
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 16, 2012***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

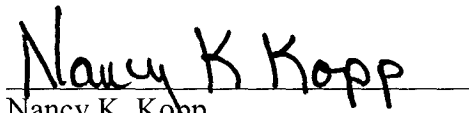
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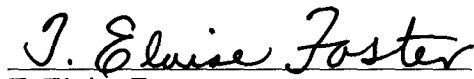
April 16, 2012

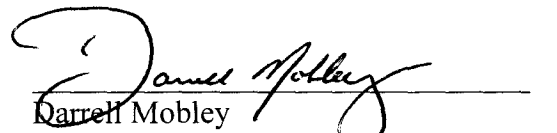
TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

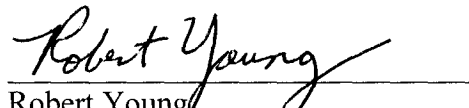
In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2013 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities.

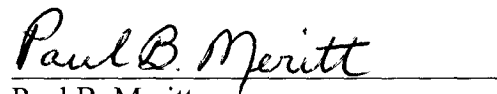

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State Treasurer, Chairman


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Comptroller of the Treasury


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Secretary, Department of
Budget and Management


Darrell Mobley
Deputy Secretary, Department of
Transportation, on behalf of
Beverley Swaim-Staley
Secretary, Department of Transportation


Robert Young
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.

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Chairman, Capital Budget Subcommittee
Senate Committee on Budget and Taxation

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

2012 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;

- (5) Beginning in fiscal year 2010 through fiscal year 2012, the State issued approximately \$655 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 2012 and 2013 is shown on Schedule A (page 7). General obligation bonds outstanding are projected to total \$7,541.1 million at June 30, 2012. The State issued \$1,505.7 million in general obligation bonds in fiscal year 2012, including \$15.9 million in Qualified Zone Academy Bonds. Of that amount, \$1,096.5 million financed capital projects and \$393.3 million refunded higher rate bonds. The refunding bonds saved taxpayers \$10.2 million in interest costs. In fiscal year 2012, General obligation bonds redeemed and refunded totaled \$947.4 million.

General obligation bonds outstanding are projected to total \$8,017.7 million at June 30, 2013. In fiscal year 2013, general obligation bond issuances are expected to total \$1,040.3 million, including \$15.3 in Qualified Zone Academy Bonds. General obligation bond redemptions are estimated to total \$564.3 million in fiscal year 2013.

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, 2012. General obligation bonds authorized but unissued are projected to total \$2,315.3 million at June 30, 2012. This amount includes \$1,075.0 million in net new authorizations approved during the 2012 session of the General Assembly and effective on June 1, 2012 to support the fiscal year 2013 capital budget. This authorization level equals the amount recommended by the Capital Debt Affordability Committee in December, 2011.

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 2013 – 2017. In fiscal year 2013, no appropriations from the general fund are necessary to support debt service assuming that the Board of Public Works maintains the current tax rate. Looking beyond the projections for fiscal year 2013, however, the gap between revenues and debt service expands to amounts that bond premiums are unlikely to fill. Current projections, assuming current property tax levels continue, as detailed on

Schedule C, show shortfalls of \$246 million, \$311 million, \$395 million and \$440 million in fiscal years 2014, 2015, 2016 and 2017 respectively. These projections do not include bond premiums beyond fiscal year 2013 because they are volatile and difficult to predict. However, the total premium received has averaged \$75.7 million over the past five fiscal years; 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 – 2012.

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. Since 2003, there has been one appropriation for \$29.3 million in fiscal year 2008. 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 2012, 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.

Schedule D on page 10 provides the general fund appropriations to the Annuity Bond Fund for fiscal years 2001 – 2012.

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 2013.

