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***STATE OF MARYLAND***

***COMMISSION  
ON  
STATE DEBT***

***Report to the Board of Public Works  
April 7, 2014***

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**State of Maryland  
Commission on State Debt**

**Report to the  
Board of Public Works**

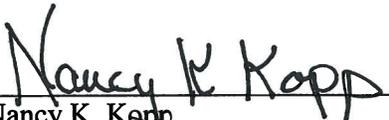
*Table of Contents*

	<i>Page</i>
<i>Recommendation of Tax Rate for Fiscal Year 2015</i> .....	2
<i>Report</i> .....	3
<i>Schedules:</i>	
<b>Schedule A</b> – Projected General Obligation Bonds Outstanding as of June 30, 2014 and June 30, 2015.....	7
<b>Schedule B</b> – Bonds Authorized but Unissued as of June 30, 2014 .....	8
<b>Schedule C</b> – Annuity Bond Fund Projection, 2015 – 2019 .....	9
<b>Schedule D</b> – History of Property Tax Rates and General Fund Appropriations .....	10

April 7, 2014

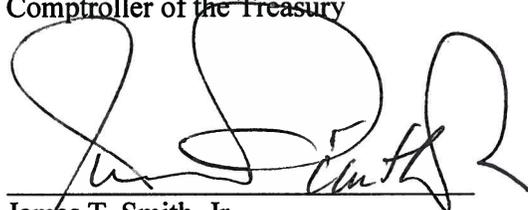
TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

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 2015 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28.0 cents (\$0.28) per \$100 of assessed value of real property of public utilities.

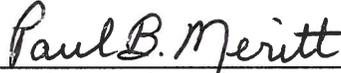
  
Nancy K. Kopp  
State Treasurer, Chairman

  
Peter Franchot  
Comptroller of the Treasury

  
T. Eloise Foster  
Secretary, Department of  
Budget and Management

  
James T. Smith, Jr.  
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Transportation

  
Robert Young  
Director, Department of  
Assessments and Taxation

  
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The chairmen of the Capital Budget Subcommittees in the Senate and the House of Delegates serve as ex-officio, non-voting members.

James E. DeGrange  
Chairman, Capital Budget Subcommittee  
Senate Committee on Budget and Taxation

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

## **2014 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**

Several sources provide funds for general obligation debt service in addition to the State property tax:

- (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. A general fund appropriation was made in fiscal year 2014 and is also included in fiscal year 2015;

- (5) Beginning in fiscal year 2010 through fiscal year 2013, the State issued approximately \$720 million of taxable general obligation bonds with an interest subsidy from the US Treasury; and
- (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**

The amount of general obligation bonds issued, redeemed, and outstanding for fiscal years 2014 and 2015 is shown on Schedule A (page 7). General obligation bonds outstanding are projected to total \$8,362.3 million at June 30, 2014. The State issued \$1,216.4 million in general obligation bonds in fiscal year 2014, including \$4.5 million in Qualified Zone Academy Bonds. Of that amount, \$979.5 million financed capital projects and \$236.9 million refunded higher rate bonds. The refunding bonds saved taxpayers \$12.6 million in interest costs. In fiscal year 2014, general obligation bonds redeemed and refunded totaled \$859.9 million.

General obligation bonds outstanding are projected to total \$8,726.9 million at June 30, 2015. In fiscal year 2015, general obligation bond issuances are expected to total \$1,022.9 million, including \$4.6 million in Qualified Zone Academy Bonds. General obligation bond redemptions are estimated to total \$658.4 million in fiscal year 2015.

### **General Obligation Bonds Authorized But Unissued**

Bonds are not issued immediately following an authorization but rather are issued as funds are required to make payment on an authorized capital project. The amount authorized but unissued is allocated and dedicated to the specified project authorized. Schedule B (page 8) estimates total unissued authorizations of general obligation bonds at June 30, 2014. General obligation bonds authorized but unissued are projected to total \$2,536.1 million at June 30, 2014. This amount includes \$1,160.0 million in net new authorizations approved during the 2014 session of the Maryland General Assembly and effective on June 1, 2014 to support the fiscal year 2015 capital budget. This authorization level equals the amount recommended by the Capital Debt Affordability Committee in its 2013 report.

