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***STATE OF MARYLAND***

***COMMISSION  
ON  
STATE DEBT***

***Report to the Board of Public Works  
April 15, 2010***

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Commission on State Debt**

**Report to the  
Board of Public Works**

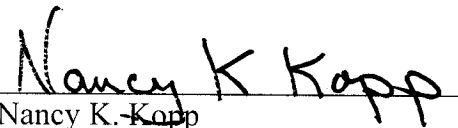
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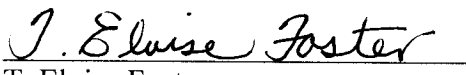
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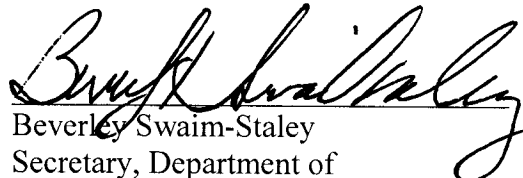
TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:


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 2011 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  
Budget and Management

  
Beverley Swaim-Staley  
Secretary, Department of  
Transportation

  
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 Taxation

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

## **2010 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

Beside the State property tax, several additional sources provide funds for general obligation debt service.

- (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, the State issued taxable general obligation Build America Bonds and projects an interest subsidy from the US Treasury that begins in Fiscal Year 2010 and extends for the life of the bonds.

### General Obligation Bonds Outstanding and Authorized

Schedule A (page 7) projects the amounts of general obligation bonds issued, redeemed, and outstanding for fiscal years 2010 and 2011. Sales of general obligation bonds in fiscal year 2010 totaled \$1,135,320,000 to finance capital projects and \$798,080,000 to refund prior series of bonds. The State expects to issue \$970,000,000 to finance capital projects in fiscal year 2011. In addition, the State issued Qualified Zone Academy Bonds (QZAB) in the amount of \$5,563,000 in Fiscal Year 2010 and expects to issue an additional \$4,543,000 in Fiscal Year 2011.

Schedule B (page 8) arrays total unissued authorizations of general obligation bonds at June 30, 2010. In December 2009, the Capital Debt Affordability Committee recommended an authorization of \$1,140 million of general obligation bonds to support the Fiscal Year 2011 Capital Budget. The 2010 General Assembly approved general obligation bond authorizations effective June 1, 2010 in the net amount of \$1,140 million, including \$2 million authorized by separate legislation for the Tobacco Transition Program.

### 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 40% of full cash value. In fiscal year 2002, when real property began to

be assessed at 100% of full cash value, the rate was 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. Since fiscal year 2007, the rate has been maintained at 11.2 cents per \$100 of assessed valuation. Refer to Chart 1 on page 10 for the tax rate history for fiscal years 2001-2010.

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

In fiscal years 2001-2003 almost \$300 million was appropriated to the Annuity Bond Fund. Between fiscal years 2004 and 2010, there has been one appropriation for approximately \$29.3 million in fiscal year 2008. Refer to Chart 2 on page 11 for the general fund appropriations to the Annuity Bond Fund for fiscal years 2001-2010.

#### 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 2011 - 2015. In Fiscal Year 2011, no appropriations from the general fund are necessary to support debt service assuming that the Board of Public Works maintains the current tax rate.

#### 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 cents per \$100 of assessed value on operating real property of public utilities for fiscal year 2011.

**SCHEDULE A**  
**PROJECTED GENERAL OBLIGATION BONDS OUTSTANDING**  
**JUNE 30, 2010 AND JUNE 30, 2011**

	<b>Bonds Outstanding</b>
<b>Bonds Outstanding - June 30, 2009</b>	<b>\$ 5,873,643,000</b>
Issued Fiscal Year 2010 (A)	1,938,963,000
Redeemed Fiscal Year 2010	(482,753,583)
Refunded Bonds Defeased	(806,630,000)
 <b>Bonds Outstanding - June 30, 2010</b>	 <b>6,523,222,417</b>
Projected Issuance FY 2011 (B)	974,543,000
Redeemed Fiscal Year 2011	(515,094,450)
 <b>Bonds Outstanding - June 30, 2011</b>	 <b><u><u>\$ 6,982,670,967</u></u></b>

(A) Bonds Issued:

