SB 508

Department of Legislative Services

Maryland General Assembly
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FISCAL AND POLICY NOTE
Revised

Senate Bill 508 (The President) (By Request – Administration)
Budget and Taxation Ways and Means and Appropriations

Budget Reconciliation and Financing Act of 2004

This Administration bill consolidates into one bill most of the provisions necessary to bring the fiscal 2005 budget into balance. The bill preserves general funds by providing relief from mandated funding levels, in some cases deferring or eliminating funding requirements; expanding the use of specified existing special funds; and withdrawing fiscal 2004 appropriations, primarily due to receipt of one-time federal financial assistance. The bill also raises new general fund revenues, largely from a combination of one-time transfers and ongoing fee and tax changes. New special fund revenue is also raised by increasing fees for specified programs, thereby reducing the reliance on general fund support for these programs. The bill repeals obsolete provisions of law, codifies mandated funding and current practice, provides for increased oversight or accountability in certain areas, prohibits certain spending, authorizes or requires other spending, and makes technical corrections. The bill includes a severability provision.

The fiscal 2005 budget includes general fund reductions totaling $45.1 million as well as deficiency general fund appropriations of almost $3.9 million, contingent upon enactment of this bill.

The bill takes effect June 1, 2004, but provisions related to fees, abandoned property, and taxes take effect July 1, 2004.

Fiscal Summary

State Effect: General fund revenues increase by $367.4 million in FY 2005, largely from a combination of one-time transfers and ongoing fee and tax changes. General fund expenditures are reduced by $32.7 million in FY 2005. Although not shown below, general fund revenues increase by $8.2 million and general fund expenditures decrease by $122.3 million in FY 2004, primarily due to withdrawn appropriations. The net impact on the general fund over FY 2004 and 2005 is $530.5 million. The longer-term impact on the general fund is minimal as ongoing new revenues are offset by increased spending due to provisions in the bill. Special fund revenues increase by $4.1 million in FY 2005, with special fund expenditures reduced by $130.5 million, primarily related to one-time transfers to the general fund. In FY 2007 and subsequent years, the special fund revenue increases are more than offset by special fund expenditure growth.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	$367,405,752	$92,959,430	$69,994,307	$81,037,002	$87,838,069
SF Revenue	4,113,599	51,603,964	(9,799)	339,846	453,257
GF Expenditure	(32,656,718)	111,835,099	65,768,326	85,774,965	104,016,208
SF Expenditure	(130,497,042)	(37,284,585)	2,820,322	2,564,852	2,584,904
FF Expenditure	1,827,646	984,376	1,827,646	1,827,646	1,827,646
Net Effect	$532,845,465	$69,028,504	($431,786)	($8,790,615)	($20,137,432)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: The bill has a significant impact on local jurisdictions. While local governments receive a one-time transfer of $81.0 million in FY 2005, highway user revenues are reduced by $51.2 million due to transfer of those funds to the general fund. However, certain provisions in the bill could increase local income tax revenues as well as highway user revenues. Local health departments will be able to offset their costs related to certain regulatory functions due to doubling of the statutory caps on fees charged. The bill also reduces education aid by shifting certain costs to local school systems. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note.

Analysis

The provisions in the bill have been grouped according to their purpose and source. A summary of proposed actions with fiscal impacts in this bill is included as **Appendix 1**. The fiscal impact of several provisions on local governments is shown in **Appendix 2**.

Budget Reconciliation Provisions: The bill includes several provisions to preserve general funds by deferring, shifting, or eliminating funding requirements. In addition, the bill broadens the purposes for which certain special funds may be used and defers or modifies special and federal fund spending requirements as well. Most of these provisions were originally proposed in the Budget Reconciliation Act of 2004 (SB 510/HB 871), and many of them effectuate contingent reductions in the fiscal 2005 budget (SB 125).

Modified Education Funding Formulas

Nonpublic Special Education Placements

Most students receive special education services in the public schools. If an appropriate program is not available in the public schools, however, the student is placed in a private school offering more specialized services. The costs for those students with severe disabilities who are placed in nonpublic day facilities or residential treatment centers (RTCs) are shared between the local school systems and the State. For fiscal 2005 only, the bill reduces the State's share of nonpublic placement special education funding by increasing the local share of funding. Under current law, for each nonpublic placement a local school system pays: (1) its respective local share of the basic cost of education; (2) plus two times the total basic cost of education; and (3) 20% of any expense above that sum. The State pays for the remaining 80% of the costs above the base local funding. The bill temporarily shifts a portion of the costs above the base local share to local school systems by increasing the current local share of 20% to 25% in fiscal 2005. In subsequent years, the State's share rebounds to 80%. The fiscal 2005 budget includes a reduction of $6,395,199 for this program, contingent on enactment of legislation reducing the State's share of costs.

Regional Institutes for Children and Adolescents Treated as Nonpublic Placements

While education costs at private RTCs are paid according to the statutory funding requirements for nonpublic special education placements, local school systems do not share similarly in education costs for children in the three State Regional Institutes for Children and Adolescents (RICAs), which are simply public RTCs. Current law is not clear as to the responsibility for these costs, which have historically been paid by the State.

The bill aligns responsibility for education funding at the RICAs with that of private RTCs so that the State share would also be 75% above the base in fiscal 2005 and 80% in subsequent years, consistent with the change for all other nonpublic special education placements. Consequently, this bill effectuates a contingent general fund reduction of $3,752,021 in the fiscal 2005 budget. The savings due to this realignment would increase to $4,560,605 in fiscal 2009.

Extended Elementary Education Program

As part of the Bridge to Excellence in Public Schools Act of 2002, certain mandated State aid programs are phased out by fiscal 2008, while other programs with enhanced funding that distribute State aid to local school systems based on student enrollments and local wealth are phased in. One of the programs to be eliminated is the Extended Elementary Education Program (EEEP), which funds pre-kindergarten programs for students identified as having a high risk of failure in school. Under current law, EEEP is fully funded at approximately $19.3 million in fiscal 2005 through 2007 but would not be funded in fiscal 2008 and subsequent years. The bill reduces funding for fiscal 2005 only by 12.5%, effectuating a contingent general fund reduction of $2,407,713 in the budget. Funding rebounds to $19.3 million in fiscal 2006 and 2007.

Governor's Teacher Salary Challenge

The bill repeals the Governor's Teacher Salary Challenge program one year before its termination date under current law. Established by Chapters 492 and 493 of 2000, under the program, the State provided a 1.0% match to school systems that increased teacher salaries by at least 4.0% in fiscal 2001 and 2002. Other components of the program provided grants to less wealthy school systems. Chapter 420 of 2001 continued the funding through fiscal 2003. The Bridge to Excellence in Public Schools Act of 2002 mandated that the funds be phased out by fiscal 2006 as the new Bridge to Excellence formulas significantly increased overall aid to local school systems. The bill effectuates a contingent reduction of $20,894,314 in the fiscal 2005 budget.

Higher Education Funding

Baltimore City Community College

Funding for Baltimore City Community College (BCCC) is based on a percentage of the State's general fund appropriation per full-time-equivalent student (FTES) to the four-year public institutions of higher education. In addition, the Governor is required to propose a budget for BCCC that is equivalent to or greater than the amount proposed the year before. The bill permanently modifies the requirement that the Governor's proposed budget for BCCC be equivalent to or greater than the amount of the appropriation in the previous year. In future years, this modification allows the Governor's proposed budget to take into consideration any legislative reductions to the allowance from the previous year as well as any reductions approved by the Board of Public Works.

Private Donation Incentive Grant Program

The Private Donation Incentive Program (PDIP) was established in 1999 to increase fundraising efforts at the community colleges and four-year public colleges and universities. Subject to certain limitations, the State matches eligible contributions from eligible donors. The State's commitment extends to matching pledged amounts paid before January 1, 2006 for the historically black institutions (HBIs) and pledged amounts paid before July 1, 2004 for all other institutions. The Budget Reconciliation and Financing Act (BRFA) of 2002 deferred the portion of fiscal 2002 and 2003 payments for PDIP that were not funded in the fiscal 2003 budget to fiscal 2004. BRFA of 2003 further delayed the time frame for payment of the State match for the non-HBI institutions until fiscal 2005 so that a payment would not be required in fiscal 2004. Consequently, under current law these payments are to be made in equal installments in fiscal 2005 through 2008. The State match for HBIs is to be made in the year following payment of the pledged amount. This bill further defers the State's match for non-HBIs by one year, allowing a general fund savings of $2,375,935 in fiscal 2005 and shifting the final payment to fiscal 2009.

Innovative Partnerships for Technology

The bill provides some relief in general funding requirements by slightly modifying the payment schedule for the State's obligations under the Innovative Partnerships for Technology Program. This program was established by Chapters 600 and 601 of 1998 to provide State matching technology grants of up $400,000 to each community college based on private technology donations made in specified years. Technology donations are defined as monies designated for technology purposes such as hardware, software, and computer training. Fiscal 2004 was to have been the fourth and final year for paying out matching grants under the program, but Chapter 413 of 2002 altered and extended the program. The State must also match each dollar of technology donations in fiscal 2003 and 2004 up to $150,000. Similarly, the State must match each dollar received in technology donations in fiscal 2005 and 2006, again up to $150,000.

A provision in the BRFA of 2003 deferred the payment due of $3,264,764 to fiscal 2005. No payments were made in fiscal 2004. Additionally, the BRFA of 2003 adjusted the timetable for meeting the State's obligations for the second phase of matching grants, such that the State must pay these matches in the third fiscal year following the eligible donation. Fiscal 2006 will be the first year in which donations up to $150,000 must be matched, and fiscal 2009 will be the final year for paying out the matching grants mandated by Chapter 413.

The bill specifies the amount of payments to be made to each community college in fiscal 2005 and allows the portion of payments not funded in fiscal 2005 to be deferred to fiscal

2006. Hence, the fiscal 2005 budget does not fully fund the State's obligations under this program; instead, just one-half the total due, or $1,632,382, is appropriated for this program. Under the bill, the other half of this obligation is shifted to fiscal 2006, along with the first installment for the second phase of matching grants. The Maryland Higher Education Commission estimates that the second phase will require additional matching funds of $6.6 million between fiscal 2006 and 2009.

Including Wor-Wic in Size-Factor Component of the Cade Funding Formula

The fiscal 2005 budget includes Wor-Wic Community College in the size-factor component of the Cade funding formula. Under current statute, the size-factor component distributes 2% of total Cade funding equally among community colleges with enrollment less than or equal to 80% of the statewide median. Wor-Wic qualified for the size-factor grant in fiscal 2004 but for fiscal 2005 has enrollment of approximately 82% of the statewide median. This bill modifies eligibility for the size-factor component, for fiscal 2005 only, so that each board of trustees that received funding under that component in fiscal 2004 receives the same share in fiscal 2005. The revision distributes the 2% size component equally among seven, rather than six, community colleges.

