

Department of Legislative Services
 Maryland General Assembly
 2014 Session

FISCAL AND POLICY NOTE

House Bill 1064
 Appropriations

(Delegate Serafini, *et al.*)

Capital Budget - Payment of State Debt Service

This bill requires the Board of Public Works (BPW), beginning with fiscal 2017, to certify to the governing body of each county the rates of State tax on assessable property that are sufficient to pay a specified percentage of State debt service requirements on all the State bonds that BPW anticipates will be outstanding during the year.

The bill further requires the Capital Debt Affordability Committee (CDAC) to consider the requirements of this bill for the payment of debt service.

Fiscal Summary

State Effect: To the extent that the State’s debt service requirement does not decrease in subsequent years, special fund revenues and expenditures increase significantly – by approximately \$99 million – in FY 2017. General fund expenditures decrease correspondingly. Future years reflect the phase in of higher coverage requirements.

(in dollars)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
SF Revenue	\$0	\$0	\$99,000,000	\$267,000,000	\$412,000,000
GF Expenditure	\$0	\$0	(\$99,000,000)	(\$267,000,000)	(\$412,000,000)
SF Expenditure	\$0	\$0	\$99,000,000	\$267,000,000	\$412,000,000
Net Effect	\$0	\$0	\$99,000,000	\$267,000,000	\$412,000,000

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

Local Effect: The bill is not expected to significantly affect local governmental operations or finances.

Small Business Effect: Potential meaningful.

Analysis

Bill Summary: For fiscal 2017, BPW must certify to the governing body of each county the rates of State tax on assessable property that are sufficient to pay at least 70% of State debt service requirements on all the State bonds that BPW anticipates will be outstanding during that year. The bill maintains the BPW certification requirement in subsequent years but phases in a rate sufficient to pay 100% of State debt service by fiscal 2021. Accordingly, the percentage increases to 80% for fiscal 2018, 90% for fiscal 2019, and 95% for fiscal 2020.

Exhibit 1 illustrates current projections for debt service costs, property tax receipts based on the current tax rate, and projections for receipts under the bill's coverage percentages. Since additional State property tax receipts will be realized from the property tax increase, general fund expenditures will decrease in an amount equal to the increased revenue in fiscal 2017 through 2021.

Exhibit 1 Property Tax Rates Fiscal 2015-2021 (\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Current Projections							
Projected Debt Service Costs	\$1,039	\$1,140	\$1,202	\$1,271	\$1,307	\$1,373	\$1,419
Projected Property Tax Receipts	\$722	\$732	\$742	\$753	\$761	\$780	\$800
Percentage of Debt Service Covered by Tax Receipts	69.5%	64.2%	61.7%	59.2%	58.2%	56.8%	56.4%
Under the Bill							
Projected Debt Service Costs	\$1,039	\$1,140	\$1,202	\$1,271	\$1,307	\$1,373	\$1,419
Target Percentage	n/a	n/a	70%	80%	90%	95%	100%
Debt Service Supported by Property Taxes	\$722	\$732	\$841	\$1,016	\$1,177	\$1,304	\$1,419
Property Tax Rate per \$100 of Assessable Base	0.112	0.112	0.127	0.152	0.173	0.190	0.204
Percent Change over \$0.112 Tax Rate Per \$100 of Assessable Base	n/a	n/a	11.8%	26.3%	35.2%	41%	45.1%
Property Tax Receipts Realized	\$722	\$732	\$841	\$1,020	\$1,174	\$1,306	\$1,420
Additional State Property Tax Receipts Realized	\$0	\$0	\$99	\$267	\$412	\$534	\$638

*Estimates do not take into account transfer tax and federal funding revenues.

**Numbers may not sum to total due to rounding.

Source: Maryland State Treasurer's Office; Department of Legislative Services

Current Law/Background: The State real property tax rate is \$0.112 per \$100 of assessed value. The rate is established by BPW, which is required by law to calculate the rate necessary to support debt service on general obligation bonds by May 1 of each year after taking into account the funds available from other sources for debt service. The rate is then applied to the State assessable base.

Local property tax rates are set annually by local governments and applied to the county and municipal assessable bases. The county and municipal assessable bases represent the State assessable base less exemptions granted by local jurisdictions.

All State property tax revenues are credited a special fund, the Annuity Bond Fund, dedicated exclusively to paying the debt service on State general obligation bonds. Local governments generally have the authority to set their own property tax rates.

Revenue sources for the Annuity Bond Fund include State property taxes; premium from bond sales; and repayments from certain State agencies, subdivisions, and private organizations. General funds may be appropriated directly to the Annuity Bond Fund to make up any differences between the debt service payments and funds available from property taxes and other sources. The Governor's proposed fiscal 2015 State budget includes \$1.0 billion for general obligation debt service costs, including \$195.0 million in general funds, \$826.7 million in special funds from the Annuity Bond Fund, \$6.3 million in transfer tax revenues, and \$11.5 million in federal funds.

Authorized in 1978, CDAC is required to review on a continuing basis the size and condition of the State tax-supported debt as well as other debt of State units, including the University System of Maryland, Morgan State University, St. Mary's College of Maryland, and the Baltimore City Community College. On or before October 1 of each year, the committee must submit to the Governor and the General Assembly its estimate of the total amount of new State debt that prudently may be authorized for the next fiscal year. CDAC's estimate is advisory and does not bind the General Assembly, BPW, or the Governor.

State Revenues: To the extent that State debt service requirements do not decrease in future years, special fund revenues to the Annuity Bond Fund increase significantly beginning in fiscal 2017 (by about \$99 million that year), as State property tax rates are increased to meet the bill's debt service requirements. Special fund revenues continue to increase each year thereafter. By fiscal 2021, such revenues must equal 100% of the State's debt service.

State Expenditures: Beginning in fiscal 2017, general fund expenditures decrease significantly – by about \$99 million in fiscal 2017 – as a result of decreased State debt service requirements and/or an increase in special fund revenues to the Annuity Bond Fund. Special fund expenditures increase correspondingly.

Small Business Effect: Small businesses may see a significant increase in property taxes beginning in fiscal 2017.

Additional Comments: The Maryland State Treasurer's Office advises that the bill may conflict with Article III, Section 34 of the Maryland Constitution, because it would mandate the imposition and collection of property taxes even if sufficient funds to pay the principal and interest on debt are appropriated. Article III, Section 34, provides, in pertinent part “. . . annual tax or taxes required to be collected [before bonds are issued] shall not be collected in the event that sufficient funds to pay the principal and interest on debt are appropriated for this purpose in the annual State budget.”

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Kent and Montgomery counties, State Department of Assessments and Taxation, Board of Public Works, Maryland Association of Counties, Maryland State Treasurer's Office, Department of Legislative Services

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