HB 147

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 147 (The Speaker) (By Request – Administration)

Ways and Means and Appropriations Budget and Taxation

Budget Reconciliation and Financing Act of 2005

This Administration bill consolidates into one bill the provisions necessary to bring the fiscal 2006 budget into balance. The bill preserves general funds primarily by providing relief from mandated funding levels for several programs throughout State government and expanding the uses of specified existing special funds. New special fund revenues from increased fees help to reduce the reliance on the general fund as well. The bill also raises new general fund revenues, largely from a combination of one-time transfers and ongoing tax compliance measures. Additional budget benefits result from implementing cost-sharing measures and exempting the purchase of motor fuel by the Department of General Services for use by State agencies from the motor fuel tax. The bill provides for increased oversight or accountability in certain areas, requires specified reports, authorizes or requires specified spending, and makes technical corrections.

The bill takes effect June 1, 2005, but numerous provisions have other effective dates.

Fiscal Summary

State Effect: General fund revenues increase by $196.6 million in FY 2006, largely from a combination of one-time transfers and ongoing fee and tax changes. General fund expenditures are reduced by $67.1 million in FY 2006, which includes $18.4 million in contingent reductions in the FY 2006 budget bill. The net impact on the general fund in FY 2006 is $263.7 million. The longer-term impact on the general fund is less than half that amount, primarily due to ongoing new revenues. Special fund revenues increase by $12.1 million in FY 2006, with special fund expenditures reduced by $82.8 million, primarily related to one-time transfers to the general fund. In FY 2007 and subsequent years, the special fund revenue increase is more than offset by special fund expenditure growth.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	$196,641,700	$28,491,900	$33,230,200	$37,104,800	$41,848,000
SF Revenue	12,109,100	1,557,100	2,984,300	3,933,700	5,351,900
GF Expenditure	(67,095,400)	(97,054,700)	(59,833,200)	(61,334,300)	(55,675,400)
SF Expenditure	(82,831,400)	69,009,500	69,128,000	73,469,700	63,808,300
FF Expenditure	(6,642,000)	(8,779,400)	1,704,600	1,710,700	1,716,900
NonBud Exp.	0	(136,900)	(136,900)	(136,900)	(136,900)
ReimB. Exp.	0	(22,800)	(22,800)	(22,800)	(22,800)
Net Effect	$365,319,600	$67,033,300	$25,374,800	$27,352,100	$37,509,800

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

Local Effect: The bill has a significant impact on local jurisdictions. Local highway user revenues are reduced by $49.1 million in FY 2006 due to transfer of those funds to the general fund and exempting State purchases from the motor fuel tax. However, certain provisions in the bill could significantly increase local income tax revenues as well as highway user revenues. The local share of Program Open Space (POS) is decreased by $33.8 million in FY 2006. Although the bill reduces education aid by $8.2 million in FY 2006, it also relieves local school systems of the obligation to support regional institute for children and adolescent (RICA) costs. Another $1.8 million in matching grant funding for community colleges is deferred to FY 2007. Local revenues could increase in FY 2006 due to authorization to fund Challenge Grants ($3.5 million), Literacy Works Grants ($1.2 million), and the Maryland Summer Youth Connection Program ($150,000); however, expenditures to match Literacy Work Grants would increase by $400,000. Grants and loans could increase through the Maryland Economic Development Assistance Fund in FY 2006. Mandated funding of $4.2 million in FY 2007 would increase aid for Challenge Grants and to supplement federal aging grants for specified local agencies.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

Bill Summary: The bill consolidates certain provisions originally contained in three Administration bills into one bill (HB 147/SB 124; HB 148/SB 127; and HB 149/SB 126) and incorporates new provisions added by the General Assembly. A summary of acronyms used in the bill is included as **Appendix 1**. Additional detail on most provisions in the bill is included as **Appendix 2**. A five-year summary of provisions with fiscal impacts is included as **Appendix 3**. An index to the provisions is included as **Appendix 4**.

Preserving General Funds

The bill provides relief from mandated funding levels and further general fund savings by:

- increasing the local share of nonpublic placement special education costs in fiscal 2006 only;
- level-funding the Extended Elementary Education Program in fiscal 2006;
- postponing repayment of a portion of Innovative Partnerships for Technology matching grants to community colleges for one year;
- exempting motor fuel purchased by the Department of General Services for use by State agencies from the motor fuel tax;
- specifying that judges do not receive a general salary increase when their compensation is increased through judicial compensation review and modifying the schedule for such salary reviews; and
- authorizing the conversion of contractual positions associated with the Maryland Institute for Policy Analysis and Research to regular State positions, thereby using federal funds from indirect cost recovery to support a portion of the costs of the positions rather than general funds.

To further preserve general funds, the bill expands the uses of existing special funds by:

- mandating that at least 30% of the Cigarette Restitution Fund (CRF) be used to support Medicaid on a permanent basis;
- requiring the Circuit Court Real Property Records Improvement Fund to cover annual operating expenses of circuit court land records offices;
- authorizing use of $425,000 from the State Board of Social Work Examiners Fund to match federal funds for a training academy within the Department of Human Resources in fiscal 2006;
- authorizing use of $45.2 million from the Revenue Stabilization Account in fiscal 2006 to fund PAYGO projects shifted from the capital budget;

- authorizing use of the proceeds and accumulated interest from demutualization of MetLife for employee and retiree health insurance costs in fiscal 2005; and

- increasing the amount of POS funds that may be used to operate State forests and parks in fiscal 2006 only.

Enhancing Revenues

The bill redirects $138.5 million in special fund revenues to the general fund in fiscal 2006:

- $90 million in transfer tax revenues – allocating $1.5 million of the remaining share of POS revenues to Baltimore City for its parks; and

- $48.5 million in highway user revenues – at the same time specifying that Baltimore City's share of highway user revenues may increase according to an established formula if revenues exceed current estimates.

As shown below, the bill also enhances revenues through tax compliance measures and fee and cost-sharing provisions. The bill directs new fee revenue from increasing traffic and criminal District Court costs to the Law Enforcement and Correctional Training Fund (LECTF) in fiscal 2006. In fiscal 2007, LECTF is repealed and the fee revenues that capitalize the fund are redirected to the general fund.

Fiscal 2006 General and Special Fund Tax and Fee Revenues Under HB 147
($ in Millions)

Revenues	GF	SF
Require withholding on lump-sum retirement distributions	$25.0	
Decouple from the federal deduction for qualified domestic production activities	13.7	$4.3
Adjust withholding for nonresident real estate sales and gambling winnings	8.0	
Increase PTE tax on partnerships, S-corporations, and LLCs with nonresident entities	6.2	
Limit exemptions for withholding if subject to tax intercepts	3.0	
Require tax clearance for insurance producer license renewals	1.0	
Increase monthly probationer supervisee fees from $25 to $40 (for five years)	0.7	
Authorize reciprocal refund and vendor payments with local governments	0.5	
Eliminate use tax vendor discount for voluntary payments	0.5	
Allow additional claims for heritage tax credits, if application submitted prior to June 2002	-0.5	

Impose fee of up to 1% to certify new commercial heritage tax credit awards		0.2
Exempt State agency purchases from motor fuel tax	-0.0	-2.2
Impose monthly fee of $45 in the Drinking Driver Monitor Program (for five years)		7.6
Increase traffic and criminal costs imposed by the District Court by $2.50		2.1
Increase user fee cap for health commissions to cover indirect cost assessment (for one year)		1.8
Total	**$58.1**	**$13.8**

PTE = pass-through entity tax   LLCs = limited liability companies

Note: Official Bureau of Revenue Estimates forecasts assume continued decoupling for small business expensing as implemented in this bill; consequently, no revenue impact is shown.

Funding Priorities

Several provisions in the bill ensure that priorities can be funded; for example, the bill:

- repeals the 31.5% trigger provision related to education funding and alters the cost-sharing for RICAs;
- mandates health benefits levels for State employees and retirees for fiscal 2006 and 2007 and modifies cost-sharing provisions for employees and retirees to partially fill a funding gap;
- codifies the Employment Standards and Prevailing Wage units in the Department of Labor, Licensing, and Regulation and mandates appropriations totaling at least $700,000 for those units in fiscal 2007 and subsequent years;
- mandates appropriations for fiscal 2007 only of $442,210 for supplemental grants to local area agencies on aging; $3,788,827 for Challenge Grants; and $88,000 for the Department of Natural Resources library;
- authorizes use of CRF monies as follows: $1 million for a comprehensive evaluation in fiscal 2005 and $13.4 million to fund specified other programs in fiscal 2006; and mandates CRF funding for fiscal 2007 and subsequent years;
- exempts atypical antipsychotic medications from prior authorization requirements under specified pharmacy assistance and discount programs for two years; and
- requires that $90.8 million in the fiscal 2005 budget for Purchase of Child Care within the Department of Human Resources be used for that purpose, effectively

limiting the amount of child care funds that can be transferred to foster care to $21 million.

Additional Provisions

The bill includes numerous additional provisions; for example, it:

- increases lottery agent commissions beginning in fiscal 2007;
- expresses intent to consider a reduction to the State property tax rate in fiscal 2007;
- expresses intent to phase out and repeal the Maryland-mined coal tax credit during the 2006 legislative session;
- exempts nonprofit health maintenance organizations from the insurance premium tax and requires them to provide funds equivalent to the value of their exemption to the Medical Assistance Program Account within the Medical Professional Liability Insurance Rate Stabilization Fund;
- authorizes use of restricted fiscal 2005 appropriations for a contract at the Charles H. Hickey, Jr. School to be used for State operation of the facility and other specified purposes;
- enhances legislative oversight by codifying submission of the draft and final Consolidated Transportation Programs; requiring quarterly reporting from the Interagency Committee on School Construction; and increasing the reporting elements related to Major Information Technology Development Projects;
- requires studies and related reports on the most accurate enrollment figures to use in higher education funding formulas, enhancing retirement benefits for teachers and State employees through legislation to be introduced in 2006, and Medicaid rates for managed care organizations and academic health centers; and
- authorizes use of $1 million in federal funds by the end of calendar 2005 to support the final environmental impact statement for Maglev.

Additional Information

Prior Introductions: None.

Cross File: SB 124 (The President) (By Request - Administration) – Budget and Taxation.

Information Source(s): Judiciary (Administrative Office of the Courts); State Department of Assessments and Taxation; Maryland State Treasurer's Office; Maryland Supplemental Retirement Plans; Maryland Insurance Administration; Department of Aging; Department of Human Resources; Department of Health and Mental Hygiene; Department of Juvenile Services; Department of Natural Resources; Maryland Department of Agriculture; Department of Labor, Licensing, and Regulation; Public School Construction Program; Maryland State Department of Education; Maryland Higher Education Commission; University of Maryland Medical System; Calvert County; Carroll County; Harford County; Montgomery County; Prince George's County; Queen Anne's County; St. Mary's County; Maryland Association of Counties; Maryland State Retirement Agency; City of Westminster; Town of Bel Air; City of Salisbury; Caroline County; Howard County; Town of Riverdale Park; Town of Leonardtown; Baltimore City; National Conference of State Legislatures; Department of General Services; Register of Wills; Comptroller's Office; Department of Housing and Community Development; Department of Health and Mental Hygiene; Maryland Department of Transportation; Department of Budget and Management; Department of Public Safety and Correctional Services; Department of Legislative Services

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Appendix 1. Acronyms Used in the Budget Reconciliation and Financing Act of 2005

ADP	Average Daily Population
Art.	Article
BPW	Board of Public Works
BRE	Board of Revenue Estimates
BRFA	Budget Reconciliation and Financing Act
CBO	Congressional Budget Office
CJP	Courts and Judicial Proceedings Article
COLA	Cost-of-living Adjustment
CP	Criminal Procedure Article
CRF	Cigarette Restitution Funds/Cigarette Restitution Fund
CRS	Congressional Research Service
CS	Correctional Services Article
CTP	Consolidated Transportation Program
CY	Calendar Year
DBED	Department of Business and Economic Development
DBM	Department of Budget and Management
DDMP	Drinking Driver Monitor Program
DGS	Department of General Services
DHCD	Department of Housing and Community Development
DHMH	Department of Health and Mental Hygiene
DHR	Department of Human Resources
DJS	Department of Juvenile Services
DLLR	Department of Labor, Licensing, and Regulation
DLS	Department of Legislative Services
DNR	Department of Natural Resources
DPP	Division of Parole and Probation
DPSCS	Department of Public Safety and Correctional Services
DUI	Driving Under the Influence
DWI	Driving While Intoxicated
ED	Education Article
EEEP	Extended Elementary Education Program
ET	Estates and Trusts Article
ETI	Extraterritorial Income
FF	Federal Funds/Federal Fund

