

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 891
Appropriations

(Allegany County Delegation)

Budget and Taxation

Maryland Consolidated Capital Bond Loan of 1998 - Western Maryland Flood
Mitigation

This bill requires the proceeds of the Western Maryland Flood Mitigation project in the Maryland Consolidated Capital Bond Loan of 1998 to be encumbered by the Board of Public Works (BPW) or expended by June 1, 2006.

The bill takes effect June 1, 2005.

Fiscal Summary

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

Local Effect: Allegany County advises that approximately \$200,000 in State funds could no longer be available as of June 1, 2005 if the bill does not pass.

Small Business Effect: None.

Analysis

Current Law: Chapter 138 of 1998 authorized \$405,716,000 for capital projects throughout the State under the Maryland Consolidated Capital Bond Loan of 1998. Of that, Chapter 138 authorized a grant of \$3,252,000 to the Board of Commissioners of Allegany County for the planning, design, repair, renovation, and reconstruction of facilities and structures damaged by recent floods.

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.

Local Fiscal Effect: The Comptroller's Office advises that, of the \$3,252,000 authorized under Chapter 138, the grantee has spent \$2,711,157 on the project to date, leaving \$540,843 available. As the Comptroller advises that BPW has encumbered \$3,495,346, more than the amount of the grant, the grantee may be reimbursed for its expenditures or have the contractors paid directly by presenting invoices to the Comptroller, up to the remaining available amount. However, the grantee intends to abandon at least one project for which funds have already been encumbered and instead will move forward with a similar project. The encumbrance for the abandoned project would be cancelled with the intent of re-encumbering the funds for the new project. Additional time is needed to do so. The grantee advises that it could lose approximately \$200,000 under Chapter 153 on June 1, 2005.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Allegany County, Department of General Services, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - February 18, 2005
n/ljm

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