

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 360	(Delegate Elmore)
Appropriations	Budget and Taxation

Somerset County - Board of County Commissioners - General Bonding Authority

This bill authorizes the Somerset County Commissioners, without prior legislative approval, to borrow a maximum of \$10 million each fiscal year beginning with fiscal 2005. The bill provides that the funds must be borrowed against the full faith and credit of the county and that the funds must be used for the construction of roads and bridges; the construction and capital equipping of public buildings, public schools, and solid waste facilities; and the purchase of real property for public purposes. The board is authorized to borrow these funds from the issuance and sale of general obligation bonds or by loans from private lending institutions. The board is required to first hold a public hearing on the proposed use of the funds, provide adequate and advance public notice of the hearing, and pass a borrowing resolution by at least a four-fifths vote.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: None.

Local Effect: Somerset County could receive up to \$10 million in bond proceeds annually for capital projects. County debt service expenditures could increase by an estimated \$650,500 annually for each \$10 million borrowed.

Small Business Effect: Minimal.

Analysis

Current Law: Generally, commission counties must seek General Assembly approval to incur debt for capital projects. The Somerset County Commissioners do not have the authority to borrow funds, without legislative approval, against the full faith and credit of the county for capital projects.

However, two commission counties have general bonding authority similar to that provided to Somerset County by this bill: Carroll and Washington counties are authorized to borrow money against the credit of the county. Carroll County is authorized to borrow up to \$1.25 million from time to time without legislative approval. Washington County is authorized to borrow up to \$5 million each fiscal year without legislative approval.

Background: Somerset County advises that seeking authority from the General Assembly when borrowing for construction of public facilities does not allow for timely funding of public facilities projects in need of immediate attention or emergency situations.

Somerset County last sought and gained General Assembly approval for public facilities bonds with Chapter 45 of 1995 when \$5 million was authorized for the construction of a solid waste landfill as part of a rural development program with the U.S. Department of Agriculture.

Counties that operate under the commission form of government include Calvert, Carroll, Cecil, Frederick, Garrett, St. Mary's, Somerset, and Washington counties.

Local Fiscal Effect: Somerset County revenues could increase by up to \$10 million annually due to the bond proceeds. Annual debt service costs for the bonds would total approximately \$650,500. This estimate is based on a 5.0% annual interest rate and a 30-year term. At the end of fiscal 2003, Somerset County had approximately \$18.6 million in outstanding debt which represents approximately 2.4% of the county's assessable base. The statewide average is approximately 3.1%. The county currently does not have credit ratings from Standard and Poor's or Moody's Investors Service; credit rating agencies do not issue ratings for jurisdictions that borrow infrequently.

The county advises that it currently anticipates only borrowing \$2 million in fiscal 2005 under the bill's provisions. For illustrative purposes, \$2 million in general obligation bonds would increase annual debt service expenditures by \$130,100 annually. This estimate is based on a 5% annual interest rate and a 30-year term.

Additional Information

Prior Introductions: None.

Cross File: SB 259 (Senator Stoltzfus) – Budget and Taxation.

Information Source(s): Somerset County, Department of Legislative Services

Fiscal Note History: First Reader - February 13, 2004

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