
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 14, 2011***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

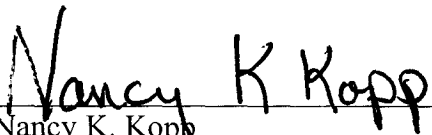
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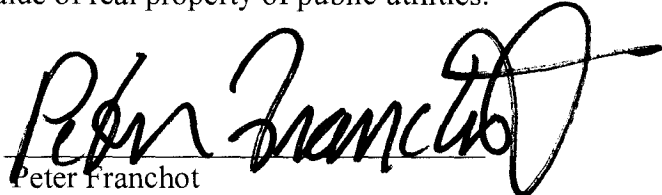
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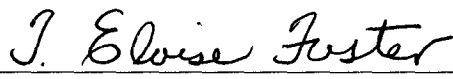
April 14, 2011

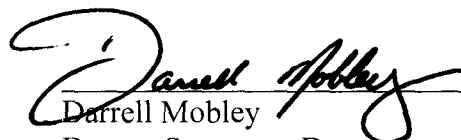
TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

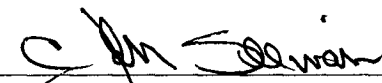
In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2012 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities.

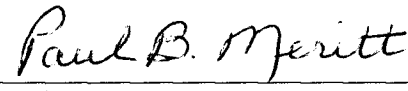

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Deputy Secretary, Department of
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James E. DeGrange
Chairman, Capital Budget Subcommittee
Senate Committee on Budget and Taxation

Adrienne A. Jones
Chairman, Capital Budget Subcommittee
House Appropriations Committee

2011 REPORT OF THE COMMISSION ON STATE DEBT

Charge of the Commission

Executive Order 01.01.1980.06 created the Commission on State Debt as an advisory group to recommend to the Board of Public Works on an annual basis a State property tax rate sufficient to meet debt service requirements on outstanding general obligation bonds during the next fiscal year.

General Obligation Bonds

General obligation bonds are authorized and issued to provide funds for:

- general construction and capital improvements to State-owned facilities, including institutions of higher education;
- grants to local educational authorities for construction and capital improvements to public schools; and
- financial assistance in the form of loans or grants to local governments and the private sector for individual capital projects such as water quality improvements, jails and detention facilities, community colleges, economic development, community health facilities, historic preservation, private higher education, and other community projects.

Sources of Debt Service Funds

Beside the State property tax, several additional sources provide funds for general obligation debt service.

- (1) Under certain loan enabling acts, the State uses bond proceeds to make loans to local governments, private non-profit organizations, and other private entities. Under the terms of the loans, repayments are required and are credited to the Annuity Bond Fund. Some loan repayments, such as repayments of loans for sewerage facilities and hospitals, extend over a period of up to 40 years, exceeding the fifteen-year life of the bonds.
- (2) Periodically, grantees remit proceeds from the sale of capital assets.
- (3) The State generally deposits premiums from the sale of general obligation bonds into the Annuity Bond Fund.
- (4) From fiscal year 1972 through fiscal year 2003 and in fiscal year 2008, the State appropriated general funds to support debt service.
- (5) Beginning in fiscal year 2010, the State issued taxable general obligation bonds with an interest subsidy from the US Treasury that began in fiscal year 2010 and extends for the life of the bonds.

- (6) Chapter 419 Acts of 2009 authorized \$70.0 million in bond funds for the Department of Natural Resource's Program Open Space (POS) land acquisition program and the use of property transfer tax revenue to pay principal and interest on these POS bonds. This authorization was issued in July 2010 in the 2010 Second Series and transfer taxes were credited to the Annuity Bond Fund beginning in fiscal year 2011.

General Obligation Bonds Outstanding and Authorized

Schedule A (page 8) projects the amounts of general obligation bonds issued, redeemed, and outstanding for fiscal years 2011 and 2012. Sales of general obligation bonds in fiscal year 2011 totaled \$970,175,000 to finance capital projects. The State expects to issue \$960,000,000 to finance capital projects in fiscal year 2012. In addition, the State issued Qualified Zone Academy Bonds (QZAB) in the amount of \$4,543,000 in fiscal year 2011 and expects to issue an additional \$15,902,000 of QZABs in fiscal year 2012.

