

Department of Legislative Services  
Maryland General Assembly  
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 92

(Senators Mooney and Brinkley)

Budget and Taxation

Appropriations

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**Frederick County - Bond Rating Enhancement Reserve and Appropriation**

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This bill requires the Frederick County Commissioners to establish and maintain a bond rating enhancement reserve fund and establish criteria for maintaining the fund. The bill also authorizes the Frederick County Commissioners to increase appropriations and expend the increased appropriations. Additionally, the bill requires the county commissioners to: (1) establish, by ordinance, criteria for increasing appropriations and expending the increased appropriations; and (2) require that the increase in appropriations be derived from the county's unappropriated, undesignated general fund balance or bond rating enhancement reserve fund.

The bill takes effect July 1, 2004.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Frederick County finances would not be materially affected by the establishment and maintenance of a bond rating enhancement reserve fund.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** The Frederick County Commissioners have the authority to create a bond rating enhancement reserve but are not required to do so. Additionally, the Frederick County Commissioners are required to maintain an unappropriated, undesignated general fund balance in the amount of 5% of the general fund expenditures and transfers to the

Board of Education and the Frederick Community College for the prior fiscal year with the purpose of protecting the financial integrity of county government and to provide sufficient liquidity for daily operations.

Generally, every county in Maryland except Caroline, Charles, Garrett, Somerset, and Talbot counties has a revenue stabilization fund or rainy day fund that acts to either preserve the county's bond rating or to reserve funds for maintaining expenditures in the event of revenue shortfalls. Specifically, Harford County designates its revenue stabilization fund for the purpose of credit rating enhancement, and Carroll and St. Mary's counties designate their revenue stabilization fund in part to enhance their credit rating.

**Background:** The Frederick County Commissioners unanimously adopted an ordinance on September 25, 2003, that established a bond rating enhancement reserve fund. By June 30, 2010, the county commissioners intend to build the reserve fund to an amount no less than 3% of the county's general fund expenditures and transfers to the Board of Education, the Frederick Community College, and the Frederick County Public Library.

The county commissioners have already provided \$2 million for the bond rating enhancement reserve fund. For illustrative purposes only, fiscal 2002 general fund expenditures in Frederick County including transfers to the Board of Education, the Frederick Community College, and the Frederick County Public Library totaled \$257.0 million. Accordingly, 3% of \$257.0 million is approximately \$7.7 million.

Frederick County currently has an AA credit rating from Standard and Poors, an Aa2 credit rating from Moody's Investors Service, and an AA+ rating from Fitch.

An unappropriated, undesignated general fund balance is county revenues that have not been designated for a specific purpose and are typically held in reserve to maintain county expenditures in the event of short-term revenue shortfalls.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Frederick County, Department of Legislative Services

**Fiscal Note History:** First Reader - January 26, 2004  
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