

Department of Legislative Services

Maryland General Assembly

2012 Session

FISCAL AND POLICY NOTE

House Bill 1424

(Delegates Conway and McDermott)

Appropriations

Ocean City Convention Center - Financial Obligations and Taxing Authority

This bill extends by 15 years the period during which the Maryland Stadium Authority (MSA) must contribute 50% to the annual operating deficit of the Ocean City Convention Center (OCCC) and contribute \$50,000 annually to a capital improvement reserve fund for OCCC. The bill also alters the total amount of outstanding bonds that may be issued by local governments for the construction, reconstruction, repair, renovation, or equipping of a convention center facility in a resort area.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: General fund expenditures for MSA increase by \$926,000 in FY 2016. FY 2017 expenditures of \$1,907,000 reflect inflation and annualization. Significant general fund expenditures continue through FY 2031, and total approximately \$34.8 million.

(in dollars)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	0	0	926,000	1,907,000
Net Effect	\$0	\$0	\$0	(\$926,000)	(\$1,907,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Meaningful. MSA's continued contribution to OCCC operating deficits and contributions to a capital improvement reserve fund, combined with the extension of local government taxing authority, significantly affect local finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary/Current Law: MSA must secure a lease or other written agreement with the Town of Ocean City, as approved by the Board of Public Works (BPW), under which Ocean City and MSA each agree to issue bonds and contribute \$14,700,000 of the proceeds from the sale of the bonds for capital costs of the expansion of OCCC.

The county commissioners of a code county, by public local law, may impose a tax on the sale of food and beverages in a resort area in the county for the sole purpose of providing revenues to pay the principal and interest on bonds issued relating to the construction, reconstruction, repair, renovation, or equipping of a convention center facility in the resort area. Under current law, the total principal amount of bonds issued by a local governing body for the purpose of construction, reconstruction, repair, renovation, or equipping of a convention center facility in a resort area may not exceed \$20 million. The bill expands the authorization to the total *outstanding* principal amount of bonds, not to exceed \$20 million.

MSA and Ocean City each own a 50% leasehold as tenants in common in the improvements comprising the existing OCCC and the OCCC expansion for the duration of any bonds issued. Under the bill, the shared leasehold extends for 15 years after the duration of any bonds issued by MSA.

MSA must secure a written agreement with Ocean City, as approved by BPW, in which Ocean City agrees to market, promote, and operate OCCC in a manner that maximizes the facility's economic return, and to maintain and repair the facility. Ocean City must also agree to be solely responsible for all operating deficits and capital improvements before the completion of the expanded and renovated OCCC, and after the repayment of OCCC bonds issued by MSA for that purpose. The written agreement must also require that, during the period that OCCC bonds issued by MSA are outstanding, MSA and Ocean City each contribute 50% to OCCC operating deficits, and MSA and Ocean City each contribute \$50,000 annually to a capital improvement reserve fund. Finally, the agreement must provide for remedies on default. The bill continues the shared contributions by MSA and Ocean City for 15 years after the duration of any bonds issued by MSA.

Background:

Maryland Stadium Authority

MSA was established in 1986 as an independent unit in the Executive Department to be responsible for the construction, operation, and maintenance of facilities for use by professional baseball and/or football teams. In 1992, legislation was enacted which assigned to the authority the responsibility for expansion of the Baltimore City Convention Center (BCCC). MSA's responsibility was further extended in 1995 when legislation was enacted to have MSA participate in and manage construction of OCCC. Legislation in 1996 authorized MSA to participate with Montgomery County in the construction of a conference center, and in 2000, MSA was authorized to participate in construction of the Hippodrome Performing Arts Center in Baltimore. MSA may, in fact, manage any type of construction project for local governments and State agencies upon request and approval by the General Assembly.

Ocean City Convention Center

OCCC is the primary venue in Ocean City and the surrounding area for conventions, trade shows, consumer shows, meetings, and special events, and offers 63,000 square feet of exhibit space. In December 2007, Ocean City asked MSA to conduct a feasibility study for another expansion of its convention center (not for the expansion discussed in current law above). The feasibility study was released in December 2008. The study recommended a moderate expansion and remodeling to the convention center to modernize audio-visual and technical amenities, provide more function space to accommodate multiple events, and increase prime exhibit space. The study estimated the incremental economic impact to be between \$3.8 million and \$4.6 million annually in total spending at the State level, of which approximately \$3.2 million to \$3.9 million is estimated to occur in Ocean City.