FY	Fiscal Year
GF	General Funds/General Fund
GO	General Obligation
HCD	Housing and Community Development Article
HG	Health – General Article
HMOs	Health Maintenance Organizations
HSCRC	Health Services Cost Review Commission
IN	Insurance Article
IPT	Innovative Partnerships for Technology Program
IRC	Internal Revenue Code
IRS	Internal Revenue Service
JCT	Joint Committee on Taxation
JHI	Johns Hopkins Institutions
LE	Labor and Employment Article
LECTF	Law Enforcement and Correctional Training Fund
LLC	Limited Liability Corporation
MALPP	Maryland Agricultural Land Preservation Program
MCOs	Managed Care Organizations
MDA	Maryland Department of Agriculture
MDOT	Maryland Department of Transportation
MEDAF	Maryland Economic Development Assistance Fund
MHA	Mental Hygiene Administration
MHCC	Maryland Health Care Commission
MHEC	Maryland Higher Education Commission
MHT	Maryland Historical Trust
MIA	Maryland Insurance Administration
MIPAR	Maryland Institute for Policy Analysis and Research
MSDE	Maryland State Department of Education
MVA	Motor Vehicle Administration
NR	Natural Resources Article
Paygo	Pay-as-you-go
PBJ	Probation Before Judgement
PCTC	Police and Correctional Training Commissions
POS	Program Open Space
PTE	Pass-through Entity
REIT	Real Estate Investment Trust

RICAs	Regional Institutes for Children and Adolescents
SF	Special Funds/Special Fund
SFP	State Finance and Procurement Article
SG	State Government Article
SHA	State Highway Administration
SPP	State Personnel and Pensions Article
TG	Tax – General Article
TP	Tax – Property Article
TR	Transportation Article
TTF	Transportation Trust Fund
TY	Tax Year
UF	Unrestricted Funds (includes general funds appropriated to Higher Education)
UMBC	University of Maryland, Baltimore County
UMMG	University of Maryland Medical Group

Appendix 2. Additional Details on Most Provisions of the Bill

Aging – Supplemental Grants

Provisions in the Bill: For FY 2007 only, require Older Americans Act funds to be allocated using existing formulas; mandate an appropriation of $442,210 for supplemental grants to local area agencies on aging to mitigate the impact on rural jurisdictions and Baltimore City; and specify the distribution of the supplemental grants.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$442,210			

State Effect: Increases GF expenditures by $442,210 in FY 2007. No effect on revenues.

Local Effect: Increases funding for the 11 counties affected by the supplemental grants.

Program Description: The Department of Aging allocates federal Older Americans Act funds to local area agencies on aging based on funding formulas.

Recent History: In FY 2005, the use of new 2000 census data caused rural jurisdictions and Baltimore City to lose significant funding. Therefore, BRFA of 2004 transferred $442,210 to the department for hold harmless grants and mandated an equivalent appropriation in FY 2006.

Location of Provisions in the Bill: Section 27 (uncodified), p. 68.

Cigarette Restitution Fund (CRF)

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 payments of from $150 to $200 million since 2000. The State established the CRF in Chapter 173 of 1999 as a special non-lapsing 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 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 (Medicaid).

CRF – Tobacco Study

Provision in the Bill: Postpones the next Tobacco Study required under the Tobacco Use Prevention and Cessation Program by one year to FY 2007 and makes corresponding changes to required reports.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($2,000,000)	$2,000,000	($2,000,000)	$2,000,000	($2,000,000)

State Effect: This deferral shifts the estimated $2.0 million cost of this study, thereby reducing SF expenditures in FY 2006 and future even-numbered years and increasing them by an equivalent amount in FY 2007 and future odd-numbered years. The FY 2006 budget bill assumes this deferral.

Recent History: The last Tobacco Study was undertaken in FY 2003. These studies were required annually until BRFA of 2003 changed the requirement to a biennial study, making the next study due in FY 2005. BRFA of 2004 postponed the study by one year to FY 2006.

Location of Provision in the Bill: Section 1 (HG § 13-1004), p. 21.

CRF – Comprehensive Evaluation

Provision in the Bill: Authorizes funding for the comprehensive evaluation of the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program in FY 2005.

Fiscal Impact:

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Expends	$1,000,000				

State Effect: As funding was not provided in the budget, this authorization ensures that the estimated $1.0 million cost of the study can be covered, thereby increasing SF expenditures in FY 2005.

Recent History: BRFA of 2004 postponed the evaluation by one year to the end of FY 2005.

Location of Provision in the Bill: Section 15 (uncodified), p. 63.

CRF – Tobacco Cessation

Provision in the Bill: Reduces mandated funding for activities aimed at reducing tobacco use from $21.0 million to $10.0 million for FY 2006 only.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($9,700,000)				

State Effect: Should this provision fail, contingency language in the FY 2006 budget bill requires $10.0 million SF intended for cancer prevention, screening, or treatment programs to be expended for activities aimed at reducing tobacco use (the budget assumes this reduction, including $11.3 million for tobacco cessation).

Recent History: BRFA of 2003 reduced the required amount to $18.0 million for FY 2004 only. BRFA of 2004 reduced the required amount to $12.0 million for FY 2005 only.

Location of Provision in the Bill: Section 1 (HG § 13-1015), p. 22.

CRF – Mandated Appropriation for Medicaid

Provision in the Bill: Makes permanent the requirement that CRF monies be appropriated for Medicaid and increases the amount to 30%.

Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		($43.5)	($51.9)	($52.4)	($52.9)
SF Expends		$43.5	$51.9	$52.4	$52.9

State Effect: In FY 2006, the percentage of SF expenditures for Medicaid would be mandated to increase from 25% to 30%. Although this equates to $6.1 million, Legislative Services notes that a higher percentage of CRF monies than required has been dedicated to the Medicaid program in recent years and that the budget assumes funding at a much higher level ($66.8 million) than would be required ($36.8 million). Consequently, it is assumed that this provision would not have an impact on expenditures in FY 2006. In FY 2007 and subsequent years, however, SF expenditures for Medicaid would increase significantly due to making this funding requirement permanent, with offsetting GF savings.

Recent History: BRFA of 2003 required that 25% of CRF appropriations in FY 2003 through FY 2006 be made for Medicaid.

Location of Provision in the Bill: Section 1 (SFP § 7-317), pp. 33-34.

CRF – Funding for Statewide Academic Health Center Grants

Provisions in the Bill: Reduce the mandated appropriation of $2.0 million for each academic health center for one year; authorize up to $6.7 million in additional spending for FY 2006 only; mandate at least another $15.4 million in spending beginning in FY 2007; and modify the formula for distribution of public health grants beginning in FY 2007 so that 19% of total funds would be awarded to Baltimore City, with 9.5% going to each center.

Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$5.1	$15.4	$15.4	$15.4	$15.4

State Effect: Increases SF expenditures by up to $5.1 million in FY 2006 by authorizing up to $6.7 million for Statewide Academic Health Center Grants if Challenge Grants have been funded first – funding for which is available due to greater-than-anticipated

CRF revenues – offset by a $1.6 million reduction in the mandated funding for public health grants in FY 2006. The FY 2006 budget assumes the $1.6 million reduction. Modifying the formula for distribution of public health grants would not affect State expenditures. Beginning in FY 2007, at least $15.4 million in Statewide Academic Health Center Grants is mandated for the following purposes:

Cancer Research Grants	$10,400,000
Tobacco-related Diseases Research Grant	2,000,000
Network Grant	3,000,000
Total	**$15,400,000**

Local Effect: The public health grant funding for cancer services in Baltimore City would be funded at the same level as in FY 2005. UMMG and JHI would each receive $782,000 less than they otherwise might, which is the same funding provided in FY 2005. From the inception of the program, funding of $2.0 million per institution has not been achieved. Modifying the distribution formula beginning in FY 2007 could decrease funding for Baltimore City, consistent with recent reductions. However, up to $6.7 million in additional funding for these centers could be available in FY 2006. Due to funding mandates, grants would increase significantly in FY 2007 and subsequent years.

Program Description: Under current law, the two statewide academic health centers 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. Although grants for cancer research, tobacco-related diseases research, and the network may be awarded (the cancer research grant to both centers and the other grants to UMMG only), funding for such grants is not currently mandated.

Location of Provision in the Bill: Section 1 (HG §§ 13-1108, 13-1115, 13-1116, 13-1117, and 13-1118), pp. 22-24; and Section 13 (uncodified), p. 63.

CRF – Authorized Spending in FY 2006

Provision in the Bill: Authorizes, if approved by budget amendment and funding availability exceeds specified levels, use of $13.4 million of CRF funds in FY 2006.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$13,397,000				

State Effect: Increases SF expenditures by up to $13.4 million in FY 2006 to fund priorities; funding is available due to greater-than-anticipated CRF revenues. Priorities must be funded in a specified order:

Challenge Grants	$3,500,000
UMMG and JHI Statewide Academic Health Center Grants	6,700,000
Literacy Works Grants	1,200,000
Maryland Summer Youth Connection Program	150,000
Family Support Centers	847,000
Nonpublic textbooks and computer hardware and software	1,000,000
Total	**$13,397,000**

Local Effect: Local revenues would increase; local spending associated with literacy grants, which require a match, could also increase.

Program Description: The various programs are described in their own sections of this document.

Location of Provision in the Bill: Section 16 (uncodified), p. 64.

CRF – Administrative Costs

Provisions in the Bill: Increase the amount that DHMH can spend on administrative expenses for tobacco and cancer programs from 5% to 7%.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		(--)	(--)	(--)	(--)
SF Expends		--	--	--	--

State Effect: No effect in FY 2006 as $211,357 in GF is already budgeted to cover the amount of costs above 5%. In future years, GF expenditures could be reduced, with an offsetting increase in SF expenditures to cover administrative expenditures. However, given the increased funding mandates in these programs for FY 2007 and subsequent years, it is unlikely that administrative costs would grow at the same pace. Consequently, administrative costs could be lower than 5%.

Location of Provisions in the Bill: Section 1 (HG §§ 13-1014 and 13-1119), pp. 22 and 24.

Education – Challenge Grants

Provisions in the Bill: Authorize $3.5 million for Challenge Grants to be appropriated from the CRF in FY 2006, to be distributed to each school in proportion to grants received in FY 2005; and mandate an appropriation of $3.8 million for Challenge Grants in FY 2007.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$3,788,827			
SF Expends	$3,500,000				

State Effect: Increases SF expenditures in FY 2006 and GF expenditures in FY 2007. No effect on revenues.

Local Effect: Provides additional assistance to nine counties and the Annapolis feeder schools in FY 2006 and 2007.

Program Description: The Challenge Grant Program in MSDE provides grants for school improvement to low-performing schools with low attendance rates, high dropout rates, and low pass rates on the Maryland School Assessments. The FY 2005 budget included language requiring MSDE to develop a plan to distribute Challenge Grants in a manner consistent with the State's new accountability standards and the federal No Child Left Behind Act. Under the revised program, Challenge Grant funds were awarded to the nine counties that received funding in FY 2004 but to a different set of schools identified as in need of additional resources to increase student achievement. A total of 38 schools received a total of approximately $3.8 million in Challenge Grant funds during the 2004-2005 school year. The largest concentration of schools is found in the Annapolis Feeder schools, where a total of 11 schools received grants in the amount of $558,097. Along with a shift to move students from the basic level of achievement in reading and mathematics into proficient levels and beyond, Challenge Grants are used to enhance the skills of teachers at identified schools.

Recent History: In FY 2002 through 2004, $6.8 million was provided for Challenge Grants, including $5.8 million distributed to schools in nine counties and $1.0 million for the Annapolis feeder schools. In FY 2005, a total of $3.8 million was provided, distributed proportionally to the counties and Annapolis feeder schools. The Governor did not include any funding for Challenge Grants in the FY 2006 budget on the basis that increased foundation funding under the Bridge to Excellence formulas was adequate to provide the services.

Location of Provisions in the Bill: Section 16 (uncodified), p. 64; and Section 17 (uncodified), p. 65.

Education – Adult Literacy Works Grants

Provision in the Bill: Authorizes up to $1.2 million in CRF funds for literacy grants in FY 2006. Funding must first be provided to other specified priorities.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$1,200,000				

State Effect: No effect on revenues. Increases SF expenditures by up to $1.2 million in FY 2006 only. Assuming State funding of $376 per student, approximately 3,200 additional adult students could be served in FY 2006. Funding is available due to greater-than-anticipated CRF revenues.

Local Effect: Local school revenues from State Literacy Works Grants would increase by $1.2 million in FY 2006. Local school expenditures would increase by $400,000 in FY 2006 to meet matching fund requirements for the grants.

