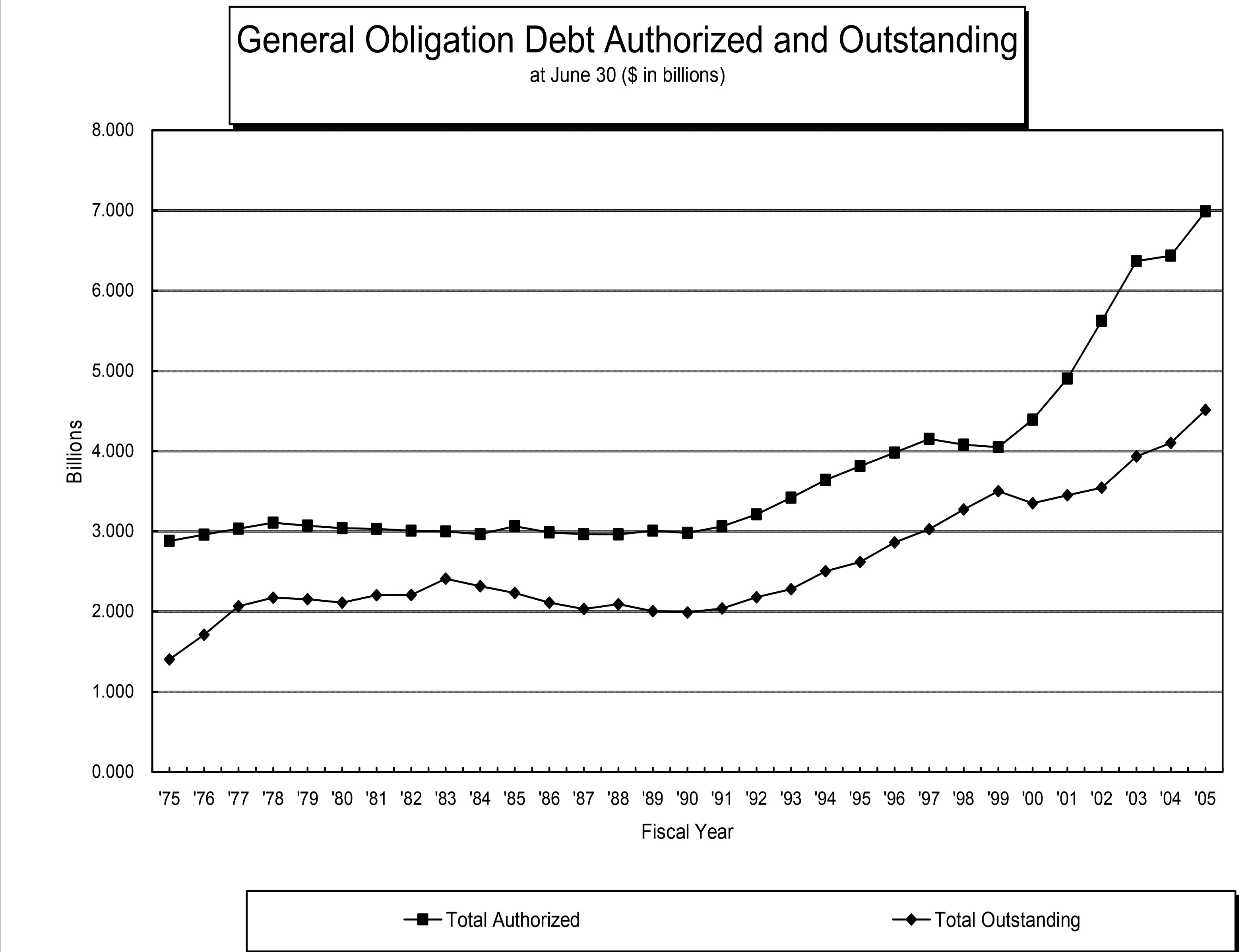
Graph 2 depicts the significant yet variable reliance on general funds to support general obligation debt service over the years. The State constitution requires the collection of an annual tax to pay debt service; State statute requires that the Board of Public Works set an annual property tax rate sufficient to pay debt service in the following fiscal year. State policy through fiscal year 2003, however, had been to maintain a stable property tax rate and rely on general funds, appropriated either to the Annuity Bond Fund or to the Aid to Education program of the State Department of Education, to provide a substantial portion of the general obligation debt service.

In a change from past practice, the fiscal year 2004 budget funded all fiscal year 2004 debt service on general obligation bonds entirely with special funds, primarily from the State property tax. Reflecting the absence of a general fund subsidy, the Board of Public Works set the fiscal year 2004 rate for real (non-utility) property at 13.2 cents per $100 of assessed value, an increase from 8.4 cents. Property tax revenues, combined with premiums received on the sale of general obligation bonds and the balance in the Annuity Bond Fund at the end of fiscal year 2003, were sufficient to cover fiscal year 2004 debt service. The fiscal year 2005 and 2006 budgets continued this practice, and all fiscal year 2006 debt service on general obligation bonds was funded primarily from property tax revenues generated by the tax rate of 13.2 cents.

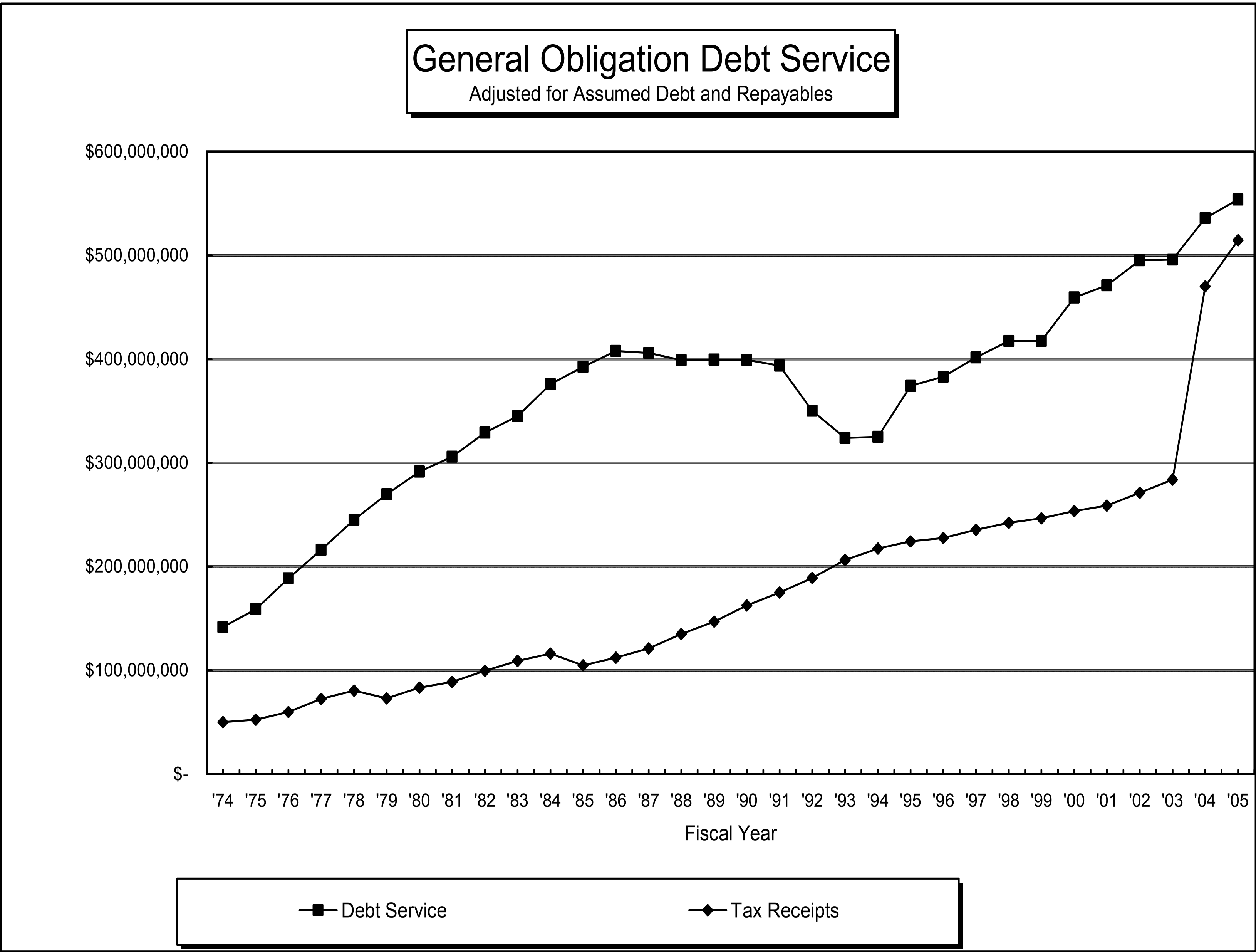
The growth in debt service (Graph 2) reflects both the increase in debt outstanding (Graph 1) and dramatic variances in interest over time.

Graph 3 depicts the average interest rates paid on State general obligation debt (derived by dividing interest paid in a fiscal year by the average debt outstanding during that year) and the average rates of interest incurred on new issues during each fiscal year. The average interest rate paid on outstanding debt ranges from a low of 4.23% in fiscal 1975 to a high of 7.26% in fiscal year 1987. The average of interest rates on all new issues during a year ranged from a high of 10.27% in 1982 to a low of 3.56% in 2003.

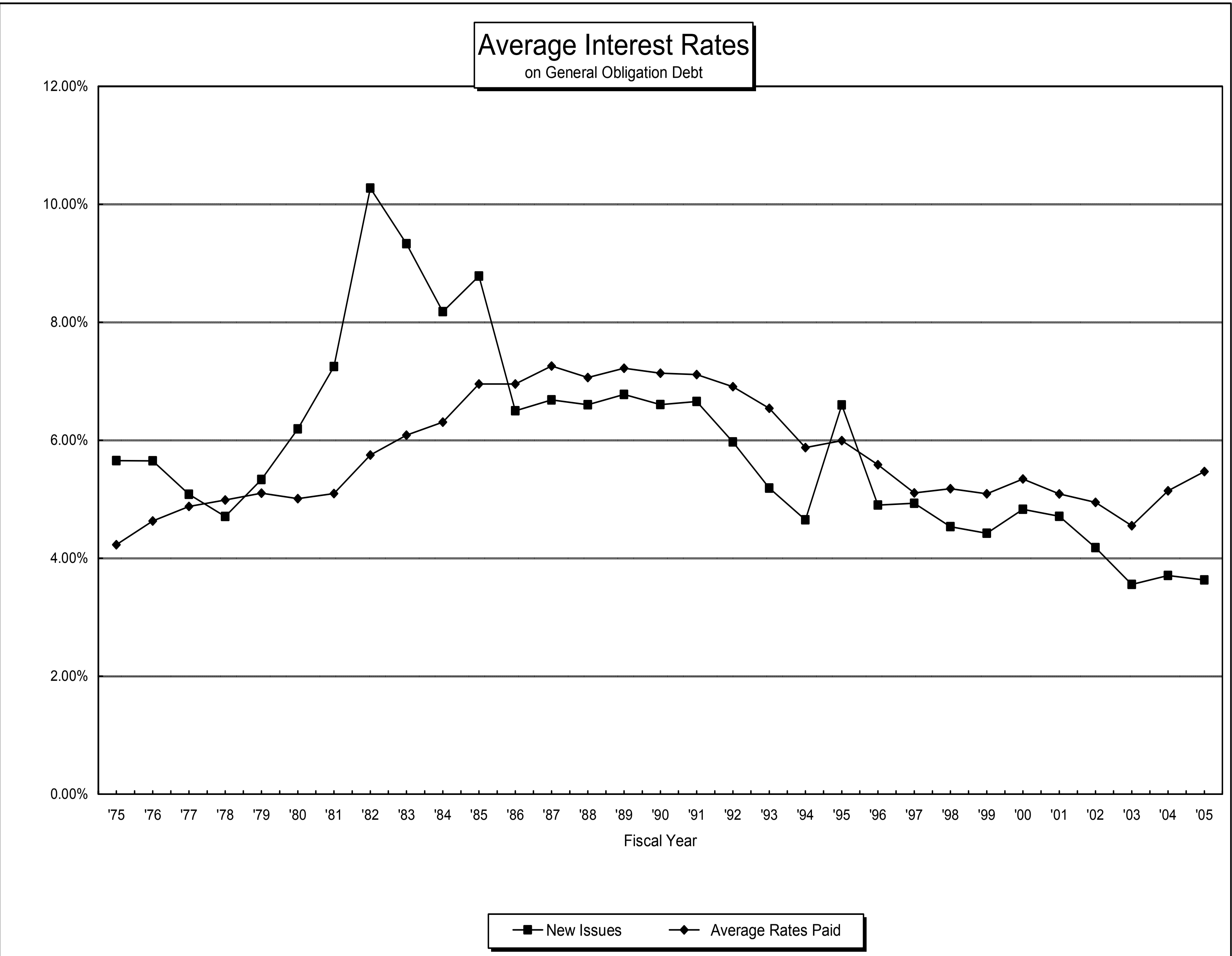
GRAPH 1



GRAPH 2



GRAPH 3



Capital Program Structure. The State's annual capital program includes projects funded from general obligation bonds, general tax revenues, dedicated tax or fee revenues, federal grants, and auxiliary revenue bonds issued by State agencies.

The general obligation bond-financed portion of the capital program consists of an annual Maryland Consolidated Capital Bond Loan (MCCBL), and individually-sponsored legislative initiatives. The MCCBL is a consolidation of projects authorized as general construction projects and various Administration-sponsored capital programs. The general construction loan projects are typically State-owned. The Administration-sponsored programs are typically authorizations for capital grants for non-State owned projects.

General obligation bond funds have traditionally been supplemented with State general fund capital appropriations (PAYGO) authorized in the annual operating budget. When available, the use of operating funds to finance capital projects can reduce debt issuance as well as expand capital grant programs. The use of operating budget funds, moreover, enables the State to avoid Internal Revenue Service or other federal limits on the use of tax-exempt bonds for "private purposes," such as economic development or housing programs, as well as to repay "forward-funded" school construction expenditures of local governments.

However, while the State has provided additional capital funding in the operating budget, the amount of funds available for this use varies dramatically from year to year. For example, the fiscal year 2002 PAYGO general fund appropriation was $643.9 million, while in fiscal year 2003, the amount was $49.6 million, and there was virtually no general fund PAYGO in fiscal years 2004 - 2006. It is unclear what level of general fund PAYGO may be available in future years.

In the past, general fund PAYGO resources also were used to support projects not eligible for tax-exempt financing. Under federal law, private use and private loan projects, with certain limited exceptions, are not eligible for funding with tax-exempt bonds. Examples of projects that do not qualify as tax-exempt include housing projects incorporating federal tax credits, certain economic development projects, loan programs, etc. With the greatly diminished level of general fund PAYGO appropriations, the State issued $45 million in taxable debt as part of the two 2005 general obligation bond issues, permitting the continuation of programs that were judged critical to the State but were not tax-exempt eligible. Due to Maryland's AAA bond rating and a low interest rate environment, the cost of this borrowing, while higher than if it were tax-exempt, was relatively low.

The operating budget also traditionally includes capital programs funded with: (1) a broad range of dedicated taxes, loan repayments, and federal grants such as the State's Drinking Water Revolving Loan Program and the Water Quality Revolving Loan Program; (2) individual dedicated revenue sources such as the property transfer tax which supports the State's land preservation programs; and (3) specific federal grants which provide funds for armory construction projects, veteran cemetery expansion projects, and housing programs.

Estimated General Construction Requests Fiscal Years 2007-2011

State-Owned Facilities. Requests for improvements to State-owned facilities are expected to exceed $2.5 billion during the next five years. Higher education projects, correctional facilities, courthouses and other State office buildings comprise the bulk of these requests.

