

Department of Legislative Services
Maryland General Assembly
2015 Session

FISCAL AND POLICY NOTE

House Bill 900
Appropriations

(Delegate Dumais, *et al.*)

Creation of a State Debt - Montgomery County - Cornerstone Montgomery and Interfaith Works Project

This bill authorizes the issuance of general obligation (GO) bonds in fiscal 2016 through 2020 to provide \$1.75 million in matching funds to the Board of Directors of the Cornerstone Montgomery, Inc. and the Board of Directors of the Interfaith Works, Inc. (the grantee) for the acquisition, planning, design, construction, expansion, repair, restoration, renovation, reconstruction, and capital equipping of the #2 Taft Court facility for the relocation of the Cornerstone Montgomery and Interfaith Works facilities, located in Montgomery County.

The bill generally takes effect June 1, 2015, but has four additional delayed effective dates.

Fiscal Summary

State Effect: The bill is not expected to materially affect State finances, as funding for this project would be made within debt affordability limits; however, State operations are affected to the extent that other capital needs and priorities are delayed or deleted to include the project's funding within established debt affordability limits in each of the five years affected. Revenues are not affected.

Local Effect: The bill does not affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary: The bill authorizes a grant of up to \$350,000 in matching funds for fiscal 2016 and preauthorizes four separate grants of up to \$350,000 in matching funds in fiscal 2017, 2018, 2019, and 2020. Prior to the payment of any funds, the grantee must provide and expend a matching fund. The matching fund is considered a “hard” match, and it may not consist of any “soft” matches. Each grant authorized for each fiscal year is subject to (1) the requirement that the grantee certify a matching fund by a specified date; (2) the requirement that the proceeds of the loan be expended or encumbered by a specified date; and (3) a different effective date. Such dates are as follows:

<u>Authorized for Fiscal Year</u>	<u>Date for Certification of Matching Fund</u>	<u>Date for Proceeds to be Expended/Encumbered</u>	<u>Authorization Effective Date</u>
2016	June 1, 2018	June 1, 2022	June 1, 2015
2017	June 1, 2019	June 1, 2023	June 1, 2016
2018	June 1, 2020	June 1, 2024	June 1, 2017
2019	June 1, 2021	June 1, 2025	June 1, 2018
2020	June 1, 2022	June 1, 2026	June 1, 2019

Current Law/Background:

Bond Sales and Debt Service: The State last sold bonds on March 4, 2015, which included \$518.0 million in new money bonds in support of the State’s capital program. Those bonds were sold in separate series with a combined true interest cost of 2.65% over 15 years. Actual annual debt service cost will be determined by the coupon rate achieved at the time the bonds were issued, which ranged from 3.0% to 5.0% for an average coupon rate of 4.5%. Therefore, State debt service is estimated to cost \$53.5 million annually based on the average coupon rate.

GO bonds authorized in a given year are not all issued the year in which they are authorized. The State Treasurer’s Office estimates that just over half of the GO bonds authorized in a year are typically issued within the first two fiscal years. The Capital Debt Affordability Committee assumes bonds authorized in a given year will be fully issued over five years; specific issuances are 31% in the first year, 25% in the second year, 20% in the third year, 15% in the fourth year, and 9% in the fifth year. This delay in issuance results in a substantial lag between the time GO bonds are authorized and the time the bonds affect debt outstanding and debt service levels.

Legislative Initiatives: As introduced by the Governor, the Maryland Consolidated Capital Bond Loan (MCCBL) of 2015 does not include the customary earmark of \$15 million for legislative initiatives. However, because the General Assembly can both reduce and add

to the capital budget, the budget committees may consider bond bill requests during the 2015 session and amend them into the MCCBL.

Most bond bills require either a “hard” or “soft” match. Where no match is required, the term “grant” is indicated. A “hard” match means the recipient provides a dollar-for-dollar match of the State funds and does not expend the matching funds until after the effective date of the authorizing act. A “soft” match is any other type of match. Soft matches include the use of the value of the real property as the match, in-kind contributions such as materials or construction services, or funds expended prior to the effective date of the bill.

State Fiscal Effect: This analysis assumes that funding for this project would be made within the limit of new GO bond authorizations recommended by the Spending Affordability Committee (SAC) or included in the Governor’s capital budget as introduced. However, since the project is not accounted for in the current five-year *Capital Improvement Program*, to the extent that the Governor includes out-year preauthorized funding under the bill, other capital needs and priorities would be impacted to fit the project’s funding into the budget within the established debt affordability limits. Thus, debt service the State would pay for its GO bond issuances pursuant to the bill would not increase.

SAC recommended a GO debt authorization of \$1.095 billion for fiscal 2016. MCCBL of 2015, referred to as the fiscal 2016 capital budget, provides new GO debt authorizations totaling \$994.6 million, which is \$100.4 million below the SAC recommendation. As introduced, an additional \$9.0 million in prior year authorized GO bonds is to be deauthorized, thus increasing the amount of GO debt included in the MCCBL of 2015 to \$1,003.6 million.

Additional Comments: Additional bond bills, House Bill 465 and Senate Bill 491, for the Cornerstone Montgomery and Interfaith Works Project have been introduced during the 2015 session. Both bond bills only seek funding for fiscal 2016.

Additional Information

Prior Introductions: None.

Cross File: SB 492 (Senator King, *et al.*) - Budget and Taxation.

Information Source(s): Department of General Services, Department of Legislative Services

Fiscal Note History: First Reader - March 12, 2015
min/ljm

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