

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

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

House Bill 1548 (Delegate G. Clagett)  
Appropriations

Budget and Taxation

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**Frederick County - The Carroll Creek Project Loan of 1987**

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This emergency bill extends the deadline, to June 1, 2005, for the loan proceeds from the Frederick County – The Carroll Creek Project Loan of 1987 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 expenditure or encumbrance of funds would not materially affect State finances.

**Local Effect:** The City of Frederick would be eligible to receive approximately \$1.067 million from the grant authorized by Chapter 409 of 1897.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 409 of 1987 authorized up to \$2,000,000 in matching funds to the City of Frederick, as grantee, to assist in the construction of Phase III of the Carroll Creek Project, between South Market Street and South Carroll Street in the City of Frederick.

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 in October 1988. Approximately \$537,000 in State matching funds has been released to the grantee and expended. Another \$396,000 has been encumbered. Under Chapter 153, approximately \$1,067,000 in State matching funds would no longer be available to the grantee.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Comptroller's Office, Department of Legislative Services

**Fiscal Note History:** First Reader - April 8, 2004  
ncs/jr Revised – Updated Information - April 12, 2004

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