### **Annuity Bond Fund**

Debt service for general obligation bonds is paid from the Annuity Bond Fund. Schedule C (page 9) 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 2014 – 2019. In fiscal year 2015, \$140 million is appropriated from the general fund to support debt service assuming that the Board of Public Works maintains the current tax rate. Projections show increasing gaps between revenues and debt service assuming current property tax levels continue. Current projections, as detailed on

Schedule C, show shortfalls of \$371 million, \$436 million, \$493 million and \$516 million in fiscal years 2016, 2017, 2018 and 2019 respectively. These projections include bond premiums totaling \$40 million in fiscal year 2015 and no bond premiums thereafter because premiums are volatile and difficult to predict. Over the past five fiscal years, total amount of bond premium received has averaged \$105.6 million; any additional premium would reduce the aforementioned shortfalls.

## **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 only 40% of full cash value. In fiscal year 2002, the assessment process was reformed to become more transparent and real property began to be assessed at 100% of full cash value. The rate was, therefore, 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. In fiscal year 2007, the rate was reduced to 11.2 cents per \$100 of assessed valuation and has remained at that reduced level since that time. Schedule D on page 10 provides the property tax rates for fiscal years 2001 – 2014 and the recommended rate for fiscal year 2015.

### ***General Fund Appropriations to the Annuity Bond Fund***

In fiscal years 2001 – 2003, a total of \$299.6 million in general funds were appropriated to the Annuity Bond Fund. In fiscal year 2008 general fund appropriations were once again necessary and \$29.3 million was appropriated. Previous reports projected that, at current property tax levels, there would be insufficient revenues in the Annuity Bond Fund to cover debt service in future years and that general funds would be necessary to bridge this gap. In fiscal years 2009 through 2013, however, the projected gaps were not realized and a general fund appropriation was not necessary. This was due to three primary factors:

- Interest rates have remained low as the economy continues to rebound slowly from the recession and as investors have sought high quality bonds like Maryland general obligation bonds;
- Debt service has been lower than initially forecast because of the issuance of refunding bonds and the use of federally-supported ARRA bonds which were cheaper for the State than traditional tax-exempt bonds; and
- Actual premiums realized from general obligation bond sales have been significant.

In fiscal years 2014 and 2015, general funds totaling \$83.0 million and \$140 million are appropriated to the Annuity Bond Fund. Schedule D on page 10 provides the general fund appropriations to the Annuity Bond Fund for fiscal years 2001 – 2015.

## **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 2015.

**SCHEDULE A**  
**PROJECTED GENERAL OBLIGATION BONDS**  
**OUTSTANDING**  
**JUNE 30, 2014 AND JUNE 30, 2015**

	<b>Bonds Outstanding</b>
<b>Bonds Outstanding - June 30, 2013</b>	<b>\$ 8,005,802,067</b>
Issued Fiscal Year 2014 <sup>(A)</sup>	1,216,404,000
Redeemed Fiscal Year 2014	(613,979,450)
Refunded Fiscal Year 2014	(245,880,000)
 <b>Bonds Outstanding - June 30, 2014</b>	 <b>8,362,346,617</b>
Projected Issuance Fiscal Year 2015 <sup>(B)</sup>	1,022,875,000
Redeemed Fiscal Year 2015	(658,368,717)
 <b>Bonds Outstanding - June 30, 2015</b>	 <b><u><u>\$ 8,726,852,900</u></u></b>

(A) Bonds Issued in Fiscal Year 2014:

August-13	-	\$475,000,000	2013 Second Series
December-13	-	\$4,549,000	2013 QZAB
March-14	-	\$500,000,000	2014 First Series
March-14	-	\$236,855,000	2014 First Series - Refunding
		<u>\$1,216,404,000</u>	

(B) Projected Bond Issuances in Fiscal Year 2015:

August-14	-	\$475,000,000	2014 Second Series
December-14	-	\$4,625,000	2014 QZAB
March-15	-	\$543,250,000	2015 First Series
		<u>\$1,022,875,000</u>	

**SCHEDULE B  
GENERAL OBLIGATION BONDS AUTHORIZED  
BUT UNISSUED  
JUNE 30, 2014 – PROJECTED**

	<b>Bonds Authorized but Unissued</b>
<b>Bonds Authorized but Unissued - 6/30/13</b>	<b>\$ 2,360,642,989</b>
Issued Fiscal Year 2014 (net of refunding bonds)	(979,549,000)
Cancelled Fiscal Year 2014 (through 3/31/14) <sup>(A)</sup>	(5,019,138)
Net New Authorizations Effective June 1, 2014 <sup>(B)</sup>	1,159,999,623
 <b>Bonds Authorized but Unissued - Projected 6/30/14</b>	 <b>\$ 2,536,074,474</b>

