March 15, 2023 General Obligation Bond Sale

On March 15, 2023, the State sold $400 million in general obligation (GO) bonds for capital projects. This was $350 million in new tax-exempt bonds and $50 million in new taxable bonds. The true interest cost (TIC) for the sale's tax-exempt bonds is 2.91%, and the TIC for taxable bonds is 4.07%. The TIC for the most recent tax-exempt bond sale on June 8, 2022, was 2.90%. The higher TIC is consistent with recent increases in interest rates. The taxable bonds TIC was higher than tax-exempt bonds with longer maturities. This highlights the additional costs paid when taxable bonds are issued. The bonds are grouped into the following three issuances:

- Series A Group 1 that sold tax-exempt bonds maturing in 5 to 9 years. Six underwriters bid for the bonds sold in Group 1, and BofA Securities submitted the winning bid.

- Series A Group 2 that sold tax-exempt bonds maturing in 10 to 15 years. Four underwriters bid for the bonds sold in Group 2, and BofA Securities submitted the winning bid.

- Series B that sold taxable bonds maturing in 3 to 5 years. Since taxable bonds are sold at higher interest rates, the bonds are structured so that they share the shortest maturities. This minimizes additional costs paid for taxable bonds. Eight underwriters bid for the taxable bonds sold, and Morgan Stanley & Co. LLC submitted the winning bid.

Exhibit 1 summarizes key data from each series.

Exhibit 1

New Tax-exempt and Taxable Bonds

March 15, 2023 Sale

($ in Thousands)

Description	Tax Status	Bidders	True Interest Cost	Average Maturity in Years	Amount Sold	Net Premium[1]
Series A Group 1	Tax-exempt	6	2.35%	7.66	$165,865	$30,097
Series A Group 2	Tax-exempt	4	3.22%	13.06	184,135	34,020
Series B	Taxable	8	4.07%	3.57	50,000	0

[1] Net premium deducts underwriters' discount and cost of issuance, which total approximately $883,000.

Source: Public Resources Advisory Group

Capital and Operating Budget Impacts

The Governor's operating budget bill provided $219 million in general funds to support capital projects funded by bond sale premiums in fiscal 2023. The budget also assumes $35 million in premiums for these projects, so any amount of premium above $35 million can be used to reduce general fund appropriations or support capital projects. Debt service supported by bond premiums is limited by the amount of capitalized interest; this is defined as the first two years of debt service payments, which are interest-only payments. This cap is $51.8 million. Any premiums not spent in fiscal 2023 increase the Annuity Bond Fund's fiscal 2024 beginning balance.

Net premiums total $64.1 million, so $29.1 million is available for use. The bond sale was $150 million smaller than anticipated when the budget estimates were prepared. Consequently, fiscal 2024 debt service costs are $8.7 million less than budgeted.

Maryland Bonds Rated AAA-stable

With respect to Maryland, the rating agencies identified the following strengths:

- high wealth and income levels;
- broad and diverse economy;
- strong and well-embedded financial practices; and
- adequate reserves and liquidity.

However, the rating agencies did identify challenges and factors that could lead to a ratings downgrade or negative outlook, such as:

- Fitch notes that a "material increase in long-term liabilities, particularly those associated with retiree benefits" or an "inability to effectively manage rising spending demands with recurring revenues, notably from expanding education funding commitments" could individually or collectively lead to a downgrade.
- Maryland is a high debt state, Fitch ranks the State's long-term liabilities as "aa," and Standard and Poor's notes that if Maryland's "debt and other liability metrics increase to a level that no longer aligns with the current rating" that it could result in a downgrade or negative outlook;
- Standard and Poor's notes that relying on nonrecurring resources to balance the budget could adversely affect the rating; and
- "Economic and financial deterioration that results in deficits, fund transfers and reserve draws without a plan for near-term replenishment and return to structural balance" could lead to a downgrade by Moody's.