HB 1185

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE
Revised

House Bill 1185(Delegate Rawlings, et al.)
Economic Matters | Referred to Budget and Taxation

Maryland Industrial Development Financing Authority

This amended bill allows the Bond Insurance Fund to include agreements from a "contributor" to deposit moneys in the fund or to pay moneys on behalf of the Maryland Industrial Development Financing Authority (MIDFA) to recipients of financial assistance. Any such money committed by agreement must be included in the total aggregate balance of the fund. The bill provides that the legislative body of the county or municipality in which the facility is located does not have to adopt a resolution prior to the issuance and sale of bonds by MIDFA for bonds issued to finance the cost of acquisition of machinery, equipment, or furnishings. MIDFA must notify the legislative body of the local jurisdiction when issuing such bonds.

The bill is effective July 1, 1996.

Fiscal Summary

State Effect: Potential increase in special fund expenditures; revenues would not be affected.

Local Effect: None.

Fiscal Analysis

State Effect: Under the bill, MIDFA could potentially be able to reinsure part of its bond portfolio through a private reinsurance company. To the extent that a private insurer would assume the insurance for certain bonds, moneys in the bond insurance fund would be freed up to cover additional bond amounts. The $20.5 million currently in the fund can provide $102.5 million in bonding capacity due to a 5 to 1 leveraging ratio under current law. MIDFA has issued $90.6 million in insurance with an additional deal underway for $5 million. At this level, MIDFA cannot pursue more than $6.9 million in additional bond issuances until some of the bonds are paid off or some part of its portfolio is reinsured. A private reinsurer would assume the risk for the bond and collect the premium payments made on the insurance. However, it is unlikely that any reinsurers would be willing to accept any part of the portfolio for the current premium amounts. Therefore, either the State would have to subsidize the premiums or the bonds going to the reinsurers would be new issuances at a higher premium rate. In addition, it is likely that reinsurers would be interested in the bonds issued for companies with healthy financial situations; if the portfolios taken over by reinsurers only consist of such companies then the overall MIDFA portfolio could weaken.

The bill also allows a pension fund, retirement fund, or other party to deposit moneys in the Bond Insurance Fund. To the extent that such funds are received, MIDFA's aggregate fund balance would increase as could its leveraged bond issuances. However, the bill is unclear on how such funds would be attained and what rates of return would be paid to investors. Investors could possibly receive the premiums from the bond issuances; however, such a return would be insufficient incentive for investment.

Finally, the bill sets up a separate procedure for the issuance of bonds for the acquisition of machinery, equipment, or furnishings. The Department of Business and Economic Development (DBED) advises that this would allow the issuance of bonds for less than $2 million for small businesses. Working in conjunction with General Electric Capital Corporation (GECC), MIDFA would provide tax exempt financing to manufacturers. At this time, it is unclear how this arrangement would affect revenues and expenditures. Should issuing bonds to such companies be more risky than current ventures, then expenditures due to defaults could increase.

Information Source(s): Department of Business and Economic Development, Department of Fiscal Services

Fiscal Note History: First Reader - March 8, 1996
ncs Revised - House Third Reader - March 27, 1996

Analysis by: Kim E. Wells
Reviewed by: John Rixey
Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710