As of September 2005, projected agency requests for capital construction projects to be funded with general obligation bonds are summarized as follows:

($ in millions)

Agency	FY07	FY08	FY09	FY10	FY11	Total
Baltimore City Comm. College	0.0	26.7	7.9	1.5	14.9	51.0
Canal Place Authority	0.0	1.5	0.0	0.0	0.0	1.5
Md. School for the Deaf	22.9	4.9	0.3	1.1	1.0	30.2
Dept. of Disabilities	1.6	1.6	1.6	1.6	1.6	8.0
Environmental Service	2.9	4.3	4.2	5.5	4.8	21.7
Health & Mental Hygiene	2.7	45.1	55.3	51.5	138.9	293.5
Historic St. Mary's City	1.0	1.3	6.3	5.3	1.0	14.9
Statewide Information Technology	10.0	10.0	10.0	10.0	10.0	50.0
Judiciary	63.5	14.8	81.8	25.9	57.9	243.9
Juvenile Services	1.0	1.0	20.0	3.0	1.0	26.0
Military	0.0	2.7	0.9	2.7	0.0	6.3
Morgan State University	15.9	12.7	39.5	8.0	32.6	108.7
Natural Resources	3.0	3.0	3.0	3.0	0.0	12.0
State Planning	0.3	3.0	0.3	2.3	3.8	9.7
Public Safety & Corrections	88.2	80.4	59.4	103.9	69.0	400.9
Public School Construction	0.0	0.2	0.0	0.2	0.0	0.4
Public Works	34.3	32.4	42.4	86.8	138.8	334.7
St. Mary's College	9.2	0.8	21.9	3.7	0.0	35.6
So. MD Higher Ed. Ctr.	0.0	0.0	0.0	0.8	10.3	11.1
State Police	11.0	13.6	6.7	0.3	9.1	40.7
Univ. System of Maryland	151.8	178.6	106.6	235.1	199.1	871.2
TOTAL	419.3	438.6	468.1	552.2	693.8	2,572.0

Capital Grants and Loans. There are many different administration-sponsored capital grant and loan programs through which financial assistance is provided to local governments, private non-profit institutions, and private organizations for purposes including economic development, environmental restoration, and construction of community centers, health facilities, housing, public schools, and higher education facilities. There has been an increase in the capital grants and loans authorized in recent years and future requests for funding are expected to remain relatively high, especially for public schools, community colleges, and environmental programs. The need for funding environmental programs reflects, in large part, the State's efforts to restore the Chesapeake Bay.

At this time, anticipated requests for non-State owned Administration-sponsored programs to be funded with general obligation bonds are expected to reach almost $3.3 billion over the next five years and are as follows:

($ in millions)

Agency	FY07	FY08	FY09	FY10	FY11	Total
Aging						
Senior Citizen Centers	1.5	1.5	1.5	1.5	1.5	7.5
Agriculture						
Agricultural Cost-Share	7.0	7.3	7.5	8.0	8.5	38.3
Tobacco Transition	5.0	5.0	5.0	0.0	0.0	15.0
Business & Econ. Development						
Econ. Development Assistance	15.0	17.5	17.5	17.5	17.5	85.0
Education						
State Library Resource Center	0.0	0.8	50.5	0.0	0.0	51.3
Environment						
Flood Management	0.5	0.5	0.5	0.5	0.5	2.5
Water Quality	34.3	34.3	35.1	35.6	36.0	175.3
Water Supply	2.5	2.5	2.5	2.5	2.5	12.5
Health & Mental Hygiene						
Adult Day Care	1.6	1.6	1.6	1.6	1.6	8.0
Community Mental Health	8.0	8.0	8.0	8.0	8.0	40.0
Federally Qualified Health Ctrs.	3.0	3.0	3.0	3.0	3.0	15.0
Higher Education Commission						
Comm. College Construction	79.1	129.3	103.3	101.0	56.7	469.4

($ in millions)

Agency	FY07	FY08	FY09	FY10	FY11	Total
Housing & Comm. Dev.						
Community Legacy	8.0	8.0	8.0	8.0	8.0	40.0
Homeownership Programs	2.0	1.8	1.5	1.3	1.3	7.9
Maryland Housing Fund	2.0	2.0	2.0	2.0	2.0	10.0
Partnership Rental Housing	6.0	6.0	6.0	6.0	6.0	30.0
Rental Housing Programs	5.8	5.8	5.4	5.3	5.3	27.6
Special Loan Programs	1.4	1.2	1.0	0.7	0.7	5.0
Transitional Housing	1.0	1.0	1.0	1.0	1.0	5.0
Juvenile Services						
Juvenile Residential Facilities	3.5	3.5	3.5	3.5	3.5	17.5
Natural Resources						
Comm. Parks & Playgrounds	5.0	5.0	5.0	5.0	5.0	25.0
Rural Legacy	5.0	5.0	5.0	5.0	5.0	25.0
Planning						
Maryland Historical Trust	1.0	1.0	1.0	1.0	1.0	5.0
Public Schools						
Public School Construction	470.9	382.0	421.6	311.9	272.2	1,858.6
Univ. of MD Medical System						
Diagnostic Treatment and Related Facilities	5.0	10.0	12.5	10.0	10.0	47.5
Miscellaneous						
East Balt. Biotechnology Park	5.0	5.0	5.0	5.0	5.0	25.0
Catholic Charities	1.0	0.0	0.0	0.0	0.0	1.0
Garrett College Athletic and Community Recreation Center	0.0	11.1	0.6	0.0	0.0	11.7
Harry Grove Stadium	1.5	0.0	0.0	0.0	0.0	1.5
Johns Hopkins Medical Institutions	10.0	10.0	10.0	10.0	0.0	40.0
Kennedy Krieger Institute	1.0	1.0	1.0	0.0	0.0	3.0
Local Jails	12.5	15.0	15.0	15.0	15.0	72.5
Lyric Opera House	1.0	0.0	0.0	0.0	0.0	1.0

Agency	FY07	FY08	FY09	FY10	FY11	Total
	($ in millions)					
Miscellaneous – cont'd						
MD Hospital Association	5.0	5.0	5.0	5.0	5.0	25.0
MD Zoo in Baltimore	3.5	2.5	0.0	0.0	0.0	6.0
National Aquarium	3.0	3.0	0.0	0.0	0.0	6.0
Private Higher Education	8.0	8.0	8.0	8.0	8.0	40.0
Rockville Town Center	1.5	0.0	0.0	0.0	0.0	1.5
Sheppard Pratt Hospital	1.0	0.0	0.0	0.0	0.0	1.0
Waldorf Higher Education Ctr	0.0	0.0	0.0	2.0	2.0	4.0
West Side Revitalization Project	5.0	5.0	5.0	5.0	5.0	25.0
TOTAL	733.1	709.2	759.1	589.9	496.8	3,288.1

Legislative Initiatives. Funding requests are also submitted each year by members of the General Assembly to provide financial support for local programs or projects of Statewide interest. These bond requests include capital grants to local governments and private non-profit sponsors to support construction of local public and private facilities. While it is difficult to predict the amount of legislative initiatives that will be requested in any given year, it is fair to estimate that the requests will average around $100 million annually or $500 million over the next five years. It is important to note that only a small proportion of these requests are usually authorized.

Summary of Capital Program: Fiscal Years 2007 - 2011. The total capital requests are estimated at $6.360 billion for the next five years. By contrast, the Department of Budget and Management anticipates recommending a five-year Capital Improvement Program (CIP) of approximately $3.375 billion in general obligation bonds. The total capital program will depend on the amount of general funds and other non-general obligation sources available for capital funding.

	FY 2007-2011 Anticipated Requests ($ in millions)	FY 2007-2011 Anticipated Funded Capital Program
Agency General Construction Projects	2,572.0	1,593.0
Administration Capital Programs (capital grants and loans)	3,288.1	1,707.0
Legislative Initiatives	500.0	75.0
TOTAL	6,360.1	3,375.0

B. Transportation Debt

Consolidated Transportation Bonds.

Consolidated Transportation Bonds, like State general obligation bonds, are limited 15-year obligations, issued by the Department of Transportation for highway and other transportation projects. The gross outstanding aggregate principal amount of Consolidated Transportation Bonds is limited by statute to $2.0 billion. The General Assembly may set a lower limit each year, and for fiscal year 2006 the limit is $1.334 billion, which may be increased by $15 million with approval of the legislative budget committees. Debt service on Consolidated Transportation Bonds is payable from the Department's shares of the motor vehicle fuel tax, the motor vehicle titling tax, all mandatory motor vehicle registration fees, sales tax on rental cars, and a portion of the corporate income tax, plus all Departmental operating revenues and receipts. The holders of such bonds are not entitled to look to other sources for payment.

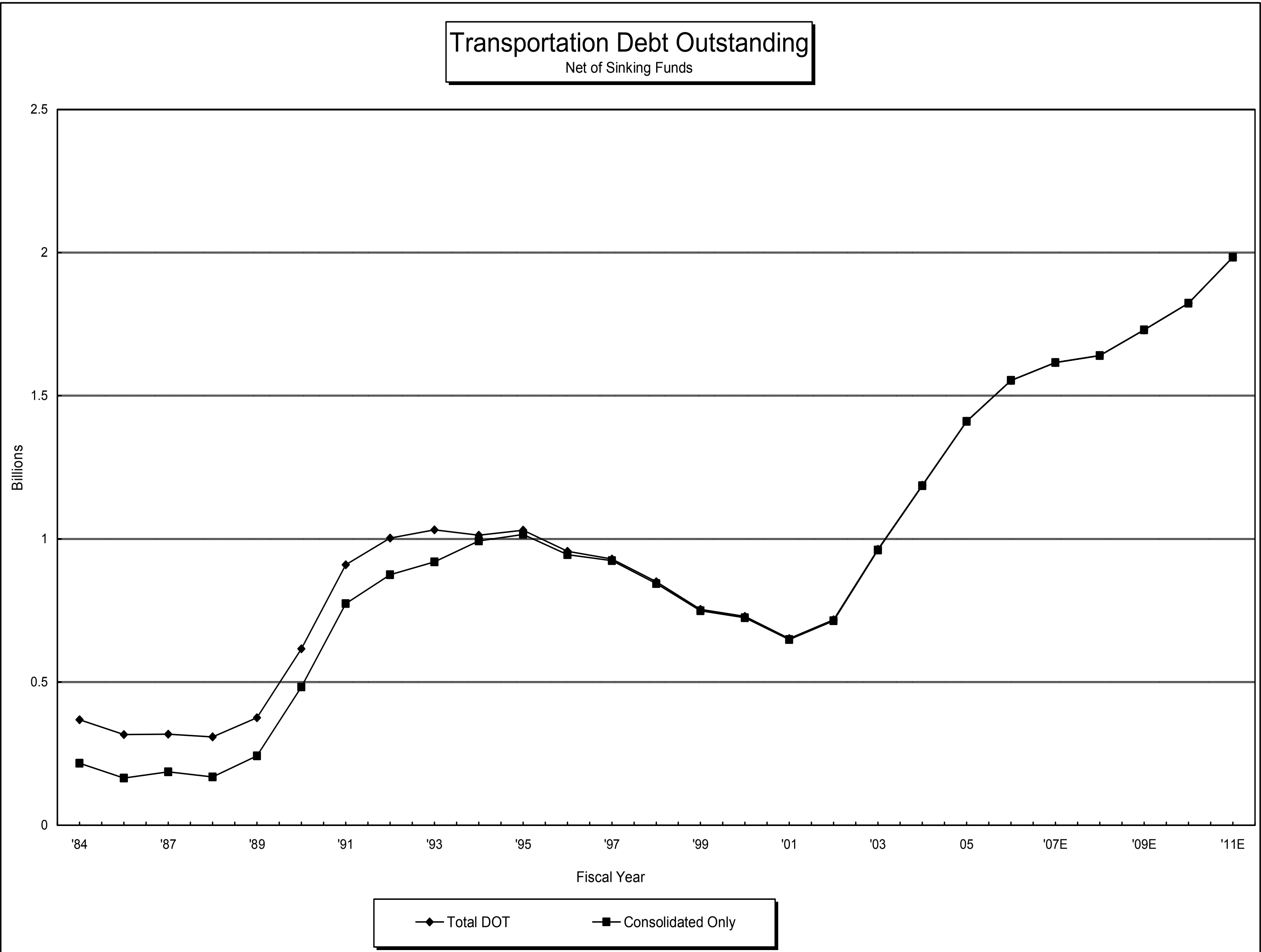
The Department has covenanted with the holders of outstanding Consolidated Transportation Bonds not to issue additional bonds unless: (1) the excess of Transportation Trust Fund revenues over Department of Transportation operational expenses in the preceding fiscal year, the amount available for debt service, is equal to at least twice the maximum amount of debt service for any future fiscal year, including debt service on the additional bonds to be issued; and (2) total proceeds from taxes pledged to debt service for the past fiscal year equal at least twice such maximum debt service.

Prior to 1993, the Department also issued County Transportation Bonds (CTBs) on behalf of the counties and Baltimore City for local transportation projects. The debt service on these bonds is recovered from the counties by the State through deduction from amounts otherwise due them from their local share of State-collected highway user revenues, such as the corporate income tax, titling tax, motor fuel taxes, and vehicle registration fees.

In 1993, however, legislation was enacted that provides for a non-State tax supported County Transportation Revenue Bond (CTRB) program; subsequent issuances under this program, not constituting State tax supported debt, are not subject to the affordability calculations. Additionally, the Department refunded outstanding bonds under the new program, which eliminated all but two prior series of CTBs from State tax supported debt. Since fiscal year 1994, the Department has issued only one new CTRB series, when it issued $30 million for Baltimore City in 2005.

Graph 4 depicts outstanding Consolidated and County Transportation Bonds (after being reduced by any amounts in sinking funds) for fiscal years 1984 through 2005, as well as the Department's current projections for fiscal years 2006 through 2011. Prior to 1989, Departmental revenues were of a magnitude sufficient to necessitate only a modest level of debt to be issued. This situation reflected, among other factors, the impact of several gas tax increases (from 9 cents per gallon in fiscal 1982, to 13.5 cents per gallon in fiscal year 1984 and to 18.5 cents per gallon effective June 1, 1987) and of permanent allocations to the Transportation Trust Fund of a

GRAPH 4



portion of corporate income tax receipts and the balance of the titling tax. However, the capital program, including the Baltimore light rail project, Interstate 97, Route 32, and Route 50 required the level of new issuances to increase to $100 million in 1989, $260 million in 1990, and $310 million in 1991. The statutory cap of $950 million in outstanding bonds limited new issuances in 1992 to $120 million.

At its 1992 Session, the General Assembly enacted legislation that increased motor fuel taxes from 18.5 cents to 23.5 cents per gallon and, at the same time, raised the statutory limit on outstanding Consolidated Transportation Bonds from $950 million to $1.2 billion, specifying that a limit of less than $1.2 billion could be imposed for the next fiscal year in the annual State operating budget. The General Assembly, in fact, has annually used this budget authority to limit outstanding debt significantly below the statutory limit. At its 2002 Session, the General Assembly raised the statutory limit to $1.5 billion and in 2004 again to $2.0 billion. Since fiscal year 1995, a ten year period, the new money issuances of Consolidated Transportation Bonds totaled only $940 million. The fiscal year 2006 budget set an overall cap for fiscal year 2006 of $1.336 billion, which could be increased by $15 million with the approval by the budget committees.

($ in millions)

	Fiscal Year	Consolidated Issues	Refunding Issues	Outstanding
Actuals –				
	2000	75	-----	725
	2001	0	-----	648
	2002	150	-----	714
	2003	345	262.4	961
	2004	320	74.9	1,186
	2005	0	0	1,070
Projections –				
	2006E	250	-----	1,228
	2007E	140	-----	1,301
	2008E	205	-----	1,437
	2009E	195	-----	1,553
	2010E	275	-----	1,746
	2011E	330	-----	1,984

(E = Estimate)

GARVEE Bonds

GARVEEs, or Grant Anticipation Revenue Vehicles, are bonds for which debt service is paid using federal transportation funds received by the State. Maryland's use of GARVEEs is authorized under Title 3, Subtitle 6, and Title 4, Subtitle 3 of the Transportation Article, and it is anticipated that the first GARVEE bonds will be issued in fiscal year 2006 by the Maryland Transportation Authority. As noted earlier, legislation enacted by the 2005 General Assembly specified that GARVEE bonds be considered tax supported debt in the Capital Debt Affordability process.

