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***STATE OF MARYLAND***

***COMMISSION  
ON  
STATE DEBT***

***Report to the Board of Public Works  
April 16, 2018***

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**State of Maryland  
Commission on State Debt**

**Report to the  
Board of Public Works**

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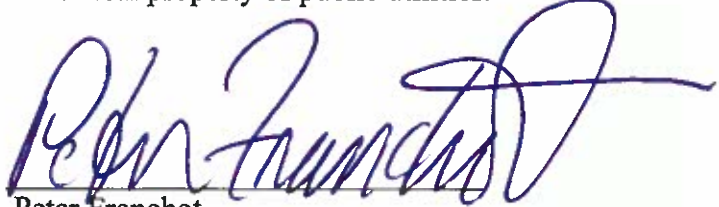
April 16, 2018

TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

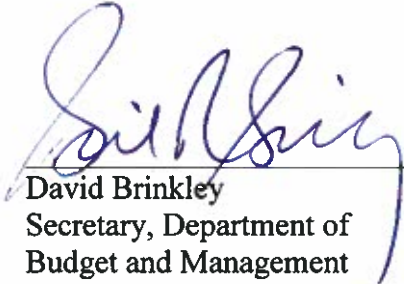
In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2019 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per \$100 of assessed value of real property of public utilities.



Nancy K. Kopp  
State Treasurer, Chairman



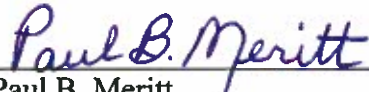
Peter Franchot  
Comptroller of the Treasury



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, Sr.  
Chairman, Capital Budget Subcommittee  
Senate Committee on Budget and Taxation

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

## **2018 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 2018, and an appropriation is also included in fiscal year 2019.

- (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 2018 and 2019 is shown on Schedule A (page 7). General obligation bonds outstanding are projected to total \$9,479.4 million at June 30, 2018. The State issued \$1,865.2 million in general obligation bonds in fiscal year 2018, including \$4.8 million in Qualified Zone Academy Bonds. The State also issued refunding bonds in fiscal year 2018, which will save Maryland taxpayers \$85.7 million in interest costs. In fiscal year 2018, general obligation bonds redeemed and refunded totaled \$1,720.0 million.

General obligation bonds outstanding are projected to total \$9,621.9 million at June 30, 2019. In fiscal year 2019, general obligation bond issuances are expected to total \$1,015.0 million. General obligation bond redemptions are estimated to total \$872.5 million in fiscal year 2019.

### **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, 2018. General obligation bonds authorized but unissued are projected to total \$2,397.1 million at June 30, 2018. This amount includes \$1,075.0 million in net new authorizations approved during the 2018 session of the Maryland General Assembly and effective on June 1, 2018 to support the fiscal year 2019 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 2017 – 2023. In fiscal year 2019, \$289.0 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 general funds totaling \$446.8 million, \$453.6 million, \$483.4 million, and \$502.4 million will be required in fiscal years 2020, 2021, 2022 and 2023 respectively. These projections include a bond premium

totaling \$152.1 million in fiscal year 2018 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 21.0 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 2004 – 2019 and the recommended rate for fiscal year 2019.

### ***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 2019, \$289.0 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 2004 – 2019.

## **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 2019.

**SCHEDULE A**  
**PROJECTED GENERAL OBLIGATION BONDS**  
**OUTSTANDING**  
**JUNE 30, 2018 AND JUNE 30, 2019**

	<b>Bonds Outstanding</b>
<b>Bonds Outstanding - June 30, 2017</b>	<b>9,334,205,458</b>
Issued Fiscal Year 2018 <sup>(A)</sup>	1,865,163,000
Redeemed Fiscal Year 2018	(835,446,383)
Refunded Fiscal Year 2018	(884,515,000)
 <b>Bonds Outstanding - June 30, 2018</b>	 <b>9,479,407,075</b>
Projected Issuance Fiscal Year 2019 <sup>(B)</sup>	1,015,000,000
Redeemed Fiscal Year 2019	(872,497,917)
 <b>Bonds Outstanding - June 30, 2019</b>	 <b><u><u>\$ 9,621,909,158</u></u></b>

