

**Department of Legislative Services**  
Maryland General Assembly  
2008 Session

**FISCAL AND POLICY NOTE**

Senate Bill 279 (Senator McFadden)  
Budget and Taxation

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**Baltimore City - Community Initiatives Academy Loan of 1999**

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This bill extends the deadline to June 1, 2009 for the Board of Directors of Community Initiatives, Inc., as grantee, to encumber or expend funds provided in the Community Initiatives Academy Loan of 1999.

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

**Small Business Effect:** None.

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**Analysis**

**Current Law:** Chapter 555 of 1999 – as amended by Chapter 30 of 2001, Chapter 188 of 2002, and Chapter 550 of 2006 – authorized up to \$200,000 in matching funds for the planning, design, construction, renovation, reconstruction, repair, and capital equipping of the Community Initiatives Academy in Baltimore City. The grantee was required to present evidence to the Board of Public Works by June 1, 2004 that a matching fund would be provided, which was authorized to include funds expended prior to June 1, 1999. Proceeds of the loan must be expended or encumbered no later than June 1, 2008.

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 Community Initiatives Academy is an educational institution that serves students from kindergarten through grade 12 in a diverse, urban environment. Matching funds for the project were certified by the Board of Public Works in May 2002. The majority of funds authorized for the project have been expended, with approximately \$60,000 remaining as of January 2008. The grantee has identified a new location for the academy and will move from the current location in June 2008; final arrangements are being made with the property owner at the new location to lease or purchase the facility.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of General Services, Baltimore City, Community Initiatives Academy, Department of Legislative Services

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