GARVEEs are presently contemplated to be used solely as one of several components of a funding plan for the Inter County Connector ("ICC") project, in addition to toll revenue bonds, Transportation Trust Fund money, and other sources. Use of GARVEEs on the ICC is intended to allow the project to be implemented sooner than otherwise would be possible and with less reliance on the State's available funds in the short term.

As a result of the recently enacted re-authorization of the federal highway and transit programs, Maryland will receive an average of $583 million per year in federal highway funds through fiscal year 2009. This is $53 million per year more than earlier estimates (up to $530 million per year for the current period through fiscal year 2009), and nearly $120 million more per year than the average of $465 million received per year in the previous authorization period (fiscal years 1998 – 2003).

During the 2005 Session of the General Assembly, Chapters 471, 472, Laws of Maryland, 2005, were enacted authorizing (and limiting) issuance of GARVEEs to $750 million, with maximum maturity of 12 years, to be used only for the ICC. This superseded legislation enacted in the 2004 Session of the General Assembly. As of September 2005 the schedule for issuance of GARVEEs anticipates $375 million to be issued during fiscal year 2006, $325 million issued during fiscal year 2008, and $50 million issued in fiscal year 2010. The timing and amounts of these individual issuances may be modified, as the funding plan is refined.

Nontraditional Transportation Debt

The 2005 General Assembly has established a limit of $754.1 million at June 30, 2006, for total aggregate outstanding and unpaid principal balance of nontraditional debt, defined as any debt instrument that is not a Consolidated Transportation Bond or a GARVEE bond. This includes Certificates of Participation and other forms of capital leases.

As of June 30, 2005, the Department had certificates of participation outstanding in the total principal amount of $65,150,000. See Section II.C. "Lease and Conditional Purchase Financings."

C. Lease and Conditional Purchase Financings

Capital Leases.

The State's capital funding program over the past several years has included the increased use of capital lease financings in which the State builds an equity interest in the leased property and gains title to such property at the end of the leasing period. Such capital leases are considered debt of the State by financial analysts and under generally accepted accounting principles (GAAP).

According to GAAP, leases that are in essence a vehicle for financing assets must be "capitalized" - i.e., reflected on the balance sheet. To the extent that meaningful financial reporting requires this, rating agencies and credit evaluators will incorporate leases of this nature into their overall calculation of the State's debt burden.

Under GAAP, if a lease financing meets one or more of the following four criteria at its inception, the lease should be classified as a capital lease:

- The lease transfers ownership of the property to the lessee (user) by the end of the lease term.

- The lease allows the lessee (user) to purchase the property at a bargain price at fixed points in the term of the lease and for fixed amounts.

- The term of the lease is 75% or more of the estimated useful economic life of the property.

- The present value of the lease payments is 90% or more of the fair value of the property.

If State leases meet any of these four criteria, the State's audited financial statements will reflect the capitalization of those leases, and the State will be judged by knowledgeable reviewers as having incurred debt.

The additional State liability and debt service resulting from capital leases is not large in relation to the State's general obligation debt liability and debt service at this time, but there is a potential of significant increases of capital leases over time.

Only those capital leases which are tax supported are incorporated in the affordability analysis; revenue-backed leases, while capitalized, are not.

Capital leases are used for the acquisition of both real property and equipment. Under current practice, capital leases for equipment, primarily data processing and telecommunications equipment, are generally for periods less than five years. It is assumed that future equipment lease debt will be reasonably consistent over time, averaging about $35 million a year.

Real property capital leases are longer term (in the range of 20 to 30 years) and have been used to acquire a wide variety of facilities, including the Towson and Hyattsville District Courts, Multi-Service office buildings in southern Maryland, the Department of Transportation headquarters office building, and, most recently, a new parking garage in Annapolis. Historical analysis indicates that in years of economic downturns the reliance on capital leasing has been higher than in other years. The future use of capital leases for acquiring real property is not well defined.

At the end of fiscal year 2005, the principal outstanding on tax supported capital leases amounted to $175.1 million.

In another instance of the use of the capital lease structure, in March 1994, the State began using lease-purchase agreements to provide financing for energy conservation projects at State facilities. Lease payments will be made from the agencies' annual utility appropriations using savings achieved through the implementation of energy performance contracts. The State had $37.8 million outstanding under these energy lease agreements as of June 30, 2005.

In June 2002, the Department of Transportation entered into a financing agreement with the Maryland Economic Development Corporation ("MEDCO") involving MEDCO's issuance of $36 million of lease revenue bonds to finance the construction and acquisition of the Department's headquarters building. The Department's annually appropriated lease payments to MEDCO are pledged to pay debt service on the bonds; therefore, the capital lease is included as State tax supported debt.

Other Alternative Conditional Purchase Financings

The Department of Transportation has also made significant use of Certificates of Participation (COPs), another form of conditional purchase debt financing, in its programs. In October 2004, the Department entered into a $15.5 million tax supported COP to purchase 50 clean diesel shuttle buses for use at Baltimore/Washington International Airport (BWI). The debt is tax supported and is incorporated into the analysis; it falls under the "non-traditional debt" limit, as do the Department's other lease financings.

The Department also issued COPs in fiscal years 1999 ($42,750,000) and 2001 ($33,000,000), to provide financing for capital improvements at BWI and to expand parking at the Maryland Rail Commuter (MARC) BWI rail station. Revenues from these projects are pledged to the payment of principal and interest on the certificates; therefore, these are not considered tax supported and not included in the capital lease component in Tables 1 and 2a and 2b of this report.

In April 2003, MEDCO issued lease revenue bonds in the amount of $223.7 million to

finance the expansion and renovation of Piers A and B and the terminal building at BWI. The Department records this financing as a capital lease, which is subject to annual appropriation by the General Assembly. Airline rentals and concession revenues are pledged to the payment of principal and interest on the bonds and, therefore, this financing is not considered tax supported.

D. Maryland Stadium Authority

The Maryland Stadium Authority was created in 1986 as an instrumentality of the State responsible for financing and directing the acquisition and construction of professional sports facilities in Maryland. Since then, the Authority's responsibility has been extended to include convention centers in Baltimore City, Ocean City and in Montgomery County, and the Hippodrome Performing Arts Center in Baltimore, Maryland.

Oriole Park at Camden Yards. Currently the Authority operates Oriole Park at Camden Yards, which opened in 1992. In connection with the construction of that facility, the Authority issued $155.0 million in notes and bonds. In October 1993, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the sports facility bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of $15.5 million was paid to the Authority on April 1, 1996. In accordance with this agreement and in consideration for the prior payment of the savings, the Authority issued its $17.9 million Sports Facilities Lease Revenue Refunding Bonds in December 1998, to refund its outstanding Sports Facility Lease Revenue Bonds Series 1989C, and issued its $121.0 million Sports Facilities Lease Revenue Refunding Bonds in December 1999, to refund its Sports Facilities Lease Revenue Bonds Series 1989D.

The Authority's notes and bonds are lease-backed revenue obligations, the payment of which is secured by, among other things, an assignment of revenues received under a lease of Oriole Park at Camden Yards from the Authority to the State. The rental payments due from the State under that lease are subject to annual appropriation by the General Assembly. Revenues to fund the lease payments are generated from a variety of sources, including in each year revenues from sports lotteries, the net operating revenues of the Authority, and $1.0 million from the City of Baltimore.

In November 2001, the Authority issued $10.25 million in bond anticipation notes, which were refunded in July 2002 with $10.25 million in taxable lease-backed revenue bonds. The 2001 bond anticipation notes were used to fund a $10.0 million deposit to the "Supplemental Improvements Fund" under the Baltimore Orioles Lease in accordance with the order of the panel of Arbitrators in American Arbitration Association Case No. 16Y1150005500. Annual net debt service on the Authority's total bonds obligation for Oriole Park at Camden Yards is $15.25 million.

Baltimore City Convention Center. The Authority also constructed an expansion of the Baltimore City Convention Center. The Convention Center expansion cost $167.0 million and was financed through a combination of funding from Baltimore City revenue bonds ($50.0 million), Authority revenue bonds ($55.0 million), State general obligation bonds ($58.0 million) and other State appropriations. As required, the City sold its revenue bonds before the Authority's sale of lease-backed revenue bonds on August 25, 1994. The State sold $58.0 million in general obligation bonds designated for the Convention Center in sales from October 1993 to October 1996. The agreement between the City and the Authority provides that: (i) the City and the Authority each make equal annual contributions to a capital improvements reserve fund; (ii) after completion of construction through fiscal year 2008, the Authority and the City contribute toward operating deficits in the proportion Authority (2/3), City (1/3); and (iii) the City be solely responsible for operating deficits and capital improvements prior to completion of the expansion and after fiscal year 2008.

Authority debt service for the Convention Center in fiscal year 2005 was $9.8 million. The 2005 contribution to operating deficits and the project's capital improvements fund was approximately $3.8 million. Through direct and indirect benefits, the project has covered its costs (debt service, operating deficit contributions, deposits to the capital improvements fund, and that portion of the Authority's budget that is allocable to the Convention Center project) since 1999.

In June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of its revenue bonds for the Baltimore City Convention Center using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, a savings of $587,500 was paid to the Authority on June 10, 1998.

Ocean City Convention Center. The Authority also constructed an expansion of the Convention Center in Ocean City; the expansion cost $33.2 million and was financed through a matching grant from the State to Ocean City and a combination of funding from Ocean City and the Authority. In October 1995, the Authority issued $17.3 million in revenue bonds to provide State funding; as required, Ocean City sold $15.0 million of its special tax and general obligation bonds before the sale by the Authority. Authority debt service in connection with the revenue bonds for the Convention Center in Ocean City was $1.48 million in fiscal year 2005. The Authority will also continue to pay one-half of any annual operating deficits of the facility through December 15, 2015, after which time Ocean City will be solely responsible for operating deficits.

Ravens Stadium. The Authority currently operates Ravens Stadium, which opened in 1998. In connection with the construction of that facility, the Authority sold $87.6 million in lease-backed revenue bonds on May 1, 1996, for Ravens Stadium. The proceeds from the Authority's bonds, along with cash available from State lottery proceeds, investment earnings, contributions from the Ravens and other sources were used to pay project design and construction expenses of approximately $229.0 million. The bonds are solely secured by an assignment of revenues received under a lease of the project from the Authority to the State. In

June 1998, the Authority entered into an agreement to implement a synthetic fixed rate refinancing of the football lease-backed revenue bonds using a combination of variable rate refunding obligations and forward interest rate exchange agreements. As provided under the agreements, savings of $2.6 million were paid to the Authority on June 10, 1998.

On December 15, 1997, the Authority issued $4.6 million in Sports Facilities Lease Revenue Bonds, Series 1997. The proceeds from these bonds were used toward the construction of Ravens Stadium. Amortization began in fiscal year 2001 and the Authority's combined debt service on the revenue bonds is $7.3 million annually.

Montgomery County Conference Center. In January 2003, the Authority issued $23.2 million in lease-backed revenue bonds in connection with the construction of a Conference Center in Montgomery County. The Conference Center is adjacent and physically connected with a Marriott Hotel, which has been privately financed. The center cost $33.5 million and is financed through a combination of funding from Montgomery County and the Authority. The Authority has no responsibility for operating decisions. The average annual debt service for these bonds is $1.75 million.

Hippodrome Theater. In July 2002, the Authority issued $20.25 million in taxable lease-backed revenue bonds in connection with the renovation and construction of the Hippodrome Theater as part of Baltimore City's West Side Development. The cost of renovating the theater is $63.0 million and is financed by various public and private sources. The Authority will not have any operating risk for the project which was completed in February, 2004. The average annual debt service for these bonds is $1.8 million.

Camden Station Renovation. In February 2004, the Authority issued $8.73 million in taxable lease-backed revenue bonds in connection with the renovation of the historic Camden Station located at the Camden Yards Complex in Baltimore, Maryland. The cost of the renovation is projected to be $8.0 million. The Authority has executed lease agreements for the entire building, with the Babe Ruth Museum leasing approximately 22,600 square feet and a second museum leasing the balance of the building. The Babe Ruth Museum opened on May 12, 2005, and the second museum is projected to open in early spring of 2006. The average annual debt service for these bonds is $750,000.

The Authority is currently exploring the feasibility of building a horse park complex that will have facilities for non-racing competition (including show jumping, dressage, steeplechase riding) and other equestrian activities (breed demonstrations, jousting, trail riding). The complex may include an indoor arena, an outdoor pavilion for concerts and other activities, stalls, show rings, sales pavilion, cross country and steeplechase courses, campground, meeting facilities, and visitors center. If the economic impact and cost studies indicate proceeding with the project, the Authority will propose legislation that will provide the necessary financing authorization for consideration by the 2006 General Assembly. The cost of the project is estimated in the $75 - $100 million range.

E. Bay Restoration Bonds

Legislation enacted by the 2004 General Assembly (Chapter 428, Laws of Maryland 2004) establishes a Bay restoration fee as a funding source for upgrades to the State's wastewater treatment plants (WWTPs). The Department of the Environment (MDE) estimates that the State's 66 largest WWTPs account for over 95% of the wastewater discharge to the Chesapeake Bay. Nutrient removal upgrades to those facilities would reduce nitrogen loading to the Chesapeake Bay and its tributaries by an estimated 7.5 million pounds annually.

The legislation sets the fee at $2.50 per month ($30 annually) for each residential dwelling that receives an individual sewer bill and for each user of a septic system or sewage holding tank that receives a water bill. For nonresidential users as well as buildings or groups of buildings under single ownership or management that contain multiple residential dwellings which do not receive individual sewer bills, the legislation establishes a sliding fee scale based on the volume of wastewater generated. These fees, which took effect January 1, 2005, will be collected through water and sewer bills. The fee for each user of a septic system or sewage holding tank that does not receive a water bill is $30 annually; this fee, which takes effect October 1, 2005, will be collected by local governments.

Fee revenue will be deposited in the Bay Restoration Fund, which will be administered by the Water Quality Financing Administration within MDE. Fee revenue from WWTP users will support the issuance of bonds to provide the additional revenue needed for grants to WWTP owners for nutrient removal upgrades. Fee revenue from users of septic systems and sewage holding tanks will be used for other purposes.

The Committee considered in 2004 the question of whether Bay Restoration Bonds constitute a new component of State tax supported debt for purposes of debt affordability calculations. The Bay restoration fee is applied broadly across the State and is not directly tied to the use of a specific WWTP. There also appears to be a consensus among counsel that the maturity of the bonds must be limited to 15 years, the maximum for "State debt." As a result, the Committee concluded that the Bay Restoration Bonds are State tax supported debt.

The timing and amount of bonds issued will vary depending on the fee revenue attained and the need for funding as upgrade projects proceed. For purposes of the calculations, it is assumed that the bonds will be limited to 15-year maturities with a total issuance of $510 million. The estimated issuance stream (in millions) is $50, $130, $170, and $160 in fiscal years 2008-2011, respectively.

III. AFFORDABILITY ANALYSIS

The objective of an affordability analysis is to draw a proper balance between two basic interests: the State's capital needs and its ability and/or willingness to repay the debt issued to finance those capital needs.

A. The Concept of Affordability

The ultimate test of affordability is the willingness and ability of the State to pay the resulting debt service when due. Apart from revenue sources which are dedicated by law, the allocation of future resources between debt repayment and other program needs is a matter of judgment. The whole issue of affordability is, therefore, a judgmental one, dependent upon complex considerations such as perceived needs, the relationship between debt authorization and debt issuance, available and potential funding mechanisms, overall budgetary priorities, and revenues.

The Committee believes that the crux of the concept of affordability is not merely whether or not the State can pay the debt service; rather affordability implies the ability to manage debt over time to achieve certain goals. Maryland has a long tradition of effectively managing its finances and debt. The challenge of debt management is to provide sufficient funds to meet growing capital needs within the framework of the State's debt capacity, thereby maintaining the AAA credit rating.

B. History of Affordability Criteria

Based upon an analysis of available material and consultation with a number of financial experts, the following affordability criteria were developed by the Committee in 1979:

- Outstanding debt should be no more than 3.2% of State personal income;

- Adjusted debt service should be no more than 8% of State general fund and property tax revenues; and

- New authorizations should be kept in the range of redemptions of existing debt over the near term.

These criteria were adopted by the Committee solely for the analysis of general obligation debt.

