

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 1038

(Senator Young)

Finance

**Economic Development - Maryland Stadium Authority - Downtown Frederick
Conference Center**

This bill authorizes the Maryland Stadium Authority (MSA) to issue up to \$19.8 million in bonds for the purpose of financing acquisition, construction, renovation, and related expenses in connection with the Downtown Frederick Conference Facility, subject to specified requirements. The bill establishes a fund to implement the bill and pay related expenses incurred by MSA.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: No effect in FY 2016. Nonbudgeted revenues increase by \$19.8 million in FY 2018 from bonds issued by MSA under the bill. Nonbudgeted expenditures increase by \$500,000 in FY 2018 for bond issuance costs and \$750,000 annually in FY 2018 and 2019 for interest-only debt service payments. They increase by an additional \$17.8 million in total through FY 2021 to fund the conference facility, which includes MSA staff expenses beginning in FY 2017. General fund expenditures increase by \$1.5 million annually from FY 2020 through 2037 for debt service payments on bonds issued by MSA.

This bill establishes a mandated appropriation beginning in FY 2020.

(\$ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
NonBud Rev.	\$0	\$19.8	\$0	\$0	\$0
GF Expenditure	\$0	\$0	\$0	\$1.5	\$1.5
NonBud Exp.	\$0.1	\$3.0	\$7.8	\$5.3	\$3.5
Net Effect	(\$0.1)	\$16.8	(\$7.8)	(\$6.8)	(\$5.1)

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

Local Effect: Meaningful, as discussed below.

Small Business Effect: Meaningful, as discussed below.

Analysis

Bill Summary: “Downtown Frederick Conference Facility” encompasses the conference center located in downtown Frederick, Maryland, the site, and offices; parking lots and garages; access roads; food service facilities; and other functionally related structures, improvements, furnishings, or equipment.

Generally, to finance site acquisition and construction of any segment of the Downtown Frederick Conference Facility, MSA must:

- provide to the fiscal committees of the General Assembly, at least 45 days before seeking approval of the Board of Public Works (BPW) for each bond issue or other borrowing, a comprehensive financing plan for the relevant segment of the Downtown Frederick Conference Facility, including the effect of the financing plan on financing options for other segments of the facility;
- obtain the approval of BPW of the proposed bond issue and the financing plan; and
- secure four agreements with the City of Frederick, as approved by BPW, discussed below.

MSA must secure a deed, lease, or written agreement with the City of Frederick, as approved by BPW, authorizing MSA to (1) design, construct, and equip, or contract for the design, construction, and equipping of the facility and (2) pledge the facility and site, or the leasehold interest in the facility, as security for MSA’s bonds.

MSA must secure an agreement with the city, as approved by BPW, which provides for (1) the acquisition, construction, and operation of a hotel coterminous to and integrated with the Downtown Frederick Conference Facility and (2) a capital commitment for the hotel and, as appropriate, shared facilities.

MSA must secure a lease or other written agreement with the city, as approved by BPW, under which:

- the city and county agree to contribute an amount to be determined by a separate public-private partnership agreement and the most recent bond issuance analysis for the capital costs of construction of the Downtown Frederick Conference Center no later than the date of the authority’s bond issuance;

- MSA agrees to issue bonds as authorized under the bill and contribute \$19.8 million of the proceeds from the sale of the bonds for the capital costs of the construction of the Downtown Frederick Conference Center;
- the city, county, and MSA agree that if the actual capital costs for the construction of the Downtown Frederick Conference Center are less than \$31.0 million, the savings must be allocated proportionately to the city and county, based on each entity's proportionate share of the funding;
- the city, county, and MSA agree that if the actual capital costs for the construction of the Downtown Frederick Conference Center are more than \$31.0 million, the excess must be allocated to the city and county in accordance with the public-private partnership agreement;
- the city agrees to arrange for the purchase of the land for the Downtown Frederick Conference Site on which the conference center will be constructed;
- the city and MSA each own a 50% leasehold interest as tenants in common in the Downtown Frederick Conference Facility for the duration of any bonds issued as authorized under the bill; and
- the city and MSA agree not to sell, assign, mortgage, pledge, or encumber the Downtown Frederick Conference Facility, or any leasehold interest in the facility, without the prior consent of the other, except for liens in favor of MSA's bondholders.

MSA must secure a written agreement with the city, as approved by BPW:

- in which the city agrees to market, promote, and operate or contract for the marketing, promotion, and operation of the Downtown Frederick Conference Facility in a manner that maximizes the facility's economic return as well as to maintain and repair or contract for the maintenance and repair of the facility; and
- that includes provisions that, among other things, (1) protect the respective investments of MSA, the city, and the county in the facility; (2) require the city to be solely responsible for all expenditures relating to the operation of the facility that may be incurred, including operating deficits; (3) allow the city to keep all operating profits resulting from the operation of the facility each year; (4) provide for remedies on default; and (5) authorize MSA to select and contract, through a cooperative procurement agreement, a contractor to develop, design, construct, operate, and manage the facility during the period that the bonds issued by MSA for the facility are outstanding.