As the total amount for the size-factor component does not change, the allocation to each community college is reduced by $69,238 – from $484,662 to $415,424. Due to this lower size-factor component allocation, Garrett Community College becomes eligible for a hold-harmless grant of $60,406; whereas due to inclusion in the size-factor component, Wor-Wic no longer is eligible for a hold-harmless grant of $65,352. The difference in these two hold-harmless grants results in a general fund savings of $4,947, which is the amount of the contingent reduction in the fiscal 2005 budget.

Cigarette Restitution Fund

In 1998, the five major tobacco companies agreed to settle all outstanding litigation with 46 states, five territories, and the District of Columbia. Under the terms of this agreement, the State has received annual variable payments of $150.0 to $200.0 million since 2000. The State established the Cigarette Restitution Fund (CRF) in Chapter 173 of 1999 as a special nonlapsing fund to account for all tobacco settlement revenue. Legislation further specified nine health- and tobacco-related priorities to which no less than 50% of funds must be appropriated annually. To support this goal the following year, the General Assembly created the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program within the Family Health Administration of the Department of Health and Mental Hygiene (DHMH) to address both the causes and effects of tobacco use. The fund also supports existing health programs such as substance abuse treatment and Medical Assistance.

The bill modifies several provisions related to these programs:

- The bill postpones the next Tobacco Study required under the Tobacco Use Prevention and Cessation Program by one year to fiscal 2006 and makes corresponding changes to required reports. These studies were required annually until the BRFA of 2003 changed the requirement to a biennial study. The last Tobacco Study was undertaken in fiscal 2003. This deferral shifts the estimated $2.3 million cost of this study to fiscal 2006.

- Activities aimed at reducing tobacco use have a mandated minimum appropriation level of $21.0 million. The bill reduces that amount to $12.0 million for fiscal 2005 only. The BRFA of 2003 reduced the required amount to $18.0 million for fiscal 2004 only. If this provision had failed, contingency language in the fiscal 2005 budget would have required $8.6 million intended for cancer prevention, screening, or treatment programs to be expended for activities aimed at reducing tobacco use in Maryland.

- The bill requires that a county or statewide academic health center receiving a local public health cancer grant use at least 60% of these funds for screening, diagnosis, and treatment services.

- Under current law, the two statewide academic health centers (The Johns Hopkins Institutions and the University of Maryland Medical Group) may each apply for a grant of $2.0 million to implement the local public health program in Baltimore City under the Cancer Prevention, Education, Screening, and Treatment Program. An uncodified section of the bill provides that, for fiscal 2005 only, the funding will be $1,218,000 for each academic health center.

- The bill postpones a comprehensive evaluation of the Cigarette Restitution Fund Program for one year. This evaluation was originally intended to be conducted at the end of fiscal 2004. CRF evaluation costs are estimated at $1.0 million. Accordingly, these costs are shifted to fiscal 2006.

Expanded Use of Existing Funds

Waterway Improvement Fund

The Waterway Improvement Fund (WIF) within the Department of Natural Resources (DNR) finances projects to expand and improve public boating access throughout the State. Financial support to the fund is derived from the 5% excise tax on the sale of motorized vessels within the State and from 0.3% of the eligible proceeds from Maryland's motor fuel tax. The BRFA of 2002 redirected $8.0 million in unexpended

WIF revenues to the general fund and authorized up to 50% of the monies in WIF to be used, in fiscal 2003 and 2004 only, for administrative expenses directly relating to implementing the purposes of the fund. This adjustment was made with the understanding that the fund would be evaluated as part of a larger effort to improve DNR's special funds management and collection practices. That evaluation effort was postponed until the 2003 interim.

The BRFA of 2003 modified the authorization to use WIF for administrative expenses in fiscal 2003 and 2004 by repealing the 50% limitation. That modification was necessary because the legislation also diverted $19.0 million in WIF monies to the general fund for cost containment purposes: $8.0 million in unexpended fiscal 2003 funds and $11.0 million in fiscal 2004 special fund revenues. The DNR Special Funds Workgroup concluded its study during the 2003 interim and recommended temporarily authorizing use of WIF for administrative purposes, but establishing a schedule for reducing the 10% administrative cost rate currently applied by DNR by 2% a year. This bill allows WIF to be used for administrative expenses in the short term but phases out use of WIF for such purposes by fiscal 2010 as recommended by the workgroup.

Maryland Emergency Medical System Operations Fund (MEMSOF)

Funding for Maryland's emergency medical services (EMS) system is provided from a variety of State, local, and volunteer sources. Annual State budget support for EMS is provided from MEMSOF, which is funded by an $11 annual surcharge on motor vehicle registrations for certain classes of vehicles. Interest earned annually on the fund balance is credited to the fund.

Money in MEMSOF is statutorily limited to the several components of Maryland's EMS program. Under current law, one of these components is the Low Interest Revolving Loan Account (LIRLA), which assists volunteer fire, rescue, and ambulance companies with up to 75% of the cost of purchasing or refurbishing fire and rescue equipment and updating or replacing facilities needed to store equipment. LIRLA is one of two accounts in the Volunteer Company Assistance Fund (VCAF) administered by the Maryland State Firemen's Association. The other account, the Emergency Assistance Trust Account (EATA), provides grants and loans to volunteer companies for replacement of equipment or structures that house equipment. EATA has historically been funded with a general fund grant as it has not been eligible for MEMSOF funding. However, the BRFA of 2003 authorized the use of $403,744 in MEMSOF funds for EATA in fiscal 2004 only.

This bill merges these two accounts within VCAF but retains the purposes for which those accounts may be used. The bill also broadens the use of MEMSOF to permanently include all purposes within VCAF. The fiscal 2005 budget makes $403,744 in special funds contingent on the enactment of this provision, thereby freeing an equivalent amount of general funds for other purposes.

Lead Poisoning Prevention Fund

In conjunction with codifying the requirement that at least $750,000 of the monies in the Lead Poisoning Prevention Fund within the Maryland Department of the Environment (MDE) be dedicated to the Community Outreach and Education Program, which targets the highest risk lead areas, the bill allows those funds to be used for enforcement purposes as well.

Mandate Relief in Other Areas

Tourism

Funding levels within the Division of Tourism, Film, and the Arts in the Department of Business and Economic Development (DBED) are statutorily mandated as follows:

- The Office of Tourism Development – the Governor must submit a general fund allowance at least equal to the amount the Governor proposed for fiscal 2001, or $6.5 million.

- The Maryland Tourism Development Board (MTDB) Fund – the mandated funding level increases each year until it stabilizes at $8.5 million in fiscal 2007 and subsequent years. These funding levels were rebased in 2001 and again by BRFA of 2002. Under current law, mandated funding in fiscal 2005 is $7.0 million. The MTDB Fund is a special nonlapsing fund used to plan, advertise, and develop tourism and travel industries in the State.

This bill reduces required funding for these purposes in fiscal 2006 and subsequent years by repealing the mandated funding of $6.5 million for the Office of Tourism Development and rebasing mandated funding for the Tourism Development Board at $6 million annually. Similar but noncontingent reductions were made in the fiscal 2005 budget.

Rainy Day Fund Appropriation

The bill specifies that the Board of Revenue Estimates' December general fund revenue forecast be used to determine the minimum balance in the Rainy Day Fund, effectuating a contingent reduction of $9.0 million in the fiscal 2005 budget. Current law does not specify which general fund revenue forecast should be used to determine the minimum balance.

Individual Development Account Demonstration Program

The bill repeals the Individual Development Account Demonstration Program within the Department of Human Resources (DHR) two years before its termination date. This demonstration program was authorized for the five-year period from fiscal 2002 through 2006. As general funds and federal funds for this program were eliminated from the fiscal 2005 budget, this bill preserves $110,692 in general funds and $842,270 in federal funds in fiscal 2006. However, the federal funds remain available to be appropriated by budget amendment for other purposes.

The program was implemented to assist low-income people save monies for postsecondary and vocational education expenses other than tuition, acquisition costs for a home, major structural home repairs, or a business capitalization account. The State general funds match on a 2-to-1 basis participants' deposits. Since the program's inception, only 26 savings accounts have been opened. The goal was to serve 56; however, an additional 31 applied but did not meet the eligibility requirements for the savings account. Many of these individuals have been able to take advantage of other services provided, such as financial literacy counseling. It is likely that any reprogrammed federal TANF monies could be used for this or a similar purpose.

Additional Provisions

The bill preserves funds in three additional areas as well. Specifically, this bill:

- repeals the authorization to expand the capital program with bond premiums;
- requires $62.0 million in the Annuity Bond Fund to be held in reserve to stabilize the future property tax rate for debt service; and
- prohibits any funding for a rail system based on magnetic levitation technology in fiscal 2006 and subsequent years.

Targeted Fiscal 2004 Reversions

The bill withdraws appropriations totaling $126.1 million as shown in **Exhibit 1** and transfers the entire amount to the general fund. With the exception of the $2.9 million for school wiring debt service payments that will not be required in fiscal 2004, the amounts are due to receipt of federal aid.

Exhibit 1
Targeted Fiscal 2004 Reversions in the Bill

Budget Code	Program Name	Amount
D25E03.02	Board of Public Works – Interagency Committee for School Construction – School Wiring	$2,923,440
D38I01.02	Board of Elections – Help America Vote Act	1,847,000
M00Q01.03	Medical Care Programs Administration – Medical Care Provider Reimbursements	31,300,000
W00A01.01	Maryland State Police – Office of the Superintendent	4,899,660
W00A01.02	Maryland State Police – Field Operations Bureau	52,139,981
W00A01.03	Maryland State Police – Support Services Bureau	20,917,560
W00A01.04	Maryland State Police – Administrative Services Bureau	7,724,085
W00A01.10	Maryland State Police – Information Technology and Communications Bureau	4,372,781
Total Reverted to General Fund		**$126,124,507**

Financing Provisions: The bill raises revenues for the State both on a temporary and a permanent basis. Specifically, the bill: (1) increases existing fees in several departments and offices; (2) imposes new fees in the State Department of Assessments and Taxation (SDAT) and modifies others to be nonrefundable; (3) repeals existing fees and provides for general fee-setting authority in several programs of the Department of Health and Mental Hygiene (DHMH); (4) authorizes assessment of indirect costs by DHMH on health regulatory commission budgets and allows the commissions to charge higher user fees to absorb that indirect cost assessment for one year only; (5) accelerates the time frame for abandoned property to be remitted to the Comptroller; (6) imposes a tax at the lowest county tax rate on certain nonresidents who are subject to the State income tax; (7) halves the sales and use tax vendor collection credit for two more years; (8) imposes a quarterly assessment on the income of intermediate care facilities for the mentally retarded (ICF-MRs); and (9) decouples from federal tax provisions. The bill also raises revenues for local health departments to assist in their cost recovery. Most of these provisions were originally included in the Budget Financing Act of 2004 (SB 508/HB 869).

