

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 932

(Senator Currie)

Budget and Taxation

Appropriations

**Creation of a State Debt - Community Development Administration - Local
Government Infrastructure Financing Program**

This bill authorizes the Board of Public Works to issue up to \$2 million in general obligation bonds to replenish specified capital reserve funds to be established and administered by the Community Development Administration (CDA) contingent on the enactment of this bill. The bonds may only be issued if (1) the balance of a capital reserve fund falls below the minimum capital reserve requirement; and (2) operating revenues generated by the local government infrastructure projects for which the capital reserve funds support are insufficient. It is the intent of the General Assembly that the general obligation bonds not be included as part of the annual general obligation debt limit unless and until the bonds are issued.

The bill takes effect June 1, 2009, contingent on the enactment of legislation authorizing creation of one or more capital reserve funds to facilitate the financing of local government infrastructure projects.

Fiscal Summary

State Effect: General obligation bond revenue may increase by up to \$2 million in the fiscal year in which any bonds are issued. Corresponding debt service expenditures increase by an estimated \$195,000 annually over a 15-year period.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: The Local Government Infrastructure Program is one of the 18 units established in the Division of Development Finance at the Department of Housing and Community Development (DHCD). Another unit, CDA, is authorized to purchase local government debt obligations for the financing of infrastructure projects.

Background: According to DHCD, the Local Government Infrastructure Program has financed \$243 million in infrastructure investment, primarily in smaller, less affluent communities. Local government infrastructure financing projects are often initiatives that cannot be funded through limited State resources, including municipal public works facilities and trucks, town halls, fire stations, police cars, and communication, water, and sewer infrastructure systems. Local government participants in the program have never defaulted on a bond payment. While the program previously used private municipal bond insurers to provide credit enhancement in order to achieve affordable interest rates for local governments, many of these insurers have recently gone out of business or are no longer in the business of insuring small bond issuances for local government infrastructure projects.

State Fiscal Effect: General obligation bond revenue may increase by up to \$2 million in the fiscal year in which any bonds are issued. Special fund revenues at CDA may increase by up to \$2 million to the extent that the Comptroller advances the proceeds of the bonds issued under the bill. State expenditures may increase by \$195,000 in the first year in which the bonds are issued and by \$2.9 million for total debt service payments over 15 years, assuming a coupon rate of 5%. To the extent that the bond issuance or interest rate deviate from this assumption, expenditures adjust accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Housing and Community Development, Department of Legislative Services

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ncs/hlb

Analysis by: Evan M. Isaacson

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