Schedule B (page 9) estimates total unissued authorizations of general obligation bonds at June 30, 2011. In September 2010, the Capital Debt Affordability Committee recommended an authorization of \$925 million of general obligation bonds to support the fiscal year 2012 Capital Budget. The 2011 General Assembly approved general obligation bond authorizations effective June 1, 2011 in the net amount of \$925 million.

Annuity Bond Fund

Schedule C (page 10) reflects the effect of the continuation of the current rate of 11.2 cents per \$100 of assessed value on real property and 28 cents per \$100 of assessed value on operating real property of public utilities for fiscal years 2012 – 2016. In fiscal year 2012, no appropriations from the general fund are necessary to support debt service assuming that the Board of Public Works maintains the current tax rate. At this time however, a general fund subsidy is projected for fiscal years 2013 through 2016 if the tax rate is not changed and other assumptions remain as currently projected.

History of Property Tax Rates and

General Fund Appropriations to the Annuity Bond Fund

Property Tax Rates

Between fiscal years 1983 through 2001, the property tax rate on real property was 21 cents per \$100 of assessed valuation. Also during this time period, real property was assessed at 40% of full cash value. In fiscal year 2002, when real property began to be assessed at 100% of full cash value, the rate was adjusted to 8.4 cents per \$100 of valuation. (8.4 cents is 40% of 21 cents so there was no change to the overall tax burden).

Tax rates increased to 13.2 cents per \$100 of assessed valuation in fiscal years 2004 – 2006. Since fiscal year 2007, the rate has been maintained at 11.2 cents per \$100 of assessed valuation. Refer to Schedule D on page 11 for the tax rate history for fiscal years 2001 – 2011.

General Fund Appropriations to the Annuity Bond Fund

In fiscal years 2001 – 2003 almost \$300 million was appropriated to the Annuity Bond Fund. Between fiscal years 2004 and 2011, there has been one appropriation for approximately \$29.3 million in fiscal year 2008. Refer to Schedule D on page 11 for the general fund appropriations to the Annuity Bond Fund for fiscal years 2001 – 2011.

Recommendation

The Commission on State Debt recommends to the Board of Public Works a State property tax rate of 11.2 cents per \$100 of assessed value on real property and 28.0 cents per \$100 of assessed value on operating real property of public utilities for fiscal year 2012.

**SCHEDULE A
PROJECTED GENERAL OBLIGATION BONDS OUTSTANDING
JUNE 30, 2011 AND JUNE 30, 2012**

	Bonds Outstanding
Bonds Outstanding - June 30, 2010	\$ 6,523,222,417
Issued Fiscal Year 2011 (A)	974,718,000
Redeemed Fiscal Year 2011	(515,094,450)
 Bonds Outstanding - June 30, 2011	 6,982,845,967
Projected Issuance FY 2012 (B)	975,902,000
Redeemed Fiscal Year 2012	(542,179,450)
 Bonds Outstanding - June 30, 2012	 <u><u>\$ 7,416,568,517</u></u>

(A) Bonds Issued in Fiscal Year 2011:

August-10	-	\$485,175,000	2010 Second Series
December-10	-	\$4,543,000	2010 QZAB
March-11	-	\$485,000,000	2011 First Series
		\$974,718,000	

(B) Projected Bond Issuances in Fiscal Year 2012:

July-11	-	\$495,000,000	2011 Second Series
July-11	-	\$15,902,000	2011 QZAB
March-12	-	\$465,000,000	2012 First Series
		\$975,902,000	

**SCHEDULE B
BONDS AUTHORIZED BUT UNISSUED
JUNE 30, 2011 – PROJECTED**

	Bonds Authorized but Unissued
Bonds Authorized but Unissued - 6/30/10	\$ 2,394,984,586
Issued Fiscal Year 2011	(974,718,000)
Cancelled Fiscal Year 2011 (through 3/31/11)	(3,651,282) (A)
Net New Authorizations Effective June 1, 2011	925,000,000 (B)
 Bonds Authorized but Unissued - Projected 6/30/11	 \$ 2,341,615,304

(A) As of March 31, 2011
 Authorizations have been cancelled as a result of the following:
 Section 8-128 of the State Finance and Procurement Article

(B) MCCBL of 2011	
New General Obligation Bond Authorizations	\$ 949,102,501
De-authorizations of prior authorizations	\$ (24,102,501)
	\$ 925,000,000

SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

	2010	2011	2012	2013	2014	2015	2016
	Actual	Appropriation	MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)				
Beginning Balance	\$ 71,276,653	\$ 105,315,371	\$ 162,500,437	\$ 56,899,293	\$ 1,289,235	\$ 1,033,501	\$ 909,939
Total Property Tax Collections (B)	\$ 742,883,653	\$ 801,067,307	\$ 761,813,832	\$ 737,001,563	\$ 711,548,259	\$ 711,822,561	\$ 712,057,090
General Fund Appropriation	\$ -	\$ -	\$ -	\$ 117,000,000	\$ 261,000,000	\$ 312,000,000	\$ 397,000,000
Bond Sale Premium (C)	\$ 63,220,594	\$ 78,163,477	(C)	(C)	(C)	(C)	(C)
Federal Subsidy for ARRA Bonds (D)	\$ 857,078	\$ 9,202,077	\$ 11,060,467	\$ 11,060,467	\$ 11,060,467	\$ 11,060,467	\$ 11,060,467
Transfer Tax (E)	\$ -	\$ 1,208,828	\$ 1,560,741	\$ 1,560,741	\$ 6,109,186	\$ 6,270,207	\$ 6,422,430
Other Cash Receipts (F)	\$ 4,600,348	\$ 2,375,894	\$ 2,227,114	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
Debt Service (G)	\$ (777,522,955)	\$ (834,832,518)	\$ (882,263,297)	\$ (924,432,829)	\$ (992,173,646)	\$ (1,043,476,797)	\$ (1,129,140,182)
Ending Balance	\$ 105,315,371	\$ 162,500,437	\$ 56,899,293	\$ 1,289,235	\$ 1,033,501	\$ 909,939	\$ 509,745

THESE ARE PROJECTIONS AS OF APRIL 14, 2011. ALL ESTIMATES FROM 2011 THROUGH 2016 CAN AND WILL CHANGE. THE PROJECTIONS ARE DEPENDENT ON EACH OF THE FOLLOWING VARIABLES: PROPERTY VALUES, COLLECTIONS, BOND PREMIUM AND INTEREST RATES.

- (A) Rate is projected at 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities. This has also been the rate for fiscal years 2010 and 2011.
- (B) Property Tax Collections are calculated from estimates of assessable base provided by DAT on 3/31/11. A FY 2010 Receivable in the amount of \$16.0 million was collected in FY 2011. If the tax had been collected in 2010, the 2010 collections would have gone from \$742.8 million to \$758.9 million and actual 2011 collections would have decreased from \$801.1 million to \$785.0 million.
- (C) Bond premiums can be very volatile and therefore are only projected through the current fiscal year. From Fiscal Year 2003 through Fiscal Year 2011, the total average fiscal year premium has been \$58.8 million.
- (D) Interest Subsidies from US Treasury are for Build America Bonds, Qualified School Construction Bonds, and Qualified Zone Academy Bonds
- (E) Debt Service Payment for \$70 million of Program Open Space Bonds authorized in 2009 and issued in 2010.
- (F) Other cash receipts include interest and penalties on property taxes, loan repayments and miscellaneous receipts.
- (G) Debt service is calculated after the issuance of Series 2011 1st and is based on authorizations projected in the CDAC September 2010 report.

**SCHEDULE D
COMMISSION ON STATE DEBT**

HISTORY OF PROPERTY TAX RATES AND GENERAL FUND APPROPRIATIONS

Real Property Tax Rates			General Fund Appropriations		
per \$100 of assessed valuation					
Fiscal Year		Other Than Utilities	Public Utilities	Fiscal Year	Amount
2001	*	21.0 cents	21.0 cents	2001	\$106,000,000
2002	*	8.4 cents	21.0 cents	2002	\$103,094,800
2003		8.4 cents	21.0 cents	2003	\$90,500,000
2004		13.2 cents	33.0 cents	2004	-
2005		13.2 cents	33.0 cents	2005	-
2006		13.2 cents	33.0 cents	2006	-
2007		11.2 cents	28.0 cents	2007	-
2008		11.2 cents	28.0 cents	2008	\$29,349,121
2009		11.2 cents	28.0 cents	2009	-
2010		11.2 cents	28.0 cents	2010	-
2011		11.2 cents	28.0 cents	2011	-
2012		11.2 cents	28.0 cents	2012	-

* In FY 2002 Real Property began to be assessed at 100% of full cash value, a change from 40% in FY 2001. The tax rate in FY 2002 was adjusted to offset this change.