Department of Legislative Services

Maryland General Assembly
2022 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 98 (Delegate Crosby)

Appropriations and Economic Matters

Military Installations - Expansion and Development

This bill requires the Maryland Military Installation Council (MMIC) to identify opportunities for new construction, renovation, infrastructure, equipment, furnishings, environmental and utility savings, and housing and transportation enhancements to support the mission and staff at each military installation in the State. The State Treasurer must, on request of the Governor, issue and sell up to a total of $177.0 million in State bonds as specified by the Governor. The State Treasurer, in consultation with MMIC, must determine specified terms of each bond, including the maturity date, which may not exceed 50 years from the date of issue. **The bill takes effect July 1, 2022.**

Fiscal Summary

State Effect: Bond revenues and expenditures increase by up to a total of $177.0 million, although potentially more if premiums are paid, beginning in FY 2023. Under one scenario, general fund expenditures increase by $8.85 million in FY 2023 and 2024 and about $18.8 million annually thereafter to pay debt service on the bonds through FY 2037. Federal fund revenues and expenditures may be leveraged beginning in FY 2023.

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

Small Business Effect: Minimal.

Analysis

Bill Summary: "Bond" includes a bond anticipation note, a revenue anticipation note, a grant anticipation note, a refunding bond, a note in the nature of commercial paper, and any other evidence of indebtedness or obligation to the State. The bond proceeds issued under the bill must be used solely for military installation improvements. MMIC must submit a report to the General Assembly by May 1 annually on each bond issued, containing specified information on each military installation project.

Current Law: To address an excess capacity of military facilities, the U.S. Congress created a process in 1990 known as Base Realignment and Closure (BRAC). The most recent round of plans regarding military installations nationwide became effective in November 2005.

Chapter 335 of 2003 created the Maryland Military Installation Strategic Planning Council. After the approval of the 2005 BRAC plans, the State renamed the council to be the Maryland Military Installation Council. MMIC is charged with identifying:

- public infrastructure and other community support necessary to improve mission efficiencies and develop existing installations in the State;
- existing and potential impacts of encroachment on military installations in Maryland;
- potential State and community actions that may minimize the impacts of encroachment and enhance the long-term potential of military installations; and
- opportunities for collaboration among military contractors, academic institutions, local governments, the State, and military departments.

The council is also charged with reviewing State policies to identify actions necessary to provide State and local government support to the mission of each military installation in the State and to research how jurisdictions have addressed encroachment and partnership formation issues.

State Fiscal Effect: The bill authorizes the Office of the State Treasurer (STO) to issue an aggregate of $177.0 million in bonds from time to time for military installation improvements. While the bonds may be any type of indebtedness, such as revenue bonds, this analysis assumes STO issues general obligation (GO) bonds since the bill does not specify a revenue source. The GO bond program is administered by STO, and GO bonds are issued by the Board of Public Works (BPW), not STO, so this analysis also assumes BPW issues the bonds. Accordingly, bond revenues and expenditures increase by up to a total of $177.0 million by as early as fiscal 2023, assuming the bonds are issued and military installation improvements are made expeditiously. Since the true interest costs at recent bond sales have been less than the coupon rate, GO bonds have sold at a premium. If this continues, bond proceeds may exceed $177.0 million; thus, expenditures for military infrastructure improvements may increase accordingly.

Generally, GO bonds are funded through the State property tax, which accrues to the Annuity Bond Fund. However, in most years since the 1970s, property tax revenues have been insufficient to fully fund debt service, which has required annual general fund appropriations to make up the difference. Therefore, this analysis assumes that the debt service on the GO bonds authorized under the bill is paid for with general funds. Assuming a typical 5.00% interest rate on 15-year bonds, with the first 2 years being interest-only, debt service payments on a $177.0 million GO bond issuance are $8.85 million in fiscal 2023 and 2024 and about $18.8 million annually from fiscal 2025 through 2037, totaling $262.7 million. However, the actual debt service may vary depending on the timing and terms of the bonds issued.

The annual limit on GO bond authorization is recommended annually by the Capital Debt Affordability Committee (CDAC). The CDAC debt affordability criteria limit debt service to 8% of State revenues and 4% of State personal income. The CDAC recommendation is then taken under advisement by the legislative Spending Affordability Committee (SAC), which sets a limit for GO bond authorization for the next fiscal year. The Governor introduced the Fiscal 2023 Capital Budget (House Bill 301 and Senate Bill 291) authorizing new net GO bonds, after excluding deauthorizations and bond premiums, of $1.165 billion, which is the amount recommended by SAC. The Department of Legislative Services notes that the bonds authorized in the bill have not been considered as a part of the annual capital budget process, and STO notes the bill has an indeterminate impact on the debt affordability ratio. The bill may restrict GO bond issuance for other purposes in future years.

Office of Military and Federal Affairs

The Department of Commerce's Office of Military and Federal Affairs serves as the designated administrative management lead for MMIC. Commerce reports it has three current vacancies in its Office of Military and Federal Affairs. However, once it is fully restaffed, the bill's reporting requirement and any actions associated with the bond issuance can be absorbed within existing budgeted resources.

Federal Funds

The National Defense Authorization Act authorizes the U.S. Department of Defense to provide the Defense Community Infrastructure Program (DCIP) funding to local and state governments for infrastructure projects supporting military installation communities, such as transportation, schools, utility, emergency response, or some other community support facility. Eligibility for DCIP requires a state or local government non-federal match of at least 30% of the proposed shovel-ready infrastructure projects. Thirteen grants were awarded nationally in the second round of the DCIP, including one to St. Mary's County for $395,118 to undertake a $564,454 project to improve pedestrian access across

Route 235 to installation gates, supporting Naval Air Station Patuxent River. The bill may enable the State to leverage DCIP funding. To the extent that military installation improvement projects undertaken as a result of the bill are awarded DCIP funding, federal fund revenues and expenditures increase.

Base Realignment and Closure

Infrastructure investments in defense communities add to the military installation's military value, which is one of the factors scored in a BRAC decision. Thus, an increase in military installation improvements could help to position Maryland more favorably in any future round of BRAC.

Additional Comments: The Maryland Constitution requires any legislation authorizing the issuance of debt to provide for the collection of tax or taxes sufficient to service the debt. The Maryland Constitution restricts the final maturity of GO bonds to 15 years from the debt of issuance. STO advises that the bill does not meet these constitutional requirements.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): Department of Commerce; Maryland State Treasurer's Office; Department of Budget and Management; Military Department; U.S. Department of Defense; Department of Legislative Services

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