August-09	-	\$485,000,000	
October-09	-	\$200,000,000	
December-09	-	\$5,563,000	QZAB
December-09	-	\$50,320,000	QSCB
December-09	-	\$602,765,000	Refunding Bonds
February-10	-	\$400,000,000	
February-10	-	\$195,315,000	Refunding Bonds

(B) Projected Bond Issuances:

July-10	-	\$450,000,000	
July-10	-	\$4,543,000	QZAB
July-10	-	\$45,224,000	QSCB
March-11	-	\$474,776,000	



**SCHEDULE B**  
**BONDS AUTHORIZED BUT UNISSUED**  
**June 30, 2010**

	<b>Bonds Authorized but Unissued</b>
<b>Bonds Authorized but Unissued - 6/30/09</b>	<b>\$ 2,328,350,509</b> (C)
Issued Fiscal Year 2010	(1,140,883,000)
Cancelled Fiscal Year 2010 (through 3/31/10)	(3,928,711) (A)
Net New Authorizations effective June 1, 2010	1,140,000,000 (B)
 <b>Bonds Authorized but Unissued - Projected 6/30/10</b>	 <b>\$ 2,323,538,798</b> (C)

(A) As of March 31, 2010

Authorizations have been cancelled as a result of the following:

Section 8-128 of the State Finance and Procurement Article	\$	(3,928,711)
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(B) MCCBL of 2010

New General Obligation Bond Authorizations	\$	1,179,725,441
De-authorizations of prior authorizations	\$	(39,725,441)
		1,140,000,000

(C) This does not include the \$70,000,000 authorized in HB 1447 for the Program Open Space Acquisition Opportunity Loan of 2009.

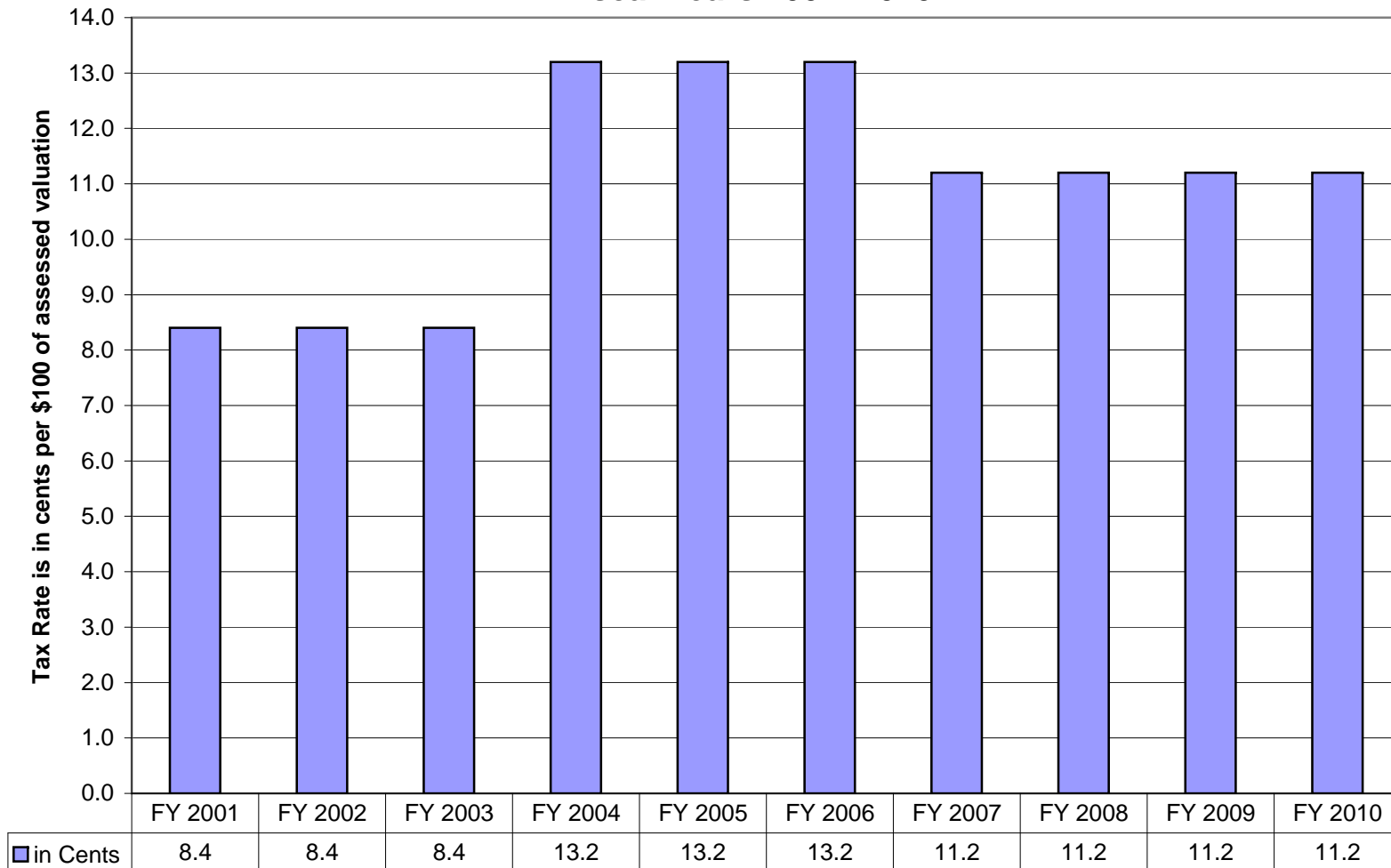
## SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