Program Description: Literacy Works Grants require a local match based on a 75% State and 25% local split. MSDE reports that nearly 5,000 individuals were on local waiting lists as of December 31, 2004.

Chapter 305 of 2005 (SB 384) requires the Governor to include an increase of $1.5 million for adult education in the FY 2007 and 2008 State budgets. MSDE must distribute the funding as Literacy Works Grants in order to reduce the waiting list for adult education and literacy services. In addition MSDE must, in consultation with the General Assembly, establish an ongoing method of funding for adult education and literacy services so that the waiting list for these programs is reduced to the greatest extent possible. That additional funding will serve up to 4,000 additional individuals each year.

Location of Provision in the Bill: Section 16 (uncodified), p. 64.

Education – Family Support Centers

Provision in the Bill: Authorizes up to $847,000 in CRF funds for family support centers in FY 2006. Funding must first be provided to other specified priorities.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$847,000				

State Effect: No effect on revenues. Increases SF expenditures by up to $847,000 in FY 2006 only. Funding is available due to greater-than-anticipated CRF revenues.

Program Description: Although the Maryland Family Support Centers Network is currently funded under DHR, the General Assembly transferred the network of family support centers to MSDE, effective July 1, 2005 (Chapter 585 of 2005). The Family Support Centers Network offers a comprehensive roster of services for families with children. The centers are operated pursuant to a contract with the nonprofit organization Friends of the Family, which provides program guidance, technical assistance, and oversight. FY 2006 funding for the network was transferred to MSDE through the FY 2006 budget bill.

Location of Provision in the Bill: Section 16 (uncodified), p. 64.

Education – Nonpublic Textbooks and Computers

Provision in the Bill: Authorizes up to $1.0 million in CRF funds to purchase textbooks and computer hardware and software for nonpublic schools in FY 2006. Funding must first be provided to other specified priorities.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$1,000,000				

State Effect: No effect on revenues. Increases SF expenditures by up to $1.0 million in FY 2006 only. Funding is available due to greater-than-anticipated CRF revenues. The FY 2006 budget bill includes more than $2.9 million SF for nonpublic textbooks and computers.

Program Description: Since FY 2001, MSDE has administered a textbook program for nonpublic schools. In FY 2005, the program was expanded to include computer hardware and software. Nonpublic schools must meet established criteria to receive textbooks and/or computers, as detailed in the budget bill. These textbooks and computers remain the property of the State.

Location of Provision in the Bill: Section 16 (uncodified), p. 64.

Education – Repeal Trigger Provision

Provision in the Bill: Repeals the 31.5% trigger provision related to education funding.

Fiscal Impact: None, as the law contains no mechanism for actually reducing education aid. Moreover, it is assumed that, absent this repeal, the General Assembly would affirm by joint resolution the affordability of education aid rather than limit growth.

Program Description: An affordability trigger has been in statute since 1984 that requires the General Assembly to examine State education spending if aid exceeds 31.5% of GF. If a joint resolution affirming the affordability of education aid is not passed, the per pupil foundation level for the fiscal year is limited to 8% growth. The Bridge to Excellence legislation included a second trigger that would have limited growth in State education spending to 5% per year unless the General Assembly affirmed by joint resolution that the funding increases mandated in the Act were affordable. This trigger provision was repealed by Chapter 6 of 2004 on the advice of the Attorney General, who concluded that the provision could have been deemed unconstitutional because it did not give the Governor an opportunity to take part in the decision-making process (*i.e.*, legislative veto).

The Attorney General's Office has advised that the 31.5% trigger provision could also be unconstitutional for the same reason as the Bridge to Excellence trigger. Additional information on the trigger can be found in the first-reader fiscal notes for HB 560 and SB 939 of 2005.

Mandated State education aid is projected to exceed the 31.5% threshold for the foreseeable future. Based on current estimates for FY 2005, 2007, and 2009, the limited increase in per pupil funding would have no impact on mandated State aid. While the 31.5% threshold is surpassed for those years, the increase in the per pupil foundation amount is below 8% and not passing a joint resolution, therefore, would have no impact on mandated State aid. However, education aid will not only exceed 31.5% of general funds but also the per pupil funding will increase by 9.3% from $5,029 in FY 2005 to $5,497 in FY 2006. By law, the General Assembly must pass a joint resolution or the increase in the foundation amount could be reduced to $5,431, an 8% increase. Limiting per pupil funding to an 8% increase would reduce education aid by approximately $37.3 million in FY 2006. Per pupil funding is projected to exceed 8% again in FY 2008.

Location of Provision in the Bill: Section 8 (ED § 5-202), pp. 61-62.

Education – Extended Elementary Education Program (EEEP) Funding

Provision in the Bill: Level funds the program for one year.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($2,407,813)				

State Effect: Effectuates a $2.4 million GF contingent reduction in the FY 2006 budget bill. Funding rebounds to $19.3 million in FY 2007. No effect on revenues.

Local Effect: Reduces funding for local school systems in FY 2006 only.

Program Description: EEEP funds pre-kindergarten programs for students identified as having a high risk of failure in schools. Under current law, EEEP is fully funded at approximately $19.3 million through FY 2007. EEEP funding is scheduled to expire in FY 2008 when the Bridge to Excellence Act is fully phased in.

Recent History: The General Assembly reduced the program by $2.4 million in FY 2005 for one year only.

Location of Provision in the Bill: Section 1 (ED § 5-206), p. 19.

Education – Nonpublic Special Education Placement Funding

Provision in the Bill: Reduces the State's share of expenditures for nonpublic special education placements by increasing the local share for one more year. Specifically, the bill shifts more of the costs above the base local share to local school systems by increasing the local share to 25% in FY 2006 only.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($5,799,866)				

State Effect: Effectuates a $5.8 million GF contingent reduction in the FY 2006 budget bill.

Local Effect: Increases local expenditures for nonpublic special education placements by a corresponding amount.

Program Description: 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 or residential facilities are shared between the local school systems and the State. Under current law for FY 2006, for each nonpublic placement a local school system pays its respective local share of the basic cost of education plus two times the total basic cost of education, and 20% of any expense above that sum. The State pays for the remaining 80% of the costs above the base local funding.

Recent History: During the 2004 session, the Administration proposed permanently shifting more of the costs above the base local share to local school systems by increasing the local share to 25% in FY 2005 and phasing it upward until it reached 50% in FY 2008 and thereafter. The General Assembly modified this proposal to have a one-time impact in FY 2005 only, increasing the local share from 20% to 25% for one year.

Location of Provision in the Bill: Section 1 (ED § 8-415), pp. 19-20.

Education and Health – Regional Institutes for Children and Adolescents (RICAs)

Provisions in the Bill: Alter funding for education programs at RICAs by removing funding for the programs from the nonpublic placements formula so that funding will be a State responsibility, although the State may contract with local public school systems to provide the service; and prohibit, beginning in FY 2007, the State from billing local school systems for services provided by the State at RICAs.

Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revs	($1.7)	($3.7)	($3.7)	($3.7)	($3.7)
GF Expends	$1.1	$3.2	$3.2	$3.2	$3.2
SF Expends	($1.7)	($3.7)	($3.7)	($3.7)	($3.7)

State Effect: In total, GF expenditures would increase by an estimated $1.1 million in FY 2006, and SF revenues and expenditures would decrease by an estimated $1.7 million. The increase in GF expenditures would include an increase of $3.8 million for education programs at the RICAs, offset by a $2.6 million decrease in the State share of nonpublic placement costs, which was not budgeted for FY 2006. It is assumed that SF revenues of $1.7 million for the education program at the Baltimore RICA would not be collected since the State will be responsible for these costs.

The FY 2006 State budget includes $2.0 million in SF revenues from local school systems for education support programs. Beginning in FY 2007, the State would be prohibited from charging local school systems for these services. Therefore, SF revenues and expenditures would decrease by an additional $2.0 million, and GF expenditures would increase by the same amount to replace the SF.

Local Effect: Expenditures would decrease by an estimated $2.1 million in FY 2006 and by $4.2 million annually beginning in FY 2007 as a result of the change in the funding structure for RICAs. The savings for local governments exceeds the additional cost for the State by nearly $1.0 million because nonpublic placement rates set for RICAs resulted in higher total educational costs than were experienced before RICAs became part of the nonpublic placements formula. It is assumed, therefore, that removing RICAs from the formula could reduce total spending for educational programs at RICAs.

Program Description: There are three RICAs in Maryland, located in Baltimore, Cheltenham, and Rockville, and operated by the Mental Hygiene Administration within DHMH. RICAs provide children and adolescents with mental health care in residential settings.

BRFA of 2004 (Chapter 430) placed funding for the education programs at RICAs under the nonpublic placements formula, which is used to determine State and local shares of funding for special education students who cannot be served in regular public schools. This bill essentially reverts the funding structure to the structure that was used prior to Chapter 430.

Location of Provisions in the Bill: Section 1 (ED § 8-415), pp. 19-20; and Section 1 (HG § 10-406), p. 21.

Health – Atypical Antipsychotic Drugs

Provision in the Bill: Exempts, for two years, atypical antipsychotic drugs from prior authorization requirements under the Maryland Pharmacy Assistance Program, the Maryland Pharmacy Discount Program, Medicaid fee-for-service, and any other pharmacy assistance program developed by DHMH.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	$2,000,000	$2,200,000			
FF Expends	$2,000,000	$2,200,000			

State Effect: No effect on revenues. Medicaid expenditures would increase by $4.0 million in FY 2006 (50% GF and 50% FF). The FY 2006 budget for Medicaid assumes $4.0 million in savings due to subjecting atypical antipsychotic drugs to prior authorization requirements. This provision continues current practice and would negate the savings assumed in the budget. As the provision is drafted to the Medicaid program and specifically excludes drugs covered by MCOs, it is assumed that it applies to fee-for-service Medicaid as well as the other programs specified. The FY 2007 estimate reflects 10% inflation in prescription drug costs, consistent with recent experience.

Program Description: Schizophrenia is now being treated with new medications that are commonly called atypical antipsychotics. These drugs have less severe side effects than the former generation of drugs used to treat this disease. Additional information can be found in the first-reader fiscal note for HB 1499 of the 2005 session.

Location of Provision in the Bill: Section 4 (HG § 15-119), p. 56.

Health – Health Regulatory Commissions Indirect Cost Assessment

Provisions in the Bill: Extend the current authorization for the Secretary of Health and Mental Hygiene to charge the health regulatory commissions for indirect costs by one year and make corresponding changes in the total fees the commissions may assess.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revs	$1,833,000				
GF Expends	($1,833,000)				
SF Expends	$1,833,000				

State Effect: Effectuates a $1.8 million GF contingent reduction in the FY 2006 budget bill and increases SF revenues and expenditures correspondingly. MHCC would be responsible for $1.2 million and HSCRC for $600,000 of the cost.

Costs of the health regulatory commissions would include the administrative costs incurred by DHMH on behalf of the two commissions, and the total user fees that the commissions may assess would increase to allow them to raise sufficient revenue to pay the indirect cost assessment. The Secretary would assess the commissions at a rate consistent with the indirect cost charge to federal grants: 32% of base salary levels. These revenues would be transferred to DHMH to defray the cost of shared services, including personnel services and access to the department's attorneys general and budget management office.

MHCC may assess $11.2 million in FY 2006, an increase of $1.2 million from the $10.0 million it would otherwise be able to charge; these fees are assessed on hospitals, nursing homes, payors, and health care practitioners.

HSCRC may assess up to $4.5 million in FY 2006, an increase of $500,000 from the $4.0 million it would otherwise be able to charge; these fees are assessed on hospitals and related institutions whose rates have been approved by HSCRC.

The one-year cost assessment authorized by BRFA of 2004 raised $1.9 million for DHMH. Although the user fee limit was also temporarily increased for each of the commissions, MHCC used a portion of its fund balance to cover the cost of the assessment – thereby reducing a planned return of funds to its payors but avoiding an increase in fees.

Recent History: In the 2004 session, the Administration proposed a permanent indirect cost assessment against the commissions and a corresponding increase in their user fee caps; the General Assembly authorized the assessment and increased fee cap for FY 2005 only in BRFA of 2004.

Location of Provisions in the Bill: Section 1 (HG §§ 19-110, 19-111, 19-208, and 19-213), pp. 25-26.

Health – Maryland Institute for Policy Analysis and Research (MIPAR) Contract

Provision in the Bill: Authorizes the conversion of contractual positions associated with MIPAR to regular State positions.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($600,000)	($606,000)	($612,060)	($618,181)	($624,362)
FF Expends	$600,000	$606,000	$612,060	$618,181	$624,362

State Effect: No effect on revenues. FF from indirect cost recovery would be used to support a portion of the costs of the positions rather than GF. GF expenditures would be reduced by $600,000 in FY 2006; FF expenditures would increase correspondingly. Expenditures in subsequent years reflect a 3% increase in costs at 32% cost recovery (overall 1% increase per year).

