
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 16, 2007***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

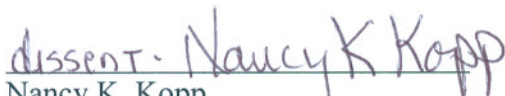
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April 16, 2007

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 2008 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


T. Eloise Foster
Secretary, Department of
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C. John Sullivan, Jr.
Director, Department of
Assessments and Taxation


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 Tax

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

2007 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 have been authorized and issued to provide funds for:

- (1) capital improvements to State-owned facilities including higher education facilities;
- (2) capital grants to local governments for the construction, renovation, and rehabilitation of local elementary schools;
- (3) capital grants and repayable loans for other local government capital improvement projects including local jail and water and sewerage facilities;
- (4) financial assistance to private non-profit sponsors for capital improvement projects;
- (5) financial assistance to needy individuals for acquisition and improvement of housing; and other authorized 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 bond proceeds were used 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. Currently, repayments are received from loans to local governments for sewerage facilities, and from loans to private hospitals. 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) Proceeds from the sale of capital assets and unspent bond proceeds have, from time to time, been deposited in the Annuity Bond Fund.
- (3) Premiums resulting from the sale of general obligation bonds are deposited to the Annuity Bond Fund.
- (4) From fiscal year 1972 through fiscal year 2003 and in fiscal year 2008, general funds were appropriated to support debt service.

General Obligation Bonds Outstanding and Authorized

Schedule A (page 7) projects the amounts of general obligation bonds issued, redeemed, and outstanding for fiscal years 2007 and 2008. Sales of general obligation bonds in fiscal year 2007 totaled \$675,000,000 and are currently projected to be \$700,000,000 in fiscal year 2008. In addition, Qualified Zone Academy Bonds (QZAB) were issued in the amount of \$4,378,000 in Fiscal Year 2007 and another issuance of \$4,986,000 is projected in Fiscal Year 2008.

Schedule B (page 8) arrays total unissued authorizations of general obligation bonds at June 30, 2007. In September 2006, the Capital Debt Affordability Committee recommended \$810 million of new general obligation bond authorizations by the 2007 General Assembly to support the 2008 capital program. Net general obligation bond authorizations approved by the 2007 General Assembly and effective June 1, 2007 total \$810 million, including \$3 million authorized by separate legislation for the Tobacco Transition Program.

Annuity Bond Fund

The effect of different tax rates on the Annuity Bond Fund is fully illustrated in Schedule C (page 9).

- Option 1 depicts the Annuity Bond Fund if the rate was increased to 13.2 cents per \$100 which was the rate for Fiscal Years 2004, 2005 and 2006.
- Option 2 illustrates the effect on the Annuity Bond Fund if the rate was increased to 12.0 cents per \$100. This is the “break-even rate”; that is, the lowest rate at which no general fund appropriation is needed for the five years in this analysis.
- Option 3 reflects the current rate of 11.2 cents per \$100.

The following tables summarize the options considered in this Report.

Options		Tax Rate per \$100 of Real Property		General Fund Appropriations (\$ in millions)				
				2008	2009	2010	2011	2012
#		Other Than Public Utilities	Public Utilities					
1	Increase the rate	13.2 cents	33.0 cents	0	0	0	0	0
2	Increase the rate	12.0 cents	30.0 cents	0	0	0	0	0
3	Maintain the rate	11.2 cents	28.0 cents	\$29.3	\$55.1	\$42.0	\$50.9	\$48.5

Options		Tax Rate per \$100 of Real Property		Annuity Fund Balance (\$ in millions)				
				2008	2009	2010	2011	2012
#		Other Than Public Utilities	Public Utilities					
1	Increase the rate	13.2 cents	33.0 cents	\$83.2	\$148.2	\$237.3	\$324.6	\$422.1
2	Increase the rate	12.0 cents	30.0 cents	\$17.2	\$9.3	\$19.7	\$24.1	\$34.0
3	Maintain the rate	11.2 cents	28.0 cents	\$2.6	\$1.1	\$1.2	\$1.1	\$1.1

In Fiscal Year 2008, \$29,349,121 was appropriated from the general fund to support debt service with the assumption that the current tax rate of 11.2 cents per \$100 would not change. This general fund appropriation shall be reduced in its entirety in the event that the Board of Public Works approves a rate for the State Property Tax for fiscal 2008 that is sufficient to pay debt service without the general fund appropriation.

Recommendation

The Commission on State Debt recommends to the Board of Public Works that the State property tax rate be 11.2 cents per \$100 on real property and 28 cents on operating real property of public utilities for fiscal year 2008.

SCHEDULE A
PROJECTED GENERAL OBLIGATION BONDS OUTSTANDING
JUNE 30, 2007 AND JUNE 30, 2008

	Bonds Outstanding
Bonds Outstanding - June 30, 2006	\$ 4,868,471,000
Issued Fiscal Year 2007 (A)	679,378,000
Redeemed Fiscal Year 2007	(405,695,000)
Bonds Outstanding - June 30, 2007	5,142,154,000
Issued Fiscal Year 2008 (B)	704,986,000
Redeemed Fiscal Year 2008	(428,310,000)
Bonds Outstanding - June 30, 2008	\$ 5,418,830,000

(A) Bonds Issued:

August-06	-	\$350,000,000	
December-06	-	\$4,378,000	QZAB
March-07	-	\$325,000,000	

(B) Projected Bond Issuances:

August-07	-	\$350,000,000	
November-07	-	\$4,986,000	QZAB
March-08	-	\$350,000,000	