	2009	2010	2011	2012	2013	2014	2015	2011-2015 5 YEAR SUMMARY
	Actual	Appropriation	MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)					
<b>Beginning Balance</b>	\$ 38,332,781	\$ 71,276,653	\$ 122,188,340	\$ 86,075,351	\$ 955,696	\$ 1,775,066	\$ 1,620,358	\$ 122,188,340
Total Property Tax Collections (B)	\$ 698,569,058	\$ 762,397,734	\$ 790,430,143	\$ 774,897,439	\$ 795,498,419	\$ 801,444,125	\$ 801,795,703	\$ 3,964,065,829
General Fund Appropriation	\$ -	\$ -	\$ -	\$ 20,000,000	\$ 130,000,000	\$ 162,000,000	\$ 214,000,000	\$ 526,000,000
Bond Sale Premium (C)	\$ 74,130,431	\$ 62,738,177	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Subsidy for BABs	\$ -	\$ 857,078	\$ 7,639,618	\$ 7,773,749	\$ 7,773,749	\$ 7,773,749	\$ 7,773,749	\$ 38,734,612
Other Cash Receipts (D)	\$ 5,043,874	\$ 2,441,653	\$ 2,375,893	\$ 2,227,114	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000	\$ 11,203,007
Debt Service (E)	\$ (744,799,491)	\$ (777,522,956)	\$ (836,558,644)	\$ (890,017,957)	\$ (934,652,797)	\$ (973,572,582)	\$ (1,026,022,252)	\$ (4,660,824,232)
<b>Ending Balance</b>	<b>\$ 71,276,653</b>	<b>\$ 122,188,340</b>	<b>\$ 86,075,351</b>	<b>\$ 955,696</b>	<b>\$ 1,775,066</b>	<b>\$ 1,620,358</b>	<b>\$ 1,367,557</b>	<b>\$ 1,367,557</b>

**THESE ARE PROJECTIONS AS OF APRIL 15, 2010. ALL ESTIMATES FROM 2010 THROUGH 2015 CAN AND WILL CHANGE. THE PROJECTIONS ARE DEPENDENT ON PROPERTY VALUES, BOND PREMIUM AND INTEREST RATES.**

- (A) Rate is 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 also been the rate for Fiscal Years 2009 and 2010.
- (B) Property Tax Collections are calculated from estimates of assessable base provided by DAT on 4/1/10.
- (C) Bond premiums can be volatile and are only projected through the current fiscal year.
- (D) Other cash receipts include interest and penalties on property taxes, loan repayments and miscellaneous receipts.
- (E) Debt service is calculated after the issuance of Series 2010 1st and is based on authorizations reviewed by CDAC in December 2009.

**Chart 1**  
**Real Property (other than that of public utilities) Tax Rates**  
**Fiscal Years 2001- 2010**



In FY 2002, real property began to be assessed at 100% of full cash value, a change from 40%. For purposes of this chart, the tax rate in FY 2001 was adjusted from .21 cents to reflect this change.

**Chart 2**  
**General Fund Appropriations to the Annuity Bond Fund**  
**Fiscal Years 2001 - 2010**