Program Description: The AIDS Administration within DHMH has a significant interagency agreement with MIPAR at UMBC to provide administrative and technical support services for virtually every aspect of its policies. The MIPAR contract is the largest single agreement currently entered into with a university and is primarily supported with FF; the 87 employees currently authorized under the contract is also the largest number currently authorized through an interagency agreement and is higher than the number of authorized State employees in the administration. MIPAR employees report directly to the AIDS administrator and not the contractor. MIPAR employees work side-by-side with State employees, performing similar if not identical tasks to State employees. Their pay and job requirements are also broadly similar.

Location of Provision in the Bill: Section 24 (uncodified), p. 67.

Health – Medicaid Estate Recovery

Provision in the Bill: Extends the timeframe for DHMH to file a claim on any estate of a deceased Medicaid recipient.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revs	--	--	--	--	--
GF Expends	(--)	(--)	(--)	(--)	(--)
SF Expends	--	--	--	--	--
FF Expends	(--)	(--)	(--)	(--)	(--)

State Effect: DHMH would use SF revenues to supplant GF and FF expenditures in the Medicaid program. Technically, DHMH should pay half the estate recoveries back to the federal government. As a practical matter, the department would instead expend the SF and not claim any federal match.

The bill changes the timeframe in which DHMH may make a claim against an estate from six months after the first appointment of a personal representative to six months after publication of notice of the first appointment of a personal representative. This would permit DHMH to file more claims and potentially recover additional funds. There are insufficient data to reliably estimate the amount of any such recoveries at this time. Currently, there is no required publication of notice for small estates (under $30,000). In circumstances where a small estate is opened and litigation filed on behalf of the estate later results in a large award, DHMH would be barred from making a claim against these funds because the timeframe in which DHMH could file has passed before the department is even aware of the estate. The publication requirement would give DHMH notice and permit the department to make claims against more estates.

Program Description: DHMH currently may make a claim against an estate of a deceased Medicaid recipient to recover the amount of any Medicaid payments made on behalf of the deceased unless that claim would cause substantial hardship to surviving dependents. In such a case, the department must waive the claim. Further, DHMH must file its claim against the estate within a specified period – six months after appointment of a personal representative for the estate or within two months of receiving written notice from the personal representative that the claim must be presented, whichever comes first. After appointment of a personal representative, the register of wills must publish a notice of the appointment in a newspaper of general circulation in the county of appointment once a week for three successive weeks.

Location of Provision in the Bill: Section 1 (ET § 8-103), p. 20.

Higher Education – Innovative Partnerships for Technology (IPT) Program

Provision in the Bill: Defers a portion of payments to community colleges for one year.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($1,816,301)	$1,816,301			

State Effect: Defers $1.8 million of the State's obligation to provide matching technology grants for one year, reducing GF expenditures in FY 2006 and increasing GF expenditures by an equivalent amount in FY 2007. The FY 2006 budget includes the $1.6 million deferred in FY 2005 but does not include the $1.8 million for eligible donations made in FY 2003. The State already owes $1.1 million in FY 2007 for eligible donations made in FY 2004.

Local Effect: A portion of matching grant funding for community colleges would be delayed by a year.

Program Description: Chapters 600 and 601 of 1998 established IPT. IPT provides State matching technology grants of up to $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. FY 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 made in FY 2003 and FY 2004, up to $150,000. Similarly, the State must match each dollar received in technology donations in FY 2005 and 2006, again up to $150,000.

Recent History: BRFA of 2003 deferred the payment due of $3,264,764 to FY 2005. No payments were made in FY 2004. Additionally, 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. FY 2006 will be the first year in which donations up to $150,000 must be matched, and FY 2009 will be the final year for paying out the matching grants mandated by Chapter 413. BRFA of 2004 allowed the portion of payments not funded in FY 2005 to be deferred to FY 2006; hence, the FY 2005 budget funded just one-half the amount due. The other half of the obligation ($1.6 million) was shifted to FY 2006, along with the first installment for the second phase of matching grants.

Location of Provision in the Bill: Section 12 (uncodified), p. 63.

Housing and Community Development – Heritage Tax Credit

Provisions in the Bill: Require the Director of the Maryland Historical Trust to adopt regulations to charge a fee of up to 1% to certify commercial heritage structures and rehabilitations under the Maryland Heritage Structure Rehabilitation Tax Credit Program and allow a taxpayer to claim the credit based on actual rehabilitation expenditures, up to $250,000 more than approved, for specified projects.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	($500,000)	(--)			
SF Revs	$200,000	$200,000	$200,000		
GF Expends	($200,000)	($200,000)	($200,000)		
SF Expends	$200,000	$200,000	$200,000		

State Effect: Eliminates reliance on the GF to administer the program, effectuating a $200,000 GF contingent reduction in the FY 2006 budget bill. SF revenues and expenditures would increase correspondingly due to fee revenue. Collection of the fee could be done with existing resources. GF revenues could decrease by $500,000 in FY 2006 due to taxpayer claims for actual rehabilitation expenditures.

This estimate is based on the following facts and assumptions:

- The fee would be set at a level sufficient to cover the costs to administer the program and the federal historic tax credit; DHCD advises that the direct costs to do so total $117,194 in FY 2005 – assuming a 3% increase in costs each year, these direct costs would total $128,061 in FY 2008. However, given the need to cover a $200,000 reduction in funding for the Office of Preservation Services in FY 2006, it is assumed that indirect costs associated with the program would also be covered by the fee each year.

- The fee would be implemented as a percentage of the value of the tax credit granted against commercial properties only; the fee may not exceed 1%. For commercial credits, funding of $20 million is provided in FY 2006 and $30 million is mandated in both FY 2007 and FY 2008.

- It is assumed that funding for heritage tax credits in FY 2007 and 2008 would be provided at the mandated level and that all funding available would be awarded each year.

- Excess fee revenues can only be expended as additional initial credit awards the following year. The award of initial credits terminates in FY 2009.

- There would not be excess fee revenues in FY 2006 due to the need to cover the contingent reduction. Since the program terminates on July 1, 2008, the only year in which excess revenues might be collected and used for awards the following year would be FY 2007. Consequently, it is assumed that excess revenues would not be collected in any year.

- A fee of 1% of the commercial value would raise $200,000 in FY 2006 – the amount needed to cover the contingent reduction. However, the same fee would raise $300,000 in the two remaining years of the program. Accordingly, the fee as a percentage of the credit would likely vary by year. To continue to raise just $200,000 a year, the fee would have to be lowered to 0.67% of the value of the credit in FY 2007 and FY 2008.

- It is assumed that the fee would be assessed and collected in the fiscal year of the award despite the existing requirement to submit an application much earlier – in the first three months of the calendar year.

- Only 28 projects could meet the criteria for claiming additional credits; one of which would qualify for an additional $240,000. The combined total for the other projects is expected to be similar.

Program Description: MHT in DHCD administers the Maryland Heritage Structure Rehabilitation Tax Credit Program. The value of the credit is equal to 20% of the qualified rehabilitation expenditures for the rehabilitation of a certified historic structure. The maximum amount of credits earned for an individual rehabilitation project cannot exceed: (1) $50,000 for noncommercial projects; and (2) the lesser of $3 million or the maximum amount stated on an initial credit certificate for commercial projects.

A commercial rehabilitation is the rehabilitation of a structure other than a single-family, owner-occupied residence. Business entities, individuals, and tax-exempt organizations are eligible to claim the credit.

A taxpayer seeking the tax credit for the rehabilitation of a commercial property after June 1, 2005 must submit an application to MHT between January 1 and March 31. MHT will award an initial credit certificate to each approved commercial rehabilitation plan based on the amount of estimated rehabilitation expenditures.

Awards are made through a competitive process which reflects the geographic diversity of the State and favors the award of tax credits that are: (1) consistent with current State development and growth programs; and (2) for the rehabilitation of structures that meet one of several specified requirements.

Location of Provisions in the Bill: Section 5 (Art. 83B § 5-801), pp. 57-58; Section 6 (HCD § 5-403), pp. 58-59; and Section 35 (uncodified), p. 72.

Human Resources – Purchase of Child Care

Provision in the Bill: Requires that $90.8 million for FY 2005 Purchase of Child Care within DHR be used for that purpose.

Fiscal Impact: Limits the amount of child care funds that can be transferred to foster care in FY 2005 to $21.0 million. DHR had intended to transfer $23.0 million.

Location of Provision in the Bill: Section 28 (uncodified), p. 70.

Human Resources – Use of State Board of Social Work Examiners Fund for a Social Worker Training Academy

Provision in the Bill: Authorizes use of the State Board of Social Work Examiners Fund in DHMH to be used for the costs of the social worker training academy in DHR for one year.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$425,000	$425,000	$425,000	$425,000
SF Expends	$425,000				
FF Expends	$1,275,000	$1,275,000	$1,275,000	$1,275,000	$1,275,000

State Effect: Uses SF from the State Board of Social Work Examiners Fund to match $1.275 million in FF for this initiative. The federal Title IVE funds being used require a 25% match. The projected FY 2006 ending fund balance of the State Board of Social Work Examiners Fund would be reduced by $425,000, from $1.3 million to approximately $860,000. If a proposed 30% fee reduction is implemented in FY 2006, the board's fund balance would drop to about $440,000. In the out-years, it is assumed that funding for the initiative would continue at the same level, using GF to match FF. It is possible that training monies within the DHR budget would be redirected to this purpose.

Program Description: The social work profession in Maryland is regulated by the State Board of Social Work Examiners within DHMH, whereas DHR is the largest single employer of social workers in the public sector in Maryland. The board is self-supporting with a non-lapsing special fund from license fee revenue. The board's fund balance is higher than necessary; the balance at year-end FY 2005 is projected to be $759,421.

Funds would be used to support a new training academy for child welfare caseworkers within DHR, the goal of which is to improve professional skills. Training would also be provided to foster and adoptive parents to ensure that they have the basic knowledge and skills necessary to support the development of children placed in their care.

Location of Provision in the Bill: Section 14, p. 63.

Judiciary – Circuit Court Real Property Records Improvement Fund

Provision in the Bill: Expands the required uses of the fund to include paying the operating expenses of the land records offices of the clerks of the circuit courts.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($5,213,644)	($5,677,937)	($5,848,275)	($6,023,723)	
SF Expends	$5,512,560	$5,677,937	$5,848,275	$6,023,723	

State Effect: No effect on revenues. Effectuates a $5.2 million GF contingent reduction and a $5.5 million SF contingent appropriation in the FY 2006 budget bill. Costs are estimated to increase by 3% each year, and SF continue to replace GF through FY 2009, when the fund terminates.

Program Description: The Circuit Court Real Property Records Improvement Fund is a non-lapsing revolving fund, managed and supervised by the State Court Administrator, with advice from a five-member oversight committee. The fund consists of surcharges assessed on instruments recorded in the land and financing statement records, and revenues from copies made on equipment bought through the fund. The fund is used to repair, replace, improve, modernize, and update office equipment and equipment-related services in the land records office of the clerk of the circuit court for each county. Although the fund was to terminate on June 30, 2006, Chapter 225 (HB 640) of 2005 extended its termination date to June 30, 2009.

Location of Provision in the Bill: Section 1 (CJP § 13-603), p. 18.

Judiciary – Judicial Compensation

Provisions in the Bill: Prohibit judicial COLAs in any year in which judges' salaries are increased in accordance with a resolution from the Judicial Compensation Commission and modify the schedule for the commission review of judicial compensation from every two years to every four years.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		($1,024,018)	($2,113,364)	($3,270,045)	($3,270,045)

State Effect: No effect in FY 2006 because the commission recommendation that no COLA be awarded in that year was already factored into the salary increase for FY 2006 and takes effect under operation of law. GF expenditures would be reduced by $1.0 million in FY 2007 and $3.3 million in FY 2010. This estimate is based on the following facts and assumptions:

- Judicial salary increases will be phased in over a four-year period as recommended by the commission: 15% of the increase provided in FY 2006; 25% of the increase provided in FY 2007; 30% of the increase provided in FY 2008; and the final 30% of the increase provided in FY 2009.

- The next judicial compensation review would be undertaken in 2008, with another review in 2012. The *Supplement to the 2004 Report of the Judicial Compensation Commission* advises that, if the salaries are increased as proposed, it is the commission's intent not to make another salary recommendation until 2010 (which would not take effect until FY 2011 or later). Consequently, it is assumed that judicial salaries would not be increased in FY 2010.

- COLAs for State employees are forecast at 2% in FY 2007 through 2010.