The Downtown Frederick Conference Facility Financing Fund is established to enable MSA to (1) use the fund as a revolving fund for implementing the bill and (2) pay any expenses incurred by MSA that are related to the facility. MSA administers the fund. To

the extent considered appropriate by MSA, the receipts of the fund must be pledged to and charged with the following relating to the facility:

- payment of debt service on MSA bonds;
- all reasonable charges and expenses related to MSA's borrowing; and
- the management of MSA obligations.

The fund consists of (1) money appropriated for deposit in the fund; (2) revenues collected or received from any source concerning the facility; and (3) any additional money made available from any public or private source for the purposes established for the fund. Any interest earnings of the fund must be paid into the fund.

Current Law/Background: 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. MSA's responsibility was further extended in 1995 when legislation was enacted to have MSA participate in and manage construction of the Ocean City Convention Center. 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.

Crossroads Consulting, LLC, completed a study in July 2012 regarding a proposed downtown hotel and conference center in the City of Frederick. The [study](#) can be found on MSA's website.

State Fiscal Effect: Nonbudgeted revenues increase by \$19.8 million in fiscal 2018 from bonds issued by MSA under the bill (MSA advises it would issue the bonds in July 2017). MSA has set the total bond size at \$19.8 million to account for the cost of issuance of bonds, capitalized interest, and project management. Nonbudgeted expenditures increase by \$500,000 in fiscal 2018 for bond issuance costs and \$750,000 annually in fiscal 2018 and 2019 for interest-only debt service payments.

Following two years of interest-only payments covered by capitalized interest, mandated general fund expenditures increase by \$1.5 million annually from fiscal 2020 through 2037 for (principal and interest) debt service payments on the bonds. Thus, available funding for the conference facility, net of MSA's interest-only debt service payments and bond issuance costs, is estimated to be \$17.8 million. The timing of the funding provided to the conference facility by MSA is unknown at this time; however, for the purposes of this estimate, approximately 10% of the \$17.8 million for capital costs is assumed to be

expended in fiscal 2018, 40% in fiscal 2019, 30% in fiscal 2020, and the remaining balance in fiscal 2021.

As part of the overall funding to support the conference facility, nonbudgeted MSA expenditures increase by \$114,435 in fiscal 2017, which accounts for a 30-day start-up delay from the bill's effective date and assumes *other* nonbudgeted funds are available to *initially* cover the costs of a required position at MSA. This estimate reflects the cost of hiring one contractual project manager to oversee MSA's role in the construction of the conference facility. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Position	1.0
Salary and Fringe Benefits	\$109,380
Other Operating Expenses	<u>4,965</u>
Total FY 2017 MSA Staff Expenditures	\$114,345

Future year expenditures for MSA staff range from \$102,800 to \$113,600 and reflect annual salary increases and employee turnover as well as annual increases in ongoing operating expenses and the elimination of the contractual position at the end of fiscal 2021.

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Local Fiscal Effect: The City of Frederick advises that it entered into a public-private partnership with a developer in December 2015, following a competitive selection process, to construct a 24,000 square foot downtown conference center (14,000 square feet of net rentable space), public parking (about 350 spaces), and a 207-room full-service hotel. The developer is contributing approximately \$44.0 million for the private hotel and retail space. The city and Frederick County have tentatively committed about \$5.0 million in tax increment financing from the incremental new local property taxes generated by the project. The county advises that it has committed \$2.0 million of the \$5.0 million, contingent on State participation in the project under the bill.

The city and county have asked MSA to participate in the project at an amount of \$17.8 million. MSA has set the total bond size at \$19.8 million to account for the cost of issuance of bonds, capitalized interest, and project management. The city anticipates approximately \$80,000 in ground rent from the project and 10% of the net cash flow of the conference center. The developer is responsible for all ongoing operational/capital costs once the project is constructed.

Therefore, local government revenues and expenditures significantly increase due to the funding provided by MSA under the bill.

Small Business Effect: Small businesses associated with the construction, operation, and maintenance of the proposed conference facility, and businesses located adjacent to the conference facility, benefit from increased demand for their services under the bill.

Additional Comments: The bill requires MSA to agree to “contribute \$19.8 million of the proceeds of bonds for the capital costs of construction of the Downtown Frederick Conference Center.” As discussed above, MSA has been asked to *contribute* \$17.8 million to the project but must *issue* \$19.8 million in bonds to do so. The fiscal effects discussed above assume MSA issues \$19.8 million in bonds and contributes \$17.8 million to the conference center. If MSA is required to contribute \$19.8 million, MSA needs to issue more than that amount of bonds.

Additional Information

Prior Introductions: None.

Cross File: HB 1474 (Delegates Krimm and K. Young) - Appropriations.

Information Source(s): Frederick County, City of Frederick, Department of Budget and Management, Board of Public Works, Maryland Stadium Authority, Crossroads Consulting, Department of Legislative Services

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