Criteria 1 and 2 represented traditional measures and criterion 3 reflected a discretionary policy position that the State should "get out of debt." The Committee at the time declared that, given the high debt level of the mid-late 1970’s, the first two criteria were goals to be achieved over time, and the final criterion became controlling over the short term.

In 1987, while retaining the first and second criteria for evaluating the expanded definition of debt and debt service, the Committee concluded that the third criterion was no longer an applicable guideline. The basis for its conclusion was threefold. First, the high ratings of the State's general obligation and transportation bonds indicated that the existing level of debt and the planned increases were acceptable to the rating agencies. Second, pressing legislative and executive commitments required an increase in the level of bonded debt to finance needed transportation and other projects. Third, adherence to the criterion tied yearly authorizations to events of 15 years before, thereby producing highly variable bond authorizations inconsistent with either good debt management or a stable capital program.

In 1988, a detailed survey of credit analysts was undertaken to obtain their views on the Committee's comprehensive approach to reviewing debt and to the criteria the Committee had been using for 10 years. The survey affirmed the Committee's decision to take an expanded view of debt. In addition, criteria 1 and 2 were almost universally approved. This position was reinforced in discussion with investment banks and bond rating agencies in as recently as July 2005. Indeed, the rating agencies have repeatedly cited the Capital Debt Affordability process and criteria as major reasons for awarding Maryland AAA status.

The current affordability criteria are: State tax supported debt outstanding should be no more than 3.2% of State personal income; and debt service on that debt should be no more than 8% of the related revenues. See Appendix A-2.

C. 2005 Affordability Recommendation

The Committee recommends a $690 million limit for new general obligation debt authorizations enacted by the 2006 General Assembly for the fiscal 2007 capital program and an annual increase of 3% for the following years.

In its 1992 report, while reaffirming its belief in the theories underlying its prior recommendations, the Committee recommended that the six-year program originally recommended in 1988 be reduced, due principally to the severe national and state economic downturn. The 1992 recommendation acknowledged that the persistent recession had depressed the levels of personal income and that the structural changes in Maryland's economy would deter near term resumption of the State's rapid growth in personal income. The 1992 program also recognized that, while there had been no abatement in the population growth and need for services, cost inflation and, therefore, total need had been lower than originally projected in the years between 1988 and 1991. Considering all of these factors, the Committee recommended limiting authorization increases to 3% based at that time on the prevailing inflation rate plus 1%. In earlier years, the recommended out-year increases had varied between 3-5%, usually incorporating some estimate of inflation plus need.

In the years between 1993 and 2002, the State's economy and personal income recovered significantly but, due to the availability of general PAYGO funds, the guideline increase of 3% was generally observed and incorporated in future year projections. As debt authorizations grew at a slower rate than personal income, the level of "unused" debt capacity increased. The recent

inclusion of Bay Bonds and GARVEEs as State tax supported debt and the greater than projected issuance of general obligation bonds coupled with the re-alignment of the out-year authorization levels absorb much of the previously unused debt capacity. The Committee recommends, therefore, adhering to the 3% annual increase in authorizations.

Current personal income and revenue estimates both support an increased level of debt while maintaining basic affordability criteria. See Appendix A-1 for Personal Income and Population Projections, and Appendix A-2 for Maryland State Revenue Projections. As indicated by Table 4, Tax supported Debt Outstanding and Debt Service Stress Test, declines in personal income and revenue and increases in debt outstanding and debt service can be absorbed within the affordability criteria.

D. Comparison of Recommendation and Criteria

To analyze the relationship of the Committee's recommendation for general obligation debt to the affordability criteria, each component of tax supported debt and debt service is projected.

The assumptions regarding non-general obligation components of tax supported debt and debt service are as described in Part II. The Department of Transportation’s debt is expected to rise consistently over the next several years; the issuance of GARVEE bonds, supported by increased federal revenue, is projected at the statutory limit. The Stadium Authority is considering the possibility of financing a horse park, as discussed above, which because of its uncertainty, has not been included; and the issuance of Bay Restoration Bonds is anticipated beginning in fiscal year 2008. The level of tax supported capital lease financing is expected to remain relatively constant over the near term.

Regarding general obligation debt, it is necessary to project the pattern of issuance of both new and existing authorizations. Newly authorized bonds are not immediately issued; in fact, approximately half of the bonds authorized in a year are typically issued within the ensuing two fiscal years. Consequently, the impact of a change in any year's debt authorizations translates slowly into issuances and affects the outstanding level of debt with a substantial lag. Appendix B-1, Proposed General Obligation Authorizations and Estimated Issuances converts the recommended levels of new general obligation bond authorizations into a projected level of annual issuances; it is assumed that all authorized debt will be issued.

While some projects currently authorized will be abandoned or completed for less than authorized, it is assumed that any such unnecessary authorization will be de-authorized and re-appropriated into other approved projects. Although some authorizations may ultimately be cancelled rather than re-appropriated, such cancellations are expected to be immaterial to the analysis.

General obligation bond sales in fiscal year 2005 totaled $784.043 million in new money and $855.840 million in refunding bonds. Bond sales in fiscal 2006 are projected to total $750 million. No acceleration of amounts sold is anticipated during the forecast period over the

amounts projected.

Projected general obligation debt service, displayed in Appendix B-2, assumes a pattern of future interest rates consistent with current forecasts.

Based on the Committee's projections (Table 1), outstanding general obligation debt rises rather consistently. Total general obligation debt rises steadily from a low of $4.511 billion in fiscal year 2005 to $6.165 billion in fiscal year 2011. The rapid rise in tax supported debt reflects the inclusion of Bay Bonds and GARVEEs.

Department of Transportation debt is projected to rise from $1.070 billion in fiscal year 2005 to $1.984 billion in fiscal year 2011. Stadium Authority debt will decline from $309 million in 2005 to $219 million in fiscal year 2011, absent financing a horse park. The ratio of State tax supported debt outstanding to personal income (Table 1) rises from 2.63% in fiscal year 2005 to 3.08 % in fiscal year 2011. The ratio remains below the affordability criterion of 3.2%

The ratio of annual debt service to revenues (Table 2a), which is a proxy for the burden of the debt on the operating budget, increases from 5.54% in fiscal year 2005 to 6.86% in fiscal year 2011. As in the past, the ratio remains significantly below the affordability criterion of 8.0%.

TABLE 1

STATE TAX SUPPORTED DEBT OUTSTANDING
COMPONENTS AND RELATIONSHIP TO PERSONAL INCOME

State Tax Supported Debt Outstanding ($ in thousands)

Fiscal Year	General Obligation (a)	Department of Transportation (b) Consolidated	County	Total DOT	Capital Leases (c)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt	
2001	3,450,900	648,050	3,830	651,880	135,507	285,975			4,524,262	2001
2002	3,544,178	714,150	3,155	717,305	186,238	277,995			4,725,716	2002
2003	3,932,493	961,245	2,440	963,685	193,136	323,240			5,412,554	2003
2004	4,102,278	1,185,650	1,675	1,187,325	198,585	320,955			5,809,143	2004
2005	4,511,826	1,069,945	865	1,070,810	175,062 (d)	309,195			6,066,893	2005
2006	4,868,471	1,228,000	0	1,228,000	208,260 (e)	296,280		375,000	6,976,011	2006
2007	5,137,776	1,301,000	0	1,301,000	207,577	282,340		351,780	7,280,473	2007
2008	5,409,466	1,437,000	0	1,437,000	190,442	267,415	50,000	652,340	8,006,663	2008
2009	5,672,939	1,555,000	0	1,555,000	179,704	252,205	177,683	606,490	8,444,021	2009
2010	5,920,361	1,746,000	0	1,746,000	171,286	236,010	339,225	608,235	9,021,117	2010
2011	6,165,366	1,984,000	0	1,984,000	161,943	218,755	482,467	554,390	9,566,921	2011

State Tax Supported Debt Outstanding as a Percent of Personal Income (Affordability criteria standard = 3.2%)

Fiscal Year	General Obligation (a)	Department of Transportation (b) Consolidated	County	Total DOT	Capital Leases (c)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt	
2001	1.80%	0.34%	0.00%	0.34%	0.07%	0.15%			2.36%	2001
2002	1.78%	0.36%	0.00%	0.36%	0.09%	0.14%			2.38%	2002
2003	1.91%	0.47%	0.00%	0.47%	0.09%	0.16%			2.62%	2003
2004	1.88%	0.54%	0.00%	0.54%	0.09%	0.15%			2.66%	2004
2005	1.96%	0.46%	0.00%	0.46%	0.08%	0.13%			2.63%	2005
2006	2.00%	0.50%	0.00%	0.50%	0.09%	0.12%		0.15%	2.87%	2006
2007	2.00%	0.51%	0.00%	0.51%	0.08%	0.11%		0.14%	2.84%	2007
2008	2.00%	0.53%	0.00%	0.53%	0.07%	0.10%	0.02%	0.24%	2.96%	2008
2009	2.00%	0.55%	0.00%	0.55%	0.06%	0.09%	0.06%	0.21%	2.98%	2009
2010	1.99%	0.59%	0.00%	0.59%	0.06%	0.08%	0.11%	0.20%	3.04%	2010
2011	1.98%	0.64%	0.00%	0.64%	0.05%	0.07%	0.16%	0.18%	3.08%	2011

(a) Reflects presumed new authorizations as follows:

General Assembly Session:	2006	2007	2008	2009	2010
For Fiscal Year:	2007	2008	2009	2010	2011
(millions)	$690	$710	$730	$745	$770

Includes issuance of $18.098 million in Qualified Zone Academy Bonds (QZAB's) in November of 2001, and an additional $9.043 million issued in November of 2004.

(b) Net of sinking funds or debt service reserve funds.

(c) Does not include the following:
(1) The Authority investment of $11.9 million for the development of Berth 4 at the Seagirt Marina Terminal. The Department is repaying this amount in annual payments of $567,280 including interest over a 33 year period. (2) Financing the construction of the Masonville Auto Terminal during Fiscal Years 1999 and 2000 in the amount of $20 million to be repaid in annual payments of $1,673,587 including interest over a 20 year period.

(d) Includes payments for COP's financing of DOT's shuttle bus purchase for BWI for fiscal years 2005-2017.

(e) Includes $23.8 million capital lease for Annapolis parking garage.

Assumptions: (millions)	2006	2007	2008	2009	2010	2011
G.O. issues (Includes Tobacco buyout)	750	675	700	725	725	750
DOT issues	250.0	140.0	205.0	195.0	275.0	330.0
Stadium Authority issues	9.0	0.0	0.0	0.0	0.0	0.0
Capital Leases - Equip. & EPC	45.0	35.0	35.0	35.0	35.0	35.0
Garvee Bond Sales	375		325		50	
Bay Bonds			50	130	170	160
Personal Income (billions)	243.5	256.7	270.4	283.8	297.0	310.7

TABLE 2a

STATE TAX SUPPORTED DEBT SERVICE

State Tax Supported Debt Service
($ in thousands)

Fiscal Year	General Obligation (a)	Department of Transportation Consolidated (b)	Capital Leases (c)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds	Total Tax Supported Debt Service	Total Tax Supported Debt Service as a Percentage of Revenues	
2001	470,949	109,674	30,421	27,622			638,666	5.45%	2001
2002	495,217	113,178	37,979	27,383			673,757	5.87%	2002
2003	496,870	128,694	46,152	27,035			698,751	6.15%	2003
2004	536,819	134,910	52,117	27,333			751,179	5.93%	2004
2005	553,783	153,655	52,239	30,480			790,157	5.54%	2005
2006	625,208	146,000	40,912 (d)	31,713			843,833	5.85%	2006
2007	656,661	129,000	45,404	31,725		42,908	905,698	6.07%	2007
2008	697,514	137,000	55,400	31,888		42,908	964,710	6.24%	2008
2009	746,347	154,000	57,991	31,327	4,817	80,098	1,074,580	6.64%	2009
2010	778,867	165,000	55,143	31,388	17,342	80,096	1,127,836	6.67%	2010
2011	822,426	188,000	51,250	31,477	33,720	85,817	1,212,690	6.86%	2011

(a) Payments for Qualified Zone Academy Bonds (QZAB's) in the amount of $888,000 have been included for fiscal years 2003 through 2016.
Projected additional payments for QZAB's in the amount of $444,000 have been included for fiscal years 2006 through 2019.
(b) Does not include debt service on county transportation bonds. Highway user revenues from counties exceed debt service requirements.
(c) Does not include the following:
(1) Annual payments of $567,280 beginning in FY 1999 from the DOT to the MdTA to repay the MdTA's $11.9 million investment for the development of Berth 4 Seagirt Marine Terminal. (2) Annual payments of $1,673,587 beginning in FY 2001 for the DOT to repay the MdTA's $20 million financing of the Masonville Auto Terminal.
(d) Includes debt service for $23.8 million capital lease for Annapolis parking garage.

	2006	2007	2008	2009	2010	2011
Total Revenues (millions)	14,414	14,915	15,472	16,186	16,910	17,686

Assumptions: See Table 1

TABLE 2b

STATE TAX SUPPORTED DEBT SERVICE

State Tax Supported Debt Service ($ in thousands)

Fiscal Year	General Obligation (a)	Department of Transportation Consolidated (b)	Capital Leases (c)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds
2001	470,949	109,674	30,421	27,622		
2002	495,217	113,178	37,979	27,383		
2003	496,870	128,694	46,152	27,035		
2004	536,819	134,910	52,117	27,333		
2005	553,783	153,655	52,239	30,480		
2006	625,208	146,000	40,912 (d)	31,713		
2007	656,661	129,000	45,404	31,725		42,908
2008	697,514	137,000	55,400	31,888		42,908
2009	746,347	154,000	57,991	31,327	4,817	80,098
2010	778,867	165,000	55,143	31,388	17,342	80,096
2011	822,426	188,000	51,250	31,477	33,720	85,817

State Tax Supported Debt Service as a Percent of Revenues (Affordability criteria standard = 8%)

Fiscal Year	General Obligation (a)	Department of Transportation Consolidated (b)	Capital Leases (c)	Stadium Authority	Bay Restoration Bonds	Garvee Bonds
2001	4.68%	6.79%	0.30%	100.00%		
2002	5.06%	6.81%	0.39%	100.00%		
2003	5.11%	8.03%	0.47%	100.00%		
2004	4.99%	7.16%	0.48%	100.00%		
2005	4.56%	7.37%	0.43%	100.00%		
2006	5.10%	6.89%	0.33%	100.00%		
2007	5.16%	6.09%	0.36%	100.00%		100.00%
2008	5.24%	6.57%	0.42%	100.00%		100.00%
2009	5.36%	7.22%	0.42%	100.00%	100.00%	100.00%
2010	5.33%	7.60%	0.38%	100.00%	100.00%	100.00%
2011	5.37%	8.51%	0.33%	100.00%	100.00%	100.00%

Note: Unlike Table 1, Table 2 ratios are serviced by separate and specific revenue sources and have different denominators; therfore, ratio totals cannot be added across to provide a sum of combined ratio totals.

(a) Payments for Qualified Zone Academy Bonds (QZAB's) in the amount of $888,000 have been included for fiscal years 2003 through 2016. Projected additional payments for QZAB's in the amount of $444,000 have been included for fiscal years 2006 through 2019.
(b) Does not include debt service on county transportation bonds. Highway user revenues from counties exceed debt service requirements.
(c) Does not include the following:
(1) Annual payments of $567,280 beginning in FY 1999 from the DOT to the MdTA to repay the MdTA's $11.9 million investment for the development of Berth 4 Seagirt Marine Terminal. (2) Annual payments of $1,673,587 beginning in FY 2001 for the DOT to repay the MdTA's $20 million financing of the Masonville Auto Terminal.
(d) Includes debt service for $23.8 million capital lease for Annapolis parking garage.

Total Revenues (millions)	2006	2007	2008	2009	2010	2011
	14414	14915	15472	16186	16910	17686

The Committee's total program is expected to result in a pattern of debt issuances, debt outstanding, and debt service payments that are within the affordability standards and criteria. The State has met and continues to meet the accepted affordability standards, and the current goal is to maintain those standards with a margin for contingencies, while recognizing the need to sufficiently invest in Maryland's infrastructure and communities.