- The effect of not awarding a COLA each year is cumulative.

Background: The Judicial Compensation Commission is charged with studying judicial compensation every two years and making recommendations at least every four years. The salary recommendations made by the commission are introduced as joint resolutions. The General Assembly may amend a joint resolution to decrease, but not to increase, any of the commission's salary recommendations. If the General Assembly does not adopt or amend the joint resolution within 50 days after its introduction, the salaries recommended by the commission apply.

In January 2005, the commission recommended that judges' salaries for FY 2006 through 2009 be increased by: (1) $30,000 for judges on the Court of Appeals; (2) $25,000 for judges on the Court of Special Appeals and the Chief Judge of the District Court; (3) $20,000 for circuit court judges; and (4) $15,000 for District Court judges.

Because the General Assembly did not pass an amended version of either of the judicial compensation joint resolutions (SJ 3/HJ 1) by the March 9, 2005 deadline, the full salary increases as recommended by the commission will be implemented by operation of law.

Judges typically receive any general State employee salary increase (COLA) when one is awarded to other State employees.

Location of Provisions in the Bill: Section 1 (CJP §§ 1-703 and 1-708), pp. 15-16.

Juvenile Services – Charles H. Hickey, Jr. School

Provision in the Bill: Authorizes use of appropriations for the Charles H. Hickey, Jr. School for the State operation of the facility, GF payables of DJS, and anticipated deficits in the DJS residential per diem program.

Fiscal Impact: Allows funds already appropriated but currently restricted in the FY 2005 budget to be used for other purposes rather than revert to the GF at the end of the year.

Program Description: The Charles H. Hickey, Jr. School in Baltimore County incorporates a variety of programs for youth in DJS custody including:

- a detention center serving male youth primarily from Baltimore, Harford, Carroll, and Howard counties; youth served include those not yet adjudicated by a court (detained youth) and adjudicated youth who have not yet been referred to permanent committed placement (youth pending placement);

- a secure program for boys who have been ruled delinquent by a court and committed to the custody of DJS (committed youth) and who require a higher level of security and a longer length of stay; and

- an impact program for committed youth who require a shorter length of stay or who are temporarily referred to Hickey as a consequence of unsatisfactory behavior in another residential or community program.

DJS-operated programs at Hickey are estimated to serve an average daily population (ADP) of 153 in FY 2006. In FY 2005 to date, Hickey is serving an ADP of 174.

Since the early 1990s through FY 2004, Hickey has been operated by a vendor under a multi-year contract through FY 2004. The FY 2005 budget restricted more than $17.1 million GF in the DJS budget to support a contract for programming at Hickey and provided that the funds may not be transferred by budget amendment or otherwise to any other subobjects or program for any other purpose. At the time the FY 2005 budget was enacted, DJS was soliciting bids for a new vendor to operate the program at Hickey and the contract amount was unknown. However, none of the bids was accepted and DJS decided to operate Hickey as a State facility. Consequently, most of the funding for the program cannot be expended given the current restriction.

DJS advises that it needs a total of $14.6 million to operate Hickey as a State facility in FY 2005, which is less than the $17.1 million in the budget. Of that total, only the $3.4

million for contractual services (principally for health, mental health, and substance abuse treatment services) is available to the department.

This provision would allow DJS to fund other services at Hickey (another $11.2 million) and use the remainder ($2.5 million) for other specified purposes in the department. DJS reported GF payables of $1.6 million that were not provided for during FY 2004 close-out. No deficiency appropriation was included in the FY 2006 budget to cover this deficit. DLS estimates a FY 2005 deficit of another $9.5 million for DJS residential per diem expenditures; the FY 2006 budget appropriates $8.0 million from the Dedicated Purpose Account of the State Reserve Fund for this purpose.

Location of Provision in the Bill: Section 18 (uncodified), p. 65.

Labor, Licensing, and Regulation – Prevailing Wage, Employment Standards, and Apprenticeship and Training

Provisions in the Bill: Codify the Employment Standards Service Unit and the Prevailing Wage Unit within the Division of Labor and Industry of DLLR; mandate funding totaling at least $700,000 for the two units in FY 2007 and subsequent years; and specify that the Apprenticeship and Training Council is within the Division of Labor and Industry.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$700,000	$700,000	$700,000	$700,000

State Effect: No effect on revenues. The Governor did not include funding for the two units in the FY 2006 budget and proposed repealing the Prevailing Wage Law; however, the General Assembly restricted an appropriation in DLLR's Division of Racing to ensure sufficient funding. Beginning in FY 2007, and for each subsequent fiscal year, this bill mandates an appropriation of at least $315,000 for the Employment Standards Service Unit and $385,000 for the Prevailing Wage Unit.

Program Description: The Prevailing Wage Law regulates hours of labor, rates of pay, conditions of employment, obligations of employers, and the powers and duties of certain public officials under contracts and subcontracts for public works projects in Maryland. Coverage of the Prevailing Wage Law extends to any public works contract funded 50% or more by the State and valued at or above $500,000. By definition, prevailing wages are the hourly wage rates paid in the locality in which the construction work is to be performed. If 50% or more of all workers in a trade are paid exactly the same rate, that rate is considered the prevailing wage. If not, then 40% or more of the employees for each work classification must be paid the same rate in order for the rate to qualify as prevailing. If less than 40% receive the same rate, a weighted average is calculated and used as the prevailing wage. Prevailing wages are based on hourly wage rates as well as employer benefit contributions.

The Prevailing Wage Unit within the Division of Labor and Industry in DLLR issues a wage determination for a project that specifies the wage and fringe benefit rates for each worker classification, determined to be prevailing in that locality for that type of construction. The unit also conducts investigations; wage recovery for workers through investigations over the last four fiscal years has ranged from $265,000 in FY 2001 to $778,000 in FY 2003.

Under the direction of the Commissioner of Labor and Industry, the Employment Standards Service Unit is required to administer and enforce provisions of the law concerning the employment of minors, wages and hours, wage and payment collection, and equal pay for equal work.

The FY 2006 budget funded the Apprenticeship and Training Council within the Secretary's Office in DLLR rather than the Division of Labor and Industry.

Location of Provisions in the Bill: Section 1 (LE §§ 2-107 and 11-403), pp. 30-31.

Labor, Licensing, and Regulation – Summer Youth Connection Program

Provision in the Bill: Authorizes up to $150,000 in CRF funds to fund the Maryland Summer Youth Connection Program within DLLR in FY 2006, contingent on the enactment of SB 586 of 2005. Funding must first be provided to other specified priorities.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$150,000				

State Effect: No effect on revenues. Increases SF expenditures by up to $150,000 in FY 2006 only. Funding is available due to greater-than-anticipated CRF revenues.

Local Effect: The 12 local workforce investment areas would receive grants to carry out the new program according to a formula established under the federal Workforce Investment Act.

Program Description: Chapter 322 of 2005 (SB 586) establishes the Maryland Summer Youth Connection Program under the Division of Employment and Training in DLLR. This program will provide summer jobs for youths aged 14 to 21.

Location of Provision in the Bill: Section 16 (uncodified), p. 64.

Lottery – Agent Commissions

Provision in the Bill: Effective FY 2007, increases lottery agent commissions from 5% to 5.5% of gross sales.

Fiscal Impact:

	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
GF Revs		($7,633,845)	($7,862,860)	($8,098,746)	($8,341,709)

State Effect: Agents would receive an additional $7.6 million in commissions in FY 2007, decreasing GF revenues by a corresponding amount in FY 2007. Future year losses would increase by approximately 3% each year.

Program Description: In addition to a cashing commission equal to 3% of the value of winning lottery tickets cashed, lottery agents currently receive commissions equal to 5% of gross sales.

Location of Provision in the Bill: Section 9 (SG § 9-117), p. 62.

Natural Resources – Library

Provision in the Bill: For FY 2007 only, mandates an appropriation of $88,000 for the DNR library.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$88,000			

State Effect: No effect on revenues. Increases GF expenditures by $88,000 in FY 2007.

Program Description: Under current law, the Secretary of Natural Resources must establish and maintain for DNR a natural resources library. The Governor did not fund the DNR Carter Library and Information Resource Center in FY 2006, assuming it would be closed. However, the General Assembly restricted $88,000 in DNR to fund a librarian and ensure adequate funding of the library.

Location of Provision in the Bill: Section 1 (NR § 1-104), p. 31.

Natural Resources and Agriculture – Transfer Tax

Provisions in the Bill: Redirect $90.0 million of transfer tax revenues to the GF in FY 2006; allow DNR to allocate up to $2.5 million of the State's share of POS funds toward operation of State forests and parks in FY 2006 only; and require $1.5 million of the State's share of POS funds to be awarded to Baltimore City as a grant in FY 2006 only.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$90,000,000				
GF Expends	($1,300,000)				
SF Expends	($90,000,000)				

State Effect: Increases GF revenues by $90.0 million in FY 2006 and effectuates contingent SF reductions in the FY 2006 budget bill totaling $90.0 million in the State's share of POS, the local share of POS, and MALPP. Also effectuates a $1.3 million contingent GF reduction in the FY 2006 budget bill and shifts the allocation of the remaining State's share of POS funds by redirecting monies to the operation of State forests and parks and a grant to Baltimore City, which was not funded in the FY 2006 budget bill. The resulting transfer tax allocations are shown in the table on the next page.

Local Effect: In FY 2006, local government revenues for land acquisition would be reduced due to the contingent reduction in the local share of POS. In addition, as MALPP has a 60-40 matching program with local governments, the reduction in MALPP funding would also affect local government awards. In FY 2006, Baltimore City would continue to receive the $1.5 million grant which has historically been provided.

Program Description: 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 DNR and MDA. However, before any program-specific allocations are made, 3% of the transfer tax revenue is distributed to the agencies involved in 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 DHCD's Heritage Areas Authority.

DNR has had statutory authority since FY 1999 to use up to $1.2 million of the State's share of POS funds for State forest and park operations. A provision increases the ceiling from $1.2 million to $2.5 million for one year only.

Property Transfer Tax Allocation in FY 2006

	Current Law	Under the Bill
Transfer Tax Revenue Estimate	**$194,492,000**	**$194,492,000**
Administrative Expenses (3%)	(5,834,760)	(5,834,760)
Attainment Adjustment	65,162,868	65,162,868
Transfer Over Attainment to General Fund/Other[1]	(43,386,000)	(65,162,868)
Transfer Other Revenue to General Fund		(68,223,132)
Total Available for Allocation	**$210,434,108**	**$120,434,108**
Program Open Space Allocation (75.15%)	**$158,141,232**	**$90,506,232**
Heritage Areas Authority	1,000,000	1,000,000
POS Local	78,570,616	44,753,116
POS State	78,570,616	44,753,116
State Land Acquisition[2]	49,349,706	21,099,811
Rural Legacy[2]	8,000,000	7,562,000
State Park Operating Expenses	-	2,500,000
Grant to Baltimore City	-	1,500,000
POS Capital Development Eligible[2]	21,220,910	12,091,305
POS Capital Development	20,020,910	12,091,305
State Park Operating Expenses	1,200,000	-
Additional State Land Acquisition Allocation (1%)	**$2,104,341**	**$1,204,341**
Agricultural Land Preservation (17.05%)	**$35,879,015**	**$20,534,015**
Rural Legacy (5%)	**$10,521,705**	**$6,021,705**
Heritage Conservation Fund (1.8%)	**$3,787,814**	**$2,167,814**
Total State Land Acquisition[2]	**$51,454,047**	**$22,304,152**
Total Rural Legacy Program[2]	**$18,521,705**	**$13,583,705**

[1]Includes $1.5 million transferred to Baltimore City in FY 2005.
[2]Funding allocation assumed when budget was finalized; allocations could shift slightly.

Recent History: While the State's land preservation programs enjoyed healthy funding through 2002, in recent years, the General Assembly has used transfer tax revenues as a means to balance the State's operating budget. As shown below, budget reconciliation legislation enacted in each of the previous three sessions has diverted approximately

$390 million of transfer tax revenues to the State GF. To compensate, other funding sources, primarily bond funds, have played an important role in funding POS.

Transfer Tax Revenues
Fiscal 2002 – 2005
($ in Millions)

Fiscal Year	Budgeted Transfer Tax Revenues[1]	Amount to Programs	Amount to General Fund	Replacement GO Funds
2002	$117.4	$114.4	$0.0	$0.0
2003	108.7	47.3	58.5	0.0
2004	136.8	9.9	141.5 [2]	58.3
2005	176.2	6.8	189.3 [3]	23.6
Total	**$495.7**	**$178.4**	**$389.3**	**$81.9**

Note: Amount to programs does not include 3% for administrative costs. Amount to GF does not include unencumbered balances transferred by budget reconciliation legislation ($39.8 million).