Fee Provisions

Increasing Existing Statutory Fees

The bill increases several fees across three departments and two offices, as shown in **Exhibit 2**. Many of these fees are deposited to special funds, and the additional revenue raised would reduce agency reliance on general funds.

All but two of the fees shown below are payable on an annual basis. The lead-free report fee is a one-time-only fee, but MDE advises that about 4,500 reports are filed each year. The fee to file an appeal with the Office of Administrative Hearings (OAH) is also a one-time-only fee; OAH advises that the level of filings for cases other than those related to motor vehicle violations is relatively constant. OAH anticipates an increase in motor vehicle cases in fiscal 2005 but expects the number of such cases to remain relatively constant in subsequent years.

Exhibit 2
Statutory Fee Increases

Description	Number Issued	Current Fee	Proposed Fee	Amount of Increase	Additional Revenue
Maryland Department of Agriculture					
Pest consultant certificate	30	$65	$75	$10	$300
Pest control applicator certificate	3,400	65	75	10	34,000
Pest control business license	1,498	125	150	25	37,450
Pest control consulting business license	30	125	150	25	750
Nursery certificate	400	75	100	25	10,000
Nursery broker/dealer license	1,100	75	100	25	27,500
Wholesale seedsman permit	310	50	100	50	15,500
Office of the Attorney General					
Filing for exempt securities*	1,600	100	400	300	480,000
Health Club – no upfront fees**	16	50	75	25	400
Health Club – initiation fees < $200**	426	150	300	150	63,900
Health Club – initiation fees > $200 bonded**	76	800	1,200	400	30,400
Office of Administrative Hearings					
Filing an MVA-related appeal*	28,530	15	125	110	3,138,300
Filing all other appeals*	1,292	15	50	35	45,220
Maryland Department of the Environment					
Lead-affected rental unit	65,000	10	15	5	325,000
Lead-free report	4,500	5	10	5	22,500
Total					**$4,231,220**

*Fees collected are deposited in the general fund.
**Health clubs are charged one of three different fees depending on whether they hold a surety bond and collect fees in advance of service.

As shown in **Exhibit 3**, enactment of this bill effectuates $548,375 in contingent reductions in the fiscal 2005 budget associated with most of the fees. The Maryland Department of Agriculture (MDA) advises that the contingent reduction for the Turf and Seed program includes $18,590 related to a planned regulatory fee increase of 1¢ for inspecting custom mixes.

Exhibit 3
Contingent Reductions in the Fiscal 2005 Budget Related to Statutory Fee Increases in this Bill

Budget Code	**Department**	**Program**	**Contingent GF Reduction**
C81C00.05	Attorney General	Consumer Protection – Health Clubs	$54,285
L00A14.04	Agriculture	Pesticide Regulation	72,500
L00A14.05	Agriculture	Plant Protection & Weed Management	37,500
L00A14.06	Agriculture	Turf & Seed	34,090
U00A06.07	Environment	Lead Poisoning Prevention Program	350,000
Total			**$548,375**

Imposing New Statutory Fees

The bill raises approximately $494,700 in general funds in fiscal 2005 and $323,700 in subsequent years by imposing new fees in the State Department of Assessments and Taxation (SDAT) as shown below:

- repealing the exemption for insurance companies that pay an annual filing fee of $25 to the Insurance Commissioner from the requirement to file an annual report of a foreign corporation – the 540 such foreign insurance companies will be required to pay the same fee as other foreign corporations, $300;

- requiring a $300 filing fee to be paid with the 159 annual reports of business trusts; and

- establishing a $20 nonrefundable processing fee for requests by paper document for an extension of an annual personal property tax report. The revenues generated from this fee are expected to decline in the out-years as people elect to request extensions electronically.

The $300 filing fee requirement for foreign insurance companies and business trusts is consistent with the BRFA of 2003 which raised the filing fees for corporations and other entities to $300. This new fee, like the fee for corporations and other entities, will apply to reports filed after December 31.

The bill also modifies the time frame and process for requesting an extension of the personal property tax annual report. Extensions may be granted until June 15 of the year the report is due. Electronic requests must be made by April 15 and paper requests must be made by March 15 and be accompanied by the new fee for such requests. Under current law, all extension requests must be made by April 15 and extensions may be granted for 60 days.

In addition, the bill reclassifies numerous recording, filing, and issuing fees as nonrefundable processing fees. Approximately 1,354 documents filed with SDAT in fiscal 2003 were rejected. However, as the bill includes a provision requiring SDAT to adopt regulations specifying the conditions under which the fees will be nonrefundable and the conditions under which the fees may be applied to resubmission of documents, it is not possible to reliably estimate the fiscal impact of these nonrefundable processing fees. For illustrative purposes only, if there were no allowance for resubmission, these fees would raise approximately $135,000 annually. If a 30-day grace period were adopted, the nonrefundable fees would raise $38,000 in new revenue, and if a 60-day grace period were adopted, new revenue would be about $25,000.

Repealing Existing Fees and Granting General Fee-Setting Authority in DHMH

The bill authorizes the Secretary of Health and Mental Hygiene to establish, in regulation, fees sufficient to cover the administrative costs associated with inspections or investigations carried out under the Health-General Article and permits, licenses, certifications, or registrations issued under the Article. The fees may not exceed the administrative costs and the Secretary may waive all or part of any fee. The Administration's forecast and the fiscal 2005 budget assume that such fees will produce additional revenue in excess of $1.0 million in fiscal 2005 and thereafter. DHMH advises that the fee revenues would increase to more than $1.7 million in fiscal 2006 and stabilize at $2.4 million in fiscal 2007 and subsequent years.

Accordingly, references to setting reasonable fees by rule or regulation or fees sufficient to cover administrative costs are repealed and replaced with references to the broader fee-setting authority for:

- public health and clinical laboratory services;
- medical laboratory licenses;
- cholesterol testing permits;

- water bottler licenses; and
- out-of-state water bottler registration.

Fees set in statute are repealed and also replaced with references to the broader fee-setting authority for:

- regulation of youth day camps;
- food establishment licenses;
- soft drink registration inspections;
- milk product permits;
- frozen dessert production licenses; and
- bedding and related licenses.

In addition, the costs associated with other regulatory activities must be recouped through fee revenue. Consequently, fees will be imposed on regulatory functions related to migratory labor camps, mobile home parks, pool operation, pool construction, farms in the milk product program, and plan reviews in the food program. Some of these fees will be phased in.

The bill also gives the Secretary the authority to set fees for issuing and renewing the certification for programs certified to perform medication-assisted treatment within the Alcohol and Drug Abuse Administration. This provision applies to 41 methadone treatment clinics and is expected to raise $90,000 annually. As DHMH operates 18 of these clinics, the State will also be responsible for paying some of the new fees. However, it is not clear whether general funds, Cigarette Restitution Funds, federal funds, or some combination will be used to pay the State's fee.

Authorizing Administrative Cost Assessments on Health Regulatory Commissions

The bill authorizes the Secretary of Health and Mental Hygiene to assess an administrative charge, consistent with the indirect cost charge of 32% of base salary levels assessed to federal grants, to fund services provided to both the Maryland Health Care Commission (MHCC) and the Health Services Cost Review Commission (HSCRC) for fiscal 2005 only. Accordingly, for one year only, the costs of the health regulatory commissions will include the administrative costs incurred by DHMH on behalf of the commissions, and the total fees that the commissions may assess are increased to allow them to raise sufficient revenue to pay the indirect cost assessment:

- MHCC may assess up to $11.2 million in fiscal 2005, an increase of $1.2 million; thereafter, the fee cap of $10.0 million will resume. These fees are assessed on hospitals, nursing homes, payors, and health care practitioners.

- HSCRC may assess up to $4.5 million in fiscal 2005, an increase of $500,000; thereafter, the fee cap of $4.0 million will resume. These fees are assessed on hospitals and related institutions whose rates have been approved by HSCRC.

The fiscal 2005 budget assumes an indirect cost assessment of almost $1.6 million on the health regulatory commissions and makes a corresponding general fund reduction, contingent on enactment of this bill. MHCC will be assessed $1.1 million and HSCRC will be assessed $475,000.

Local Health Department Fees

The bill doubles the statutory cap on fees related to the inspection and testing of wells and licensing permanent and seasonal food establishments that may be charged by local health departments. Local health departments do not cover the costs of regulation through these fees. Under current law, well fees are capped at $80 for each well or cluster of wells but will increase to a maximum of $160 under the bill; HB 1541 of the 2004 session also doubles these well fees. The local health departments in Baltimore City, Montgomery County, and Prince George's are not subject to statutory caps for the food establishment licensing fees. Those fees in other jurisdictions are capped at $35 for a seasonal food establishment and $150 for other establishments. This bill increases those caps to $70 and $300, respectively.

Accelerating Receipt of Abandoned Property

The bill requires holders of abandoned property to remit the property at the same time they provide a report of the property to the Comptroller. Under current law, abandoned property must be remitted to the Comptroller within 265 days of filing the abandoned property report. Accelerating receipt of abandoned property will have a one-time effect of $2.5 million in advance receipts in fiscal 2005 as well as increased interest income each year. In the first year, the interest income is estimated to be $273,000, escalating to $383,000 in fiscal 2009 due to an increase in the value of property on deposit each year.

Under current law, there are two reporting periods for abandoned property. Most reports must be done on a fiscal-year basis and be filed by October 31. Reports for insurance corporations may be done on a calendar-year basis; these reports must be filed by April 30 of the following year. The bill retains those two reporting periods. However, in fiscal 2005 only, property will be remitted three times as illustrated in **Exhibit 4**.

Exhibit 4
Effect on Remittance in Fiscal 2005

Reporting Basis	Report Due	Remittance Due
Calendar year	April 30, 2004	Mid-January 2005
Fiscal year	October 31, 2004	October 31, 2004
Calendar year	April 30, 2005	April 30, 2005

According to the Comptroller's Office, most states have report and remit laws and most holders of abandoned property in Maryland already report and remit simultaneously. However, banks and insurance companies typically hold the funds as long as they can. Under current law, approximately 15% of owners claim their property from the holder before it would otherwise be remitted to the Comptroller's Office. The burden of returning the property to the owner in these cases will shift to the Comptroller's Office.

The Comptroller's Office estimates that 7,000 such accounts each year will be remitted to it rather than paid to the owner by the holder and that it will need four additional staff to pay these additional claims. The staffing needs related to notification will not change as the Comptroller's Office already must send notice to property owners within four months of the report and publish notice in a newspaper within six months of the report. Given the current staffing complement of the Abandoned Property Division, Legislative Services believes the Comptroller's Office will need three additional staff at a cost of $122,101 in fiscal 2005. Other expenses could be absorbed with existing resources.

