

**Department of Legislative Services**  
Maryland General Assembly  
2001 Session

**FISCAL NOTE**  
**Revised**

Senate Bill 532 (Senator Miller, *et al.*) (Administration)

Budget and Taxation

Appropriations

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**Creation of State Debt - Southern Maryland Regional Strategy-Action Plan for  
Agriculture**

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This Administration bill authorizes \$5 million in general obligation bond issuance in each of fiscal 2003 through 2008 for a total authorization of \$30 million. The bonds are only to be issued each year if the funds provided by the Cigarette Restitution Fund are not sufficient to implement the Southern Maryland Regional Strategy-Action Plan for Agriculture. The proceeds of any bonds issued would be used as a grant to the Tri-County Council of Southern Maryland to assist in implementing the Southern Maryland Regional Strategy-Action Plan for Agriculture. The Maryland Department of Agriculture must repay the general fund within eight years of the final issuance for the principal and issuance costs of any debt issued.

The intent is that the \$5 million authorization is not to be included in the debt limit recommended by the Capital Debt Affordability Committee in each of the years, but the debt should not be issued if the issuance would increase the total outstanding State tax-supported debt above 3.2% of personal income.

The bill is effective June 1, 2001.

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**Fiscal Summary**

**State Effect:** Assuming a 5.5% interest rate, State debt service for each \$5 million issuance would be \$548,000 annually beginning in FY 2004 at the earliest.

**Local Effect:** None.

**Small Business Effect:** A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

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## Analysis

**Current Law:** No comparable provision.

**Background:** In November 1998, Maryland along with other states entered into the Master Settlement Agreement (MSA) with tobacco manufacturers, under the agreement the State will receive annual payments on April 15 of each year for perpetuity or until cigarettes are no longer shipped in the United States for consumption. Through fiscal 2003, the State will also receive an annual payment on January 11 of each year. Beginning in fiscal 2008, and through 2017, the State will receive strategic contribution payments. Currently the legal fees for the outside counsel are in dispute. Until the legal fees are resolved 25% of every payment is being held in escrow.

*Joint Chairmen's Report* language for the fiscal 2000 budget specifies that in future years (after fiscal 2001), 5% of the funds available to the Cigarette Restitution Fund are to be appropriated annually for implementation of the Southern Maryland Strategy-Action Plan for Agriculture. **Exhibit 1** shows, under the Administration's assumptions for the Cigarette Restitution Fund (CRF), 5% of the available payment for implementation of the Southern Maryland Regional Strategy-Action Plan for Agriculture. The Administration's assumptions include settlement of the legal fees at a 9% rate paid by the State in fiscal 2003, and annual declines in cigarette consumption of 2%. **Exhibit 1** also shows the 5% calculation if the legal fee issue is not resolved before the end of fiscal 2006.

### Exhibit 1 Funds for Implementation at 5% of Available MSA Payments (\$ in millions)

<u>Fiscal Year</u>	<u>Legal Fee Issue Resolved</u>	<u>Legal Fee Issue Unresolved</u>
2002	\$6.3	\$6.3
2003	11.5	6.3
2004	6.7	5.6
2005	6.8	5.6
2006	6.9	5.7

There have been 14 bond issues across the country backed by MSA payments. Most of the issuances have been by either individual local jurisdictions or pools of local

jurisdictions. In addition, a group of lawyers recently securitized a portion of their payment stream from the MSA. The bond issues have been rated from BBB to A. The annual securitized portion, the debt service, and the interest rate will depend upon the timing of the issuance in the market. The interest rate will also depend on the assessment of the risk by rating services. Normally, State-backed issues have the highest rating possible (AAA) and the lowest risk and interest rate (5.4% for the last issuance).

The Southern Maryland Regional Strategy-Action Plan currently has four basic components: buyout programs; infrastructure; agricultural land preservation; and administration. The current plan uses most of the funding for two buyout plans: (1) a ten-year plan at \$1.00 per pound; and (2) a transition plan at \$1.50 per pound for five years. However, the Tri-County Council can change the plan at any time. Contracts for a buyout plan of five or ten years are in place for approximately 4 million pounds of tobacco; farmers with an additional 3 million pounds have applied for the buyout program but do not have contracts.

**State Fiscal Effect:** Assuming a 5.5% interest rate, the State debt service for each \$5 million issuance is \$548,000 annually. Because of the repayment provision, the loss to the State for each \$5 million issuance is the interest, \$2.7 million. If all six issuances are done at a 5.5% interest rate, there would be a total interest cost of \$16.2 million.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1193 (The Speaker) – Appropriations.

**Information Source(s):** Department of Legislative Services

**Fiscal Note History:** First Reader – February 28, 2001  
ncs/cer Revised – Senate Third Reader – March 30, 2001  
Revised – Enrolled Bill – April 25, 2001

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