

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 543
Appropriations

(Frederick County Delegation)

Frederick County - Borrowing Powers - Employee Health Care Benefits

This bill authorizes Frederick County Commissioners to use their borrowing powers to fund the costs of employee health care benefits, pursuant to a multiyear contract that terminates by June 30, 2015 and requires the county commissioners to make payments in two or more fiscal years.

The bill takes effect July 1, 2005.

Fiscal Summary

State Effect: None.

Local Effect: Frederick County revenues would increase by \$47.2 million due to bond proceeds. Annual debt service costs would total \$16.4 million over a three-year period.

Small Business Effect: None.

Analysis

Bill Summary: In addition to using borrowing powers to fund employee health benefits, the Frederick County Commissioners may: (1) borrow or pledge money from any source for any purpose relating to the provision of employee health care benefits; (2) pay interest as part of any payments in accordance with the terms of the contract; (3) enter into contracts or agreements of any kind and execute all instruments necessary and convenient to carry out the powers granted, including trust indentures, conditional funding agreements, or other payment agreements; and (4) contract with or engage the services of any person for any financing, including underwriters, placement agents, financial

institutions, issuers of letters of credit or insurers, issuers of certificates of participation, health insurers, or health care providers. The bill places limitations on when the commissioners may use borrowing powers to fund health benefits.

Background: Frederick County has explored the possibility of contracting for employee health care benefits over a three-year period to lock in lower premium rates. In calendar 2005, Frederick County is projected to spend \$13,892,043 to provide health care benefits to 2,023 employees and retirees. Over three years, employee health care benefits are expected to total \$47,238,281.

For local governments, long-term debt generally serves as a funding source for capital projects such as highways, schools, sewer and water facilities, and other urban development projects. Short-term debt usually serves as a cash management tool.

Local Fiscal Effect: Frederick County revenues would increase by \$47.2 million due to bond proceeds. Annual debt service costs for the bonds would total \$16.4 million over a three-year period. This estimate is based on a 2.6% interest rate and a three-year term of maturity. Total interest costs for issuing the bonds is approximately \$1.9 million as shown below.

| | |
|----------------------------|---------------------|
| Bond Principal Amount | \$47,238,300 |
| Total Interest Payments | <u>1,917,400</u> |
| Sum of All Payments | \$49,155,700 |

It is important to note that the debt service costs for the bond could erode potential savings achieved through a multiyear employee health care benefits contract. Since the county has not yet contracted for benefits on a multiyear basis, it is unknown how much savings could be achieved.

While Frederick County does not have a statutory debt limit, two common analytical measures of local debt capacity are debt as a percentage of assessable base and debt per capita. At the end of fiscal 2004 Frederick County had approximately \$280.7 million in general long-term debt. County debt as a percentage of assessable base is 1.9% and county debt per capita is approximately \$1,314. Frederick County currently has a bond rating of AA from Standard and Poor's, an Aa2 rating from Moody's Investors Service, and an AA+ rating from Fitch ratings.

Additional Information

Prior Introductions: Similar bills, SB 700/HB 874, were introduced at the 2004 session. SB 700 received a favorable with amendments report from the Senate Budget and Taxation Committee and was approved by the full Senate. The bill, however, received an unfavorable report by the House Appropriations Committee. HB 874 received an unfavorable report from the House Appropriations Committee.

Cross File: SB 358 (Senators Brinkley and Mooney) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 11, 2005
mp/hlb

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