Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 196 (Frederick County Delegation)
Appropriations Budget and Taxation

Frederick County - Public Facilities Bonds

This bill authorizes the Frederick County Commissioners to issue up to $120 million in general obligation bonds for the construction or reconstruction of capital projects, and for installment purchase agreements (IPAs) for the acquisition of easements on agricultural and forestry lands. The date of maturity of the bonds cannot exceed 30 years.

The bill takes effect June 1, 2007.

Fiscal Summary

State Effect: None.

Local Effect: Frederick County would receive up to $120.0 million in bond proceeds. County debt service expenditures could increase by an estimated $9.0 million annually over a 20-year period.

Small Business Effect: Potential minimal.

Analysis

Background: Chapter 208 of 2001 authorized Frederick County to issue up to $43 million in public facilities bonds. In addition, Chapters 37 of 2003 and 145 of 2005 authorized a bond issuance of up to $101 million and $66 million, respectively.

Based on the fiscal 2007-2012 approved Frederick County Capital Improvement Program, of the $120 million bond issuance authorization, $100 million would be used to fund various projects and $20 million would be used for IPAs. The $100 million used for capital improvement projects would go toward various projects throughout the county, including $26.1 million for fire stations, $20 million for a citizen care and rehabilitation center, and $15 million for communication system improvements.

Local governments have a variety of tools at their disposal to preserve agricultural and forestry land; among these are IPAs. An IPA allows a local government to acquire the easements (or similar rights) on agricultural or forestry land to restrict its use and development. An IPA is an innovative payment plan that allows jurisdictions to stretch available funds while offering benefits to landowners. It essentially is a contract between a purchaser and a seller to pay unpaid principal at settlement as a balloon payment at the end of the term of the agreement. During the period of the agreement, the purchaser pays the seller tax-exempt interest on the unpaid principal.

Local Fiscal Effect: Frederick County revenues could increase by up to $120 million due to bond proceeds. The county advises that it will likely issue the bonds over several years. Annual debt service costs for the bonds would total approximately $9.0 million for a $120 million bond issuance. This estimate is based on a 4.35% interest rate and a 20-year term of maturity.

While Frederick County does not have a statutory debt limit, two common analytical measures of local debt capacity are debt as a percent of assessable base and debt per capita. At the end of fiscal 2006, Frederick County had approximately $388.6 million in outstanding bonded debt. Total county bonded debt as a percent of assessable base is 2.0% and county debt per capita is around $1,761. As of November 2005, Frederick County had 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.

Small Business Effect: To the extent that capital improvements would make certain areas more attractive to customers, small business revenues could increase for businesses located in these areas. Additionally, since most farms are small businesses, the increased money for purchasing easements through IPAs would enable more farmers to sell easements on agricultural and forestry lands to the county. As of the 2002 agriculture census, there were 1,273 farms in Frederick County with an average of 154 acres per farm.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Frederick County, Maryland State Retirement Agency, U.S. Department of Agriculture, Department of Legislative Services

Fiscal Note History: First Reader - February 1, 2007
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