

**Department of Legislative Services**  
Maryland General Assembly  
2005 Session

**FISCAL AND POLICY NOTE**

House Bill 1578  
Appropriations

(Delegates Busch and Haynes)

Budget and Taxation

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**Baltimore City - Maryland Historical Society Loan of 1996**

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This bill requires the proceeds for the Baltimore City – Maryland Historical Society Loan of 1996 to be expended or encumbered by the Board of Public Works by June 1, 2006.

The bill takes effect June 1, 2005.

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**Fiscal Summary**

**State Effect:** Extending the deadline by which proceeds must be expended or encumbered would not materially affect State finances or operations.

**Local Effect:** The bill would not affect the finances or operation of Baltimore City.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 169 of 1996 authorized up to \$700,000 to the Maryland Historical Society, as grantee, for the repair, renovation, reconstruction, and capital equipping of the existing facilities and for the planning, design, construction, and capital equipping of new facilities in Baltimore City.

Chapter 153 of 2003 established a seven-year limitation on the authority to spend an appropriation for a capital expenditure and a seven-year limitation on the authorization for State debt.

**Background:** Under the Internal Revenue Code, an entity that sells tax-exempt bonds must spend down the proceeds within 18 to 24 months, depending on the project. The law prohibits entities that sell tax-exempt bonds from earning arbitrage, by which an entity earns a higher rate of interest from the investment of bond proceeds than the interest paid on the bonds. The accumulation of unexpended bond proceeds for projects over seven years old has resulted in the State earning arbitrage interest on the bond proceeds and becoming subject to a federal tax rebate liability. Chapter 153 was enacted to help prevent the State from incurring this liability in the future.

The grantee intended to use the funds from Chapter 290 to help defray costs for the completion of renovations and expansion of its headquarters at 201 W. Monument Street in Baltimore. The project has been completed at a total cost of approximately \$20.4 million. The matching funds for this project were certified on May 28, 1998; however, the grantee did not apply to receive payment of the State funds. Under Chapter 153, the entire amount of the State money became unavailable to the grantee on June 1, 2004 (rather than June 1, 2003, due to a grace period for debt authorized prior to June 1, 1997).

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 338 (Senators Miller and McFadden) – Budget and Taxation.

**Information Source(s):** Department of General Services, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 16, 2005  
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