

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 1141 (Delegate Kullen)  
Appropriations

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Calvert County - Chesapeake Beach Railway Trail Loan of 2001

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This bill extends the deadline to June 1, 2011 for the Mayor and Town Council of the Town of Chesapeake Beach, as grantee, to expend or encumber funds provided in the Chesapeake Beach Railway Trail Loan of 2001.

The bill takes effect June 1, 2008.

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Fiscal Summary

**State Effect:** Extending the deadline would not materially affect State finances or operations.

**Local Effect:** Potential increase in expenditures for the Town of Chesapeake Beach, as grantee, if authorization for State debt expires before funds can be encumbered or expended.

**Small Business Effect:** None.

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Analysis

**Current Law:** Chapter 175 of 2001 authorized \$250,000 for the planning, design, and construction of facilities for the Chesapeake Beach Railway Trail.

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. The Act applies to all debt authorized on or after June 1, 1997.

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, creating a federal tax rebate liability.

**Background:** The Chesapeake Beach Railway Trail will include paved trails, timber walkways, and bridges. The Town of Chesapeake Beach advises that there have been delays in obtaining the appropriate permits, and the town is awaiting approval from the State Highway Administration to proceed with the project. The project will go to bid soon after final approval; the town expects that funds will be encumbered or expended in the next year.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 734 (Senator Miller) – Budget and Taxation.

**Information Source(s):** Town of Chesapeake Beach, Department of General Services, Department of Legislative Services

**Fiscal Note History:** First Reader - February 25, 2008  
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