
STATE OF MARYLAND

***COMMISSION
ON
STATE DEBT***

***Report to the Board of Public Works
April 20, 2016***

**State of Maryland
Commission on State Debt**

**Report to the
Board of Public Works**

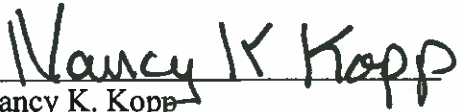
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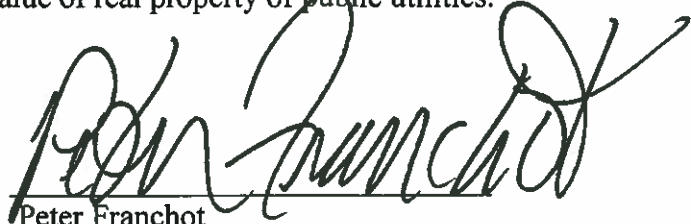
April 20, 2016

TO THE MEMBERS OF THE BOARD OF PUBLIC WORKS:

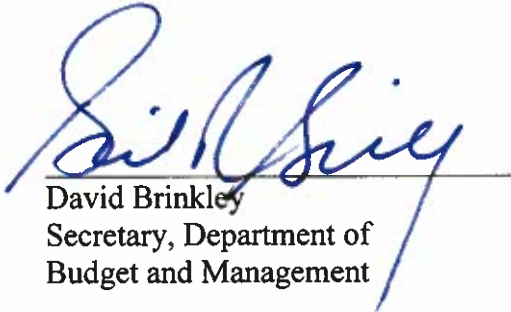
In accordance with Executive Order 01.01.1980.06, the Commission on State Debt recommends to the Board of Public Works that the State property tax rate for fiscal year 2017 be 11.2 cents (\$0.112) per \$100 of assessed value of real property other than that of public utilities and 28 cents (\$0.28) per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

2016 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.

- (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 2016 and 2017 is shown on Schedule A (page 7). General obligation bonds outstanding are projected to total \$9,483.4 million at June 30, 2016. The State is projected to issue a total of \$1,540.6 million in general obligation bonds in fiscal year 2016, including \$4.6 million in Qualified Zone Academy Bonds. The State may also issue refunding bonds in fiscal year 2016, which will save Maryland taxpayers interest costs. In fiscal year 2016, general obligation bonds redeemed totaled \$734.5 million.

General obligation bonds outstanding are projected to total \$9,270.1 million at June 30, 2017. In fiscal year 2017, general obligation bond issuances are expected to total \$572.5 million, including \$4.6 million in Qualified Zone Academy Bonds. General obligation bond redemptions are estimated to total \$785.8 million in fiscal year 2017.

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, 2016. General obligation bonds authorized but unissued are projected to total \$1,986.3 million at June 30, 2016. This amount includes \$995.0 million in net new authorizations approved during the 2016 session of the Maryland General Assembly and effective on June 1, 2016 to support the fiscal year 2017 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 2015 – 2021. In fiscal year 2017, \$283.0 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 shortfalls of \$356.0 million, \$489.0 million, \$509.0 million and \$521.0 million in fiscal years 2018, 2019, 2020, and 2021 respectively. These projections include a bond

premium totaling \$209.1 million in fiscal year 2016 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 2001 – 2016 and the recommended rate for fiscal year 2017.

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. In fiscal year 2008 general fund appropriations were once again necessary and \$29.3 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 2017, \$283.0 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 2001 – 2017.

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 2017.

SCHEDULE A
PROJECTED GENERAL OBLIGATION BONDS
OUTSTANDING
JUNE 30, 2016 AND JUNE 30, 2017

	Bonds Outstanding
Bonds Outstanding - June 30, 2015 ^(A)	8,677,213,900
Issued Fiscal Year 2016 ^(B)	1,540,625,000 ^(C)
Redeemed Fiscal Year 2016	(734,456,055)
Bonds Outstanding - June 30, 2016	9,483,382,845
Issued Fiscal Year 2017 ^(D)	572,525,000 ^(C)
Redeemed Fiscal Year 2017	(785,831,050)
Bonds Outstanding - June 30, 2017	\$ 9,270,076,796

(A) The State Treasurer's Office is working to determine the feasibility of including a refunding in the upcoming June 8, 2016 bond sale.

