

Department of Legislative Services  
Maryland General Assembly  
2014 Session

FISCAL AND POLICY NOTE

Senate Bill 31

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

Budget and Taxation

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

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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 such 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, 2014.

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**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.

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## 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 2015 capital budget contains \$65.4 million for the Community College Construction Grant Program. Chesapeake College is building a \$36.9 million Center for Allied Health and Athletics. The State pays 75% of the eligible expenses for the project, or approximately \$27.6 million, and the local supporting counties are responsible for the remaining 25% of eligible costs and any ineligible costs, or approximately \$9.2 million. The project has received \$7.6 million in State funds for planning and construction, and the proposed fiscal 2015 capital budget includes \$19.9 million toward construction and capital equipping of the facility. 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, 2013. 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 eligible cost for capital projects at regional community colleges; however, to receive State funding the supporting counties must contribute 25% of the eligible 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.

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**Exhibit 1**  
**Maryland County Debt – Bond Ratings**  
**July 2013**

<b>County</b>	<b>Standard &amp; Poor's</b>	<b>Moody's</b>	<b>Fitch</b>
Allegany	A+	Aa3	Aa3
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	-	-	-
Harford	AA+	Aaa	AAA
Howard	AAA	Aaa	AAA
Kent	-	-	-
Montgomery	AAA	Aaa	AAA
Prince George's	AAA	Aaa	AAA
Queen Anne's	-	-	AA+
St. Mary's	AA	Aa2	AA+
Somerset	-	-	-
Talbot	-	Aa2	AAA
Washington	AA	Aa2	AA
Wicomico	AA-	Aa3	AA-
Worcester	AA	Aa2	AA

Note: (-) means not rated.

Source: 2013 Local Government Budget and Tax Rate Survey; Maryland Association of Counties; Department of Legislative Services

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**Additional Information**

**Prior Introductions:** SB 147 of 2013 received an unfavorable report from the Senate Budget and Taxation Committee. Its cross file, HB 290, received a hearing in the House Ways and Means Committee, but no further action was taken.

**Cross File:** None.

**Information Source(s):** Department of Budget and Management; Maryland Higher Education Commission; Dorchester, Queen Anne's, and Talbot counties; Department of Legislative Services

**Fiscal Note History:** First Reader - January 20, 2014  
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