E. Comparison of Recommendation and Capital Program

The Committee's projections of tax supported debt fully incorporate the most current capital program proposed by the Department of Transportation, the major non-general obligation debt issuer. The Committee's recommendation of general obligation authorizations provides for essentially full funding of the Governor's planned $3.375 billion Capital Improvement Program, although the program and the recommendations fall far short of total funding requests.

The Committee recognizes that allocation decisions will have to be made by the Governor and General Assembly, and that the affordable amount may fall short if new capital demands occur, either as new programs emerge or as the federal government reduces its support for state and local programs.

As discussed in the section on school construction (V. Other Issues), while the Committee does recognize the documented need for increased school construction and renovation and the need to increase funding over time to meet the goal set forth in the Public School Facilities Act of 2004, the current recommendation of $690 million for fiscal year 2007 does not include an extraordinary increase in general obligation bond authorization or establish a special additional add-on amount to fund that increase, although either of these two alternatives is technically possible.

F. Affordability Risk Analysis

Background. In its 1989 report, the Committee observed that the previous year's general obligation bond authorization plan, deemed barely affordable in its 1988 analysis, was not only "affordable" one year later but provided a significant margin for expansion. This improvement was almost entirely the result of new, higher personal income numbers. Also in the same report, the Committee observed that capital needs changed from year to year. Hence, a capital program undertaken within the Committee's recommended limit might need to be cut back if a subsequent new program were to be authorized that was not factored into the Committee's analysis.

As a result of the experience in 1988-89 and prior years, the Committee has included in its subsequent reports an *affordability risk analysis*: the analysis of the risk that a particular five-year general obligation bond authorization plan, if followed over time, might lead to a violation of the Committee's affordability criteria, even though the plan was deemed affordable at the time it was proposed.

The concept of affordability risk arose because of the need to assess what appeared to be substantial "unused" affordability capacity and the understandable urge to use that capacity to fund needed projects in the short term, resulting in unintended adverse impact over the longer term. The Committee was equally aware of the dangers of the opposite alternative, that is, consistently funding low in order to avoid approaching the criteria ceilings and, thereby, slowly undermining the State's infrastructure.

<u>Components of Risk.</u> Four basic risk components have been identified in making a judgment about the ultimate affordability of a five-year general obligation program of authorizations:

- Changes in personal income;
- Changes in the definition of tax supported debt;
- Changes within the general obligation bond program; and
- Changes in the bond issuance plans of other, including new, components of tax supported debt.

<u>Changes in Personal Income.</u> In the past, there have been significant adjustments to the estimates of personal income. These changes result from: (1) after-the-fact measurement changes by the federal statisticians; and (2) revised projections by the State's Bureau of Revenue Estimates, which are used by the Committee. The former risk is clearly beyond the Committee's control. Although the federal estimates of personal income for a year may change by material amounts in the first two years after the close of the year, subsequent adjustments generally have been small.

Clearly, there is always a risk of reductions in projected levels of personal income, particularly in an uncertain economic climate, with threats of oil shortages, increasingly fierce global competition and an unsettled political situation. The current personal income growth rate projections of 5.63% and 5.43% for 2006 and 2007 have increased over last year's projections of 4.57% and 4.89% for the same years. While the current 2006 and 2007 projections are significantly higher than last year's, they are consistent with the State's experience in general fund revenue growth. If, instead, the growth in personal income were as low as last year's projections, the debt ratio would just hit the affordability guideline in 2011 (3.2078%). It is extremely unlikely that the growth rates in personal income would be no more than those projected last year in light of the State's current revenue experience.

Therefore, although a downward revision in personal income sufficient to severely reduce affordability capacity is possible, it is not likely and may be deemed small if the Committee maintains its tradition of conservative long-term projections.

<u>Changes in the Definition of Tax supported Debt.</u> Changes in the definition of tax supported debt will typically only occur if an outside authoritative group changes the definition. While there may be State-level reviews of individual transactions that prompt the reclassification of a specific transaction or set of transactions such as the recent determination regarding GARVEE and Bay Bonds, the impact of such internally initiated reclassifications are apt to be

minor. On the other hand, there would be a major impact if, for example, the bond rating agencies would decide to count State housing agency debt as tax supported debt or if the Governmental Accounting Standards Board were to require long term operating leases to be included on the State's balance sheet. Although changes in standards used by outside authoritative groups might have a major impact on measured affordability, such changes are likely to be implemented with ample lead time and would either only affect the out years of the program or provide the Committee with time to adjust its program.

Changes within the General Obligation Bond Program. Changes within the general obligation bond program may arise because of changes in: (1) the types and costs of facilities and other projects financed by general obligation bonds; or (2) changes in the speed with which authorized bonds are issued.

Changes of the first variety do not of themselves necessarily affect total authorizations and, therefore, affordability but, rather, may lead to a re-allocation of resources. The Committee's recommendations are made in terms of a total dollar amount of bonds and not in terms of specific set facilities, grants, or other capital projects. Changes in construction costs, the availability of PAYGO funding, the need for unanticipated new projects, changes in federal tax laws, and a host of other variables influence both the need for general obligation bonds and the share of the affordability limit allocated to particular uses; such changes affect assets that can be acquired within a specific dollar amount of the program. Such changes by themselves, however, affect neither the dollar amount of the Committee's five year assumed program nor the ratio of debt outstanding for that specific program compared to personal income. Therefore, without Committee or General Assembly action to alter the total dollars to be authorized in the five-year plan, there is no affordability risk resulting from such changes within the general obligation plan. If the General Assembly were to conclude, for instance, that meeting the goal established by the Public School Facilities Act of 2004 warranted increasing general obligation bond authorizations, however, considerable debt capacity might be absorbed, unless this need were to be explicitly taken out of the CDAC process. As discussed in Section V. "Other Issues," current estimates indicate that an increase of the entire $1.2 billion for school construction could not be absorbed within the State's affordability criteria, even with no increase in any of the other components or any decrease in personal income.

Changes in the speed with which authorized bonds are issued, however, may affect affordability. Bonds authorized by the General Assembly at any session are not immediately sold. Rather the bonds are sold over an extended period of time as the projects are developed and cash is required to pay property owners, consultants, contractors, and equipment manufacturers. Any systematic force that would accelerate or retard the speed with which bonds are brought to market would increase or decrease the amount of debt outstanding and affect the ratio of debt outstanding to personal income. The increase in the amount issued in recent fiscal years to implement the transfer of previously projected PAYGO capital projects into general obligation debt has had such an effect, as has the increased issuance in fiscal year 2005 and planned for fiscal year 2006 compared with prior projections.

Similarly, any change to the life term of bonds, such as extending the term of bonds from

15 to 30 years, while reducing the annual debt service, would result in a greater net cost because of the greater number of years of payment, and would invite a potential increase in authorization to "use" the capacity created, thereby increasing the total debt outstanding and the total cost.

Changes in the Bond Issuances Plans of Other Components of State Tax supported Debt. Changes in the bond issuance plans for other components of tax supported debt can take the form of expansion of existing programs, as was the case with the expanded Consolidated Transportation debt issuance associated with the 1992 gas tax increase, or a totally new program, such as the Maryland Stadium Authority in 1987 or the imminent Bay Restoration Bond program.

There are basically four classes of changes:

(1) Changes in existing programs associated with external events. For example, Baltimore received a commitment for a football franchise much later than anticipated; hence, the sale of bonds for the football stadium, originally projected for fiscal 1993, occurred in fiscal 1997.

(2) Anticipated proposals to alter existing programs or create new programs that the Committee may believe to have a high probability of enactment, but the exact timing of the enactment and the amount of new debt are less certain. For example, the 1994 General Assembly authorized design funding for a conference facility in Montgomery County. Although it was probable at that time that the 1996 General Assembly would authorize State tax supported bonds for the State share of construction costs, the amount and timing of the issuance of those bonds were less certain, and, therefore, difficult to work into affordability analyses.

(3) Known proposals that the Committee may believe to have an uncertain probability of enactment. For example, in both 1990 and 1991, the General Assembly considered a large bond authorization for accelerating land purchases under Program Open Space and directed a study of the proposal. The proposal is similar to the original design of Program Open Space, which was abandoned when transfer tax receipts were more than adequate to meet the cash needs of the program's acquisition plan. Such proposals, again, are difficult to work into projections. The Stadium Authority's consideration of financing a horse park falls into this category.

(4) Bond programs that are not known at the time the Committee develops its plan and conducts its affordability analysis. Most recently, the Bay Restoration Bond program falls into this category; this program was not envisioned when the Committee met in 2003 and, therefore, could not be factored into the analysis. Clearly, this fourth type of risk is more likely to affect the latter part any five-year period as opposed to the first two or three years.

Fiscal Years 2007 - 2011 Risks. In considering the affordability risk associated with the 2007-2011 plan in this year's report, the major risks appear to be any uncertainty regarding the

rate of growth in personal income in a time of some economic instability, continued acceleration in the issuance of general obligation bonds, the remote possibility of increased authorizations of general obligation bonds for school construction outside of the $690 million recommended, and/or an authorization for tax supported debt to finance a horse park. There do not appear to be any federal regulatory changes that might lead to an acceleration of general obligation debt issuances and the effect of any federal budget actions are unclear and not apparent near term. Indeed, the on-going process of military base-closings potentially will bring a significant number of higher level jobs to Maryland. There is no evidence that the rating agencies or the Governmental Accounting Standards Board are contemplating changes in standards that would expand the definition of tax supported debt.

The acceleration of the issuances of general obligation bonds (an additional $225 million in new money bonds issued in fiscal year 2005 plus the amount planned for fiscal year 2006 compared with the projections a year ago) is unlikely to recur. The State has "caught up" with the cash deficits in bond proceeds available for capital projects, and the current planned issuance levels are sufficient to provide adequate capital cash levels.

The changes in the issuance plans of other components of tax supported debt appear to pose limited risk at this time. Given the size of the capital lease component compared with other components, a change to it is unlikely to have a material affect on affordability. There is one project under consideration that would result in increased tax supported debt issued by the Stadium Authority. This would happen if the horse park project estimated to cost between $75 – 100 million, is deemed feasible and statutory authority is provided.

The assumed issuances by the Department of Transportation are consistent with current statutory limits and revenue forecasts. Any increase in the issuance of Consolidated Transportation Bonds above what is assumed in the base analysis would necessitate statutory changes in the allowable level of debt outstanding and an increase in revenues dedicated to the Transportation Trust Fund. GARVEE bonds are now included as a component of State tax supported debt and are incorporated into the analysis.

Conclusion. The analysis suggests that the Committee's projection of general obligation bond authorizations is currently affordable and that the risks of exceeding the affordability criteria are limited. None of the potential risks – limited growth of personal income, accelerated sales of G.O bonds, and increased authorizations of either G.O. bonds or other components – pose a serious threat to breaching the affordability criteria. Personal income growth could be as low as last year's projections, the need for accelerated sales of G.O. bonds has subsided, and authorizations of tax supported debt components (either G.O. or other) are wholly within the State's control. The Committee believes that the $690 million authorization recommendation in the first year of the current five year program and 3% annual increases for the next four is prudent and within current projections of capacity. Within these levels, relying upon prudent timing of authorization and issuances, and including the use of available PAYGO general funds, the Committee believes that the current projected needs in school construction, transportation, higher education and other essential areas can be met.

IV. HIGHER EDUCATION DEBT

A. Background

Chapter 93, Laws of Maryland, 1989, now codified in Title 19 of The Education Article (the "Statute"), altered the revenue bonding framework and authority of the University System of Maryland (USM), Morgan State University, and St. Mary's College of Maryland and also assigned certain duties relevant to those alterations to the Capital Debt Affordability Committee. Chapter 673, Laws of Maryland, 1994, required the Capital Debt Affordability Committee also to review the size and condition of any debt of the Baltimore City Community College.

The Statute provided a framework for the issuance of higher education debt. Specifically, the Statute distinguished between auxiliary facilities (which generate fees or income arising from the use of the facility) and academic facilities (which are primarily instructional but can include any facilities not defined as auxiliary). The statute also authorized institutions to issue bonds to finance either auxiliary or academic facilities (maximum terms of 33 and 20 years, respectively) with the stipulation that any academic facilities so financed must first be expressly approved by an act of the General Assembly as to both project and amount.

Furthermore, the Statute specified fund sources that could be pledged as security as well as those that could be used for debt service payments. Specifically available to be pledged as security are auxiliary fees (fees and rents arising from the use of the auxiliary facility) and academic fees (tuition and student fees). The systems specifically cannot pledge: (1) a State appropriation; (2) contracts, grants, or gifts; or (3) any other source not expressly authorized by the General Assembly. Debt service on bonds is payable solely from auxiliary fees, academic fees, a State appropriation expressly authorized for that purpose, or revenues from contracts, gifts, or grants, as appropriate.

The Statute, as amended, establishes the maximum allowable amount of outstanding debt for the University System of Maryland at $1.025 billion, Morgan State University at $77 million, St. Mary's College of Maryland at $45 million, and Baltimore City Community College at $15 million. Debt for both academic and auxiliary facilities including capital leases for real property, are subject to the maximum. Baltimore City Community College is authorized to issue debt only for auxiliary facilities.

Since 1989, the General Assembly has authorized bonds totaling $556.2 million for various academic facilities for the University System of Maryland. Of this amount, $25.0 million was authorized by the 2005 General Assembly (Chapter 432, Laws of Maryland, 2005).

In addition to defining higher education bond authority and authorizing certain projects, the Statute directs the Capital Debt Affordability Committee to:

1. "...review on a continuing basis the size and condition of any debt of the University System of Maryland, Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College;"

2. "In preparing an estimate with respect to the authorization of any new State debt" [i.e., general obligation debt] to "take into account as part of the affordability analysis any debt for academic facilities to be issued by a System;" and

3. "...submit to the Governor and the General Assembly the Committee's estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland."

The charges pose two basic questions for the Committee. How is higher education debt to be "taken into account" in the Committee's affordability analysis? How is the Committee to determine a "prudent" amount of new academic debt that may be authorized?

B. Incorporating Higher Education Academic Debt into the Affordability Analysis

The language in the statute expanding the Committee's charge states: "In preparing an estimate with respect to the authorization of any new State debt [i.e., general obligation debt], the Committee shall take into account as part of the affordability analysis any debt for academic facilities to be issued by a system." This language, however, is not explicit regarding the meaning of "take into account."

On its face, the statute does not explicitly direct the Committee to include higher education debt as a component of State tax supported debt for purposes of the capacity criteria or affordability analysis or the Committee's recommendation relating to new authorization of general obligation debt. This ambiguity is heightened by three complicating factors.

First, during their February, 1989, presentation to the joint fiscal committees, both attending rating agencies were quite explicit, when describing their approach to debt measurement, that they did not consider debt issued by institutions of higher education to be State tax supported debt. The debt of the systems, either currently outstanding or related to future issuances, would not, under their policies, be included by the rating agencies in determining the rating of the State's general obligation bonds.

Second, both the statutory structure of higher education debt and the current budgetary policies related to higher education debt underscore the separation of higher education debt and tax supported debt. The Statute provides that higher education debt may not be secured by a pledge of the issuer's general fund appropriation. The Statute further provides that no general funds may be used to pay debt service unless specifically authorized in the budget.

Third, the revenue sources that secure the bonds are under the direct control of the systems and not directly subject to the approval of either the Governor or the General Assembly.

There appears, therefore, to be no standard of analysis commonly used by rating agencies that would suggest that higher education debt should be included as a component of State tax supported debt. At the same time, however, the Committee must in some way "take into account" higher education academic debt. The Committee believes that its analysis, discussions, and deliberations of higher education debt levels, capacity, and needs addresses legislative intent.

C. University System of Maryland Debt Capacity Study

In 1994, USM requested their financial advisor, Public Financial Management, Inc. (PFM), to prepare an analysis of USM's debt capacity. PFM used 1993 data to compare USM to a group of 26 peer public universities that were rated either AA-, AA, or AA+ by Standard and Poor's Ratings Group. (Standard and Poor's rating of USM debt was AA+). PFM's analysis showed USM to be favorably comparable in seven out of ten criteria and recommended that debt service not exceed 5.5% of unrestricted current fund expenditures and mandatory transfers (UCF+MT). The remaining three criteria identified as areas to monitor in the future were: (1) endowment (low in comparison to peers); (2) debt to endowment (comparatively high); and, (3) unrestricted monies as a percent of debt (comparatively low).