In the fiscal 2011 capital budget bill, the General Assembly added \$4.3 million in general obligation funding to finance the State's share of the new convention center expansion. State funds are matched with \$4.1 million from Ocean City. In May 2010, MSA presented the contract for pre-construction services for the expansion to BPW. In August 2010, the Ocean City Council approved plans for the expansion, including its portion of the funding. A groundbreaking took place in August 2011.

In a November 2011 report to the General Assembly, MSA detailed the economic activity generated by OCCC. According to the report, 97 events were held at OCCC from July 1, 2010, through June 30, 2011, generating \$88 million in direct spending in Worcester County and an additional \$5.8 million in direct State spending. Indirect and induced spending was also estimated at an additional \$65 million statewide. State tax

revenues generated from OCCC-related activities were \$7.4 million in fiscal 2011, with an additional \$2.1 million in local tax revenues.

State Expenditures: The bill requires MSA to continue its operating deficit support of OCCC until December 15, 2030 (fiscal 2031). MSA pays 50% of the OCCC operating deficit and makes an annual contribution of \$50,000 to a capital improvement reserve fund, both of which sunset when the bonds issued by MSA for OCCC mature December 15, 2015 (fiscal 2016). The proposed fiscal 2013 State budget includes the State's operating deficit contribution of \$1.36 million. MSA advises that, when the new OCCC expansion opens in the fall of 2012, the State's share of the operating deficit will increase to \$1.65 million.

Because the MSA bonds mature halfway through the fiscal year, general fund expenditures for MSA increase by \$926,000 in fiscal 2016. In fiscal 2017, the first full year under the bill, general fund expenditures increase for MSA by \$1,907,000. Significant general fund expenditures will continue through mid-fiscal 2031. At a 3% growth rate of the OCCC operating deficit, the bill increases general fund expenditures by \$34.8 million in total until MSA's obligation sunsets December 15, 2030. **Exhibit 1** below shows annual general fund expenditures for MSA's contributions to OCCC's operating deficit and the capital improvement reserve fund.

Exhibit 1
State General Fund Expenditures – SB 990/HB 1424

<u>Fiscal Year</u>	<u>OCCC Operating Deficit State Share**</u>	<u>Capital Reserve Fund Contribution</u>	<u>Total State Contribution</u>
2016*	\$901,000	\$25,000	\$926,000
2017	1,857,000	50,000	1,907,000
2018	1,913,000	50,000	1,963,000
2019	1,970,000	50,000	2,020,000
2020	2,029,000	50,000	2,079,000
2021	2,090,000	50,000	2,140,000
2022	2,153,000	50,000	2,203,000
2023	2,217,000	50,000	2,267,000
2024	2,284,000	50,000	2,334,000
2025	2,353,000	50,000	2,403,000
2026	2,423,000	50,000	2,473,000
2027	2,496,000	50,000	2,546,000
2028	2,571,000	50,000	2,621,000
2029	2,648,000	50,000	2,698,000
2030	2,727,000	50,000	2,777,000
2031*	1,405,000	25,000	1,430,000
Total	\$34,037,000	\$750,000	\$34,787,000

*Half Year Contribution

**Assumes 3% annual growth rate in OCCC operating deficits.

Source: Maryland Stadium Authority, Department of Legislative Services

Local Fiscal Effect: The bill has a meaningful impact on Ocean City. In addition to the continued MSA contributions to OCCC operating deficits and the capital reserve fund, the bill allows Ocean City to issue additional bonds for construction, reconstruction, repair, renovation, or equipping of OCCC, and also maintain its ability to tax food and beverage sales to provide revenues to pay the principal and interest on the bonds. Ocean City advises that it collects approximately \$1.0 million per year at the current 0.5% tax rate on food and beverages. Ocean City has issued the statutory maximum amount of \$20 million in bonds, but outstanding bonds as of fiscal 2012 are \$7.6 million, which are scheduled to be paid off in 2016. The bill allows additional bonds to be issued, up to an outstanding balance of \$20 million and, therefore, allows Ocean City to maintain its ability to tax food and beverage sales and further finance improvements to OCCC.

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Ocean City also benefits significantly from the 50% MSA contribution to OCCC operating deficits, as discussed above.

Small Business Effect: To the extent the bill allows Ocean City to improve OCCC and offer additional services which attract visitors, small businesses in Worcester County and Ocean City benefit from any increase in spending, particularly on hospitality services, that results.

Additional Information

Prior Introductions: None.

Cross File: SB 990 (Senator Mathias) - Budget and Taxation.

Information Source(s): Maryland Stadium Authority, Town of Ocean City, Department of Legislative Services

Fiscal Note History: First Reader - March 19, 2012
ncs/rhh

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