[1]Reflects estimated revenues plus revenue over attainment from the second prior year.

[2]Includes $18.1 million in FY 2003 revenue over attainment that would have been budgeted in FY 2005.

[3]Includes $41.9 million in FY 2004 revenue over attainment that would have been budgeted in FY 2006.

Source: Department of Natural Resources

Location of Provisions in the Bill: Section 1 (TP §§ 13-209), pp. 38-40; Section 23 (uncodified), p. 67; and Section 25 (uncodified), p. 67.

Personnel – Employee and Retiree Health Insurance Benefits

Provisions in the Bill: Require use of proceeds and accumulated interest for the demutualization of the MetLife Insurance Company to be used to pay expenses in connection with the State Employee and Retiree Health and Welfare Benefits Program in the FY 2006 budget bill; mandate health benefits levels for State employees and retirees for FY 2006 and 2007; modify cost-sharing provisions for employees and retirees to partially fill a funding gap; and establish a reserve fund for employee and retiree health insurance benefits, using funds reserved for another purpose to subsidize the health benefit in FY 2006 and 2007.

Fiscal Impact: **($ in Millions)**

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Expends	($13.7)	($42.6)	($55.1)		
SF Expends	$13.7	($2.9)	$4.3		
FF Expends		($11.4)	($12.7)		

State Effect: No effect on revenues. Authorizes $13.7 million in SF available from demutualization of MetLife to pay for the estimated costs of health insurance for the second half of FY 2005 as part of a deficiency appropriation in the FY 2006 budget bill. Results in a total of $42.6 million in GF savings in FY 2006: $34.1 million due to cost-sharing provisions and another $8.5 million due to use of available SF to cover costs. (In FY 2007, $17.0 million, rather than $8.5 million, is assumed to be available for this purpose.) SF savings of $2.9 million in FY 2006 are due to $11.4 million in reduced costs related to cost-sharing provisions, offset by the use of $8.5 million which would otherwise capitalize the existing Postretirement Health Benefits Trust Fund. FF savings of $11.4 million are realized as well due to cost-sharing provisions. These savings are assumed in the FY 2006 budget.

The estimate for cost-sharing provisions assumes increased savings in FY 2007 due to medical inflation. An inflation factor of 11.7% reflects composite medical inflation and past experience in Maryland. The estimate also assumes a standard split of 60% GF, 20% SF, and 20% FF for a total of $56.8 million in savings assumed in the FY 2006 budget due to cost-sharing provisions.

Program Description: Employee and retiree health insurance benefits are provided through the Division of Employee Benefits in DBM's Office of Personnel Services and Benefits. When new health insurance contracts were awarded in CY 2005, a number of changes were made. The most significant of these were increased co-payments for a variety of services. The Administration also intended to implement other non-contractual, "cost-sharing" arrangements that would have resulted in a larger share of the monthly cost of insurance being borne by employees and retirees. However, those cost-sharing changes were not made, with the understanding that any such revisions would be discussed with the budget committees before being implemented. As a result, a deficiency appropriation is needed to cover the higher costs for the second half of FY 2005. The enrollment for FY 2006 will occur after the 2005 session.

The FY 2006 budget proposed by the Governor "flat-funded" health insurance by essentially providing no additional funds to account for medical inflation or benefit enhancements over funding provided in FY 2005. As a result, provision of the same health insurance benefits in FY 2006 as provided in the second half of FY 2005 was estimated to result in an approximately $120.0 million shortfall in FY 2006. The General Assembly chose to close this gap using a combination of program restructuring in this bill and actions in the budget.

This restructuring includes requiring that a slightly higher percentage of the full cost of point-of-service health insurance costs (17% rather than 15%) be borne by employees and retirees and increasing costs related to prescriptions. Specifically, prescription co-payments are increased, a $700 annual cap is established for prescription spending for each family, and two co-payments are required instead of one for a 90-day supply of drugs. In addition, funds available to the State in FY 2006 and 2007 through the Federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003 are used to subsidize the employee and retiree health benefit. Under current law, these funds would otherwise be deposited to the Postretirement Health Benefits Trust Fund; no payments may be made from that fund until FY 2017.

For more than 15 years Maryland has contracted with MetLife to provide group term life insurance coverage for State employees and covered individuals. The State is the policyholder. On September 28, 1999, MetLife's Board of Directors adopted a plan of reorganization and demutualization for conversion from a mutual insurance company to a stock company. On April 4, 2000, the New York Superintendent of Insurance approved the plan, which provided for policyholders to receive, at their election, stock or cash in exchange for surrender of the policyholders' membership rights in MetLife as a mutual insurer. The State did not elect to receive cash and instead received shares of MetLife stock in exchange for its ownership interest related to its position as policyholder. On June 26, 2001, the State converted that stock to cash and invested the proceeds in an interest-bearing account, where the funds remain.

The State as the group policyholder has legal title to the demutualization proceeds received from MetLife. This provision would specifically retain the proceeds for State use and clarify that no fiduciary relationship has been created, providing protection from a legal challenge on the use of the funds.

Location of Provisions in the Bill: Section 1 (SPP §§ 2-516 and 34-101), pp. 35-38; Section 7 (SPP §§ 2-501, 2-502, 2-503, and 2-504), pp. 59-61; and Section 19 (uncodified), p. 65.

Public Safety – DPP – Drinking Driver Monitor Program Fee

Provisions in the Bill: Make the Drinking Driver Monitor Program self-supporting for five years by establishing a monthly fee of $45 for participation in DDMP (effective July 1, 2005 through June 30, 2010) and create a non-lapsing SF into which the fee revenue will be deposited. The fund is subject to audit by the Office of Legislative Audits.

Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Revs	$7.6	$7.6	$7.6	$7.6	$7.6
GF Expends	($7.6)	($7.6)	($7.6)	($7.6)	($7.6)
SF Expends	$7.6	$7.6	$7.6	$7.6	$7.6

State Effect: GF expenditures for the program would decrease by $7.6 million in FY 2006; SF revenues and expenditures would increase correspondingly. The FY 2006 budget bill does not include GF for this program; instead a SF appropriation of $8.3 million is contingent on legislation implementing the fee. Therefore, if the fee is not enacted, the program would be unfunded. Legislative Services advises that the amount of the contingent appropriation does not take into account the fee being waived for some participants or the non-collection that would occur if those not able to pay were required to do so. Total funding for this program has been $7.6 million or less each year. Accordingly, the fee should provide sufficient revenue to maintain the program. To the extent it does not, DPP could request a deficiency appropriation to make up the difference.

This estimate is based on the following facts and assumptions:

- Participation in DDMP has been declining in recent years, with the number of cases ranging from a high of about 27,600 in FY 2002 to a low of 20,200 in FY 2004; however, those numbers reflect total cases during a year, with some offenders having multiple cases.

- DPP advises that it has about 16,000 individuals under supervision. DPP estimates that it will continue to have at least 15,600 individuals under supervision at any one time.

- DPP plans to change the priority for payment of fees to enhance its collection rate for the DDMP fee.

- DPP has the authority to waive the fee in whole or part under specified circumstances; DPP assumes it would exempt about 10% of participants due to inability to pay; given the enhanced priority for payment and its ability to waive anyone who would not be able to pay the fee, DPP assumes collection of the total amount due. Further, DPP advises that participants who do not pay the program fee will be referred to the Central Collection Unit.

- Accordingly, 14,040 participants would pay $45 a month; total collections would be $7,581,600.

- A participant in DDMP would also be subject to the increased monthly supervision fee for probationers that have been directed to pay the fee by the court as well as the increase in court costs proposed under this bill. Any interaction between the three fees that could affect a given offender and collections has not been taken into account and cannot be reliably estimated.

Program Description: The Division of Parole and Probation supervises approximately 16,000 offenders in DDMP. Offenders are placed in DDMP in one of two ways. First, they may be placed on probation by the courts for a current conviction or PBJ for DUI or DWI. Any such offenders must either not have a prior criminal history or have a criminal history exclusive of serious crimes defined as three felonies in the last 10 years, any prior or current convictions for any sex offense, murder, or manslaughter. Second, they may be referred by the Medical Advisory Board of the MVA; this occurs in a very small number of cases.

The program attempts to reduce revocations for new DWI and DUI offenses during the period of probation. The courts determine the length of the probationary term. According to DPP, based on the average number of cases under supervision during the year and the number of intakes, the average length of time under supervision is approximately 18 months.

Location of Provisions in the Bill: Section 1 (CS §§ 6-104, 6-115, and 6-116), pp. 13-15; and Section 1 (CP § 6-226), p. 18.

Public Safety – DPP – Supervision Fee

Provision in the Bill: Increases an existing fee (renamed to be the supervision fee) from $25 to $40 per month collected from probationers supervised by the Division of Parole and Probation for five years. Only probationers assigned by the court after July 1, 2005 would be subject to the increased fee; probationers already under supervision would continue to pay the $25 monthly fee.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$709,635	$1,310,400	$1,310,400	$1,310,400	$1,310,400
GF Expends	$598,000	$598,000	$598,000	$598,000	$598,000

State Effect: Effectuates a contingent GF appropriation of $598,000 in the FY 2006 budget. GF appropriations at the same level are assumed in the out-years. GF revenues would increase by $709,635 in FY 2006 and $1,310,400 annually thereafter, based on the following facts and assumptions:

- DPP has approximately 40,000 probationers under its supervision at any one time.
- The court has imposed the monthly fee on about 36.4% of these probationers.
- DPP estimates its collection rate at about 50% of such fees owed.
- The fee increase would only be applicable to offenders sentenced on or after July 1, 2005. Therefore, the first year of collections would be lower than in the out-years.
- A probationer under supervision subject to this fee could also be subject to the increase in court costs as well as the DDMP monthly program fee. Any interaction between the three fees that could affect a given offender and collections has not been taken into account and cannot be reliably estimated.

These assumptions are summarized in the table below.

Fee Period	Number Paying Fee	Increased Amount	Revenues
July	1,213	$15	$18,195
August	2,426	$15	$36,390
September	3,639	$15	$54,585
October	4,852	$15	$72,780
November	6,065	$15	$90,975
December	7,278	$15	$109,170
January	8,491	$15	$127,365
February	9,704	$15	$145,560
March	10,917	$15	$163,755
April	12,130	$15	$181,950
May	13,343	$15	$200,145
June	14,560	$15	$218,400
			$1,419,270
Fiscal 2006	**Collection Rate of**	**50%**	**$709,635**
Subsequent Years			
12 Months	14,560	$15	$2,620,800
Full Year	**Collection Rate of**	**50%**	**$1,310,400**

Program Description: Legislation adopted at the 1991 legislative session mandated the imposition of monthly supervision fees for offenders supervised by the Division of Parole and Probation. The monthly fees of $40 for parolees and mandatory supervision releasees and $25 for probationers have remained unchanged since their inception. The bill increases the supervision fee charged to probationers to $40 per month for five years, making the monthly fee consistent for all supervisees. The supervision fees collected are paid into the GF.

Location of Provision in the Bill: Section 1 (CP § 6-226), p. 18.

Public Safety – Law Enforcement and Correctional Training Fund (LECTF)

Provisions in the Bill: Increase traffic and criminal court fees from $20 to $22.50 for cases in which costs are imposed; increase the share of such fees paid into LECTF from one-fourth to one-third (which amounts to an increase from $5 to $7.50 per case to LECTF) in FY 2006; repeal LECTF effective in FY 2007; and redirect the fee revenue to the GF.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs		$6,300,000	$6,300,000	$6,300,000	$6,300,000
SF Revs	$2,100,000	($4,200,000)	($4,200,000)	($4,200,000)	($4,200,000)
GF Expends	($750,906)	$4,326,000	$4,455,780	$4,589,453	$4,727,137
SF Expends	$750,906	($4,326,000)	($4,455,780)	($4,589,453)	($4,727,137)

State Effect: Effectuates a $750,906 GF contingent reduction in the FY 2006 budget bill, eliminating all but $100,000 of the GF contribution to the budget for the Police and Correctional Training Commissions. SF revenues increase by $2.1 million in FY 2006, allowing SF to cover the amount of the GF reduction. With the repeal of LECTF in FY 2007, the existing and new fee revenue would be redirected to the GF. Any remaining balance in LECTF would also be redirected to the GF; however, that amount cannot be reliably estimated at this time. Beginning in FY 2007, SF support currently provided to PCTC would no longer be available and GF expenditures would increase. It is assumed that PCTC would require its current level of support ($4.2 million) and that costs would increase by 3% each year.

The revenue estimate is based on the following facts and assumptions:

- DPSCS and DBM assume that total collections for LECTF would increase by the same amount as the fees for court costs distributed to LECTF in FY 2006 increase – 50%.