(A) Bonds Issued in Fiscal Year 2018:

December-17	\$4,823,000	2017 QZAB
August-17 -	\$1,335,340,000	2017 Second Series (includes refunding bonds)
March-18 -	\$525,000,000	2018 First Series
	<u>\$1,865,163,000</u>	

(B) Projected Bond Issuances in Fiscal Year 2019:

August-18	\$510,000,000	2018 Second Series
March-19 -	\$505,000,000	2019 First Series
	<u>\$1,015,000,000</u>	



**SCHEDULE B**  
**GENERAL OBLIGATION BONDS AUTHORIZED**  
**BUT UNISSUED <sup>(A)</sup>**  
**JUNE 30, 2018 – PROJECTED**

	<b>Bonds Authorized but Unissued</b>
<b>Bonds Authorized but Unissued - 6/30/17</b>	<b>\$ 2,404,264,971</b>
Issued Fiscal Year 2018 (net of refunding bonds)	(1,079,823,000)
Cancelled Fiscal Year 2018 (through 3/31/18) <sup>(B)</sup>	(2,300,382)
Net New Authorizations Effective June 1, 2018 <sup>(C)</sup>	1,075,000,000
 <b>Bonds Authorized but Unissued - Projected 6/30/18</b>	 <b>\$ 2,397,141,588</b>

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

(B) As of March 31, 2018  
 Authorizations have been cancelled as a result of the following:  
 Section 8-128 of the State Finance and Procurement Article

(C) MCCBL of 2018	
New General Obligation Bond Authorizations	\$ 1,091,179,000
De-authorizations of prior authorizations	\$ (16,179,000)
	\$ 1,075,000,000

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

		2017		2018		2019		2020		2021		2022		2023
		Actual		Estimated		MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)								
<b>Beginning Balance</b>		202,277,727	\$	162,100,472	\$	162,244,891	\$	5,188,932	\$	2,000,000	\$	2,000,000	\$	2,000,000
Total Property Tax Collections	(B)	773,128,146		801,890,640		832,694,096		862,879,509		880,982,063		899,193,178		917,591,074
General Fund Appropriation		259,395,129		259,648,777		289,000,000		446,770,266		453,636,916		483,442,370		502,433,602
Bond Sale Premium	(C)	91,198,422		152,148,302		-		-		-		-		-
Federal Subsidy for ARRA Bonds	(D)	11,539,092		11,539,092		10,855,004		9,854,036		9,374,056		8,323,692		5,142,776
Transfer Tax	(E)	6,575,484		6,735,201		7,059,179		6,851,001		6,884,147		6,916,673		6,916,674
Other Cash Receipts	(F)	8,714,174		3,105,783		3,105,783		3,105,783		3,105,783		3,105,783		3,105,783
Debt Service	(G)	(1,190,727,702)		(1,234,923,376)		(1,299,770,021)		(1,332,649,527)		(1,353,982,964)		(1,400,981,696)		(1,435,189,909)
<b>Ending Balance</b>		<b>\$ 162,100,472</b>	<b>\$</b>	<b>162,244,891</b>	<b>\$</b>	<b>5,188,932</b>	<b>\$</b>	<b>2,000,000</b>	<b>\$</b>	<b>2,000,000</b>	<b>\$</b>	<b>2,000,000</b>	<b>\$</b>	<b>2,000,000</b>

**THESE ARE PROJECTIONS AS OF APRIL 16, 2018. ALL ESTIMATES FROM 2018 THROUGH 2023 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 2018 - 2019, property tax collections are calculated from estimates of assessable base provided by SDAT on 3/31/2018. For fiscal years 2020 - 2023, a conservative estimate of 2.0% annual growth in collections is assumed.
- (C) Bond premiums can be 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 2019 and authorizations projected in the 2017 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>
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
2019	* 11.2 cents	28.0 cents	2019	\$289,000,000

\*\*FY 2019 reflects the rates as recommended by the Commission on State Debt to the Board of Public Works.