On March 25, 1995, the Board of Regents of the University System of Maryland approved a debt capacity policy which required that debt service not exceed 5.5% of current UCF+MT, unless the debt to endowment ratio decreased or the ratio of unrestricted available funds to total debt increased. The policy also required that the Capital Improvement Plan must be consistent with the debt capacity policy and provided criteria to determine which projects should be financed.

During the Committee's 2004 meetings, the USM representatives reported to the Committee that Standard and Poor's Ratings Services (S&P), one of three credit rating agencies that rate the USM, had lowered the rating on USM debt from AA+ to AA. This adjustment had been under consideration for several years, and no material impact on interest rates received on USM bond issues nor negative impact on the State's AAA rating on its general obligation bonds was anticipated. S&P rates 223 public colleges and universities. Only five currently receive an AA+ rating and only 23 have an AA rating (including USM). The USM continues to be rated in the top 15% of public colleges and universities. During the Committee's 2005 meetings, USM representatives reported to the Committee that Moody's upgraded the USM from an Aa3 to an Aa2 primarily because of the stabilization of State funding. The representatives reported that ratings from all three agencies are now equal.

While the USM is strong in many rating criteria, there are two areas where the USM needs improvement when compared to other top-rated public colleges and universities. These areas are (1) liquidity, defined as a relationship between expendable resources and debt, and (2) endowment.

USM's financial advisor, Public Financial Management, is working with the Chancellor's Office to develop a new debt capacity policy as a result of the rating agency concerns regarding liquidity and, also, financial reporting changes mandated by Government Accounting Standards Board Statement No. 35 – *Basic financial Statements and Management Discussion and Analysis for Public Colleges and Universities.*

The USM has routinely monitored the relationship between expendable resources and debt and is committed to maintaining expendable resources that are no less than 50% of outstanding debt. Expendable resources include unrestricted net assets of the USM and its affiliated foundation with adjustments for certain long term liabilities. As recommended by the Spending Affordability Committee, this Committee will include a review of the University System's ratio of expendable resources to debt outstanding. The following table includes actual data for fiscal years 2001 through 2004 and projections for fiscal years 2005 through 2006:

($ in thousands)

Fiscal Year	**Expendable Resources**	**Debt Outstanding**	**Expendable Resources / Debt Outstanding**
2001	$524,901	$802,685	65.39%
2002	$500,352	$797,000	62.78%
2003	$514,726	$960,000	53.62%
2004	$646,927	$998,073	55.94%
2005	$654,615	$1,012,752	55.36%
2006	$666,115	$1,018,254	55.06%

Source: University System of Maryland

D. Recommending a Prudent Level of New Higher Education Academic Debt to be Authorized

The Committee's charge is to submit an "estimate of the amount of new bonds for academic facilities that prudently may be authorized in the aggregate for the next fiscal year by the University System of Maryland, Morgan State University, and St. Mary's College of Maryland." This charge, therefore, requires the Committee to distinguish between burdens imposed by academic debt and those imposed by auxiliary debt in arriving at a recommendation for academic debt alone. From a credit analyst's point of view, however, the aggregate level of a system's debt is critical, while the type of debt (academic versus auxiliary) has no relevance to the credit analysis.

One approach to determining a prudent amount of new academic debt to be authorized is to start with the aggregate level of debt that each system anticipates issuing. If it is estimated that the level of debt is prudent over time, then it is reasonable for the Committee to accept the aggregate total and also to accept the breakdown (between academic and auxiliary) proposed by a system.

This approach does not address the issue of the maximum level of debt outstanding allowed by statute for each system. While the Committee recognizes that the "caps" on the amount of debt outstanding are beyond the statutory charge of this Committee, the analysis of system debt capacity may prove useful to the Governor and General Assembly in setting limits for debt outstanding.

The guidelines initially adopted by the Committee to judge debt manageability are those contained in the rating methodology used by one of the major rating agencies. Standard and Poor's uses five factors to rate a public institution's debt (over a time frame of several years): (1) the rating of the State; (2) the State's general financial support for higher education as a whole; (3) the State's financial support for the particular institution; (4) the institution's demand and financial factors; and (5) the security pledge. The first, second, and fifth factors are the same for all four systems. All systems benefit from the State's AAA rating; all are part of public higher education in Maryland; and all can offer the same types of security.

The third factor is only relevant to Morgan State University, St. Mary's College of Maryland and Baltimore City Community College, since the University System of Maryland receives approximately 89% of the State general funds appropriated to the four systems.

The fourth factor, the institution's demand and financial factors, encompasses a host of data dealing with the student body, financial performance, and components of debt. The specific guideline related to debt burden is twofold. First, the most accurate measure of debt burden is judged to be debt service as a percent of the sum of unrestricted current fund expenditures plus mandatory transfers. Second, if that ratio exceeds 10%, the institution is considered highly leveraged. Comparisons of public institutions in one state to those in another state may not be meaningful, since the level of state support varies so widely. The ratios range from below 2% to over 10% and do not necessarily correlate to ratings, since many other factors are taken into account in evaluating credit worthiness.

Table 3 displays various components of debt for each of the four higher education systems. In analyzing the data, it is important to recognize that there are two levels of higher education debt measurement. One consists of the sum of the components that count toward the statutory ceiling, and the other measure consists of the sum of the components that count for the purpose of credit analysis. It is presumed for purposes of this analysis that the relevant measure is the one that encompasses all components of debt - one that mirrors the measure used by credit analysts - and Table 3 reflects that.

The University System of Maryland may issue up to $75 million of new debt in each fiscal year through 2011. The following table shows the anticipated distribution.

($ in millions)

	FY06	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**
Academic	$ 25	$ 25	$ 25	$ 25	$ 25	$ 25
Auxiliary	50	50	50	50	50	50
	---	---	---	---	---	---
Total	$75	$ 75	$ 75	$ 75	$ 75	$ 75

As can be seen from the final column of each panel in Table 3, each system is well within the criteria suggested by Standard & Poor's for measuring debt burden. The USM, moreover, is within its 5.5% debt capacity limit. With the exception of Morgan State University, all of the institutions show relatively consistent debt burden ratios compared to last year's estimates.

Because each of the system's debt issuance plans would result in a debt burden level well below the 10% "highly leveraged" threshold established by Standard & Poor's, there appears to be no basis for the Committee's recommendation to differ from the systems' plans at this time. The Committee recommends a limit of $25 million of new bonds for USM academic facilities to be authorized in the aggregate for the next fiscal year. Morgan State University and St. Mary's College of Maryland do not propose to issue debt in fiscal year 2007.

E. Baltimore City Community College

The Committee's responsibility for reviewing higher education debt was originally enacted in 1989 and specified the debt of the three systems then in existence.

In 1990, the General Assembly enacted legislation transferring management responsibility for the Community College of Baltimore to the State, renaming the institution the New Community College of Baltimore. The legislation did not grant the institution the authority to issue debt. Legislation enacted in 1992, however, granted the institution, renamed the Baltimore City Community College (BCCC), authority to issue debt for auxiliary facilities only, limiting the aggregate principal amount of bonds outstanding to $15 million. Chapter 673, Laws of Maryland, 1994, required the Committee to review the size and condition of any debt of BCCC.

BCCC has no plans to issue bonds in fiscal year 2007. In any case, BCCC would not be included in the Committee's estimate of the amount of new bonds for academic facilities that prudently may be authorized for the next fiscal year, because BCCC does not have the authority to issue bonds for academic facilities but only for auxiliary facilities.

BCCC is currently exploring the feasibility and desirability of various projects that might be funded by the issuance of auxiliary bonds or through capital leases during the next several fiscal years. In fiscal year 2002, BCCC entered into a $1.2 million, 5-year capital lease for a network upgrade through the State's master equipment lease purchase financing program.

TABLE 3

HIGHER EDUCATION DEBT
Total Auxiliary and Academic
($ in thousands)

	Projected Issuances					
	Auxiliary	Academic	Debt Outstanding	Debt Service	Unrestricted Current Fund Expenditures plus Mandatory Transfers	Ratio of Debt Service to UCF Expenditures plus Mandatory Transfers
University Systems Of Maryland						
2006	50,000	25,000	1,017,905	104,753	2,479,090	4.23%
2007	50,000	25,000	1,034,109	109,787	2,627,835	4.18%
2008	50,000	25,000	1,042,860	114,008	2,785,506	4.09%
2009	50,000	25,000	1,045,315	118,161	2,952,636	4.00%
2010	50,000	25,000	1,041,560	117,606	3,129,794	3.76%
2011	50,000	25,000	1,036,210	116,821	3,317,582	3.52%
Morgan State University						
2006			66,413	6,458	127,566	5.06%
2007	18,000		82,843	7,069	133,306	5.30%
2008			80,970	7,189	139,305	5.16%
2009			79,044	7,296	145,574	5.01%
2010			77,074	7,325	152,125	4.82%
2011			75,077	7,354	158,970	4.63%
St. Mary's College of Maryland						
2005			40,565	2,797	47,981	5.83%
2006			39,445	2,799	50,346	5.56%
2007			38,350	2,807	52,360	5.36%
2008			37,205	2,799	54,454	5.14%
2009			36,025	2,799	56,632	4.94%
2010			34,800	2,792	58,897	4.74%
2011			33,535	2,789	61,253	4.55%
Baltimore City Community College						
2006			268	277	53,951	
2007				277	55,030	
2008					56,131	
2009					57,253	
2010					58,398	
2011					59,566	

V. OTHER ISSUES

A. School Construction

At the request of the Task Force to Study Public School Facilities, the Maryland State Department of Education conducted a survey to determine the extent to which public school facilities Statewide meet current federal, State, and local facility standards and can support required programs and expected enrollment. The results, reported in November 2003, indicated that more than one-third of public schools were deficient in at least one facility standard and that the cost of the necessary improvements was $3.85 billion in 2003 dollars. The Public School Construction Program determined in February 2005, that this figure in 2005 dollars would be approximately $4.32 billion (or a 12% increase), due to increases in the cost of steel, cement and other components, as well as labor cost increases. For discussion purposes, this Report will continue to refer to the documented $3.85 billion, while acknowledging the impacts of inflation. The Task Force recommended that the State assume $2 billion of this cost, with the remainder the responsibility of local government.

The 2004 General Assembly passed the Public School Facilities Act of 2004 (Chapters 306 and 307, Laws of Maryland, 2004) incorporating many of the recommendations of the Task Force. The law declared the intent that the State pursue a goal of fully funding by fiscal year 2013 the school facility needs identified by the 2003 School Facility Assessment Survey. Achieving this goal would require a commitment by the State to provide approximately $2 billion for school construction projects over the next 8 years or approximately $250 million per year.

The Public School Facilities Act, in uncodified Section 11, directs the Capital Debt Affordability Committee to review the additional school construction funding needs identified in the Task Force report and make a specific recommendation regarding additional funding for school construction when recommending the State's annual debt limit.

In responding to the legislative directive last year, the Committee considered the Task Force study and survey findings and noted the documented need for an increase of $1.2 billion in State funds over the amount projected in the current Capital Improvements Plan (CIP), which then anticipated funding school construction at $100 million annually. This assumption remains in this year's CIP projection. A $2 billion commitment in State funding for public school construction over the next 8 years, therefore, would require an additional $150 million per year for 8 years over and above the amount incorporated in the CIP – a total of $1.2 billion.

The Committee noted in its 2004 report that one alternative would be simply to authorize the entire additional $1.2 billion in general obligation bonds. The impact that an additional $150 million per year in general obligation bond authorizations would have on the debt ratios was analyzed. At that time, it was estimated that an additional authorization of $150 million annually would result in absorbing a significant amount of debt capacity, but, though close in certain years, would not breach the affordability criteria, even with increased transportation authorizations factored into the analysis. In fiscal year 2010, the last year forecast in last year's

analysis, the ratio of tax supported debt outstanding to personal income would have been 3.04%, compared with 2.89% absent the increased authorizations. The ratio of debt service to revenues would have been at 6.63% compared with 6.48%.

The picture is somewhat different today. Assuming an issuance pattern of additional authorizations for school construction consistent with that of the issuance pattern of the base level of authorizations, an additional authorization of something less than $100 million annually is all that is affordable. An additional annual $75 million would result in a ratio of tax supported debt outstanding to personal income in 2011 (the last year in the current analysis) of 3.14% compared with 3.08% absent the additional authorizations, while an annual additional $100 million would result in a ratio of 3.20% in 2011.

The advantages and drawbacks to this alternative are the same as those noted last year. The advantage is that it's simple and (relatively) cheap. The drawback is that it would virtually eliminate increases in other components of State tax supported debt, either planned or unplanned, and, by absorbing unused capacity, would increase the risk that the affordability criteria would be exceeded if growth in personal income was less than projected.

Another alternative is to absorb some or all of the additional funds needed for school construction within the existing capital budget. This would, by necessity, entail postponing or eliminating other projects. Finally, a third alternative that the Committee considered is identification of a new revenue stream, such as video lottery terminals, a portion of which could be dedicated to school construction.

Given the magnitude of the additional funding needed for school construction, the Committee in 2004 recommended fully exploring these alternative funding mechanisms, new revenue streams, or shifting other capital projects before considering an additional $1.2 billion in general obligation bond authorizations.

Following the submission of the Committee's report, the Governor submitted the Capital Budget in which he proposed $157.6 million for school construction for fiscal year 2006, $57.6 million more than had been projected in the CIP. The budget ultimately passed by the General Assembly included a total of $250 million for school construction as the Act recommended.

This level of funding was achieved by utilizing several of the alternatives recommended in the Committee's 2004 report through a combination of general obligation debt ($234.2 million) which involved both reducing and delaying funds for some capital projects; unspent school construction funds from prior years available in the contingency fund ($15 million); and PAYGO ($2.4 million in special funds and $45.2 million in bond-funded programs shifted into the operating budget, in some cases avoiding the need to issue taxable debt). Clearly, relying solely on capital debt is neither sufficient nor necessary. The Committee's proposed out-year authorization estimates, including a 3% increase per year and no drop in authorizations in 2009, as had been projected in the past, provides additional debt capacity.

B. Analysis of Debt Affordability Criteria

During the 2005 Session of the General Assembly, the committees and Legislative Services' analyst examined the debt affordability criteria. They specifically addressed the fact that of the two current criteria – debt outstanding to personal income and debt service to revenues – the controlling factor for many years has been debt outstanding to personal income. The concern was that not enough weight was given to debt service in determining the affordability of any given plan of debt – because that affordability criteria was always overshadowed by the debt outstanding ratio. This relates primarily to funding debt service on general obligation bonds (rather than the other tax supported debt components), because that is the component that can potentially affect the General Fund; as such, it becomes especially important in times of fiscal stress or imbalance.

The Legislative Services analysis suggested that the Capital Debt Affordability Committee consider three policy options:

1. Reduce the affordability criterion for the relationship of debt service to revenues from the current 8% level. This was rejected, because it affects all of the other components of tax supported debt, which generally have their own special fund revenue streams, rather than targeting G.O. debt service.

2. Develop another criterion that is just related to G.O. debt service and its supporting revenues. This was rejected because the major revenue source supporting G.O. debt service is one that can be increased virtually without limit.

3. Provide a more thorough analysis of G.O. debt service burdens and the availability of supporting revenues. This forces attention on the issue and illuminates the potential effect on the General Fund of the proposed plan of G.O. authorizations and issuances.

The Committee adopted the third option. Exhibit A projects the potential need for general fund revenues under various property tax rates. It should be noted that the forecast of the assessable base for fiscal years 2008 – 2011, on which property tax revenue estimates are based, is preliminary. It is in the last two years of the analysis that there is a potential need for a general fund subsidy at the current property tax rate of 13.2 cents (per $100 of assessed valuation). The general fund subsidy increases with any decrease in the property tax rate.

Exhibit B summarizes the results of a survey of debt management policies of other AAA states.

