

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 459

(Senator Madaleno, *et al.*)

Budget and Taxation

Maryland Consolidated Capital Bond Loans of 2002, 2003, 2004, and 2007 -
Victory Youth Centers

This bill redirects grant monies authorized for the Wheaton Multi-Purpose (Multi-Service) Victory Youth Center in the Maryland Consolidated Capital Bond Loans of 2002, 2004, and 2007 to Victory Youth Centers located in Darnestown and Southeast Washington, DC. Of the total \$675,000 previously authorized, \$300,000 is dedicated to the project in Southeast Washington, DC and \$375,000 is dedicated to the Darnestown location.

The bill amends the name of the loan to Victory Youth Center; changes the purpose of the grants to include repair and renovation; and repeals planning, design, and demolition of existing buildings and related worksite development as authorized uses. The bill also extends the deadline to encumber or expend funds authorized by Chapter 290 of 2002 to June 1, 2011.

The bill takes effect June 1, 2009.

Fiscal Summary

State Effect: The bill does not directly affect governmental operations or finances.

Local Effect: The bill does not directly affect the finances or operations of Montgomery County.

Small Business Effect: None.

Analysis

Current Law: The Maryland Consolidated Capital Bond Loan of 2002 authorized up to \$175,000 in matching funds to the Board of Directors of the Victory Youth Center, Inc. to assist in the design, construction, and capital equipping of the Wheaton Multi-Purpose Youth Center in Wheaton. The Maryland Consolidated Capital Bond Loans of 2003, 2004, and 2007 authorized up to \$500,000 in additional matching funds to the Board of Directors of the Victory Youth Center, Inc. for the planning, design, and demolition of existing buildings and related site work, development, construction and capital equipping of the Wheaton Multi-Service Youth Facility in Wheaton. (The 2004 authorization allocated preauthorized funds from 2003 to the project. The project was not specified in the 2003 preauthorization.)

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. The Act applies to all debt authorized on or after June 1, 1997.

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.

Background: Montgomery County advises that it will not provide any matching funds for this project. The 2002, 2004, and 2007 grants were match-funded by the county to build a youth facility located in Wheaton through a contract established in 2002. In 2007, the county terminated the contract with Victory Youth Center, Inc. and withdrew its matching fund contributions due to the grantee's failure to comply with the terms of the contract. The county advises that it is in the process of reconciling the financial obligations of the parties under the terminated contract.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Department of General Services,
Montgomery County, Department of Legislative Services

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ncs/rhh

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