Imposing the Lowest County Income Tax Rate on Nonresidents with a Tax Liability

The bill imposes a tax at a rate equal to the lowest county income tax rate in Maryland (currently 1.25%) on individuals who are subject to the State income tax but are not subject to the county income tax. This change is applicable to all taxable years after December 31, 2003. Regular wage earners who work in Maryland but live in states with which Maryland has an income tax reciprocity agreement – Virginia, Pennsylvania, West Virginia, or the District of Columbia – are not affected. However, wage earners who work in Maryland but live anywhere else are affected by the bill, with one exception – residents of Wilmington, Delaware who work in Maryland are technically subject to the county income tax in Maryland since Wilmington imposes a similar tax on wages of Maryland residents who work there. More generally, the provision applies to the business-related income of nonresidents.

As shown in **Exhibit 5**, the budget assumes $38.6 million in additional general fund revenues in fiscal 2005 as the tax applies to all of tax year 2004 and one-half of tax year 2005. Revenues dip to $27.8 million in fiscal 2006 but escalate upward to $33.1 million by fiscal 2009. If the proposed changes had been in effect for tax year 2002, 55,143 nonresidents with $1.7 billion in net taxable income would have had additional tax liability. Based on historical data and the current revenue estimate, taxable income for affected nonresidents is estimated to increase by 7.6% annually from 2002 through 2005 and 6% annually thereafter.

Exhibit 5
Collection of Additional Income Tax on Nonresidents
($ in thousands)

Tax Year	Nonresidential Taxable Income	Tax at 1.25%	Tax Collected in Fiscal Years 2005	2006	2007	2008	2009
2004	$2,007,886	$25,099	$25,099				
2005	2,159,763	26,997	13,499	$13,499			
2006	2,289,349	28,617		14,308	$14,308		
2007	2,426,710	30,334			15,167	$15,167	
2008	2,572,312	32,154				16,077	$16,077
2009	2,726,651	34,083					17,042
Total			**$38,597**	**$27,807**	**$29,475**	**$31,244**	**$33,119**

This bill does not require the Comptroller to waive the penalty for taxpayers who do not adjust withholding or estimated payments and do not meet the safe harbor requirements. Additional revenue would be received through these payments. If one-half of the affected taxpayers do not adjust payments and earn income evenly throughout the year, revenues could increase by another $1 million in fiscal 2005. However, under current law, the Comptroller has the authority to waive penalty and interest for good cause.

Halving the Sales and Use Tax Vendor Collection Credit

To offset the expense of collecting and paying the State sales and use tax, vendors are allowed to retain a portion of the sales tax collected if they file their returns on a timely basis. This credit was temporarily halved for fiscal 2003 and 2004 by the BRFA of 2002 so that vendors received 0.6% for the first $6,000 collected and 0.45% for any amount above that. Absent the bill, in fiscal 2005, the credit would resume at 1.2% for the first $6,000 collected and 0.9% for any amount above that.

The bill continues the vendor credit at one-half the amount it would otherwise be in fiscal 2005 and 2006. As the vendor credit is deducted before sales taxes are remitted, there is no precise information on the total cost of the credit. The Comptroller's Office advises that the average credit is closer to the maximum rate of 1.2%. The estimates of the fiscal effect of this provision assume an average credit rate of 1.1%, that 95% of the tax due is paid with timely-filed returns, and the growth in the sales and use tax in the Board of Revenue Estimates' December 2003 forecast as modified in March 2004. Accordingly, general fund revenues are expected to increase by $15.4 million in fiscal 2005 and $16.0 million in fiscal 2006. As the vendor credit applies to the sales tax on short-term vehicle rentals, additional revenues of about $130,000 each year will also accrue to the Transportation Trust Fund (TTF).

Imposing Quarterly Assessments on ICF-MRs

The bill imposes an assessment of 6% on all ICF-MR income. As defined in the bill, this assessment will apply exclusively to the four State residential centers for the developmentally disabled – the Rosewood Center, Holly Center, Potomac, and Joseph D. Brandenburg Center. The assessment will be paid quarterly, by the 15th day of the quarter, based on the income received during the previous fiscal quarter. However, this assessment will terminate if it is not permissible under Section 1903(W) of the Social Security Act, which relates to provider donations and health care taxes.

The budget assumes a full year's effect in fiscal 2004 as the effective date of the assessment is June 1, 2004. Accordingly, the fiscal 2005 budget includes a fiscal 2004 general fund deficiency appropriation of almost $3.9 million to the residential centers to offset the cost of the assessment on these State facilities – representing the general fund share of a full-year's assessment – contingent on enactment of this bill. The budget also assumes that the federal Medicaid program will provide matching funds to cover the federal share of the assessment, an estimated $1.8 million beginning in fiscal 2004, resulting in a net gain of $1.8 million to the general fund.

In fiscal 2005 and subsequent years, the assessment is on a quarterly basis. For fiscal 2004, one assessment is made, payable on June 20, based on the income from the fourth quarter of fiscal 2003 through the third quarter of fiscal 2004. The income for the fourth quarter of fiscal 2004 is used to determine the amount of the first quarterly assessment due on July 15.

Federal Decoupling

By consolidating provisions originally contained in separate legislation into this bill, the bill decouples from federal tax provisions affecting the estate tax as well as the individual and corporate income taxes.

Estate Tax

The federal Economic Growth and Tax Reconciliation Act of 2001 provided for the reduction and ultimate repeal of the credit allowed under the federal estate tax for state death taxes paid (federal credit). Maryland, like most states, had an estate tax that was linked directly to the federal credit. Without statutory changes by the General Assembly, the repeal of the federal credit under the 2001 federal tax Act would have automatically repealed the State estate tax because of the link between the State tax and federal credit.

As part of the BRFA of 2002, the Maryland estate tax was partially decoupled from the federal estate tax, thereby continuing the State tax notwithstanding the phase-out and repeal of the federal credit. The State estate tax is now calculated as if the federal tax Act had not phased out the federal credit; however, it is calculated using other provisions of federal estate tax law in effect on the date of the decedent's death.

Unified Credit

The unified credit used to calculate the State estate tax, which effectively sets the threshold for taxability of an estate, is the unified credit in effect as of the decedent's death as set forth in federal law. Under the federal Act, the amount effectively exempted under the unified credit was increased from $700,000 to $1.0 million in 2002, and then phased up over a period of years to $3.5 million in 2009.

The BRFA of 2002 did not, however, decouple the Maryland estate tax from the gradual increases in the unified credit allowed against the federal estate tax. The Maryland estate tax is calculated as the lesser of the federal estate tax after deducting the unified credit or the State death tax credit, reduced by any inheritance tax paid. As the unified credit increases, the amount of the Maryland estate tax will decline.

The bill has the effect of freezing the amount of the unified credit at $345,800 so as to exclude $1.0 million from the federal estate tax for purposes of the Maryland estate tax calculation. The bill affects the estate tax returns filed for decedents dying after December 31, 2003.

Accordingly, general fund revenues are estimated to increase by $9.1 million in fiscal 2005, escalating to $26.0 million in fiscal 2009. To handle the significant increase in the number of returns filed without a corresponding federal return, four additional staff (two revenue field auditors, one revenue field auditor supervisor, and one office secretary) would be required in the Comptroller's Office. Related general fund expenditures are estimated at $153,600 in fiscal 2005. For a more complete discussion, see the first-reader fiscal note for HB 653 of the 2004 session.

Deduction for State Death Taxes

By remaining coupled to the federal estate tax base, the decoupled Maryland estate tax will incorporate a provision of federal law effective beginning in 2005 that will allow a deduction for State death taxes paid, in lieu of the previously allowed credit for State death taxes paid. Allowing the deduction of State death taxes for purposes of determining the State death tax base will result in a circular calculation, because the tax being calculated results in a deduction from the tax base, which then alters the calculation of the tax owed.

This bill requires that the Maryland estate tax be determined without regard to the deduction for State death taxes allowed for purposes of the federal estate tax. The bill effectively creates an addition modification to the federal taxable estate for Maryland estate tax purposes in the amount deducted for State death taxes paid. A similar addition modification to the federal tax base is required under the Maryland income tax for State and local income taxes for which a deduction is allowed for federal income tax purposes. This provision simplifies the calculation of the Maryland estate tax while preventing additional loss of revenue from the Maryland estate tax. As a result of this simplification, general fund revenues are expected to increase by approximately $6.3 million in fiscal 2006, growing to $10.1 million by fiscal 2009. For a more complete discussion, see the first-reader fiscal note for HB 330 of the 2004 session.

Expensing Section 179 Property

In calculating Maryland individual or corporate income tax liability, the bill requires an adjustment to Maryland adjusted gross income by adding or subtracting from federal adjusted gross income to reflect the determination of the maximum aggregate costs the taxpayer may treat as an expense under Section 179 of the Internal Revenue Code for any taxable year. This adjustment is without regard to the changes made to Section 179 by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 (JAGTRRA). The provision applies to all taxable years beginning after December 31, 2002.

JAGTRRA allows for increased expensing for small businesses. Under the prior version of Section 179 of the Internal Revenue Code, up to $25,000 of the cost of most tangible property acquired for use in a business could be deducted immediately, although the deduction was reduced dollar-for-dollar for the cost of property over $200,000. Any remaining basis in the property was then depreciated, first under the old 30% bonus depreciation, and then under regular depreciation rules. Because Maryland corporate tax liability is based on federal taxable income, this expensing flowed through to State calculations.

Under JAGTRRA, for tax years 2003 through 2005, the $25,000 limit is increased to $100,000, and the phase-out begins at $400,000 rather than $200,000. This change provides increased depreciation in the year property is purchased but lower depreciation in later years. It remains the case that 100% of the property's cost is written off for federal tax purposes and that, except for possible changes in tax rates, a taxpayer's tax liability is not affected over the life of the depreciable property.

The BRFA of 2002 included a general one-year decoupling provision. If the Comptroller determines that the impact of a federal tax change will be at least $5.0 million in the next fiscal year, the provision does not apply for Maryland income tax purposes for any taxable year that begins in the calendar year in which the amendment is enacted. Based on an anticipated impact of more than $5.0 million, the State's general decoupling provision automatically changed Maryland tax calculations to reflect prior Section 179 expensing rules, so as to avoid this impact for tax year 2003. This bill continues decoupling to avoid near-term revenue losses.

Individual and corporate income tax revenues could increase beginning in fiscal 2004, growing to $22.6 million in fiscal 2005 based on projected estimated tax payment patterns. Expiration of the decoupled federal provision will cause revenue increases to decrease, becoming negative in the out-years. Based on the estimated split between individual and corporate income taxes, general fund and TTF revenues will be affected. In addition, local income tax revenues will increase by approximately $10.4 million in the near term based on increased Maryland tax liability, then decline in the out-years. Local highway user grants from TTF could increase by up to $400,000 in fiscal 2005. Administrative expenses to implement the bill could be handled with existing resources.