(A) As of March 31, 2014  
 Authorizations have been cancelled as a result of the following:  
 Section 8-128 of the State Finance and Procurement Article

(B) MCCBL of 2014	
New General Obligation Bond Authorizations (does not include QZABs)	\$ 1,180,515,000
De-authorizations of prior authorizations	\$ (20,515,377)
	\$ 1,159,999,623

## SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

	2013	2014	2015	2016	2017	2018	2019
	Actual	Appropriation	<b>MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)</b>				
<b>Beginning Balance</b>	\$ 192,261,650	\$ 175,193,399	\$ 119,743,266	\$ 13,041,008	\$ 1,838,346	\$ 1,941,832	\$ 2,317,304
Total Property Tax Collections	(B) \$ 730,381,535	\$ 717,524,152	\$ 729,704,412	\$ 731,700,698	\$ 744,177,949	\$ 755,941,906	\$ 767,387,490
General Fund Appropriation	\$ -	<b>\$ 83,000,000</b>	<b>\$ 140,000,000</b>	<b>\$ 371,000,000</b>	<b>\$ 436,000,000</b>	<b>\$ 493,000,000</b>	<b>\$ 516,000,000</b>
Bond Sale Premium	(C) \$ 151,897,697	\$ 104,596,645	\$ 40,000,000	(C)	(C)	(C)	(C)
Federal Subsidy for ARRA Bonds	(D) \$ 12,101,581	\$ 11,405,560	\$ 11,489,645	\$ 11,489,645	\$ 11,489,645	\$ 11,489,645	\$ 11,489,645
Transfer Tax	(E) \$ 1,560,741	\$ 6,109,186	\$ 6,270,207	\$ 6,422,430	\$ 6,575,484	\$ 6,735,201	\$ 7,059,179
Other Cash Receipts	(F) \$ 2,972,638	\$ 2,651,942	\$ 2,631,874	\$ 2,612,492	\$ 2,625,000	\$ 2,625,000	\$ 2,625,000
Debt Service	(G) \$ (915,982,443)	\$ (980,737,618)	\$ (1,036,798,396)	\$ (1,134,427,927)	\$ (1,200,764,592)	\$ (1,269,416,280)	\$ (1,304,729,209)
<b>Ending Balance</b>	<b>\$ 175,193,399</b>	<b>\$ 119,743,266</b>	<b>\$ 13,041,008</b>	<b>\$ 1,838,346</b>	<b>\$ 1,941,832</b>	<b>\$ 2,317,304</b>	<b>\$ 2,149,409</b>

**THESE ARE PROJECTIONS AS OF APRIL 7, 2014. ALL ESTIMATES FROM 2014 THROUGH 2019 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 been the rate since FY 2007.
- (B) Property Tax Collections are calculated from estimates of assessable base provided by DAT on 3/31/14.
- (C) Bond premiums can be very volatile and therefore are not projected.  
Over the past five fiscal years, the total premium received has averaged \$105.6 million.
- (D) Interest Subsidies from US Treasury are for Build America Bonds, Qualified School Construction Bonds, and Qualified Zone Academy Bonds
- (E) The Transfer Tax covers the debt service 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 2014 1st and is based on authorizations projected in the 2013 Capital Debt Affordability Committee report.

**SCHEDULE D**  
**COMMISSION ON STATE DEBT**

**HISTORY OF PROPERTY TAX RATES AND**  
**GENERAL FUND APPROPRIATIONS**

<b>Real Property Tax Rates</b>			<b>General Fund Appropriations</b>		
per \$100 of assessed valuation					
<b>Fiscal Year</b>		<b>Other Than Utilities</b>	<b>Public Utilities</b>	<b>Fiscal Year</b>	<b>Amount</b>
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	-
2013		11.2 cents	28.0 cents	2013	-
2014		11.2 cents	28.0 cents	2014	\$83,000,000
2015	**	11.2 cents	28.0 cents	2015	\$140,000,000

\* 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.

\*\*FY 2015 reflects the rates as recommended by the Commission on State Debt to the Board of Public Works