

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 565

(Senator Grosfeld)

Budget and Taxation

Appropriations

Montgomery County - Kensington Community Center Loan of 1993

This emergency bill extends the deadline, to June 1, 2005, for the loan proceeds for the Kensington Community Center Loan of 1993 to be encumbered by the Board of Public Works (BPW) or expended for the project's purposes.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Chapter 611 of 1993, as amended by Chapter 208 of 2002, authorized up to \$150,000 in matching funds to the Mayor and Town Council of Kensington, as grantee, for the repair, rehabilitation, reconstruction, and equipping of the Kensington Community Center in Kensington, Maryland. Chapter 208 authorized the required match to be certified by June 1, 2004.

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 match was certified before the original June 1, 1995 deadline. The entire amount of the project expense must be encumbered or expended before the State's matching funds are released. The entire \$300,000 has been encumbered but not expended. However, since the amount was encumbered, the grantee has elected to change vendors on the contract for which the money was encumbered. BPW must now amend the current encumbrance by deleting the existing contractor and adding the new contractor. It is unclear whether the entire amount will be encumbered under the new contract.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 1, 2004
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