For a more complete discussion of the information and assumptions that form the basis of the fiscal estimate as well as other information about Section 179 expensing, consult the first-reader fiscal note for HB 399 of the 2004 session.

Sport Utility Vehicle Depreciation

The bill decouples from the depreciation deduction allowed on the federal income tax return for specified large sport utility vehicles (SUVs) used for business purposes that are placed into service after May 31, 2004.

The bill requires an adjustment of the difference between: (1) Maryland taxable income with the depreciation deduction allowed under current federal law for an SUV rated at more than 6,000 but not more than 14,000 pounds (gross vehicle weight); and (2) Maryland taxable income calculated using the depreciation deduction allowed calculated using limitations applicable to vehicles rated at 6,000 pounds gross vehicle weight or less. The effect of this change is to subject a vehicle to the same limitation on annual depreciation expenses as is applicable to other lighter passenger vehicles under federal law.

This provision overlaps to some extent with the permanent decoupling from the federal Section 179 expensing provisions. Under the general Section 179 decoupling, the maximum expensing for any type of expense is limited to $25,000 in tax years 2004 and 2005. This $25,000 expense limit would apply to SUVs even in the absence of a specific provision regarding SUVs.

In conjunction with the general Section 179 expensing provision, State general fund revenues from this provision are expected to increase by $13.5 million and TTF revenues by $2.3 million in fiscal 2005, reflecting information and assumptions about the consumption patterns of these vehicles and the bill's applicability and effective date provisions. Future year revenues are slightly lower, reflecting annualization of the tax-year effect and sales growth of SUVs. The Comptroller's Office could administer the bill with existing resources.

Local income tax revenues could increase by $3.9 million in fiscal 2005 and $3.6 million in fiscal 2009. Local highway user grants from TTF revenues could increase by $675,700 in fiscal 2005 and $627,300 in fiscal 2009. For further discussion of this provision, please refer to the first-reader fiscal note for SB 219 of the 2004 session.

Fund Transfer Provisions: Most of the provisions originally contained in the Fund Transfers Act of 2004 (SB 509/HB 870) have been amended into this bill, with a couple of technical amendments and an additional transfer provision. These provisions provide for $247,590 in one-time general fund revenue in fiscal 2004, $256.0 million in one-time general fund revenue in fiscal 2005, and ongoing general fund expenditure reductions of $832,600.

Altering Provisions Related to Unclaimed Income Tax Revenue

The bill modifies the time frame for the Comptroller's Office to hold unclaimed local income tax revenue in its local income tax reserve account from three years to one year and provides for a one-time distribution of $81.0 million each to the State and the local jurisdictions. Currently, the State receives income tax revenue from withholding and quarterly estimated payments, which cover both the State and local income taxes. For tax year 2000, these payments totaled about $8.6 billion.

The $162.0 million represents an estimate of the unclaimed local income tax for the tax years 2001, 2002, and 2003. (The unclaimed local income tax for tax year 2000 will be distributed in June as it normally would.) Accordingly, local jurisdictions will receive one-half of that total amount in August 2004 rather than all of it over the course of several years. Under current law, the unclaimed local income tax for these years would be distributed over the next three years (*e.g.*, tax year 2001 in June 2005, tax year 2002 in June 2006, etc.).

The revenues will be distributed to the local jurisdictions on a pro-rata basis using tax year 2002 income tax receipts from tax returns. In future years, local jurisdictions will continue to receive a distribution in June of unclaimed local income tax revenue. Rather than this distribution being based on the third prior tax year, it will be a projection of the most recent tax year (*e.g.*, tax year 2004 in June 2005). The distributions to the local jurisdictions will thus be relatively up-to-date and the State will no longer be holding three years of local income tax revenue.

Shifting a Portion of the Costs of Administering the Corporate Income Tax in the Comptroller's Office to Special Funds from Collection of the Tax

The bill requires the Comptroller to distribute the amount necessary to administer the corporate income tax to an administrative cost account. Corporate income tax revenues are distributed 24% to the Transportation Trust Fund and 76% to the general fund. This provision charges TTF for its share of administrative costs.

The Comptroller's Office assessed the cost of forms, mailing, processing, posting, and related activities in the Revenue Administration Division and the personnel costs associated with the corporate income tax auditors in the Compliance Division to determine the cost to administer the corporate income tax. That cost is $2.4 million and is expected to increase by 3% a year. The fiscal 2005 budget includes a reduction of $557,600 in the Revenue Administration Division of the Comptroller's Office, contingent on enactment of this bill.

Modifying the Distribution of Transfer Tax and Highway User Revenues

Transfer Tax Distribution

The bill redirects to the general fund: (1) $70.3 million in transfer tax special fund revenue that would support several programs in fiscal 2005 under current law; and (2) $41.9 million in estimated fiscal 2004 transfer tax funds attained over the original fiscal 2004 estimate made in December 2002 that would otherwise support programs in fiscal 2006. This proposed diversion of $112.2 million in transfer tax revenue is in addition to $95.2 million in fiscal 2005 transfer tax revenue that was redirected to the general fund in accordance with BRFA of 2003. A portion of that total, $18.1 million due to overattainment, was transferred in fiscal 2004. The balance, $77.1 million, was preauthorized for fiscal 2005.

The State transfer tax of 0.5% of the consideration paid for the transfer of real property from one owner to another has been used to fund several programs in the Department of Natural Resources and the Department of Agriculture. However, before any program-specific allocations are made, 3% of the transfer tax revenue is distributed to the agencies involved in Program Open Space (POS) for their administration of the program. Approximately 75% of the remaining transfer tax revenue has historically been allocated to POS, which has two main components: a State share and a local share, generally funded at 50% each. In addition, the first $1.0 million from the total POS allocation passes through to the Department of Housing and Community Development's Heritage Areas Authority.

The fiscal 2005 budget includes reductions to the formula funding for the State share ($28.7 million) and the local share ($28.5 million) of POS, contingent on enactment of this bill. These reductions eliminate transfer tax special funding for the local share and leave just $4.9 million for State purposes. Under current law, the Maryland Agricultural Land Preservation Program (MALPP) in MDA would receive $13.1 million in transfer tax special funds; supplemental budget number one appropriated those funds and reduced the entire amount contingent on enactment of this bill.

The effect of this bill on transfer tax revenues is shown in **Exhibit 6**. A total of $189.3 million is redirected to the general fund in fiscal 2005.

In recent years, other funding sources such as bond funds and the federal Land and Water Conservation Fund have played an important role in funding POS, as transfer tax revenue has been diverted to the general fund for cost containment. Since the transfer tax has been the primary source of revenue for POS, the existing and proposed transfers to the general fund substantially impact the program. DNR's fiscal 2005 operating Paygo budget includes $6.9 million for POS: $4.9 million in transfer tax special funds for the State share and $2.0 million in federal funds split between the State share and the local share. The capital budget (SB 191) partially offsets the impact of these transfers on POS by providing $15.0 million in general obligation (GO) bond funding for the local share. Accordingly, the local share reduction amounts to $13.5 million rather than $28.5 million, leaving a total of $16.0 million available for land acquisition or development of local parks. In addition, the capital budget provides $5.0 million for MALPP.

The fiscal 2005 budget did not provide funding for the Heritage Conservation Fund or Baltimore City's park operations and maintenance; historically a $1.5 million annual allocation has been provided to Baltimore City. However, an uncodified section of this bill allocates $1.5 million of any additional fiscal 2004 overattainment to Baltimore City for its parks in fiscal 2005.

Exhibit 6
Transfer Tax Revenues and Their Uses
Fiscal 2005

<u>Available Revenue for Fiscal 2005</u>	
Transfer Tax Revenue Estimate	$132,797,000
Administrative expenses	-3,983,910
Additional FY 2003 attainment over estimate	25,374,354
Total for determination of distribution	**$154,187,444**
Required 50% transfer to general fund per 2003 BRFA	-77,093,722
Remainder available for distribution	**$77,093,722**
<u>Distribution of Remainder of Revenue</u>	
Programs Funded with Transfer Tax Revenue in Budget Bill	
POS/Ocean City beach maintenance	$1,000,000
Critical maintenance/capital development	3,863,000
Heritage Areas Authority	1,000,000
State park operating expenses	950,000
Subtotal	***$6,813,000***
Transfers to General Fund Assumed in Budget Bill	
POS – State share and local share – in DNR	$57,136,242
MALPP in MDA	13,144,480
Subtotal	***$70,280,722***
Total	**$77,093,722**
<u>Transfers to General Fund in Fund Transfers Act</u>	
Newly Authorized Transfers	
Budget bill transfers noted above	$70,280,722
Estimated fiscal 2004 attainment over original estimate	41,886,000
Subtotal	***$112,166,722***
Transfers for Fiscal 2005 Authorized in BRFA of 2003	
50% of revenues available for distribution	$77,093,722
Subtotal	***$77,093,722***
Total to General Fund	**$189,260,444**

Highway User Revenues

A portion of transportation revenues is deposited into the Gasoline and Motor Vehicle Revenue Account (GMVRA); 70% is provided to TTF and 30% is distributed to counties and municipalities as highway user revenues. Under current law, Baltimore City receives the greater of $157.5 million or 11.5% of the total plus 11.5% of any growth in the local share over fiscal 1998 base levels. The remaining local share is distributed among the counties and eligible municipalities based on total county road mileage and county vehicle registrations.

The BRFA of 2003 transferred $102.4 million in local highway user revenues to the general fund in fiscal 2004. This action reduced highway user revenue grants in fiscal 2004 from $460.7 million to $358.3 million and limited Baltimore City's share to $170 million for fiscal 2004 and 2005. The BRFA of 2003 also contained a provision transferring $51.2 million in local highway user revenues to the general fund in fiscal 2005. This bill transfers an additional $51.2 million to the general fund; the total amount of highway user revenues so diverted in fiscal 2005 will be the same as in fiscal 2004 – $102.4 million. The fiscal 2005 budget includes a reduction of $51.2 million in this program, decreasing the amount of highway user grants from $433.1 million to $381.9 million.

The bill also clarifies that Baltimore City's share of highway user revenues may increase according to an established formula if revenues exceed estimates in the Governor's budget books for fiscal 2005. Due to Chapter 9 (HB 1467) of 2004, which increases vehicle registration fees, highway user revenues are expected to increase by $44.4 million in fiscal 2005 – nearly offsetting the reduction due to transfer to the general fund. However, this bill also exempts certain rental vehicles from the increased registration fees in Chapter 9.

