Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 1016 (Senator McFadden)
Budget and Taxation Appropriations

Baltimore City - Human and Community Development Centers Loan of 1998

This bill provides that the proceeds of the loan for the Baltimore City – Human and Community Development Centers Loan of 1998 must be expended or encumbered by the Board of Public Works for the loan's purposes by June 1, 2006. Any amount of the authorization that is unencumbered or unexpended after that date must be canceled and will have no further effect. If bonds have been issued for the loan, the unexpended or unencumbered amount must be disposed of as required under provisions governing unspent bond proceeds.

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: The bill would not affect the finances or operations of Baltimore City.

Small Business Effect: None.

Analysis

Current Law: Chapter 180 of 1998 authorized up to $200,000 in matching funds to the Board of Directors of the Apostolic Development Corporation, as grantee, for the planning, design, construction, repair, renovation, and capital equipping and furnishing of facilities located at 20 and 40 South Caroline Street in Baltimore City to be known as the East Harbor Community Empowerment Center and the Family Life Community

Multipurpose Center. The facilities are to be used for family services for low-income people.

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.

Under the provisions governing unspent bond proceeds, the Governor must dispose of unspent proceeds within one year after the later of abandonment, completion, or acceptance of a project or program. The Governor must use the proceeds to reduce State debt authorizations, allocate the proceeds to the Construction Contingency Fund, or order the proceeds to be credited to the Annuity Bond Fund.

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 grantee's matching funds for Chapter 180 were certified August 30, 2000. Of the $200,000 available under Chapter 180, none has been encumbered. Under Chapter 153, the entire amount of the State's grant would no longer be available to the grantee on June 1, 2005. The grantee has expended approximately $200,000 on the project; however, the expenditures have not yet been certified by the Board of Public Works. Because expenditures are first credited to the grantee's matching funds, the State's grant would remain unavailable.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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