

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

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

Senate Bill 109

(Senator Middleton)

Budget and Taxation

Appropriations

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**Charles County - Bel Alton High School Loan of 1996**

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This emergency bill extends the deadline, to June 1, 2006, for the loan proceeds for the Bel Alton High School Loan of 1996 to be expended or encumbered by the Board of Public Works 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:** None.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 130 of 1996 authorized up to \$250,000 in matching funds to the Bel Alton High School Alumni Restoration Committee, as grantee, for the repair, renovation, rehabilitation, and capital equipping of the Bel Alton High School in Charles County, to be used as a multiservice center.

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 2003. 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 \$293,000 has been encumbered or expended, including approximately \$43,000 in State matching funds. Under Chapter 153, approximately \$207,000 in State matching funds is no longer available to the grantee.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Charles 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  
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