Transferring Special Fund and Nonbudgeted Balances to the General Fund

Spinal Cord Injury Research Trust Fund

The State Board of Spinal Cord Injury Research was established by Chapter 513 of 2000, within the Family Health Administration of DHMH. The board is supported by an annual $1.0 million distribution from the insurance premium tax imposed on health insurers into a nonlapsing special fund. The fund supports basic, preclinical, and clinical spinal cord research with a long-term goal of restoring neurological function in individuals with spinal cord injuries. Even though the board was appointed and criteria developed for grant awards in fiscal 2002, research grants were not awarded until fiscal 2003, the first full year of operation. That year, the board awarded just $450,000 from the fund and used another $100,000 for administrative expenses. DHMH, anticipating future cost-containment actions, has awarded only $400,000 to date in fiscal 2004, leaving a projected fund balance of $2.0 million at year-end. The fund is expected to attain another $1.0 million in fiscal 2005, but funds for research are not included in the budget. This bill transfers most of the fund balance, $2,557,790, to the general fund at the end of fiscal 2005. The remainder of the projected fund balance, $442,210, is diverted to the Department of Aging.

In addition, the bill halves the distribution from the insurance premium tax to the Spinal Cord Injury Research Trust Fund in fiscal 2006 and subsequent years. Accordingly, the fund will receive $500,000 annually, consistent with anticipated spending in fiscal 2004. The general fund will benefit from the other $500,000.

Special Fund within the Racing Commission

The special fund within the Racing Commission consists of the State's share of daily licensee fees, pari-mutuel taxes, impact aid, money from uncashed pari-mutuel tickets, and permit fees. Specified jurisdictions affected by horse racing, fairs and agricultural education organizations, the Maryland Million, and the Sire Stakes Program receive annual grants from the fund as required by statute. After all such grants have been disbursed, any remainder in the special fund is allocated 70% to the Maryland-Bred Race Fund and 30% to the Maryland Standardbred Race Fund. For fiscal 2005, the remainder amount of $415,100 that would otherwise be allocated to the breeder programs will instead be transferred to the general fund.

State Use Industries

State Use Industries (SUI) provides work and job training for inmates incarcerated in the Division of Correction funded by the sales revenue from the goods it produces and the services it supplies to local, State, and federal agencies. These goods and services are also available for purchase by charitable, civic, educational, fraternal, or religious organizations. SUI's cost is at or below the prevailing average market price.

The BRFAs of 2002 and 2003 transferred $2.0 million in each of fiscal 2002, 2003, and 2004 from SUI to the general fund. This bill again transfers $2.0 million in fiscal 2005. With this transfer, the ending fiscal 2005 fund balance for SUI is projected to be approximately $4.5 million. SUI advises that the fund balance is difficult to estimate as revenues in fiscal 2003 were unusually high and year-to-date attainment for fiscal 2004 is considerably lower than the same time last year. SUI further advises that revenues for fiscal 2004 and 2005 could be 20% lower than projected.

In addition, the bill provides for the annual transfer of $1.0 million in fiscal 2006 through 2009 to MSDE for correctional education. These funds are intended to supplement rather than supplant the general fund appropriation for correctional education.

Central Collection Unit

The Central Collection Unit within DBM is responsible for the collection of all delinquent debts, claims, and accounts of the State other than taxes, child support, unemployment insurance contributions, and overpayments. Typical debts collected by the unit are student tuition and fees, restitution for damage to State property, reimbursement for institutional care, local health department fees, Workers' Compensation premiums, Home Improvement Commission awards, and State grant overpayments. The bill transfers $4.5 million from the Central Collection Fund to the general fund in fiscal 2005. The Central Collection Fund is projected to grow to $7.1 million by the end of fiscal 2004. Additional attainment of $1.4 million is projected for fiscal 2005. Accordingly, with this transfer, the year-end fund balance for fiscal 2005 is projected to be $4.0 million.

Health Occupations Boards

The bill transfers $879,000 from two health occupations boards within DHMH as shown in **Exhibit 7**. The regulatory activities of these boards are funded by fee revenue from licensing the affected health care practitioners. Each of the boards has its own nonlapsing special fund. Licensing activity occurs on a biennial basis for the affected boards; consequently, revenues may be alternately high in one year and low in the other. The ability to carryover fund balance allows the boards to cover their direct costs as well as the indirect costs charged by DHMH in both years. Accordingly, revenues and expenditures for these boards should be assessed on a two-year basis. In addition, maintaining a fund balance allows the boards to cover unanticipated expenditures and to keep fees at the same level for several years. Otherwise, the boards would have to raise fees each renewal period to keep pace with inflation and other operating costs.

Exhibit 7
Effect of Fund Balance Transfers on Affected Health Occupations Boards

Board	Projected Fund Balance Current Law	Transfer Amount	Projected Fund Balance under Bill	Projected Biennial Revenues	Projected Biennial Expenditures
Social Work	$859,157	$251,000	$608,157	$1,957,248	$1,598,176
Physicians	2,353,965	628,000	1,725,965	13,313,940	12,843,463
Total		**$879,000**			

Both boards have fund balances which significantly exceed their targeted levels, which range from 20% to 30% of expenditures depending on the size of the board. Assuming the revenue pattern for fiscal 2004 carries over to fiscal 2006 and expenditures in fiscal 2006 increase by 5% over fiscal 2005, both boards could absorb the transfer without having to raise fees in fiscal 2006 to cover expenditures. In fact, the Boards of Social Work Examiners and Physicians will continue to build their fund balances in fiscal 2006 even though the ratio of fund balance to annual expenditures will drop slightly.

Home Builder Registration Fund

The bill transfers $500,000 from the Home Builder Registration Fund, a nonlapsing special fund within the Office of the Attorney General, to the general fund. Since January 1, 2001, home builders must register with the State in order to do business in Maryland. The initial registration fee is $600; renewal registration fees are set at $300 or $600, depending on the number of building permits for construction of new homes issued to the registrant in the preceding calendar year. Registrations are valid for two years.

Even with a planned budget amendment of $600,000 to cover development costs of an Internet web-based online registration system, this fund is projected to have a balance of almost $1.6 million at the beginning of fiscal 2005. The $500,000 transfer to the general fund will drop that balance to almost $1.1 million, significantly more than the $271,623 cost of regulation for fiscal 2005. This balance will continue to grow due to collection of additional fee revenue.

To keep the fund balance from becoming excessively high again, the bill also halves the initial and renewal registration fees. Accordingly, the initial fee for a two-year registration will be $300 and the renewal fee will be $150 for home builders with building permits for 10 or fewer new homes in the preceding calendar year and $300 for home builders with 11 or more such permits. Even with this reduction, revenues should be sufficient to cover costs on an ongoing basis.

Depositing Proceeds from the Sale of State Property in the General Fund

The Administration sold the Maryland Independence, a yacht maintained by the Department of Natural Resources primarily for the use of the Governor and economic development purposes, in fall 2003. The bill deposits the proceeds from that sale into the general fund, net of the expenses directly related to the sale, rather than into the State Boat Act Account which was used for the initial purchase of the yacht. This results in $247,590 being deposited to the general fund in fiscal 2004.

The proceeds from the sale of surplus Executive Branch vehicles over the 13-month period from June 1, 2004 through June 30, 2005 will be deposited into the general fund as well, net of expenses directly related to their sale and unless otherwise required by federal law or regulation. The bill excludes vehicles necessary for operations and for which replacement vehicles are required. DBM advises that its Fleet Management Division will actively be identifying and selling such vehicles in an effort to reduce the size of the State fleet from 8,600. DBM expects at least 500 State sedans to be sold at an average price of $1,000, and that all $500,000 in proceeds will be realized in fiscal 2005. Information on the fund source for the original purchase of targeted vehicles was not provided. However, DBM advises that, absent the bill, agencies might elect to retain vehicles that are not essential to core business functions.

Expanding Authority to Use an Existing Fund

The bill allows loan repayments from the current Emergency Assistance Trust Account of the Volunteer Company Assistance Fund to be used for grants to widows and orphans through the Maryland State Firemen’s Association and related administrative expenses for the three-year period from fiscal 2005 through 2007. Otherwise, general funds of at least $55,000 (a mandated appropriation) would be used for these grants. Recent funding has been at about $275,000 a year. Supplemental budget number one made the $275,000 special fund appropriation for this purpose contingent on this bill.

Other Provisions Added: Numerous additional provisions were amended into the bill to authorize or require additional spending, modify fee revenue, provide for enhanced oversight or accountability, require various reports, repeal obsolete provisions in current law, and make technical corrections.

Additional Spending

The bill includes several provisions which require or authorize additional spending, some of which have been noted above. Specifically, the bill:

- allocates $1.5 million of any additional fiscal 2004 overattainment of transfer tax revenues to Baltimore City's park operations and maintenance;
- clarifies that Baltimore City's share of highway user revenues in fiscal 2005 may increase according to an established formula if revenues exceed estimates;
- codifies the formula for the geographic cost of education index (GCEI), with funding as provided in the State budget beginning in fiscal 2006 – the cost for this provision is $53.4 million in fiscal 2006, if fully funded, escalating to $106.0 million in fiscal 2009 – this formula was considered in separate legislation which did not pass (SB 752 and HB 901);
- authorizes the transfer of $442,210 from the Spinal Cord Injury Research Trust Fund to the Department of Aging to supplement federal grants to local agencies and mandates an equivalent general fund appropriation in fiscal 2006, which will hold harmless for two years rural counties that would have seen a reduction in these grants;
- requires repayment of recent transfers totaling almost $315.0 million from the TTF to the general fund by including the TTF in the provisions relating to the disposition of any unappropriated general fund balance, resulting in $50.0 million of the unappropriated general fund surplus at the end of fiscal 2004 (due to other provisions in this bill) being appropriated to the TTF in fiscal 2006;
- transfers $1.0 million from State Use Industries to the Maryland State Department of Education in fiscal 2006 through 2009 to supplement funding for correctional education; and
- requires a truing up of reimbursement for local jails and a deficiency appropriation for fiscal 2005 to provide the additional funds needed to fully reimburse the counties – this would amount to at least $13.0 million as a deficiency appropriation in the fiscal 2006 budget bill.

Additional Fee Provisions

The bill includes three fee-related actions which will reduce special fund revenues, a couple of them have been noted earlier. Specifically, the bill:

- halves the statutory fees for initial and biennial renewal registration of home builders so that the fund balance does not become excessively large again;
- exempts rental vehicles from increased vehicle registration fees as enacted by Chapter 9 of 2004 (HB 1467) at an annual cost of $1.3 million to the TTF; and
- requires the Motor Vehicle Administration to reduce its fees if cost recovery exceeds 100%.

