

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

Senate Bill 147

(Senators Colburn and Pipkin)(By Request - Caroline
County Commissioners and Dorchester County Council)

Budget and Taxation

**Chesapeake College - Authorization of Debt for Capital Projects - Simple
Majority Plus One Requirement**

This bill alters the capital budget approval process for Chesapeake College to require approval of a simple majority plus one of the member counties (*i.e.*, four of five) for capital items that would require a member county to issue debt, participate in debt, or incur an obligation to share in any manner of debt or debt support. If a simple majority plus one does not approve a capital item or program, the item or program must be deleted from the budget and the remainder of the budget is subject to the specified simple majority approval requirement.

The bill takes effect June 1, 2013.

Fiscal Summary

State Effect: None. The bill does not affect overall State funding provided for community college capital projects.

Local Effect: Altering the capital budget approval process for Chesapeake College may reduce the total debt obligations and maintain the debt interest rates of Caroline, Dorchester, Kent, Queen Anne's, and Talbot counties due to fewer capital projects being approved. Chesapeake College may receive less capital funding.

Small Business Effect: None.

Analysis

Current Law: Each year, the board of trustees and the president of each community college must prepare and submit to the county governing body or, in the case of a regional community college, the county governing body of each county that supports the regional community college (1) an operating budget; (2) a capital budget; and (3) if required by local law, charter, or regulation, a long-term *Capital Improvement Program*. The capital budget and any long-term *Capital Improvement Program* must contain a statement of all capital revenues and expenditures.

The county governing bodies of the counties that support a regional community college jointly must review the budget of the regional community college and may reduce it. Approval of the budget by a majority of the counties (*i.e.*, three of five) that support a regional community college constitutes approval of the budget and binds all of the counties.

The budget of each community college, as approved by the county governing body must be submitted to the Maryland Higher Education Commission (MHEC) for informational purposes. Proposals for capital projects must be submitted to the Department of Budget and Management through MHEC.

Before any capital budget request made by Wor-Wic Community College is effective, all of the counties that support that college (*i.e.*, two) must give their written assent to the capital budget.

Background: Chesapeake College is a regional community college developed in 1965 to serve the needs of Caroline, Dorchester, Kent, Queen Anne's, and Talbot counties. It is located in Wye Mills, in Queen Anne's County. There are two other regional community colleges in the State – Wor-Wic and the College of Southern Maryland.

The Governor's proposed fiscal 2014 capital budget contains \$52 million for the Community College Construction Grant Program. Chesapeake College is building a \$35.4 million Center for Allied Health and Athletics. The local supporting counties are responsible for 25% of the cost, or \$8.9 million, with the State paying the remaining 75%, or \$26.6 million. The project has received \$2.1 million in State funds for planning, and the fiscal 2014 capital budget includes \$5.4 million toward construction of the facility with an additional \$19.0 million to be funded by the State in future years. Dorchester and Caroline counties voted against the project due to fears of exceeding the debt ratios needed to maintain their bond credit ratings. If a county exceeds its debt ratios, it may have to pay a higher interest rate on the money it borrows. However, since a simple majority of the counties voted for the project, it was included in the college's capital request to the State.

Nearly all local debt is given a credit rating by the major rating agencies. **Exhibit 1** shows the credit rating for each county for general obligation bonds by the three major rating agencies – Standard & Poor’s, Moody’s Investors Service, and Fitch Ratings – as of July 1, 2012. Bond ratings range from “AAA” for the best quality and smallest investment risk to “C” for the poorest quality and highest risk. Specific classifications are used by each of the rating agencies, but the letter grade systems generally follow these norms.

Local Fiscal Effect: Altering the capital budget approval process for Chesapeake College to require a super majority approval may reduce the number or magnitude of capital projects approved, which would reduce the capital funding for the college. The State pays 75% of the cost for capital projects at regional community colleges; however, to receive State funding the supporting counties must contribute 25% of the cost.

If the number or magnitude of capital projects is reduced, the total debt obligations of Caroline, Dorchester, Kent, Queen Anne’s, and Talbot counties may also be reduced. However, some counties may choose to fund alternative projects not related to the college instead. Likewise, a supporting county may be more likely to be able to maintain its debt ratio and thus pay lower interest rates on money it borrows due to having a smaller debt obligation for Chesapeake College projects.

Exhibit 1
Maryland County Debt – Bond Ratings
July 2012

County	Standard & Poor's	Moody's	Fitch
Allegany	A	A1	-
Anne Arundel	AAA	Aa1	-
Baltimore City	AA-	Aa2	-
Baltimore	AAA	Aaa	AAA
Calvert	AAA	Aa1	AAA
Caroline	A	A3	-
Carroll	AA+	Aa1	AAA
Cecil	AA	Aa2	-
Charles	AA	Aa1	AAA
Dorchester	A	A2	-
Frederick	AA+	Aa1	AAA
Garrett	A	A1	-
Harford	AA+	Aaa	AAA
Howard	AAA	Aaa	AAA
Kent	-	-	-
Montgomery	AAA	Aaa	AAA
Prince George's	AAA	Aaa	AAA
Queen Anne's	-	Aa2	AA+
St. Mary's	AA	Aa2	AA+
Somerset	-	-	-
Talbot	-	Aa2	AAA
Washington	AA	Aa2	AA
Wicomico	AA-	Aa3	AA-
Worcester	-	Aa2	AA

Note: (-) means not rated.

Source: 2012 Local Government Budget and Tax Rate Survey; Department of Legislative Services; Maryland Association of Counties

Additional Information

Prior Introductions: None.

Cross File: HB 290 (Caroline County Delegation) – Ways and Means.

Information Source(s): Department of Budget and Management; Caroline, Kent, Queen Anne's, and Talbot counties; Department of Legislative Services

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mc/rhh

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