(B) Bonds Issued in Fiscal Year 2016:

July-15	-	\$500,000,000	2015 Second Series
December-15		\$4,625,000	2015 QZAB
June-16	-	<u>\$1,036,000,000</u>	2016 First Series (projected)
		<u>\$1,540,625,000</u>	

(C) The State is combining its two CY 2016 bond sales in order to save issuance costs. This means that a larger than usual amount will be issued in FY 2016 and a smaller than usual amount will be issued in FY 2017. The total amount of bonds projected to be issued over this period has not changed.

(D) Projected Bond Issuances in Fiscal Year 2017:

December-17		\$4,625,000	2016 QZAB
March-17	-	<u>\$567,900,000</u>	2017 First Series
		<u>\$572,525,000</u>	

**SCHEDULE B
GENERAL OBLIGATION BONDS AUTHORIZED
BUT UNISSUED
JUNE 30, 2016 – PROJECTED**

	Bonds Authorized but Unissued
Bonds Authorized but Unissued - 6/30/15	\$ 2,534,720,000
Issued Fiscal Year 2016 (net of refunding bonds)	(1,540,625,000) ^(A)
Cancelled Fiscal Year 2016 (through 3/31/16) ^(B)	(2,838,330)
Net New Authorizations Effective June 1, 2016 ^(C)	995,000,000
 Bonds Authorized but Unissued - Projected 6/30/16	 \$ 1,986,256,670

(A) The State is combining its two CY 2016 bond sales in order to save issuance costs. This means that a larger than usual amount will be issued in FY 2016 and a smaller than usual amount will be issued in FY 2017. The total amount of bonds projected to be issued over this period has not changed.

(B) As of March 31, 2016
Authorizations have been cancelled as a result of the following:
Section 8-128 of the State Finance and Procurement Article

(C) MCCBL of 2016	
New General Obligation Bond Authorizations (does not include QZABs)	\$ 1,005,072,199
De-authorizations of prior authorizations	\$ (10,072,199)
	\$ 995,000,000

SCHEDULE C - Effect of Tax Rate on Annuity Bond Fund

		2015		2016		2017		2018		2019		2020		2021
		Actual		Estimated		MAINTAIN THE RATE AT \$.112 per \$100 of ASSESSED VALUATION (A)								
Beginning Balance		127,728,610	\$	86,803,778	\$	198,830,950	\$	82,524,680	\$	2,127,403	\$	2,970,704	\$	2,727,276
Total Property Tax Collections	(B)	730,693,837		750,504,464		779,864,185		799,237,973		807,430,771		815,636,946		823,879,071
General Fund Appropriation		140,000,000		252,400,000		283,000,000		356,000,000		489,000,000		509,000,000		521,000,000
Bond Sale Premium	(C)	94,573,207		209,089,930	\$	-	\$	-	\$	-	\$	-	\$	-
Federal Subsidy for ARRA Bonds	(D)	11,482,869		11,511,064		11,539,169		11,539,169		11,539,169		10,854,801		10,133,798
Transfer Tax	(E)	6,270,207		6,422,430		6,575,484		6,735,201		7,059,179		6,851,001		6,884,147
Other Cash Receipts	(F)	3,145,662		3,093,275		3,105,783		3,105,783		3,105,783		3,105,783		3,105,783
Debt Service	(G)	(1,027,090,614)		(1,120,993,991)		(1,200,390,890)		(1,257,015,403)		(1,317,291,601)		(1,345,691,960)		(1,364,739,997)
Ending Balance		\$ 86,803,778	\$	198,830,950	\$	82,524,680	\$	2,127,403	\$	2,970,704	\$	2,727,276	\$	2,990,077

THESE ARE PROJECTIONS AS OF APRIL 20, 2016. ALL ESTIMATES FROM 2016 THROUGH 2021 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 3/31/2016. For fiscal years 2019 - 2021, a conservative estimate of 1% annual growth in collections is assumed.
- (C) Fiscal year 2016 includes \$166,642,728 projected to be earned in the June 2016 bond sale. Bond premiums can be very volatile and therefore are not projected in the out years.
- (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 2016 and authorizations projected in the 2015 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
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	-
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	\$283,000,000

* 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.

**FY 2017 reflects the rates as recommended by the Commission on State Debt to the Board of Public Works.