Other Provisions

Several other provisions codify mandated funding and current practice, require various reports, enhance oversight or accountability, repeal obsolete provisions of law, and make technical corrections. Specifically, the bill:

- codifies the mandated funding requirement of $500,000 for the Senior Citizens Activities Operating Fund;
- requires a study of merging two weatherization programs by DHR, the Department of Housing and Community Development, and the Public Service Commission;
- requires State agencies and public institutions of higher education to report on certain interagency agreements;
- requires a study related to electric generating equipment property tax grants;
- requires DHR to share audits of local departments of social services with those departments and local officials;
- allows agencies to provide grants to each other with the oversight and approval of the Board of Public Works;
- requires the submission of legislation supporting the Governor's budget plan with the budget;
- requires notification of budget committees prior to seeking Board of Public Works' approval for large land acquisition purchases;
- requires the Maryland Transportation Authority to provide notification of new projects before proceeding and to have legislation authorizing the sale of bonds;
- places limits on the issuance of GARVEE debt and requires the Capital Debt Affordability Committee to examine GARVEE bonds and recommend a prudent

level of annual bond authorization for the Maryland Department of Transportation (MDOT);

- requires the budget books for the MDOT capital program to match the final *Consolidated Transportation Program* (CTP) and requires MDOT to include a six-year forecast in its draft and final CTP;
- requires the Comptroller to withhold funds from local income tax payments to any jurisdiction more than 90 days in arrears in making the local contribution to the law clerk salaries, upon certification by the Administrative Office of the Courts;
- requires audited financial statements of the Maryland Economic Development Corporation to include revenue and expense detail for each of the corporation's operating facilities;
- clarifies and codifies current practice related to budget amendments including that Legislative Policy Committee approval is review and comment;
- repeals the unused Maryland Port Administration (MPA) Contingency Fund;
- repeals the Subcabinet for Children, Youth, and Families Resource Fund and transfers any remaining balance to the general fund, although no balance is expected;
- repeals obsolete reporting provisions related to laundry contracts and needle exchange; and
- makes technical corrections relating to crime lab assessments and the escalator for the Maryland State Arts Council.

Additional Information

Prior Introductions: None.

Cross File: HB 869 (The Speaker and the Minority Leader) (By Request – Administration) – Ways and Means and Appropriations.

Information Source(s): Maryland State Treasurer's Office; Maryland Institute for Emergency Medical Services Systems; University of Maryland Medical System; University System of Maryland; Department of Aging; Public School Construction Program; Maryland Higher Education Commission; Baltimore City Community College; State Department of Assessments and Taxation; Department of Natural Resources; Governor's Office; Comptroller's Office; Office of the Attorney General (Securities

Division); Maryland Department of the Environment; Maryland State Department of Education; Office of Administrative Hearings; Maryland Tax Court; Maryland Association of Counties; Department of Health and Mental Hygiene; Maryland Department of Transportation; Department of Business and Economic Development; Department of State Police; Maryland Department of Agriculture; Department of Budget and Management; Department of Public Safety and Correctional Services; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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Appendix 1
Summary of Fiscal Impacts in the Budget Reconciliation and Financing Act of 2004 – SB 508

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	General Fund Revenues						
	Fund Transfers -- One-time Effect:						
	Unclaimed Local Income Tax		81,000,000				
	DNR -- Program Open Space --Transfer Tax Revenues		57,136,242				
	MDA -- MALPP -- Transfer Tax Revenues		13,144,480				
	Overattainment of Transfer Tax Revenues		41,886,000				
	MDOT -- SHA -- Highway User Revenues		51,220,064				
	DHMH -- Spinal Cord Injury Research Trust Fund		2,557,790				
	DLLR -- Racing Commission Special Fund		415,100				
	DPSCS -- State Use Industries		2,000,000				
	DBM -- Central Collection Unit		4,500,000				
	DHMH -- Board of Social Work Examiners		251,000				
	DHMH -- Board of Physicians		628,000				
**	OAG – Home Builder Registration Fund		500,000				
*	Repeal Subcabinet for Children, Youth, & Families Resource Fund	--					
	Subtotal Transfer Revenue		***255,238,676***				
	Sale of State Assets -- One-time Effect:						
	DNR -- Proceeds from Sale of Yacht	247,590					
	Proceeds from Sale of Executive Branch Surplus Vehicles		500,000				
	Subtotal Sale of Assets Revenue	***247,590***	***500,000***				

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Increased Existing and New Fees:						
	OAG -- Increased Exempt Securities Filing Fee		480,000	480,000	480,000	480,000	480,000
*	OAH -- Increased MVA-related Appeals Filing Fees		3,138,300	3,138,300	3,138,300	3,138,300	3,138,300
	OAH -- Increased Other Appeals Filing Fees		45,220	45,220	45,220	45,220	45,220
	SDAT -- New Filing Fees		209,700	209,700	209,700	209,700	209,700
	SDAT -- Nonrefundable Processing Fees[1]		--	--	--	--	--
	SDAT -- New Paper Extension Fee		285,000	114,000	114,000	114,000	114,000
	DHMH -- Increased Community Health Fees		1,047,829	1,737,543	2,427,258	2,427,258	2,427,258
	DHMH -- New Methadone Clinic Certification Fees		90,000	90,000	90,000	90,000	90,000
	Subtotal Fee Revenue		***5,296,049***	***5,814,763***	***6,504,478***	***6,504,478***	***6,504,478***
	Other Provisions:						
	DHMH -- 6% Assessment on ICF-MR Income	5,694,464	5,699,463	5,699,463	5,699,463	5,699,463	5,699,463
	Comptroller -- Report-Remit Abandoned Property		2,773,000	359,000	370,000	377,000	383,000
	Impose Minimum County Income Tax Rate on Nonresident Taxpayers		38,597,000	27,807,000	29,475,000	31,244,000	33,119,000
	Halve Sales Tax Vendor Discount for Two Years		15,434,775	16,008,355			
**	Reduce Premium Tax Distribution to Spinal Cord Injury Research Trust Fund			500,000	500,000	500,000	500,000
*	Federal Decoupling -- SUV Depreciation[2]		13,499,923	12,951,995	12,738,505	12,369,235	12,533,506
*	Federal Decoupling -- Expensing of § 179 Property[2]	2,257,985	21,271,241	5,609,476	-14,868,523	-10,058,841	-7,045,283
*	Federal Decoupling -- Unified Credit Exemption -- Estate Tax		9,095,625	11,928,378	20,531,384	24,769,667	26,030,905
**	Federal Decoupling -- Addition Modification -- Estate Tax			6,281,000	9,044,000	9,632,000	10,113,000
	Subtotal Other Provision Revenue	***7,952,449***	***106,371,027***	***87,144,667***	***63,489,829***	***74,532,524***	***81,333,591***
	Total General Fund Revenues	**8,200,039**	**367,405,752**	**92,959,430**	**69,994,307**	**81,037,002**	**87,838,069**

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Special Fund Revenues						
	Fee Provisions:						
	MDA -- Pesticide Regulation Fees		72,500	72,500	72,500	72,500	72,500
	MDA -- Plant Protection Fees		37,500	37,500	37,500	37,500	37,500
	MDA -- Turf & Seed Fees[3]		15,500	15,500	15,500	15,500	15,500
	MDE -- Lead Poisoning Prevention Fees[3]		347,500	347,500	347,500	347,500	347,500
	DHMH -- MHCC/HSCRC -- User Fees to Offset Indirect Costs		1,557,000				
*	OAG -- Consumer Protection -- Health Club Fees		94,700	94,700	94,700	94,700	94,700
**	OAG -- Reduce Home Builder Registr'n Fees; Repeal Sunset on Statutory Fees		-450,900	-317,250	-453,750	-349,500	-455,850
***	TTF -- Exempt Rental Vehicles from Increased Vehicle Registration Fees		-1,300,000	-1,300,000	-1,300,000	-1,300,000	-1,300,000
*	MDOT -- MVA Fees for Cost Recovery Between 95% and 100%			(--)			
	Subtotal Fee Revenue		***373,800***	***-1,049,550***	***-1,186,050***	***-1,081,800***	***-1,188,150***
	Other Provisions:						
	Halve Sales Tax Vendor Discount for Two Years		129,716	134,539			
	Deposit Proceeds from Sale of Surplus Exec. Branch Vehicles to GF		(--)				
*	Federal Decoupling -- SUV Depreciation[2]		2,252,344	2,160,923	2,125,306	2,063,700	2,091,106
*	Federal Decoupling -- Expensing of § 179 Property[2]	144,127	1,357,739	358,052	-949,055	-642,054	-449,699
**	Repayment of TTF Transfers from Unappropriated GF Surplus			50,000,000	--	--	--
	Subtotal Other Provision Revenue	***144,127***	***3,739,799***	***52,653,514***	***1,176,251***	***1,421,646***	***1,641,407***
	Total Special Fund Revenues	**144,127**	**4,113,599**	**51,603,964**	**-9,799**	**339,846**	**453,257**

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	General Fund Expenditures						
	Withdrawn Appropriations:						
*	Board of Elections -- Help America Vote Act	-1,847,000					
	BPW -- IAC -- School Wiring	-2,923,440					
	DHMH -- Medicaid -- FF Availability	-31,300,000					
	State Police -- Various Offices -- FF Availability	-90,054,067					
	Subtotal Withdrawn Appropriatons	***-126,124,507***					
	Reduced GF Reliance Due to SF Fee Revenue:						
	MDA -- Pesticide Regulation Fees		-72,500	-72,500	-72,500	-72,500	-72,500
	MDA -- Plant Protection Fees		-37,500	-37,500	-37,500	-37,500	-37,500
	MDA -- Turf & Seed Fees[3]		-34,090	-15,500	-15,500	-15,500	-15,500
	MDE -- Lead Poisoning Prevention Fees[3]		-350,000	-347,500	-347,500	-347,500	-347,500
	DHMH -- Indirect Costs Charged to MHCC/HSCRC		-1,557,000				
*	OAG -- Consumer Protection -- Health Club Fees		-54,285	-55,371	-56,478	-57,608	-58,760
	Subtotal Reduced GF Reliance Due to Fees		***-2,105,375***	***-528,371***	***-529,478***	***-530,608***	***-531,760***
	Deferred Expenditures:						
	MHEC -- Private Donation Incentives Grants to Non-HBIs		-2,375,935				2,375,935
	MHEC -- Innovative Partnerships in Technology Grants		-1,632,382	1,632,382			
	Subtotal Deferred Expenditures		***-4,008,317***	***1,632,382***			***2,375,935***

