
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 24, 2017***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

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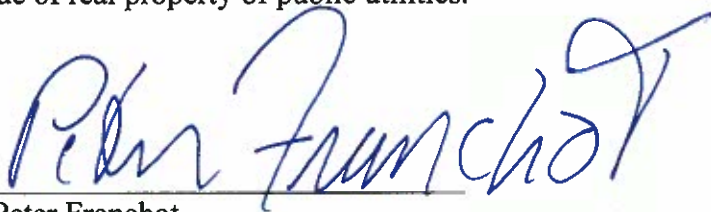
April 24, 2017

TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

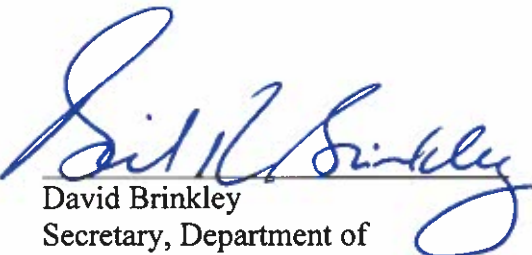
In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2017 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities.




Nancy K. Kopp
State Treasurer, Chairman



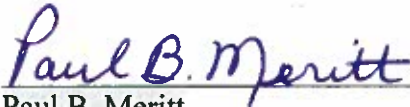
Peter Franchot
Comptroller of the Treasury



David Brinkley
Secretary, Department of
Budget and Management



Pete Rahn
Secretary, Department of
Transportation



Paul B. Meritt
Public Member

The chairmen of the Capital Budget Subcommittees in the House and Senate 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

2017 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. General fund appropriations were also made in fiscal years 2014 through 2017, and an appropriation is also included in fiscal year 2018.

- (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 2017 and 2018 is shown on Schedule A (page 7). General obligation bonds outstanding are projected to total \$9,334.2 million at June 30, 2017. The State issued \$1,145.4 million in general obligation bonds in fiscal year 2017, including \$4.7 million in Qualified Zone Academy Bonds. The State also issued refunding bonds in fiscal year 2017, which will save Maryland taxpayers \$29.0 million in interest costs. In fiscal year 2017, general obligation bonds redeemed and refunded totaled \$1,276.4 million.

General obligation bonds outstanding are projected to total \$9,578.6 million at June 30, 2018. In fiscal year 2018, general obligation bond issuances are expected to total \$1,079.8 million, including \$4.8 million in Qualified Zone Academy Bonds. General obligation bond redemptions are estimated to total \$835.4 million in fiscal year 2018.

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, 2017. General obligation bonds authorized but unissued are projected to total \$2,401.5 million at June 30, 2017. This amount includes \$1,065.0 million in net new authorizations approved during the 2017 session of the Maryland General Assembly and effective on June 1, 2017 to support the fiscal year 2018 capital budget.

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 2016 – 2022. In fiscal year 2018, \$259.6 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 \$453.6 million, \$487.4 million, \$477.4 million and \$500.4 million in fiscal years 2019, 2020, 2021, and 2022 respectively. These projections include a bond

premium totaling \$91.2 million in fiscal year 2017 and no bond premiums thereafter because premiums are volatile and difficult to predict.

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 2003 – 2017 and the recommended rate for fiscal year 2018.

General Fund Appropriations to the Annuity Bond Fund

In fiscal year 2003 \$90.5 million in general funds were appropriated to the Annuity Bond Fund. In fiscal year 2008 general fund appropriations were again necessary and \$29.4 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 year 2018, \$259.6 million in general funds is appropriated to the Annuity Bond Fund. Schedule D on page 10 provides the general fund appropriations to the Annuity Bond Fund for fiscal years 2003 – 2018.

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 2018.

SCHEDULE A
PROJECTED GENERAL OBLIGATION BONDS
OUTSTANDING
JUNE 30, 2017 AND JUNE 30, 2018

	Bonds Outstanding
Bonds Outstanding - June 30, 2016	9,465,284,845
Issued Fiscal Year 2017 ^(A)	1,145,365,000
Redeemed Fiscal Year 2017	(786,139,388)
Refunded Fiscal Year 2017	(490,305,000)
 Bonds Outstanding - June 30, 2017	 9,334,205,457
Projected Issuance Fiscal Year 2018 ^{(B) (C)}	1,079,823,000
Redeemed Fiscal Year 2018	(835,446,383)
 Bonds Outstanding - June 30, 2018	 <u><u>\$ 9,578,582,074</u></u>

(A) Bonds Issued in Fiscal Year 2017:

December-16	\$4,680,000	2016 QZAB
March-17 -	\$1,140,685,000	2017 First Series (includes refunding bonds)
	\$1,145,365,000	

(B) The State Treasurer's Office will consider a refunding in the upcoming August 12, 2017 bond sale if market conditions allow.

