

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

Senate Bill 47

(Senator Madaleno)

Budget and Taxation

Appropriations

**Maryland Consolidated Capital Bond Loans of 2002 and 2009 - Montgomery
County - MacDonald Knolls Center**

This emergency bill extends the deadline to June 1, 2013, for the Board of Directors of CHI Centers, Inc. to present evidence of a matching fund for the MacDonald Knolls Center Project, as specified by the Maryland Consolidated Capital Bond Loan of 2009. The bill also specifies that the proceeds of that loan, as well as the grant authorized by the Maryland Consolidated Capital Bond Loan of 2002 (as amended by Chapter 707 of 2009), must be encumbered by the Board of Public Works or expended by the grantee by June 1, 2014.

Fiscal Summary

State Effect: The bill does not materially affect governmental operations or finances.

Local Effect: The bill does not directly affect the finances or operations of Montgomery County.

Small Business Effect: None.

Analysis

Current Law: Chapter 290 of 2002 (as amended by Chapter 707 of 2009) authorized a \$175,000 grant to the Board of Directors of CHI Centers, Inc. for the construction, reconstruction, repair, renovation, and capital equipping of the MacDonald Knolls Center, located in Silver Spring. Chapter 707 of 2009 required that grant proceeds must be expended or encumbered by the Board of Public Works by June 1, 2011.

Chapter 485 of 2009 authorized \$100,000 in matching funds to the Board of Directors of CHI Centers, Inc. for the repair, renovation, reconstruction, and capital equipping of the MacDonald Knolls Center. Chapter 485 required the grantee to present evidence of the existence of matching funds by June 1, 2011. Matching funds may not consist of real property, in-kind contributions, or funds expended prior to the June 1, 2009 effective date of Chapter 485.

Between 2003 and 2009 the State authorized roughly \$1.2 million in additional matching funds for this project.

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 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.

Background: CHI Centers, Inc. – the grantee – offers services and programs to adults from Howard, Montgomery, and Prince George’s counties who have developmental disabilities. Services offered include vocational training, job placement, life skills, and recreation. According to the grantee, the MacDonald Knolls renovation project is necessary as minimal renovations have been undertaken since the facility was built in the 1950s. Various upgrades to the facility are needed, including (1) renovating the interior of the building so that services may be offered to more local residents; (2) addressing electrical, plumbing, and mechanical issues; (3) becoming compliant with local and State building codes; and (4) meeting accessibility requirements of the Americans with Disabilities Act.

The grantee advises that the architectural design for the building was approved by the Board of Public Works, but subsequently several setbacks have occurred delaying the construction schedule for the project. For instance, the grantee advises that the project’s engineer determined that the building’s floor and ceiling tiles contain asbestos, which must be removed before continuing the renovation. In addition, the fire marshal is requiring extensive upgrades to the fire suppression system, which requires installing a large water pipe from the Washington Suburban Sanitary Commission pipes to the building.

According to the grantee, \$200,000 is included in Montgomery County's fiscal 2012 capital budget for this project; these monies will be used to present evidence of the existence of a matching fund for the 2009 grant.

Additional Information

Prior Introductions: SB 892 of 2011, a similar bill, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken.

Cross File: HB 176 (Delegate Gutierrez, *et. al.*) – Budget and Taxation.

Information Source(s): Department of General Services, CHI Centers, Montgomery County, Department of Legislative Services

Fiscal Note History: First Reader - January 30, 2012
mlm/ljm

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