C. Maintenance of Public School Facilities

The State has made a significant investment in public school facilities since the State program was created in 1971. Indeed, the State has allocated over $4.1 billion for school construction projects in the past 35 years. Maintaining public school facilities is the responsibility of local jurisdictions. In light of the State's significant investment in public school facilities and the additional State funds required to meet the goal to bring all public schools up to an adequate condition, an additional $1.05 billion over the next seven years, the Committee requested information on the status of school maintenance across the State. The Committee received information from the Interagency Committee on School Construction (IAC), which convened a workgroup of public school facility managers to assess the status of maintenance activities.

The IAC reported[1] that the majority of school systems have long-established maintenance programs to identify, prioritize and address corrective and preventive maintenance needs. Certain types of maintenance projects like systemic renovations can be funded with bonds and are eligible for State school construction funds. However, the majority of maintenance activities fall under the operating budget. Backlogs in both routine maintenance, such as small carpet replacement and repairs to minor vandalism and storms, and preventive maintenance, the most-cost effective type of maintenance, like replacing filters in mechanical equipment, are not uncommon in many school systems. These types of maintenance have a strong impact on the visual appeal of school buildings and their continued operation.

Operating budgets for school systems have increased substantially under the Bridges to Excellence Education Program, with State aid exceeding $4 billion in fiscal 2006. However, the IAC found that while overall school system budgets have increased significantly, the plant maintenance and operations (M&O) budget has not enjoyed the same level of increase – in some cases not keeping pace with inflation. In addition, with increases in personnel and energy costs, which make up on average 83% of the M&O budget, the funds available for maintenance supplies, materials, and contracted services has actually declined.

Although school maintenance is a local responsibility, the State does provide some funding to assist local jurisdictions in maintaining facilities. The adequacy figures used in developing the Thornton formulas include a base amount for plant maintenance and operation based on actual spending. While the funds are fungible and there is no requirement that these funds be spent on plant maintenance and operation, the funds are available in the operating budget to assist with costs for maintenance activities that cannot be bond funded. In addition, the State provides $10.4 million annually for the Aging School Program, which specifically funds projects that cannot be capitalized, such as painting, carpet, replacement of ceiling tiles, etc.

[1] Maintenance of Public School Facilities in Maryland, Submitted to the Capital Debt Affordability Committee, August 26, 2005

The IAC identified a number of steps that it plans to take to ensure that the State's investment in school facilities is being protected through proper maintenance programs at the local level. These include improving the State's annual maintenance surveys to enhance the State's ability to monitor school maintenance; strengthening the relationship between maintenance and State school construction funding; and strengthening the linkage between the Capital Improvement Program and the local comprehensive maintenance plan.

The Committee appreciates the information provided by the IAC and will continue to monitor this issue, particularly in light of the contemplated substantial increases in school construction funding in each of the next seven years.

EXHIBIT A

General Obligation Bond Debt Service and Supporting Revenues

$ in millions

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Estimated debt service on general obligation bonds - $	**625.2**	**656.7**	**697.5**	**746.3**	**778.9**	**822.4**
No Rate Change						
Rates - cents per $100	*13.2*	*13.2*	*13.2*	*13.2*	*13.2*	*13.2*
Property tax revenues - $	567.6	609.1	656.2	685.2	722.2	763.6
Other special funds - $	82.9	3.9	2.9	2.7	2.2	2.2
Use of/(addition to) balance - $	(25.3)	43.7	38.4	44.9	0.0	0.2
General funds needed - $	0.0	0.0	0.0	**13.5**	**54.5**	**56.5**
Annuity Bond Fund Balance at year-end - $	127.4	83.7	45.3	0.4	0.4	0.2
Rate drops 1 cent in FY 2007 (and continues at that level in FY 2008 and thereafter)						
Rates - cents per $100	*13.2*	***12.2***	*12.2*	*12.2*	*12.2*	*12.2*
Property tax revenues - $	567.6	563.3	606.8	633.5	667.6	705.8
Other special funds - $	82.9	3.9	2.9	2.7	2.2	2.2
Use of/(addition to) balance - $	(25.3)	89.5	37.3	0.1	0.1	(0.1)
General funds needed - $	0.0	0.0	**50.5**	**110.0**	**109.0**	**114.5**
Annuity Bond Fund Balance at year-end - $	127.4	37.9	0.6	0.5	0.4	0.5
Rate drops 2 cents in FY 2007 (and continues at that level in FY 2008 and thereafter)						
Rates - cents per $100	*13.2*	***11.2***	*11.2*	*11.2*	*11.2*	*11.2*
Property tax revenues - $	567.6	517.6	557.3	581.8	613.1	648.1
Other special funds - $	82.9	3.9	2.9	2.7	2.2	2.2
Use of/(addition to) balance - $	(25.3)	127.2	(0.2)	(0.2)	0.1	0.2
General funds needed - $	0.0	**8.0**	**137.5**	**162.0**	**163.5**	**172.0**
Annuity Bond Fund Balance at year-end - $	127.4	0.2	0.4	0.6	0.5	0.3
Rate drops 4.8 cents in FY 2007 (and continues at that level in FY 2008 and thereafter)						
Rates - cents per $100	*13.2*	***8.4***	*8.4*	*8.4*	*8.4*	*8.4*
Property tax revenues - $	567.6	389.5	418.9	437.0	460.2	486.4
Other special funds - $	82.9	3.9	2.9	2.7	2.2	2.2
Use of/(addition to) balance - $	(25.3)	126.8	0.2	0.1	0.0	(0.1)
General funds needed - $	0.0	**136.5**	**275.5**	**306.5**	**316.5**	**334.0**
Annuity Bond Fund Balance at year-end - $	127.4	0.6	0.4	0.3	0.3	0.4

Exhibit B

Debt Management Policies of Other AAA States

State	Policy Setting Entity	Affordability Criteria	Other Factors	Target Period	Other States Examined
Delaware	None. Delaware is guided by policies codified in the Delaware code.	None	Delaware code limits principal issued to 5% of general fund revenues and limits debt service payments to a % of revenues.	N/A	None
Georgia	The Georgia State Financing and Investment Commission is a constitutionally created commission, with executive and legislative members, that recommends debt policies to Governor and General Assembly and issues an annual plan.	Annual debt service for current and subsequent years may not exceed 10% of prior year's treasury receipts.	Debt per capita and debt as a percent of personal income.	Five years	AAA states examined for informational purposes.
Missouri	No formal debt management policies.	None	None	N/A	AAA states
Utah	There is no formal debt management policy. Policy regarding debt issuance is established by the legislature and is dictated by needs and available cash flow.	None	Constitution limits debt outstanding to 1.5% of property values.	N/A	AAA states examined for informational purposes.
Virginia	Debt Capacity Advisory Committee, which includes legislative and executive staff as well as citizens, recommends the amount of debt that can be issued. The recommendation is not binding for the Governor or General Assembly, but is generally adopted.	Debt service cannot exceed 5% of revenues supporting debt service.	Debt outstanding per capita, debt outstanding as % of personal income, and maintain two-year excess capacity at end of forecast period.	10 years	AAA states examined for informational purposes.

Source: Department of Legislative Services' survey of state treasury officials and debt managers, July 2005

TABLE 4

Tax Supported Debt Outstanding and Debt Service Stress Test

($ in thousands)

State Tax Supported Debt Outstanding as a Percent of Personal Income Under "Stress" Scenarios

	Debt Outstanding	Personal Income	Current Ratios		Max Ratios	Minimum Personal Income	(a) Difference	Additional Affordable Debt Outstanding (c)
2007	7,280,473	256,684,000	2.84%	**2007**	3.20%	227,514,781	29,169,219	933,415
2008	8,006,663	270,394,000	2.96%	**2008**	3.20%	250,208,219	20,185,781	645,945
2009	8,444,021	283,806,000	2.98%	**2009**	3.20%	263,875,656	19,930,344	637,771
2010	9,021,117	297,006,000	3.04%	**2010**	3.20%	281,909,906	15,096,094	483,075
2011	9,566,921	310,682,000	3.08%	**2011**	3.20%	298,966,281	11,715,719	374,903

State Tax Supported Debt Service as a Percent of Revenues Under "Stress" Scenarios

	Debt Service	Revenues	Current Ratios		Maximum Ratios	Minimum Revenues	(b) Difference	Additional Affordable Debt Service (c)
2007	905,698	14,915,100	6.07%	**2007**	8.00%	11,321,225	3,593,875	287,510
2008	964,710	15,472,200	6.24%	**2008**	8.00%	12,058,875	3,413,325	273,066
2009	1,074,580	16,186,300	6.64%	**2009**	8.00%	13,432,250	2,754,050	220,324
2010	1,127,836	16,910,300	6.67%	**2010**	8.00%	14,097,950	2,812,350	224,988
2011	1,212,690	17,685,800	6.86%	**2011**	8.00%	15,158,625	2,527,175	202,174

This table demonstrates the minimum levels to which personal income and revenues could fall without violating the 3.2% and 8.0% criteria on projected debt and debt service levels.

(a) These figures indicate the amount that current personal income projections could decline and not exceed the 3.2% maximum.
(b) These figures indicate the amount that current revenue projections could decline and not exceed the 8.0% maximum.
(c) These figures indicate additional debt outstanding and debt service affordable without exceeding current maximum capacity levels assuming projected levels of personal income and revenues.

APPENDIX A - 1

PERSONAL INCOME AND POPULATION
PROJECTIONS
($ in millions)

Calendar Year	Personal Income (millions)	% Change	Population (thousands)	% Change
1995	133,815		5,070	
1996	140,035	4.64%	5,112	0.83%
1997	147,843	5.58%	5,157	0.88%
1998	157,784	6.72%	5,204	0.91%
1999	167,075	5.89%	5,255	0.98%
2000	181,958	8.91%	5,312	1.08%
2001	191,657	5.33%	5,379	1.26%
2002	198,926	3.79%	5,442	1.17%
2003	206,412	3.76%	5,512	1.29%
2004	218,138	5.68%	5,558	0.83%
2005	230,479	5.66%	5,601	0.77%
2006	243,462	5.63%	5,662	1.09%
2007	256,684	5.43%	5,723	1.08%
2008	270,394	5.34%	5,783	1.05%
2009	283,806	4.96%	5,844	1.05%
2010	297,006	4.65%	5,905	1.03%
2011	310,682	4.60%	5,966	1.03%

Sources: Personal Income
1995-2004 Bureau of Economic Analysis, U.S. Dept. of Commerce
2005-2011 Forecast : Economy.com

Population
1995-2004 Bureau of the Census, U.S. Dept. of Commerce
2005-2011 Forecast : Economy.com

APPENDIX A - 2

MARYLAND STATE REVENUE PROJECTIONS
($ in millions)

Fiscal Year	General Fund Revenue	Property Taxes	Use of Premium	Total	Transportation Revenues	Stadium Related Revenues	Garvee Bonds	Bay Restoration Fund	Total Revenues
1995	7,095.0	224.5		7,319.5	1,239.4	16.2			8,575.1
1996	7,211.0	255.3		7,466.3	1,261.4	17.4			8,745.1
1997	7,617.0	235.6		7,852.6	1,293.8	22.0			9,168.4
1998	8,051.0	242.2	14.4	8,307.6	1,341.5	24.6			9,673.7
1999	8,524.0	246.9	6.3	8,777.2	1,462.6	24.5			10,264.3
2000	9,220.0	252.0	5.2	9,477.2	1,568.4	21.2			11,066.8
2001	9,802.0	258.3	5.5	10,065.8	1,615.0	27.6			11,708.4
2002	9,504.0	271.7	18.4	9,794.1	1,663.0	27.3			11,484.4
2003	9,409.8	285.9	30.5	9,726.2	1,603.0	27.0			11,356.2
2004	10,204.0	468.8	88.0	10,760.8	1,884.0	27.3			12,672.1
2005	11,548.0	513.3	89.0	12,150.3	2,085.0	30.3			14,265.6
2006	11,620.0	567.6	78.9	12,266.5	2,118.0	30.3			14,414.8
2007	12,113.0	609.1		12,722.1	2,119.0	31.1	42.9		14,915.1
2008	12,656.0	656.2		13,312.2	2,086.0	31.1	42.9		15,472.2
2009	13,252.0	685.2		13,937.2	2,133.0	31.2	80.1	4.8	16,186.3
2010	13,890.0	722.2		14,612.2	2,170.0	30.7	80.1	17.3	16,910.3
2011	14,564.0	763.6		15,327.6	2,208.0	30.7	85.8	33.7	17,685.8

General Fund:
1995 -2011: Bureau of Revenue Estimates
Property Tax and Use of Premium Revenues:
1995 - 1996: Supplemental Financial Data of the Comptroller
1997 - 2003: State Budget Books
2005 - 2011 : Dept. of Budget and Management
Transportation Revenues:
1994-2011: Department of Transportation, Office of Finance
Garvee Bond Revenues: Maryland Transportation Authority, Division of Finance
Stadium Revenues: Transfers from the Stadium Facilities Fund to the
Stadium Authority are assumed to be just sufficient, when coupled
with the Authority's own-source revenues, to meet debt service requirements.

APPENDIX B - 1

PROPOSED GENERAL OBLIGATION AUTHORIZATIONS AND ESTIMATED ISSUANCES

($ in millions)

General Assembly Session	Proposed Authorizations	Crop Conversion	Total Proposed Authorizations	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total Issued
				Estimated Issuances During Fiscal Year (a)										
2006	685	5	690	0	214	173	138	104	62	0	0	0	0	690
2007	705	5	710		0	220	178	142	107	64	0	0	0	710
2008	725	5	730			0	226	183	146	110	66	0	0	730
2009	745		745				0	231	186	149	112	67	0	745
2010	770		770					0	239	193	154	116	69	770
2011	795		795						0	246	199	159	119	723
2012	820		820							0	254	205	164	623
2013	845		845								0	262	211	473
2014	870		870									0	270	270
2015	895		895										0	0
Total Projected Issuance of New Authorizations				0	214	393	542	659	740	761	784	809	834	5735
Issuance of Prior Authorizations				750	461	307	183	66	10	14	16	17	4	1827
Total Projected Issuances				750	675	700	725	725	750	775	800	825	837	7562
Projected Bond Sales				450	350	350	375							
				300	325	350	350							
				750	675	700	725							

Notes:

(a) Percentage issuance assumptions by fiscal years:

	1st	2nd	3rd	4th	5th
Fiscal year following year of authorization:	1st	2nd	3rd	4th	5th
Percent of original authorization issued	31%	25%	20%	15%	9%

APPENDIX B - 2

PROJECTED GENERAL OBLIGATION DEBT - AUTHORIZED BUT UNISSUED

Fiscal Year	Authorized but Unissued Debt at Beginning of Year	Bond Issues (a)	New Debt Authorizations	Authorized but Unissued Debt at End of Year
2006	1,835,487	750,000	690,000	1,775,487
2007	1,775,487	675,000	710,000	1,810,487
2008	1,810,487	700,000	730,000	1,840,487
2009	1,840,487	725,000	745,000	1,860,487
2010	1,860,487	725,000	770,000	1,905,487
2011	1,905,487	750,000	795,000	1,950,487
2012	1,950,487	775,000	820,000	1,995,487
2013	1,995,487	800,000	845,000	2,040,487
2014	2,040,487	825,000	870,000	2,085,487
2015	2,085,487	837,000	895,000	2,143,487

(a) As projected in Appendix B-1.

APPENDIX B - 3

PROJECTED GENERAL OBLIGATION DEBT OUTSTANDING

($ in thousands)

Fiscal Year	Outstanding at Beginning of Year	New Issues (a)	Redemptions	Outstanding at End of Year
2006	4,511,826	750,000	393,355	4,868,471
2007	4,868,471	675,000	405,695	5,137,776
2008	5,137,776	700,000	428,310	5,409,466
2009	5,409,466	725,000	461,527	5,672,939
2010	5,672,939	725,000	477,578	5,920,361
2011	5,920,361	750,000	504,995	6,165,366
2012	6,165,366	775,000	522,506	6,417,860
2013	6,417,860	800,000	543,563	6,674,297
2014	6,674,297	825,000	555,178	6,944,119
2015	6,944,119	837,000	578,309	7,202,810

(a) As projected in Appendix B-1.