(C) Projected Bond Issuances in Fiscal Year 2018:

August-17	\$550,000,000	2017 Second Series
December-17	\$4,823,000	2017 QZAB
March-18 -	\$525,000,000	2018 First Series
	\$1,079,823,000	

SCHEDULE B
GENERAL OBLIGATION BONDS AUTHORIZED
BUT UNISSUED ^(A)
JUNE 30, 2017 – PROJECTED

	Bonds Authorized but Unissued
Bonds Authorized but Unissued - 6/30/16	\$ 2,017,467,391
Issued Fiscal Year 2017 (net of refunding bonds)	(679,680,000)
Cancelled Fiscal Year 2017 (through 3/31/17) ^(B)	(1,316,738)
Net New Authorizations Effective June 1, 2017 ^(C)	1,065,000,000
 Bonds Authorized but Unissued - Projected 6/30/17	 \$ 2,401,470,653

(A) Does not include authorizations for Qualified Zone Academy Bonds.

(B) As of March 31, 2017
 Authorizations have been cancelled as a result of the following:
 Section 8-128 of the State Finance and Procurement Article

(C) MCCBL of 2017	
New General Obligation Bond Authorizations	\$ 1,089,383,121
De-authorizations of prior authorizations	\$ (24,383,121)
	\$ 1,065,000,000

SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

		2016		2017		2018		2019		2020		2021		2022
		Actual		Estimated		MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)								
Beginning Balance		132,164,239	\$	202,277,726	\$	162,521,742	\$	5,582,266	\$	2,000,000	\$	2,000,000	\$	2,000,000
Total Property Tax Collections	(B)	747,032,567		779,751,987		809,987,035		829,991,434		850,686,620		871,899,185		893,642,065
General Fund Appropriation		252,400,000		259,395,129		259,648,777		453,649,130		487,389,327		477,427,571		500,425,419
Bond Sale Premium	(C)	171,212,496		91,186,871		-		-		-		-		-
Federal Subsidy for ARRA Bonds	(D)	11,511,140		11,532,394		11,526,788		11,526,788		10,843,155		10,122,925		9,364,327
Transfer Tax	(E)	6,422,430		6,575,484		6,735,201		7,059,179		6,851,001		6,884,147		6,916,673
Other Cash Receipts	(F)	2,529,853		2,529,853		2,529,853		2,529,853		2,529,853		2,529,853		2,529,853
Debt Service	(G)	(1,120,994,998)		(1,190,727,702)		(1,247,367,130)		(1,308,338,650)		(1,358,299,956)		(1,368,863,681)		(1,412,878,337)
Ending Balance		\$ 202,277,726	\$	162,521,742	\$	5,582,266	\$	2,000,000	\$	2,000,000	\$	2,000,000	\$	2,000,000

THESE ARE PROJECTIONS AS OF APRIL 24, 2017. ALL ESTIMATES FROM 2017 THROUGH 2022 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) For fiscal years 2016 - 2018, property tax collections are calculated from estimates of assessable base provided by SDAT on 3/31/2017. For fiscal years 2019 - 2022, a conservative estimate of 2.5% annual growth in collections is assumed.
- (C) Bond premiums can be very volatile and are not projected in the outyears.
- (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 based on the amount authorized for FY 2017 and authorizations projected in the 2016 Capital Debt Affordability Committee 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
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
2016	11.2 cents	28.0 cents	2016	\$252,400,000
2017	11.2 cents	28.0 cents	2017	* \$259,395,129
2018	** 11.2 cents	28.0 cents	2018	\$259,648,777

*The FY 2017 appropriation was reduced in the FY 2018 Budget Bill due to bond premium in excess of what was projected.

**FY 2018 reflects the rates as recommended by the Commission on State Debt to the Board of Public Works.