**SB 104**

# Department of Legislative Services

Maryland General Assembly
2016 Session

## FISCAL AND POLICY NOTE
**Third Reader**

Senate Bill 104 (Chair, Education, Health, and Environmental Affairs Committee)(By Request - Departmental - Housing and Community Development)

Education, Health, and Environmental Affairs Environment and Transportation

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**Housing and Community Development - Local Government Infrastructure Projects - Financing**

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This departmental bill authorizes a county to pledge, on behalf of a municipal corporation located in the county, the faith and credit of the county, or specific revenue of the county, for local infrastructure projects.

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## Fiscal Summary

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

**Local Effect:** Local governments are impacted to the extent they choose to enter into agreements to finance infrastructure loans under the bill's provisions. Because the bill allows counties to pledge specified resources on behalf of municipalities, municipalities may be able to obtain lower interest rates on infrastructure loans, thereby reducing their total expenditures. The fiscal impact on a county that chooses to pledge on behalf of a municipality depends on the size of the debt incurred, the interest rate, the term of the loan, and the ability of the municipality to repay the loan.

**Small Business Effect:** The Department of Housing and Community Development (DHCD) has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

## Analysis

**Bill Summary:** The bill adds a method of securing financing for a local infrastructure loan through the Local Government Infrastructure Financing Program under the Community Development Administration (CDA) within DHCD. The bill authorizes (but does not require) a county to pledge, on behalf of a municipal corporation located in the county, the faith and credit of the county, or specific revenue of the county. A pledge by a county must be authorized by an ordinance or a resolution of the county. The pledge cannot exceed existing charter or statutory limits on the power of the county to make the pledge. Each ordinance or resolution enacted must:

- be adopted by the governing body of the county;
- be approved by the chief executive officer, if any, of the county; and
- have the force of law.

If a local obligation is secured by a pledge of the faith and credit of a county to make prompt payment from the tax and other revenues described in the enabling resolution or ordinance, the pledge is a covenant to levy taxes sufficient to pay the principal of and interest on the local obligation when due (1) on all real and tangible personal property that is within the corporate limits of the county and subject to assessment for unlimited *ad valorem* taxation and (2) in each year in which the local obligation is outstanding.

If a local obligation is secured by a pledge of specific revenue of a county, the specific revenue of the county may include:

- payments to the issuer from the State or federal government;
- special benefit assessments, taxes, fees, or service charges that the county has authority to impose, levy, or charge; and
- revenue of the county expected to be generated by the infrastructure project to be financed.

**Current Law:** A political subdivision (defined as any county or municipal corporation of the State) may agree with CDA to pledge any money (including a share of income tax) that the political subdivision is entitled to receive from the State. A county, however, is not currently authorized to pledge money or a share of income taxes *on behalf of* a municipal corporation located within the county.

Infrastructure projects include streets, sidewalks, curbs, sewer and water systems, bridges, and public buildings that are owned by a political subdivision or a governmental unit of a political subdivision. A project, undertaking, or facility qualifies as an infrastructure project if it is planned, acquired, owned, developed, constructed, reconstructed, rehabilitated, or improved by or on behalf of a political subdivision to provide the essential physical elements that are the basis of the public service system.

**Background:** DHCD advises that the bill is intended to facilitate cooperation between counties and municipalities to finance infrastructure needs. By leveraging a county's credit rating and guaranteeing the loan, the bill allows a municipality to borrow at a rate better than its own credit would otherwise allow.

Under the Local Government Infrastructure Financing Program, CDA issues tax-exempt bonds, on behalf of counties, municipalities and/or their instrumentalities, as a way of generating capital and loans the bond proceeds to local governments. The interest rate on the local government loans is subject to market conditions at the time of sale, based upon the rate attained on CDA's pooled bond issue. Local governments are responsible for repaying the debt incurred through the bond financing and for paying their *pro rata* share of the costs of issuance of the pooled bonds. To secure payment of the loans and to enhance the marketability of the bonds that are sold to fund the loans, each participant pledges its full faith and credit to make payment on the loan. The State does not guarantee the bonds.

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## Additional Information

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Dorchester and Montgomery counties, Maryland Association of Counties, Maryland Municipal League, Department of Housing and Community Development, Department of Legislative Services

**Fiscal Note History:** First Reader - January 25, 2016
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Analysis by: Eric Pierce

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

## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

**TITLE OF BILL:** Housing and Community Development – Local Government Infrastructure Project Financing

**BILL NUMBER:** **SB 104**

**PREPARED BY:** J. Hunter Pickels, Director of Legislative Affairs
Department of Housing and Community Development

### PART A: ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

### PART B: ECONOMIC IMPACT ANALYSIS

This proposed legislation will have minimal economic impact.