

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 984

(Senator McFadden)

Budget and Taxation

Appropriations

Baltimore City - Community Initiatives Academy Loan of 1999

This bill provides that the proceeds of the Baltimore City – Community Initiatives Academy Loan of 1999 must be encumbered by the Board of Public Works or expended by June 1, 2008.

The bill takes effect June 1, 2006.

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.

Analysis

Current Law: Chapter 555 of 1999 authorized up to \$200,000 in matching funds to the Board of Directors of Community Initiatives, Inc., as grantee, for the planning, design, construction, and capital equipping of the Community Initiatives Academy, an educational institution to serve underserved inner-city students from kindergarten through grade 12 in a multi-cultural urban environment.

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 fund for this project was certified in 2002. To date, approximately \$80,800 has been encumbered for this project, although the grantee has not presented receipts to the Comptroller representing spending on the project. This total includes approximately \$40,400 of the \$200,000 State grant. Under Chapter 153, approximately \$159,600 would no longer be available after June 1, 2006.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 20, 2006
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Analysis by: T. Ryan Wilson

Direct Inquiries to:
(410) 946-5510
(301) 970-5510