

**Department of Legislative Services**  
Maryland General Assembly  
2004 Session

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

House Bill 355

(Delegate Minnick)  
(Baltimore County Administration)

Appropriations

Budget and Taxation

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**Redhouse Run Stormwater Systems Loan of 1984**

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This emergency bill extends the deadline, to June 1, 2005, for the loan proceeds for the Redhouse Run Stormwater Systems Loan of 1984 to be encumbered by the Board of Public Works or expended for the project's purposes.

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**Fiscal Summary**

**State Effect:** Extending the deadline for the encumbrance or expenditure of funds would not materially affect State finances.

**Local Effect:** Baltimore County would continue to be eligible to receive approximately \$1.7 million related to the stormwater systems along Redhouse Run in the county.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** As amended by Chapter 138 of 1985, Chapter 389 of 1984 authorized up to \$3 million in matching funds to the County Executive and County Council of Baltimore County, as grantee, for the reconstruction, rehabilitation, renovation, reequipping, restoration, and improvement of the stormwater systems along Redhouse Run in Baltimore County.

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 matching funds for this project were certified prior to 1990. The entire amount of the project expense must be encumbered or expended before the State's matching funds are released; however, only part of the amount has been encumbered or expended. To date, approximately \$4.3 million has been encumbered or expended, including approximately \$1.3 million in State matching funds. Under Chapter 153, approximately \$1.7 million in State matching funds is no longer available to the grantee.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 161 (Senators Stone and Klausmeier) – Budget and Taxation.

**Information Source(s):** Baltimore County, Department of Budget and Management, Department of General Services, Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - February 2, 2004  
mh/ljm Revised - House Third Reader - March 26, 2004

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