

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE
Revised

Senate Bill 551 (Senator Ruben)
Budget and Taxation and Finance

Referred to Appropriations

Economic Development - Montgomery County Conference Center

This amended bill provides a financing mechanism for the Montgomery County Conference Center. The Maryland Stadium Authority (MSA) is authorized to issue up to \$17.6 million in bonds for the purposes of the convention center.

The bill is effective June 1, 1996.

Fiscal Summary

State Effect: MSA is authorized to issue up to \$17.6 million in bonds; total interest and principal payments over 20 years are expected to total \$32.8 million. Yearly debt service payments would total approximately \$1.64 million. Additional State expenditures could result if there are any construction cost overruns. Potential indeterminate increase in tax revenues.

Local Effect: Montgomery County would issue \$10.2 million in bonds for construction costs and incur \$300,000 in bond administration fees; total interest and principal payments over 20 years are expected to total \$19.6 million. Yearly debt service payments would total approximately \$979,500. Expenditures for land acquisition will total \$7.5 million; \$3 million of this will be recouped through anticipated lease payments. The operating deficit for the first year of operations is anticipated at \$281,000; in subsequent years, a net profit of approximately \$475,000 is projected. Potential indeterminate increase in tax revenues.

Fiscal Analysis

Bill Summary: The Maryland Stadium Authority (MSA) must enter into leases and other agreements with Montgomery County regarding the Montgomery County Conference Center wherein:

- Montgomery County agrees to contribute \$10.2 million for the capital construction costs;
- MSA agrees to issue bonds and contribute \$17.3 million of the proceeds for capital construction costs;
- If the construction costs exceed or fall short of \$27.5 million, the savings or additional costs will be allocated 50/50 to MSA and the county;
- Montgomery County agrees to purchase the land for the conference center site;
- MSA and the county each own a 50% leasehold interest as tenants in common in the facility for the life of the bonds issued by the authority;
- Montgomery County agrees to market, promote, and maintain the conference center facility;
- Montgomery County agrees to contribute to a capital improvement reserve fund and is solely responsible for all facility operating costs;
- Montgomery County may keep all operating profits resulting from the facility;
- MSA assumes operating costs in the event of a default by Montgomery County to be offset by any funds owed by MSA to the county;
- MSA selects a contractor(s) to design, construct, and operate the conference facility while MSA's bonds are outstanding;
- Both parties agree to the establishment of a Board of Directors to manage the facility; and
- A private developer agrees to provide a capital commitment for the costs of constructing and operating a hotel adjacent to the facility.

The Montgomery County Conference Center Financing Fund to be administered by MSA is created as a continuing, nonlapsing fund into which the authority's bond proceeds and any other revenues related to the project will be deposited. All expenses incurred by MSA related to the conference center, including debt service, are to be paid from this fund. MSA is required, in cooperation with the Office of the Comptroller and the Department of Budget and Fiscal Planning, to submit an annual report on the additional tax revenues generated by

the Montgomery County Conference Center. MSA may not expend any funds on this facility until Montgomery County certifies that all necessary local approvals for the Montgomery County share of the project have been obtained.

State Effect: MSA has been working with Montgomery County to plan for the construction of a conference center/hotel complex in Rockville. The project will cost a total of approximately \$60.9 million and will be funded by the State, Montgomery County, and private developers as reflected in **Exhibit 1**.

Exhibit 1

**Funding Sources for the Montgomery County Conference Center
(in millions)**

Costs	State	Local	Private	Total
Land	\$0.0	\$7.5	\$0.0	\$7.5
Construction	\$17.3	\$10.2	\$25.0	\$52.5
Bond Fees	\$0.3	\$0.3	\$0.0	\$0.6
Year 1 operating deficit	\$0.0	\$0.3	\$0.0	\$0.3
Total	\$17.6	\$18.3	\$25.0	\$60.9

Note: State construction costs include the equivalent of the first three years of county debt service; \$3 million of the county's land acquisition costs will be recouped through lease payments from the hotel

Under this legislation, State expenditures would total \$17.6 million in up-front costs. Of this, \$13.75 million represents 50% of the construction costs of the conference center, \$3.6 million is the equivalent of the first 36 months of debt service on the county's half of the construction costs, and \$300,000 would go towards bond administration fees. Over the 20 year term of the bond, assuming a 7% interest rate, total principal and interest payments are approximately \$32.8 million. Yearly debt service payments would total approximately \$1.64 million. The State is also responsible for 50% of any construction cost overruns; however, the likelihood and amount of any such overruns cannot be estimated at this time.

The State will receive no direct revenues from the conference center. However, to the extent that the conference center spurs economic and employment development, State tax revenues would increase.

Local Effect: Montgomery County will pay debt service on \$10.2 million in bonds issued for construction costs along with bond issuance costs of \$300,000. Over the 20 year term of the bond, assuming a 7% interest rate, total principal and interest payments are approximately \$19.6 million. Yearly debt service payments would total approximately \$979,500. In addition, the county will pay \$7.5 million for site acquisition costs. Of this, \$3 million is for acquisition of the hotel site; Montgomery County will then lease the land to Marriott for approximately \$275,000 per year which should cover the cost of the county's debt service on the purchase of the land. These costs would increase if the county issues bonds to pay for the site acquisition as well as construction.

The county must make contributions to the capital improvement reserve fund, and is responsible for the operation and maintenance of the center. The operating deficit anticipated for the first year of facility operations is \$281,000. In subsequent years, a net profit is projected of approximately \$475,000.

To the extent that the conference center attracts additional conferences to Montgomery County, the county would experience an increase in tax collections.

Information Source(s): Montgomery County, Maryland Stadium Authority, Department of Fiscal Services

Fiscal Note History: First Reader - March 7, 1996
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