- The amount of LECTF collections has varied considerably in recent years, from a high of $5.2 million in FY 2001 to a low of $4.5 million in FY 2003. The estimate for FY 2005 is relatively low, at $4.2 million. Absent the fee increase, the amount collected could be somewhat higher than anticipated.

- As the court can waive costs, any additional increase in the fee amount due could result in additional waivers, thereby suppressing the amount of collections anticipated.

- Absent data on how often the court imposes costs and the collection rate for such costs, any such impact cannot be reliably predicted.

- The additional $2.1 million in fee revenue appears to be a reasonable estimate of collections, due not just to the fee increase but the likelihood that actual FY 2005 collections could be higher than the currently projected $4.2 million. This estimate assumes that collections would have been at the average of recent years and allows for 10% to 13% of costs that would have been imposed to be waived by the court or not collected.

- An offender on whom court costs may be imposed could also be subject to the increased supervision fee for probationers in DPP and the DDMP monthly program fee proposed under this bill. Any interaction between the three fees that could affect a given offender and collections has not been taken into account and cannot be reliably estimated.

Program Description: The Police and Correctional Training Commissions opened the Public Safety Education and Training Center on November 30, 2004. This new facility increases the size and the capacity of the commissions to provide training to all State and local law enforcement and correctional officers within the State.

Location of Provision in the Bill: Section 1 (CJP § 7-301), pp. 17-18; Section 10 (uncodified) p. 63; and Section 11 (uncodified), p. 63.

Taxes – Motor Fuel Tax Exemption

Provisions in the Bill: Expand the exemptions for payment of the motor fuel tax to include motor fuel purchased by DGS for use by State agencies and authorize a refund of the tax paid by suppliers of motor fuel to DGS.

Fiscal Impact: **($ in Thousands)**

	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
GF Revs	($41)	($41)	($41)	($41)	($41)
SF Revs	($2,240)	($2,240)	($2,240)	($2,240)	($2,240)
GF Expends	($875)	($1,004)	($1,004)	($1,004)	($1,004)
SF Expends	($900)	($935)	($935)	($935)	($935)
FF Expends	($167)	($182)	($182)	($182)	($182)
Reimb. Expends		($23)	($23)	($23)	($23)
Nonbud Exp		($137)	($137)	($137)	($137)

State Effect: TTF revenues would decrease by $2.2 million annually. SF revenues in DNR would decrease by about $10,700 annually. GF revenues for Chesapeake Bay related programs would decrease by about $41,000 annually. Agency expenditures for motor fuel would decrease as shown above (higher education and local health department expenditures are categorized as GF expenditures). In addition, SHA distribution of highway user revenues would decrease by $668,850 annually. Effectuates contingent reductions in the FY 2006 budget bill of lesser amounts, reflecting the impact of the provision on Executive Branch agencies only.

This estimate is based on the following facts and assumptions:

- State purchases for motor fuel that would be exempt under the bill remain constant. Accordingly, based on actual gallons purchased by the State from November 1, 2003 through October 31, 2004, almost $2.3 million in motor fuel taxes would no longer be collected as shown below.

Type of Motor Fuel	**Gallons**	**Tax Collected**
Gasoline	$7,267,219	$1,707,796
Special fuel	2,364,444	573,378
Total		**$2,281,174**

- The Administrative Cost Account in the Comptroller's Office would not be affected as sufficient funds would already have been deducted from other receipts.

- According to DBM and the Comptroller, the allocation of costs for such motor fuel is as follows:

GF expenditures	40%
SF expenditures	41%
FF expenditures	8%
Reimbursable expenditures	1%
Nonbudgeted expenditures	6%
Higher education expenditures	1%
DHMH local health departments	3%

Local Effect: Local highway user revenues would decrease by $668,850 annually; however, the FY 2006 budget bill reflects a contingent reduction of $582,600 for this purpose based on the impact of the provision on Executive Branch agencies only.

Program Description: DGS has tanks at 89 sites across the State for use by State agency personnel in fleet vehicles.

Motor fuel is taxed at the following rates per gallon:

Type of Motor Fuel	Tax Rate per Gallon
Aviation gasoline	$0.07
Gasoline other than aviation gasoline	$0.235
Special fuel other than clean-burning fuel (diesel)	$0.2425
Turbine fuel	$0.07
Gasoline-equivalent of clean-burning fuel	$0.235

Most motor fuel tax revenue is distributed to the Gasoline and Motor Vehicle Revenue Account within TTF; 70% of which is retained by the State and 30% is subsequently distributed to local jurisdictions as highway user revenues.

Location of Provisions in the Bill: Section 3 (TG §§ 9-303 and 13-901), pp. 51 and 54.

Taxes – Nonprofit HMO Insurance Premium Tax Exemption

Provisions in the Bill: Exempt nonprofit HMOs from the insurance premium tax and require them to provide funds equivalent to the value of their exemption to the Medical Assistance Program Account within the Medical Professional Liability Insurance Rate Stabilization Fund.

Fiscal Impact: State finances would not be directly affected.

Location of Provisions in the Bill: Section 1 (HG § 19-727), pp. 26-27; and Section 1 (IN §§ 6-101, 6-102, 6-103, 6-121), pp. 27-29.

Taxes – Decoupling – Qualified Production Activity and Section 179 Business Expensing

Provisions in the Bill: Permanently decouple the State income tax from the federal deduction allowed for qualified production activity income under Section 199 of the IRC and clarify that decoupling for small business expensing under Section 179 of the IRC is calculated without increased maximums as extended by the 2004 federal act.

Current Law: The State is not decoupled from the deduction allowed for qualified production activity income; for small business expensing, the State is decoupled from changes under the 2003 federal act.

Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$13.7	$12.5	$17.1	$20.7	$25.2
SF Revs	$4.3	$4.0	$5.4	$6.5	$8.0

State Effect: GF revenues could increase by approximately $13.7 million in FY 2006 and by $25.2 million in FY 2010. FY 2006 represents the impact of all of TY 2005 and one-half of TY 2006. Future years reflect the impact of one-half of the prior tax year and one-half of the current tax year. TTF revenues could increase by approximately $4.3 million in FY 2006 and by $8.0 million in FY 2010. The estimated State fiscal impact is based on Joint Committee on Taxation estimates for the federal tax effect of the deduction, adjusted for estimated federal tax rates, Maryland's share of the national economy, and State tax rates. Official BRE forecasts assume continued decoupling for small business expensing; therefore, no revenue impact is shown for that provision.

Local Effect: Local jurisdictions would benefit from increased Gasoline and Motor Vehicle Revenue Account revenues distributed as local highway user revenues. Local highway user revenues could increase by $1.3 million in FY 2006 and $2.4 million in FY 2010.

Program Description: The federal American Jobs Creation Act (AJCA) of 2004 repealed the exclusion under the federal income tax for extraterritorial income (ETI), which had been ruled to be an illegal export subsidy by the World Trade Organization, and replaced the ETI with a 9% domestic deduction for a range of broadly defined domestic production activities. Domestic production activity is defined under AJCA to include manufacturing, construction (including engineering and architectural services related to construction), energy production, production of computer software, film production, and processing of agricultural products. Additional information on qualified production activity can be found in the first-reader fiscal note for HB 1360 of 2005.

Location of Provisions in the Bill: Section 2 (TG §§ 10-204, 10-210.1, and 10-305), pp. 47-48.

Taxes – Require Tax Clearance for Insurance Business Licenses

Provision in the Bill: Requires the Maryland Insurance Administration before renewing an insurance business license to verify through the Comptroller's Office that the applicant has paid all undisputed taxes and unemployment insurance contributions or has entered into an accepted payment plan.

Current Law: Insurance business licenses are issued for an initial term of two years and renewed for an additional two years. The licenses are not subject to tax clearance. BRFA of 2003 required that, before various licenses or permits may be renewed, the issuing authority must verify through the Comptroller's Office that the applicant has paid all undisputed taxes and unemployment insurance contributions or that the applicant has provided for payment in a manner satisfactory to the unit responsible for collection. Covered licenses and permits include those governing business occupations and professions, regulated industries, natural resources and environment, health occupations, other licenses granted by the Comptroller, and certain motor vehicle licenses and permits (but not motor vehicle registrations or driver's licenses).

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$1,007,738	$1,343,651	$1,343,651	$1,343,651	$1,343,651

State Effect: Adding insurance business licenses to those licenses requiring tax clearance would increase GF revenues by approximately $1.0 million in FY 2006. It is assumed that there would be a three-month implementation delay in FY 2006. These estimates are based on the following facts and assumptions:

- The Comptroller's Office advises that approximately 470,000 licenses are covered under the existing tax clearance license program. Since its inception on July 1, 2003, the program has collected approximately $33 million or approximately $1.7 million monthly.

- Of the 31,402 licenses that have been held for unpaid tax liabilities, 24,204 licensees have paid the outstanding tax liability or entered into a payment plan for an average of $1,363 since the inception of the program.

- According to MIA, approximately 70,000 insurance producer licensees would be subject to the bill's provisions; they renew biennially.

- Similar percentages of applicants for insurance business license renewals will have unpaid tax liabilities and pay similar amounts of unpaid tax liabilities.

MIA reports that it could handle the provisions of the bill within existing budgeted resources.

The Governor's budget plan assumed that requiring tax clearance for insurance business licenses would increase revenues by $1.0 million in FY 2006.

***Local Effect*:** Local income tax revenues would increase from collections from individuals who have unpaid State and local income tax liabilities.

Location of Provision in the Bill: Section 3 (IN § 10-115), pp. 49-51.

Taxes – Impose Withholding Taxes on Lump-sum Distributions

Provision in the Bill: Imposes a 7.75% withholding tax on retirement plans that are taken in one lump-sum distribution and not rolled over into another eligible retirement plan. The withholding tax is imposed only if the distribution is subject to federal withholding as required under Section 3405(C) of the IRC.

Current Law: Lump-sum distributions are not subject to State tax withholding. The federal withholding rate imposed is 20%.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$25,006,891	$3,005,782	$3,186,129	$3,377,297	$3,579,935
SF Expend	$100,000				

State Revenues: GF revenues would increase by approximately $25.0 million in FY 2006 and $3.0 million or more in the out-years. GF revenues would increase due to a one-time increase in withholdings in the first six months of TY 2006 and increased tax compliance for three months of TY 2005 and six months of TY 2006. It is assumed that there would be a three-month implementation delay in the withholding. Future year increases reflect increased tax compliance for one-half of the prior tax year and one-half of the current tax year and a 6% annual increase in lump-sum distributions.

This estimate is based on the following facts and assumptions:

- Estimates for 1995 indicate that nationally between $87 billion and $130 billion in lump-sum distributions was distributed from retirement plans; the lower value of the estimate is used.

- Maryland represents approximately 2% of the total U.S. population.

- 70% of lump-sum distribution money is rolled over into an eligible retirement account and is not subject to withholding.

- The value of lump-sum distributions is assumed to increase 6% annually from 1995 through 2010.

- There is a 6% noncompliance rate in reporting lump-sum distribution income. The noncompliance estimate includes individuals who receive a lump-sum distribution and move to another state.

According to the Comptroller's Office, 4.75% of the amount withheld would be deposited in the GF and 3% would be distributed to local governments. The Comptroller's Office advises that it does not have data on the amount of lump-sum distributions that are taken in any year but estimates that revenues would increase by $30.0 million in FY 2006 and $17.0 million in FY 2007. The Governor's budget plan assumed $30.0 million in revenue from the withholding of lump-sum distributions.

***State Expenditures*:** The State Retirement Agency reports that it would incur one-time computer programming expenses of $100,000 in FY 2006 in order to withhold State lump-sum distributions.

***Local Effect*:** Local income tax revenues would increase in FY 2006 by approximately $16.3 million due to six months of withholding in TY 2006 and increased tax compliance for one-quarter of TY 2005 and one-half of TY 2006. Local income tax revenues increase by approximately $2.0 million in FY 2007 and increase thereafter by approximately 6%.

Additional Comments: The IRS, CBO, and the Joint Committee on Taxation advise that data are unavailable for lump-sum distributions nationally.

A 1999 *National Tax Journal Article* estimated that in 1995 between $87 billion and $130 billion in lump-sum distributions was distributed from retirement plans. This amount includes money that was directly rolled over into an eligible retirement plan and not subject to federal withholding. The authors estimated that, in 1995, 75% of lump-sum distributions monies were rolled over into a qualified retirement plan.

