

**Department of Legislative Services**  
Maryland General Assembly  
2009 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 1331

(Delegate Conway)

Environmental Matters

Budget and Taxation

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**Community Development Administration - Local Government Infrastructure  
Financing Program - Capital Reserve Funds**

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This bill authorizes the creation of one or more capital reserve funds to be administered by the Community Development Administration (CDA) to facilitate the financing of local government infrastructure projects. The funds may only be used to pay the principal of, and premium and interest on, CDA bonds and obligations secured by the capital reserve fund. If the balance of a capital reserve fund falls below the minimum capital reserve requirement established by CDA, then CDA (1) may not purchase or redeem any bonds or other obligations; and (2) must replenish the fund, first from available operating revenues generated by infrastructure projects, and second, from funds advanced from the Comptroller for this purpose out of the Local Government Infrastructure Financing Program Capital Reserve Fund Loan to be established contingent on the enactment of this bill, or any other bond bill enabling act for this purpose.

The bill takes effect June 1, 2009, contingent on the enactment of legislation authorizing the issuance of general obligation debt to replenish the capital reserve fund.

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**Fiscal Summary**

**State Effect:** Nonbudgeted bond revenue may increase beginning in FY 2010 to provide money for the capital reserve fund. Nonbudgeted expenditures may then increase beginning in FY 2010 to cover debt service payments for the fund, but are likely to be fully offset with revenue from local government payments based in part on revenue from local government infrastructure projects.

**Local Effect:** Local government debt service payments may decrease in future years to the extent that the capital reserve fund established by the bill is effective in providing credit enhancement for the issuance of county and municipal bonds.

**Small Business Effect:** None.

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## **Analysis**

**Current Law:** The Local Government Infrastructure Program is one of the 18 units established in the Division of Development Finance at the Department of Housing and Community Development (DHCD). Another unit, CDA, is authorized to purchase local government debt obligations for the financing of infrastructure projects.

**Background:** According to DHCD, the Local Government Infrastructure Program has financed \$243 million in infrastructure investment, primarily in smaller, less affluent communities. Local government infrastructure financing projects are often initiatives that cannot be funded through limited State resources, including municipal public works facilities and trucks, town halls, fire stations, police cars, and communication, water, and sewer infrastructure systems. Local government participants in the program have never defaulted on a bond payment. While the program previously used private municipal bond insurers to provide credit enhancement in order to achieve affordable interest rates for local governments, many of these insurers have recently gone out of business or are no longer in the business of insuring small bond issuances for local government infrastructure projects.

**State Fiscal Effect:** The bill creates capital reserve funds that enable DHCD to insure its own loans rather than using a private insurer. The capital reserve fund will be financed with local government infrastructure financing bond proceeds obtained through the issuance of the infrastructure bonds. If the capital reserve funds become depleted, the Comptroller may advance \$2 million in general obligation bond proceeds made available by separate legislation contingent on the passage of this bill, or funds from any other bond bill enabling act for this purpose.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 931 (Senator Currie) - Budget and Taxation.

**Information Source(s):** Carroll County, Harford County, Montgomery County, Department of Budget and Management, Department of Housing and Community Development, State Treasurer's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - March 13, 2009  
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