SCHEDULE B
BONDS AUTHORIZED BUT UNISSUED
June 30, 2007

	Bonds Authorized but Unissued
Bonds Authorized but Unissued - June 30, 2006	\$ 1,774,484,133
Issued Fiscal Year 2007	(679,378,000)
Cancelled Fiscal Year 2007	(3,545,645) (A)
Net New Authorizations	810,000,000 (B)
Bonds Authorized but Unissued - June 30, 2007	\$ 1,901,560,488

(A) As of April 5, 2007

Authorizations have been cancelled as a result of the following:

Section 8-128 of the State Finance and Procurement Article	\$ (3,545,645)
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(B) MCCBL of 2007

New General Obligation Bond Authorizations	\$ 829,799,000
De-authorizations of prior authorizations	\$ (19,799,000)
	\$ 810,000,000

SCHEDULE C - Effect of Tax Rates on Annuity Bond Fund

	2007 (A)	2008	2009	2010	2011	2012	5 YEAR SUMMARY
		OPTION 1: INCREASE THE RATE TO \$.132 per \$100 of ASSESSED VALUATION (B)					
Beginning Balance	\$ 102,578,785	\$ 8,144,921	\$ 83,240,130	\$ 148,244,981	\$ 237,257,475	\$ 324,622,732	\$ 8,144,921
Total Property Tax Collections	\$ 552,145,595	\$ 729,377,380	\$ 805,568,274	\$ 866,319,014	\$ 914,579,886	\$ 965,013,313	\$ 4,280,857,867
General Fund Appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Sale Premium	\$ 3,080,038	\$ 35,298,379	\$ -	\$ -	\$ -	\$ -	\$ 35,298,379
Other Cash Receipts	\$ 4,395,103	\$ 3,114,298	\$ 2,933,656	\$ 2,364,398	\$ 2,350,295	\$ 2,201,515	\$ 12,964,161
Debt Service	\$ (654,054,600)	\$ (692,694,848)	\$ (743,497,079)	\$ (779,670,918)	\$ (829,564,924)	\$ (869,721,566)	\$ (3,915,149,334)
Ending Balance	\$ 8,144,921	\$ 83,240,130	\$ 148,244,981	\$ 237,257,475	\$ 324,622,732	\$ 422,115,994	\$ 422,115,994

	2007 (A)	2008	2009	2010	2011	2012	5 YEAR SUMMARY
		OPTION 2: INCREASE THE RATE TO \$.12 per \$100 of ASSESSED VALUATION (C)					
Beginning Balance	\$ 102,578,785	\$ 8,144,921	\$ 17,245,853	\$ 9,267,430	\$ 19,723,815	\$ 24,105,578	\$ 8,144,921
Total Property Tax Collections	\$ 552,145,595	\$ 663,383,103	\$ 732,585,000	\$ 787,762,905	\$ 831,596,392	\$ 877,412,935	\$ 3,892,740,335
General Fund Appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond Sale Premium	\$ 3,080,038	\$ 35,298,379	\$ -	\$ -	\$ -	\$ -	\$ 35,298,379
Other Cash Receipts	\$ 4,395,103	\$ 3,114,298	\$ 2,933,656	\$ 2,364,398	\$ 2,350,295	\$ 2,201,515	\$ 12,964,161
Debt Service	\$ (654,054,600)	\$ (692,694,848)	\$ (743,497,079)	\$ (779,670,918)	\$ (829,564,924)	\$ (869,721,566)	\$ (3,915,149,334)
Ending Balance	\$ 8,144,921	\$ 17,245,853	\$ 9,267,430	\$ 19,723,815	\$ 24,105,578	\$ 33,998,462	\$ 33,998,462

	2007 (A)	2008	2009	2010	2011	2012	5 YEAR SUMMARY
		OPTION 3: MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)					
Beginning Balance	\$ 102,578,785	\$ 8,144,921	\$ 2,598,788	\$ 1,064,849	\$ 1,150,494	\$ 1,109,927	\$ 8,144,921
Total Property Tax Collections	\$ 552,145,595	\$ 619,386,917	\$ 683,929,484	\$ 735,392,165	\$ 776,274,062	\$ 819,012,683	\$ 3,633,995,311
General Fund Appropriation	\$ -	\$ 29,349,121	\$ 55,100,000	\$ 42,000,000	\$ 50,900,000	\$ 48,500,000	\$ 225,849,121
Bond Sale Premium	\$ 3,080,038	\$ 35,298,379	\$ -	\$ -	\$ -	\$ -	\$ 35,298,379
Other Cash Receipts	\$ 4,395,103	\$ 3,114,298	\$ 2,933,656	\$ 2,364,398	\$ 2,350,295	\$ 2,201,515	\$ 12,964,161
Debt Service	\$ (654,054,600)	\$ (692,694,848)	\$ (743,497,079)	\$ (779,670,918)	\$ (829,564,924)	\$ (869,721,566)	\$ (3,915,149,334)
Ending Balance	\$ 8,144,921	\$ 2,598,788	\$ 1,064,849	\$ 1,150,494	\$ 1,109,927	\$ 1,102,559	\$ 1,102,559

(A) Rate is 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 is the rate for Fiscal Year 2007.

(B) Rate is 13.2 cents (\$0.132) per \$100 of assessed value of real property other than that of public utilities and 33 cents (\$0.33) per \$100 of assessed value of real property of public utilities. This was the rate for Fiscal Years 2004, 2005 and 2006.

(C) Rate is 12.0 cents (\$0.120) per \$100 of assessed value of real property other than that of public utilities and 30 cents (\$0.30) per \$100 of assessed value of real property of public utilities.