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Other One-time Expenditure Effects:						
***	Department of Aging -- Supplement Grants to Locals			442,210			
	DHR -- Repeal Individual Development Accounts			-110,692			
	MSDE -- Repeal Teacher Salary Challenge 1 Year Early		-20,894,314				
	MSDE – Nonpublic Placement Formula Contingent Reduction		-6,395,199				
*	MSDE -- EEEP Contingent Reduction		-2,407,713				
	MHEC -- Alter Size Factor for Community Colleges		-4,947				
*	Use December BRE for 5% Balance of RDF		-9,000,000	9,000,000			
*	True Up Local Jail Reimbursement (Def. App in 06 Budget Bill)		13,000,000				
	Subtotal Other One-time Effects		***-25,702,173***	***9,331,518***			
	Ongoing Expenditure Effects:						
***	MSDE -- Geographic Cost of Education Index			53,415,130	70,008,365	89,945,091	106,024,717
	DHMH -- Payment of Fee for Methadone Clinics		--	--	--	--	--
	DHMH -- 6% Assessment on ICF-MR Income	3,869,170	3,871,817	3,871,817	3,871,817	3,871,817	3,871,817
*	DHMH -- Treat RICA as Nonpublic Placement		-3,752,021	-3,939,622	-4,136,603	-4,343,433	-4,560,605
	Comptroller -- Report-Remit Abandoned Property -- Staffing[4]		122,101	139,483	147,984	157,126	166,970
	Comptroller -- TTF Shares Cost to Admin Corporate Income Tax[5]		-557,600	-594,300	-612,100	-630,500	-649,400
*	Comptroller -- Federal Decoupling -- Estate Tax -- Staffing[4]		153,594	185,806	197,085	209,216	222,278
	Baltimore City Community College – Rebase Mandated Allowance			(--)	(--)	(--)	(--)
	BPW -- Allow Grants to Maryland State Firemen's Association		-275,000	-275,000	-275,000		
	MIEMSS -- Use of VCAF in MEMSOF		-403,744	-403,744	-403,744	-403,744	-403,744
	DBED -- Repeal Mandated Appr'n for Office of Tourism Developm't			(--)	(--)	(--)	(--)
	DBED -- Rebase Mandated Allowance for Tourism Developm't Bd.			-1,000,000	-2,500,000	-2,500,000	-2,500,000
**	Repayment of TTF Transfers from Unappropriated GF Surplus			50,000,000	--	--	--
*	ABF -- Repeal Auth'n to Expand Capital Program/Bond Premiums		(--)	(--)	(--)	(--)	(--)
	Subtotal Ongoing Effects	***3,869,170***	***-840,853***	***101,399,570***	***66,297,804***	***86,305,573***	***102,172,033***
	Total General Fund Expenditures	**-122,255,337**	**-32,656,718**	**111,835,099**	**65,768,326**	**85,774,965**	**104,016,208**

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Special Fund Expenditures						
	Substitution of SF Fee Revenue for GF Subsidy:						
	MDA -- Pesticide Regulation Fees		72,500	72,500	72,500	72,500	72,500
	MDA -- Plant Protection Fees		37,500	37,500	37,500	37,500	37,500
	MDA -- Turf & Seed Fees[3]		15,500	15,500	15,500	15,500	15,500
	MDE -- Lead Poisoning Prevention Fees[3]		347,500	347,500	347,500	347,500	347,500
	DHMH -- MHCC/HSCRC -- User Fees to Offset Indirect Costs		1,557,000				
*	OAG -- Consumer Protection -- Health Club Fees		54,285	55,371	56,478	57,608	58,760
	Subtotal Substitution of SF Fee Revenue		***2,084,285***	***528,371***	***529,478***	***530,608***	***531,760***
	Deferred Expenditures:						
	DHMH -- Biennial Tobacco Study -- CRF		-2,300,000	2,300,000			
	DHMH -- Comprehensive Evaluation -- CRF		-1,000,000	1,000,000			
	Subtotal Deferred Expenditures		***-3,300,000***	***3,300,000***			
	Other One-time Expenditure Effects:						
***	Department of Aging – Supplement Grants to Locals		442,210				
	DLLR -- Racing Commission Special Fund		-415,100				
	DNR -- Program Open Space -- Transfer Tax Revenues		-57,136,242				
	MDA -- MALPP -- Transfer Tax Revenues		-13,144,480				
	Overattainment of Transfer Tax Revenues			-41,886,000			
*	Add'l Overattainment of Transfer Tax -- City Allocation		1,500,000	-1,500,000			
	MDOT -- SHA -- Highway User Revenues		-51,220,064				
	DHMH -- Tobacco Use Activities -- CRF		-9,000,000				
	DHMH -- Academic Health Center Grants -- CRF		-1,564,000				
	Subtotal Other One-time Effects		***-130,537,676***	***-43,386,000***			

		FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Ongoing Expenditure Effects:						
	DHMH -- Payment of Fee for Methadone Clinics -- CRF		--	--	--	--	--
	MDOT -- TTF Shares Cost to Admin Corporate Income Tax[5]		577,605	594,300	612,100	630,500	649,400
	BPW -- Use of VCAF for Grants to Maryland State Firemen's Ass'n.		275,000	275,000	275,000		
	DNR -- Use of Waterway Improvement Fund for Admin Costs		(--)	(--)	(--)	(--)	(--)
	MIEMSS -- Use of VCAF in MEMSOF		403,744	403,744	403,744	403,744	403,744
*	MSDE -- SUI Transfer to Correctional Education			1,000,000	1,000,000	1,000,000	1,000,000
*	ABF -- Repeal Auth'n to Expand Capital Program with Bond Premiums		(--)	(--)	(--)	(--)	(--)
	Subtotal Ongoing Effects		***1,256,349***	***2,273,044***	***2,290,844***	***2,034,244***	***2,053,144***
	Total Special Fund Expenditures		**-130,497,042**	**-37,284,585**	**2,820,322**	**2,564,852**	**2,584,904**
	Declines in Special Fund Balances						
	DHMH -- Spinal Cord Injury Research Trust Fund		-3,000,000				
	DPSCS -- State Use Industries		-2,000,000	-1,000,000	-1,000,000	-1,000,000	-1,000,000
	DBM -- Central Collection Unit		-4,500,000				
**	OAG – Home Builder Registration Fund		-500,000				
	DHMH -- Board of Social Work Examiners		-251,000				
	DHMH -- Board of Physicians		-628,000				
	DNR -- State Boat Act Account -- Sale of Yacht	-247,590					
	Total Special Fund Balance Declines	**-247,590**	**-10,879,000**	**-1,000,000**	**-1,000,000**	**-1,000,000**	**-1,000,000**

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Federal Fund Expenditures						
DHR – Repeal Individual Development Accounts			-843,270			
DHMH -- Payment of Fee for Methadone Clinics		--	--	--	--	--
DHMH -- 6% Assessment on ICF-MR Income	1,825,294	1,827,646	1,827,646	1,827,646	1,827,646	1,827,646
Total Federal Fund Expenditures	**1,825,294**	**1,827,646**	**984,376**	**1,827,646**	**1,827,646**	**1,827,646**
Net Impact on General Funds	**130,455,376**	**400,062,470**	**-18,875,669**	**4,225,981**	**-4,737,963**	**-16,178,139**
Net Impact on Special Funds	**144,127**	**134,610,641**	**88,888,549**	**-2,830,121**	**-2,225,006**	**-2,131,647**
Net Impact on State Funds	**130,599,503**	**534,673,111**	**70,012,880**	**1,395,860**	**-6,962,969**	**-18,309,786**
Net Impact on All Funds	**128,774,209**	**532,845,465**	**69,028,504**	**-431,786**	**-8,790,615**	**-20,137,432**

*Indicates provisions added by the Senate that were not included in or modified from one of the three Administration bills (Budget Financing Act, Fund Transfers Act, or Budget Reconciliation Act).

**Indicates provisions added by the House that were not included in or modified from one of the three Administration bills (Budget Financing Act, Fund Transfers Act, or Budget Reconciliation Act) or by the Senate.

***Indicates provisions added by the Conference Committee.

[1]SDAT must adopt regulations relating to the conditions under which fees would be nonrefundable; therefore, the fiscal effect cannot be determined.

[2]Revenue reduction due to overlap of these two federal decoupling provisions has been taken into consideration in the revenue estimates for SUV depreciation.

[3]The contingent general fund reduction in fiscal 2005 is greater than the amount of special fund revenue to be generated through the fees affected by this bill.

[4]Staffing is for seven new positions in the Comptroller's Office: three to handle the increased workload associated with processing claims due to the new abandoned property report-remit provisions and four to handle the increased workload related to the unified credit exemption of the estate tax.

[5]The contingent general fund reduction is reflected as the savings to the general fund; however, the cost to the special fund is reflected as the slightly higher amount which would be charged to the TTF based on the Comptroller's study of the cost to administer the corporate income tax.

Appendix 2 – Summary of Major Fiscal Impacts on Local Jurisdictions
($ in Thousands)

County	Transfer to GF of Highway User Revenues	Allocation of Unclaimed Local Income Tax Revenues	Net Reduction to Program Open Space	Reduced Aid for Nonpublic Placements	Reduced Aid for Extended Elementary	Repeal of Teacher Salary Challenge	Total Changes
Allegany	-$1,192	$632	-$150	-$27	-$44	-$408	-$1,188
Anne Arundel	-4,985	7,827	-1,622	-556	-162	-1,138	-637
Baltimore City	0	4,944	-1,072	-1,559	-517	-3,782	-1,985
Baltimore	-6,845	11,988	-1,829	-917	-149	-1,796	452
Calvert	-992	1,205	-163	-76	-57	-133	-216
Caroline	-802	252	-71	-8	-44	-155	-828
Carroll	-2,232	2,447	-367	-186	-21	-469	-829
Cecil	-1,240	1,059	-189	-69	-101	-569	-1,109
Charles	-1,524	1,850	-333	-80	-134	-432	-654
Dorchester	-896	250	-61	-1	-51	-43	-803
Frederick	-2,929	3,570	-386	-81	-102	-616	-544
Garrett	-1,017	236	-76	-3	-39	-86	-986
Harford	-2,536	3,698	-542	-208	-106	-674	-368
Howard	-2,487	4,855	-959	-208	-32	-833	336
Kent	-460	208	-46	-1	-35	-42	-375
Montgomery	-7,188	20,846	-2,440	-689	-158	-5,918	4,452
Prince George's	-6,134	9,886	-2,063	-1,539	-216	-2,278	-2,346
Queen Anne's	-898	671	-100	-15	-44	-105	-490
St. Mary's	-1,181	1,303	-184	-53	-109	-257	-480
Somerset	-536	166	-44	-3	-39	-112	-568
Talbot	-727	365	-105	-2	-39	-65	-573
Washington	-1,881	1,493	-287	-97	-75	-346	-1,193
Wicomico	-1,438	970	-191	-17	-99	-524	-1,298
Worcester	-1,100	281	-189	0	-35	-111	-1,155
Total	**-$51,220**	**$81,000**	**-$13,468**	**-$6,395**	**-$2,408**	**-$20,894**	**-$13,385**

Notes: This summary does not include additional costs to be borne by local jurisdictions due to realignment of RICAs with nonpublic special education funding. The net effect of the $28.5 million reduction in the local POS share and the $15.0 million additional GO bond funding is shown for POS. Other effects on highway user revenues, local income tax revenues, and increased local health department fees are not shown.