SCHEDULE A
PROJECTED GENERAL OBLIGATION BONDS OUTSTANDING
JUNE 30, 2012 AND JUNE 30, 2013

	<u>Bonds Outstanding</u>
Bonds Outstanding - June 30, 2011	\$ 6,982,845,967
Issued Fiscal Year 2012 (A)	1,505,695,000
Redeemed Fiscal Year 2012	(542,179,450)
Refunded Fiscal Year 2012	(405,260,000)
 Bonds Outstanding - June 30, 2012	 7,541,101,517
Projected Issuance FY 2013 (B)	1,040,324,000
Redeemed Fiscal Year 2013	(564,299,450)
 Bonds Outstanding - June 30, 2013	 <u>\$ 8,017,126,067</u>

(A) Bonds Issued in Fiscal Year 2012:

August-11	-	\$512,400,000	2011 Second Series (includes \$15.9 million in QZABs)
September-11		\$254,915,000	2011 Second Series - Refunding
March-12	-	\$600,000,000	2012 First Series
March-12	-	\$138,380,000	2012 First Series - Refunding
		<u>\$1,505,695,000</u>	

(B) Projected Bond Issuances in Fiscal Year 2013:

August-12	-	\$540,324,000	2012 Second Series (includes \$15.3 million in QZABs)
March-12	-	\$500,000,000	2013 First Series
		<u>\$1,040,324,000</u>	

**SCHEDULE B
BONDS AUTHORIZED BUT UNISSUED
JUNE 30, 2012 – PROJECTED**

	Bonds Authorized but Unissued
Bonds Authorized but Unissued - 6/30/11	\$ 2,357,041,130
Issued Fiscal Year 2012 (net of refunding bonds)	(1,112,400,000)
Cancelled Fiscal Year 2012 (through 3/31/12)	(4,384,083) (A)
Net New Authorizations Effective June 1, 2012	<u>1,075,000,000 (B)</u>
 Bonds Authorized but Unissued - Projected 6/30/12	 <u>\$ 2,315,257,047</u>

(A) As of March 31, 2012

Authorizations have been cancelled as a result of the following:
Section 8-128 of the State Finance and Procurement Article

(B) MCCBL of 2012

New General Obligation Bond Authorizations	\$ 1,119,424,000
De-authorizations of prior authorizations	\$ (44,424,000)
	<u>\$ 1,075,000,000</u>

SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

	2011	2012	2013	2014	2015	2016	2017
	Actual	Appropriation	MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)				
Beginning Balance	\$ 105,315,371	\$ 162,135,720	\$ 182,543,914	\$ 4,950,870	\$ 4,038,324	\$ 1,661,534	\$ 2,742,450
Total Property Tax Collections (B)	\$ 798,289,740	\$ 752,854,649	\$ 728,466,395	\$ 726,149,082	\$ 720,080,702	\$ 727,650,756	\$ 735,156,072
General Fund Appropriation	\$ -	\$ -	\$ -	\$ 246,000,000	\$ 311,000,000	\$ 395,000,000	\$ 440,000,000
Bond Sale Premium (C)	\$ 78,790,914	\$ 129,719,176	(C)	(C)	(C)	(C)	(C)
Federal Subsidy for ARRA Bonds (D)	\$ 9,202,077	\$ 11,497,620	\$ 11,954,642	\$ 11,954,642	\$ 11,954,642	\$ 11,954,642	\$ 11,954,642
Transfer Tax (E)	\$ 1,208,828	\$ 1,560,741	\$ 1,560,741	\$ 6,109,186	\$ 6,270,207	\$ 6,422,430	\$ 6,575,484
Other Cash Receipts (F)	\$ 4,161,307	\$ 2,984,297	\$ 2,894,605	\$ 2,708,579	\$ 2,700,000	\$ 2,700,000	\$ 2,700,000
Debt Service (G)	\$ (834,832,518)	\$ (878,208,289)	\$ (922,469,428)	\$ (993,834,036)	\$ (1,054,382,342)	\$ (1,142,646,912)	\$ (1,194,237,867)
Ending Balance	\$ 162,135,720	\$ 182,543,914	\$ 4,950,870	\$ 4,038,324	\$ 1,661,534	\$ 2,742,450	\$ 4,890,782

THESE ARE PROJECTIONS AS OF APRIL 16, 2012. ALL ESTIMATES FROM 2011 THROUGH 2017 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 (\$.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$.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 3/31/12. A FY 2010 Receivable in the amount of \$16.0 million was collected in FY 2011. If the tax had been collected in FY 2010, the 2010 collections would have increased to \$758.9 million and 2011 collections would have decreased to \$782.3 million.

(C) Bond premiums can be very volatile and therefore are only projected through the current fiscal year. Over the past five fiscal years, the total premium received has averaged \$75.7 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 2012 1st and is based on authorizations projected in the CDAC December 2011 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.