

**Department of Legislative Services**  
Maryland General Assembly  
2006 Session

**FISCAL AND POLICY NOTE**

House Bill 1221  
Appropriations

(Delegates Minnick and Weir)

Budget and Taxation

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**Redhouse Run Stormwater Systems Loan of 1984**

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This bill extends the deadline, from June 1, 2006 to June 1, 2007, for the proceeds of the Redhouse Run Stormwater Systems Loan of 1984 to be encumbered by the Board of Public Works or expended by the County Executive and County Council of Baltimore County, as grantee.

The bill takes effect June 1, 2006.

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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:** Baltimore County would continue to be eligible to receive approximately \$522,000 related to the stormwater systems along Redhouse Run in the county.

**Small Business Effect:** None.

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**Analysis**

**Current Law:** As amended by Chapter 138 of 1985 and Chapter 28 of 2004, Chapter 389 of 1984 authorized up to \$3 million in matching funds to the grantee for the reconstruction, rehabilitation, renovation, reequipping, restoration, and improvement of the stormwater systems along Redhouse Run in Baltimore County.

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 prior to 1990. The remaining amount of the State's \$3 million grant that has yet to be distributed to the grantee is approximately \$852,000. Of that, approximately \$522,000 has not yet been encumbered and would be lost to the grantee without the bill's passage.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 720 (Senator Stone) – Budget and Taxation.

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

**Fiscal Note History:** First Reader - February 23, 2006  
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