APPENDIX B - 4

PROJECTED GENERAL OBLIGATION DEBT SERVICE

($ in thousands)

Fiscal Year	Bonds Currently Outstanding	New Issues	Total
2006	625,208	0	625,208
2007	632,473	24,188	656,661
2008	635,952	61,562	697,514
2009	629,760	116,587	746,347
2010	585,696	193,171	778,867
2011	551,142	271,284	822,426
2012	503,009	351,855	854,864
2013	457,451	433,767	891,218
2014	399,538	518,357	917,895
2015	350,790	605,636	956,426

HISTORICAL DATA - GENERAL OBLIGATION DEBT
($ in thousands)

APPENDIX C-1

Fiscal Year	Authorized (a)	Cancelled	Issued: New	Issued: Refunding	Redeemed	Refunded	Outstanding	Authorized but Unissued	Debt Service: Gross Total	Adjustment (b): Repayable	Adjustment (b): Assumed	Net	Adjusted Debt Service
1972	470,786	17,065	204,040		48,696		876,176	995,251	80,138	(7,309)	46,608	39,299	119,437
1973	463,565	9,152	193,505		51,017		1,018,664	1,256,159	88,836	(9,912)	45,766	35,854	124,690
1974	412,827	16,058	162,150		59,823		1,120,991	1,490,778	105,394	(9,405)	45,684	36,279	141,673
1975	375,956	35,267	353,615		72,452		1,402,154	1,477,852	125,787	(11,581)	44,674	33,094	158,881
1976	180,181	20,465	391,605		83,416		1,710,343	1,245,963	155,462	(11,072)	44,186	33,114	188,576
1977	169,908	653	448,200		92,633		2,065,910	967,018	184,751	(11,963)	43,425	31,462	216,213
1978	190,896	4,577	218,145		111,095		2,172,960	935,192	216,797	(14,066)	42,459	28,393	245,190
1979	155,887	61,422	115,350		134,235		2,154,075	914,307	244,653	(14,503)	39,599	25,096	269,749
1980	205,510	72,819	117,310		162,255		2,109,130	929,688	269,054	(15,052)	37,425	22,373	291,427
1981	182,418	16,335	271,065		176,140		2,204,055	824,706	286,003	(15,946)	35,841	19,895	305,898
1982	184,998	22,391	188,180		184,575		2,207,660	799,133	311,372	(16,253)	33,947	17,694	329,066
1983	190,250	8,851	392,230		190,000		2,409,890	588,301	330,491	(14,062)	28,328	14,266	344,757
1984	203,150	24,467	116,700		212,275		2,314,315	650,284	361,279	(12,750)	27,209	14,459	375,738
1985	331,387 (c)	11,187	138,990		222,010		2,231,295	831,495	380,089	(11,809)	24,146	12,337	392,426
1986	219,034	49,892	124,585		245,805		2,110,075	876,052	396,768	(9,204)	20,227	11,023	407,791
1987	230,950	7,575	164,645		244,305		2,030,415	934,782	394,568	(5,104)	16,441	11,337	405,905
1988	254,228	13,601	304,860		244,455		2,090,820	870,549	389,993	(4,649)	13,635	8,986	398,979
1989	294,997	3,545	160,000		245,460		2,005,360	1,002,000	393,388	(4,240)	10,293	6,053	399,441
1990	328,219	103,063 (c)	234,227		252,681		1,986,906	992,930	395,118	(4,260)	8,317	4,057	399,175
1991	329,200	2,570	296,787		245,256		2,038,437	1,022,773	388,400	(1,349)	6,547	5,198	393,598
1992	349,979	1,000	340,000		200,238		2,178,199	1,031,752	345,897	(1,353)	5,648	4,295	350,192
1993	369,995	2,320	260,410	147,740	176,479	130,475	2,279,395	1,139,018	322,251	(1,358)	3,156	1,798	324,049
1994	379,889	1,417	380,365	207,390	183,106	180,040	2,504,004	1,137,125	323,618	(654)	2,146	1,492	325,110
1995	389,960	1,127	335,000		219,936		2,619,069	1,190,958	373,485	(653)	1,357	704	374,189
1996	399,991	1,029	470,000		229,134		2,859,935	1,119,919	382,146	(652)	1,360	708	382,854
1997	414,993	1,140	410,000		244,541		3,025,394	1,124,656	401,848	(647)	347	(300)	401,548
1998	442,999	15,142	500,000		254,869		3,270,525	1,052,513	417,900	(642)	64	(578)	417,322
1999	448,745	5,360	475,000		245,287		3,500,238	1,020,898	417,629	(124)	0	(124)	417,505
2000	471,786	3,659	125,000		276,356		3,348,872	1,363,620	459,358	0	0	0	459,358
2001	513,250	3,612	400,000		297,966		3,450,900	1,473,258	470,949	0	0	0	470,949
2002	731,058	12,601	418,098	109,935	322,200	112,435	3,544,178	1,773,604	495,217	0	0	0	495,217
2003	756,513	11,634	725,000	376,950	326,695	386,940	3,932,493	1,793,483	496,870	0	0	0	496,870
2004	663,663	10,692	500,000		330,215		4,102,278	1,946,454	536,819	0	0	0	536,819
2005	679,807	6,730	784,043	855,840	318,180	882,155	4,511,826	1,835,488 (d)	553,783	0	0	0	553,783

(a) Authorizations for a fiscal year represent those authorizations effective for that fiscal year; therefore, authorizations for FY 1988 exclude $15 million for the Salisbury Multi-Service Center which authorization is effective 7/1/88.

(b) Adjustment to debt service: "repayable" represents debt service on loans the repayment of which is received by the State, from non-State entities, concurrently with, or prior to, debt service payment dates. "Assumed" debt represents payments made by the State for debt service on non-State debt.

(c) Includes $100 million authorized in the Special Session of 1985 for the savings and loan crisis; no bonds were issued and the authorization was cancelled in 1990.

(d) These amounts are estimates based on de-authorizations, actual board approvals of cancellations, and remaining bond cancellations to be approved by the board.

APPENDIX C - 2

STATE PUBLIC SCHOOL CONSTRUCTION
AND CAPITAL IMPROVEMENT LOANS
($ in thousands)

Fiscal Year	Authorized (a)	Issued	Redeemed	Out-standing	Authorized But Unissued	Debt Service
1972	300,000		0		359,660	
1973	220,000	73,000	0	163,340	506,660	5,218
1974	212,000	114,400	0	277,740	604,260	9,154
1975	160,000	186,000	5,170	458,570	578,260	20,623
1976	50,000	162,700	9,685	611,585	465,560	34,242
1977	69,000	230,900	16,590	825,895	303,660	52,119
1978	57,000	121,650	27,240	920,305	239,010	70,941
1979	62,000	70,750	37,285	953,770	230,260	85,335
1980	45,000	48,210	52,195	949,785	227,050	99,952
1981	45,000	111,200	61,860	999,125	160,850	111,679
1982	32,000	65,500	69,120	995,505	127,350	124,968
1983	22,000	86,350	75,410	1,006,445	63,000	134,258
1984	36,000	36,500	87,025	955,920	62,500	146,099
1985	34,600	24,000	94,685	885,235	73,100	153,339
1986	44,300	38,000	103,545	819,690	79,400	149,417
1987	57,400	34,040	111,190	742,540	102,760	163,947
1988	53,000	55,750	109,295	688,995	100,010	157,696
1989	44,000	52,000	110,090	630,905	92,010	155,959
1990	53,000	35,300	106,395	559,810	109,710	148,422
1991	60,000	57,000	94,910	521,900	112,710	133,620
1992	69,000	76,510	76,725	521,685	105,200	113,813
1993	80,000	95,000	58,520	558,165	90,200	93,822
1994	82,000	52,856	52,715	558,306	119,344	84,168
1995	83,000	76,700	54,394	580,613	125,644	83,919
1996	118,000	77,131	55,410	602,334	166,513	84,563
1997	122,000	129,438	55,670	676,102	159,075	85,440
1998	129,500	158,819	55,145	779,776	129,756	86,366
1999	90,000	150,906	51,230	879,454	68,850	89,838
2000	96,728	60,000	54,866	795,015	30,200	96,543
2001	119,369	75,397	58,675	812,296	170,900	98,983
2002	224,100	64,098	62,703	813,691	330,902	104,369
2003	113,115	230,816	63,364	981,144	213,201	103,235
2004	114,226	82,912	59,631	1,004,425	244,515	109,066
2005	234,400	106,965	87,401	1,023,989	371,950	143,782

(a) FY 1987 authorizations include $3,500,000 for Systemic Renovations

HISTORICAL DATA - DEPARTMENT OF TRANSPORTATION DEBT

APPENDIX C - 3

Consolidated Transportation Bonds
($ in thousands)

Fiscal Year	Gross Debt Outstanding Beginning of Year	Issued	Defeased	Redeemed	Gross Debt Outstanding End of Year	Sinking Fund(s) Balance (c)	Net Debt Outstanding End of Year	------ Debt Service (d) ------ Deposits to Refunding Sinking Fund	Principal Redeemed	Interest	Total
1982	519,865	60,000	0	60,000	519,865	198,770	321,095	20,924	0	28,945	49,869
1983	519,865	40,000	0	60,000	499,865	240,601	259,264	20,924	60,000	32,884	113,808
1984	499,865	0	0	0	499,865	283,617	216,248	20,924	0	29,219	50,143
1985	499,865	0	0	0	499,865	335,241	164,624	20,924	0	29,219	50,143
1986	499,865	0	354,865 (b)	3,000	142,000	29,299	112,701	10,462	3,000	19,547	33,009
1987	142,000	100,000	0	7,000	235,000	48,317	186,683	0	7,000	12,919	19,919
1988	235,000	0	0	8,000	227,000	58,953	168,047	0	8,000	15,685	23,685
1989	227,000	100,000	0	17,000	310,000	68,162	241,838	0	17,000	18,195	35,195
1990	310,000	260,000	0	20,000	550,000	67,309	482,691	0	20,000	28,842	48,842
1991	550,000	310,000	0	18,000	842,000	68,329	773,671	0	18,000	46,261	64,261
1992	842,000	120,000	0	21,000	941,000	66,230	874,770	0	21,000	59,211	80,211
1993	941,000	75,000	0	56,200	959,800	39,901	919,899	0	56,200 (e)	61,445	117,645
1994 (f)	959,800	543,745	457,800	25,455	1,020,290	27,570	992,720	0	25,455	56,423	81,878
1995	1,020,290	75,000	0	47,785	1,047,505	32,338	1,015,167	0	47,785	52,841	100,626
1996	1,047,505	0	0	69,880	977,625	30,940	946,685	0	69,880	51,526	121,406
1997	977,625	50,000	0	88,245	939,380	15,495	923,885	0	88,245	47,448	135,693
1998	939,380	93,645 (g)	91,200	97,810	844,015	0	844,015	0	97,810	44,959	142,769
1999	844,015	0	0	94,885	749,130	0	749,013	0	94,885	38,025	132,910
2000	749,130	75,000	0	99,360	724,770	0	724,770	0	99,360	35,873	135,233
2001	724,770	0	0	76,720	648,050	0	648,050	0	76,720	32,954	109,674
2002	648,050	150,000	0	83,900	714,150	0	714,150	0	83,900	29,278	113,178
2003	714,150	607,405 (h)	46,500	313,810	961,245	0	961,245	0	313,810	34,204	348,014
2004	961,245	395,900 (i)	77,500	93,995	1,185,650	0	1,185,650	0	93,995	40,915	134,910
2005	1,185,650	0	0	115,705	1,069,945	0	1,069,945	0	115,705	53,950	169,655

(a) Includes $60 million Consolidated Transportation Bonds plus a one-year Bond Anticipation Note for $60 million. The one-year BAN was re-issued the following year.

(b) Represents a defeasance of the balance remaining of the series 1978 refunding bonds.

(c) For those bonds issued prior to 7/1/89, sinking fund balances reflect the net effect of: deposits into the fund, one calendar year in advance, of debt service; fund earnings; and payments, from the sinking fund, to bondholders. Bonds issued after 7/1/89 do not require such a sinking fund.

(d) Represents payments to the refunding bond sinking fund plus payments of principal and interest to the bondholders. Amounts may differ from budgetary amounts (budgetary amounts represent payment to sinking funds).

(e) Includes early redemptions of $30 million.

(f) DOT sold two issues of refunding bonds in FY 94:
$211.985 million to refund $204.0 million
$291.760 million to refund $253.8 million

(g) The Depart issued $93.645 mil refunding bonds to refund $91.2 million during fiscal year 1998.

(h) The Depart issued $262.405 mil refunding bonds to refund $265.820 million during fiscal year 2003.

(i) The Depart issued $75.9 mil refunding bonds to refund $77.5 million during fiscal year 2004.

APPENDIX C - 4

County Transportation Bonds
($ in thousands)

Fiscal Year	Gross Debt Outstanding Beginning of Year	Issued	Defeased or Refunded	Redeemed	Gross Debt Outstanding End of Year	Sinking Fund Balance (c)	Net Debt Outstanding End of Year	Debt Service (d): Deposits to Refunding Sinking Fund	Debt Service (d): Principal Redeemed	Debt Service (d): Interest	Debt Service (d): Total
1983	225,085	34,875	0	2,625	257,335	104,373	152,962	9,216	2,625	15,681	27,522
1984	257,335	22,270	0	2,985	276,620	124,619	152,001	8,749	2,985	18,061	29,795
1985	276,620	24,210	0	4,435	296,395	144,595	151,800	7,214	4,435	19,591	31,240
1986	296,395	8,795	0	5,720	299,470	177,185	122,285	0	5,720	12,099	17,819
1987	299,470	40,590 (a)	180,405 (b)	7,090	152,565	21,479	131,086	0	7,090	12,336	19,426
1988	152,565	18,255	0	8,920	161,900	21,599	140,301	0	8,920	11,766	20,686
1989	161,900	7,285	0	9,895	159,290	26,024	133,266	0	9,895	11,931	21,826
1990	159,290	9,950	0	11,535	157,705	23,978	133,727	0	11,535	11,695	23,230
1991	157,705	16,550	0	12,875	161,380	25,539	135,841	0	12,875	11,619	24,494
1992	161,380	8,300	0	14,440	155,240	27,314	127,926	0	14,440	11,383	25,823
1993	155,240	0	0	16,405	138,835	27,294	111,541	0	16,405	10,454	26,859
1994	138,835	0	94,955 (e)	18,035	25,845	5,954	19,891	0	18,035	5,662	23,697
1995	25,845	0	0	4,640	21,205	6,007	15,198	0	4,640	1,314	5,954
1996	21,205	0	0	4,950	16,255	6,055	10,200	0	4,950	1,057	6,007
1997	16,255	0	0	5,280	10,975	5,338	5,637	0	5,280	775	6,055
1998	10,975	0	0	4,845	6,130	525	5,605	0	4,845	493	5,338
1999	6,130	0	0	525	5,605	555	5,050	0	525	344	869
2000	5,605	0	0	555	5,050	590	4,460	0	555	314	869
2001	5,050	0	0	590	4,460	630	3,830	0	590	283	873
2002	4,460	0	0	630	3,830	675	3,155	0	630	248	878
2003	3,830	0	0	675	3,155	715	2,440	0	675	211	886
2004	3,155	0	0	715	2,440	765	1,675	0	715	170	885
2005	2,440	0	0	765	1,675	810	865	0	765	126	891

(a) Represents the Ninth Series issue of $11.415 million plus a refunding series of $29.175 million issued to refund $24.680 million. The $29.175 million was fully retired on 10/01/97.

(b) Represents the defeasance of a 1978 refunding bond issue in the amount of $155.725 million, and the refunded $24.680 million (see (a) above).

(c) Sinking fund balances reflect the net effect of: deposits into the fund, one fiscal year in advance, of debt service; fund earnings; and payments, from the sinking fund, to bondholders.

(d) Represents payments to the refunding bond sinking fund plus payments of principal and interest to bondholders. Amounts may differ from budgetary amounts (budgetary amounts represent payments to sinking funds).

(e) In FY 94 DOT refunded the 3rd and 6th thru 13th Series. The refunding debt is not classified as State tax supported debt.