Estimates vary as to the number of individuals and amount of dollars rolled over to an eligible retirement plan versus what is cashed out and subject to withholding. A review of relevant literature suggests that between 59% and 75% of all lump-sum distribution monies are directly rolled over into a qualified retirement plan and are not subject to withholding. A 2003 CRS report estimates that, in 1998, 14.3 million individuals reported ever receiving a lump-sum distribution. The typical recipient of a lump-sum distribution was between 36 and 39 years old and the average value of these distributions was approximately $18,500. Larger lump-sum distributions were estimated to be much more likely to be rolled over into another eligible retirement plan. The average value of lump-sum distributions that were "cashed out" was $11,732, while the average value of distributions that were rolled over was $30,574. Although a majority of individuals was subject to withholding, the majority of lump-sum distribution dollars was rolled over to a qualifying retirement plan.

Location of Provision in the Bill: Section 3 (TG § 10-908(f)), p. 51.

Taxes – Increase Withholding Tax Rates

Provisions in the Bill: Increase certain withholding tax rates by including the lowest county income tax imposed on nonresident income derived from real estate sales and gambling winnings; the rate increases from 4.75% to 6%. The bill also increases withholding tax rates on resident income derived from gambling winnings; the rates increase from 7.25% to 7.75%.

Current Law: Withholding tax rates are: (1) 4.75% for nonresident income derived from real estate sales; (2) 4.75% on nonresident income derived from gambling winnings; and (3) 7.25% on resident gambling winnings. Nonresident entity income derived from real estate sales is withheld at 7%. The lowest rate county income tax rate currently imposed is 1.25%.

Overall Fiscal Impact: **($ in Millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$8.0	$3.4	$3.6	$3.8	$3.9

***State Effect*:** GF revenues would increase by approximately $8.0 million in FY 2006, which represents the one-time impact of increased withholdings in the first six months of TY 2006 and increased compliance in one-half of TY 2005 and one-half of TY 2006. Future years reflect increased tax compliance in one-half of the previous tax year and one-half of the current tax year. Most of the increase is due to increased withholding tax rates on nonresidential real estate sales. The impacts are discussed separately below.

Increase Withholding on Nonresident Real Estate Sales

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$7,495,182	$3,329,591	$3,496,070	$3,670,874	$3,854,417

State Effect: This estimate is based on the following facts and assumptions: (1) In 2004, approximately $41.7 million was collected in withholdings from nonresident realty sales; (2) the value of nonresident real estate sales increases by 5% annually from 2004 through 2010; and (3) 25% of affected individuals do not file a tax return and represent additional income to the State. FY 2006 increases reflect the additional impact of six months of withholding for TY 2006 and increased tax compliance from one-half of TY 2005 and one-half of TY 2006. Future years reflect estimated increases in revenues due to tax compliance. Legislative Services advises that the estimated compliance rate is based on limited data available for amounts withheld in TY 2004. The Governor's budget plan assumed $6.0 million in FY 2006 due to increased withholding rates on nonresident real estate sales.

Location of Provision in the Bill: Section 3 (TG § 10-912), p. 52.

Increase Withholding of Gambling Winnings

Fiscal Impact:

	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
GF Revs	$521,491	$87,330	$89,897	$92,540	$95,262

State Effect: State revenues would increase by $521,491 in FY 2006 due to increased withholdings on nonresident wagering winnings. FY 2006 increases reflect the additional impact of six months of withholding for taxes in 2006 that are not refunded until the following fiscal year and the estimated revenue gain from individuals who will not file Maryland taxes in one-half of TY 2005 and one-half of TY 2006. This estimate is based on the following facts and assumptions:

- According to the State Lottery Agency, $18.4 million was withheld from all State lottery winnings in FY 2004.
- According to the Comptroller's Office, approximately $400,000 was withheld in FY 2004 from all horseracing winnings.
- Nonresidents comprise 17% of all individuals affected.
- The amount of horseracing winnings remains constant and lottery winnings increase by 3% annually.
- 10% of the money withheld is not filed on a tax return.

Local Effect: Based on the assumptions above, local income tax revenues would increase from increased withholdings imposed on resident horseracing and State lottery winnings. Local revenues would increase by approximately $670,000 in FY 2006, $112,000 in FY 2007, $115,000 in FY 2008, $118,000 in FY 2009, and $122,000 in FY 2010.

Location of Provision in the Bill: Section 3 (TG § 10-908(d)), p. 51.

Taxes – Increase Pass-through Entity (PTE) Tax on Nonresidents

Provisions in the Bill: Increase the PTE tax on nonresident partnerships, LLCs, and S-corporations by including the lowest county income tax rate imposed, raising the tax from 4.75% to 6%; and extend the PTE tax to income passed through to a nonresident entity (excluding REITs). The increase applies to TY 2005 and beyond.

Current Law: A tax of 4.75% is applied to the sum of each nonresident's share of income of a partnership, LLC, and S-corporation. The tax is assessed on the proportion of income attributable to: (1) a partnership's and LLC's nonresident distributive share; (2) an S-corporation's nonresident shareholder pro rata share. The lowest county income tax rate currently imposed is 1.25%.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$6,197,104	$2,141,622	$2,184,454	$2,228,143	$2,272,706

State Effect: GF revenues would increase by $6.2 million in FY 2006, which represents the impact of one and one-half tax years. Future fiscal years reflect the impact of one-half of the prior tax year and one-half of current tax year. This estimate is based on the following facts and assumptions: (1) PTE tax revenues totaled approximately $38.0 million in TY 2003; (2) the amount is estimated to increase 2% annually from 2004 through 2010; and (3) 20% of the amount paid is not otherwise filed for on a Maryland tax return. The impact of extending the PTE tax to income passed through to a nonresident entity cannot be reliably estimated; however, it is assumed that GF revenues would increase by an even greater amount.

Location of Provisions in the Bill: Section 2 (TG §§ 10-102.1 and 10-701.1), pp. 44-47 and 48.

Taxes – Modify Sales and Use Tax Vendor Credit

Provision in the Bill: Eliminates the vendor credit for use taxes paid by a vendor on the vendor's own purchases.

Current Law: 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. Under current law, this credit is allowed also for use taxes paid by a vendor on the vendor's own purchases. The vendor credit applies to the sales tax on short-term vehicle rentals; this revenue is split as follows: 45% goes to TTF and 55% to the GF. Other sales tax revenue goes to the GF. This credit was temporarily halved for FY 2003 and 2004 by BRFA of 2002 so that vendors received 0.6% for the first $6,000 collected and 0.45% for any amount above that. BRFA of 2004 continued the vendor credit at one-half the amount it would otherwise be in FY 2005 and 2006. The credit will resume at 1.2% for the first $6,000 collected and 0.9% for any amount above that in FY 2007.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$531,212	$1,115,545	$1,171,323	$1,229,889	$1,291,383

State Effect: GF revenues would increase by $531,212 in FY 2006 due to the elimination of the credit for vendor's own purchases. As the value of the credit rebounds to the full amount in FY 2007 and subsequent years, GF revenues would increase by more than $1.1 million annually thereafter.

These estimates are based on the following facts and assumptions.

- As the vendor credit is deducted before sales and use taxes are remitted, there is no precise information on the total cost of the credit. However, the total use tax before the credit was estimated based on net receipts of $99 million for the 12-month period ending March 2005.

- The Comptroller's Office advises that use tax collections are expected to grow by 7.5% in FY 2006 over the $99 million noted above and 5% annually thereafter.

- Vendors are assumed to make 95% of payments of the use tax; and 95% of the tax due from those vendors is paid with timely filed returns and is therefore currently eligible for the credit.

- The average credit rate is 0.55% in FY 2006 and 1.1% in FY 2007 and subsequent years.

Location of Provision in the Bill: Section 3 (TG § 11-105), pp. 52-53.

Taxes – Establish Reciprocal Tax Compliance Agreement with Local Governments

Provision in the Bill: Establishes a reciprocal agreement with local governments that intercepts the tax refunds of individuals and State and local government payments to vendors who have unpaid State or local tax liabilities. The bill includes expense reimbursements payable to State or local employees but does not include salaries, wages, or pension income. The Comptroller may not withhold tax refunds from a joint account unless both individuals are identified as having outstanding local tax liabilities.

Current Law: No such agreement exists with local governments.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF/SF Revs	$500,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
GF Expends	$74,000				

State Effect: GF and TTF revenues could increase by approximately $500,000 from increased collections of personal and corporate income taxes in FY 2006 if local governments agree to participate. It is assumed that there would be a six-month implementation delay in FY 2006. GF and TTF revenues could increase by approximately $1.0 million in FY 2007 and annually thereafter.

The Comptroller's Office advises that the State currently has a reciprocal agreement with the State of Delaware whereby each State intercepts the tax refunds of individuals or corporations that owe taxes to the other State. The agreement does not cover vendors. In TY 2003, the State intercepted the refunds of 483 taxpayers with unpaid Delaware tax liabilities. A total of $140,000 in refunds was intercepted.

The Comptroller's Office reports that it would incur $74,000 in FY 2006 in one-time system programming changes and systems testing. The Governor's budget plan assumed $1.0 million in FY 2006 GF revenues from establishing the local reciprocal agreement.

Local Effect: To the extent that a local government participates in the agreement, local tax revenues would increase from the interception of State payments to vendors and tax refunds. Local highway user revenues would also increase minimally from increased TTF revenues.

Location of Provision in the Bill: Section 3 (TG § 13-203, new Part V, §§ 13-925, 13-926, and 13-927), pp. 53 and 54-56.

Taxes – Limit Exemptions Claimed by Individuals Subject to Tax Refund Interceptions

Provision in the Bill: Authorizes the Comptroller to limit the number of exemptions an employee can claim for income tax withholding purposes if subject to child support or central collection intercepts.

Current Law:

Tax Refund Intercepts

Upon notification from the Central Collection Unit in DBM that a taxpayer has an unpaid debt to a State agency, the Comptroller's Office is authorized to withhold the tax refund of the individual. The debt to the State must not have been discharged in bankruptcy or otherwise disposed by a court and cannot be legitimately in dispute as determined by the Attorney General's Office.

Withholding Tax Exemptions

An employer bases State income tax withholding on an employee's wages based on the number of exemptions stated in an exemption certificate filed by the employee. If the employee fails to file an exemption certificate or files an invalid certificate, the employer bases withholding on one exemption. If the Comptroller notifies the employer that the employee has an unpaid tax liability, the employer bases the withholding on the number of exemptions, as specified by the Comptroller, that does not exceed the number of exemptions allowed on the employee's prior year's tax return (if one is filed).

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$3,000,000	$4,000,000	$4,000,000	$4,000,000	$4,000,000
GF Expends	$75,164	$62,167	$65,357	$68,790	$72,488

State Effect: GF revenues could increase by approximately $3.0 million in FY 2006 and $4.0 million annually thereafter. A three-month implementation delay is assumed in FY 2006. The Governor's budget assumed that limiting exemptions for specified individuals would increase FY 2006 revenues by $5.0 million.

GF revenues could increase from increased withholding taxes and increased resolution of outstanding debts to the State. To the extent that affected individuals have exemptions reduced by the Comptroller, State revenues could increase. The Compliance Division of the Comptroller's Office advises that an individual identified as having an unpaid State debt would be sent notification that, unless the individual resolves the matter, the

Comptroller will increase withholding taxes on the individual by limiting the number of exemptions claimed. The Comptroller's Office advises that many people are expected to respond to the potential reduction in take-home pay and resolve the outstanding debt. The Comptroller's Office estimates that revenues would increase by approximately $5.0 million in FY 2006 and $8.0 million annually thereafter. The Comptroller's Office, however, was unable to provide an estimate as to how much revenue the existing program to reduce exemptions for individuals with State tax liabilities has generated.

As shown below, refund intercepts totaled approximately $34.6 million in TY 2003.

Tax Year 2003 Refund Intercepts

	Taxpayers	Amount ($ in Millions)	Average
Central Collections	71,539	$29.0	$406
Child Support	12,382	$5.6	$449

In order to identify the employer of these individuals, the Comptroller's Office would need to match the individual's employer through DLLR. Notification would be sent to the individual and/or individual's employer, and it is assumed that the individual would have a certain amount of time to resolve the matter before exemptions are reduced where applicable. In addition to providing incentive for individuals to resolve the unpaid State debt, the decrease in income might also provide certain individuals with large unpaid liabilities incentive to switch jobs and increase efforts to avoid detection through measures such as "working under the table." This could be particularly true for individuals who are in arrears in child support and have a wage garnishment. According to DHR, 68% of all child support collected (current and in arrears) in FY 2004 was through earnings withholdings. Further, 70% of individuals who were in arrears on child support were classified as low-income individuals.

The Comptroller's Office reports that in order to handle the distribution of intercepted vendor payments and refunds to local governments it would need to hire an Accountant I. Based on a six-month implementation delay, FY 2006 personnel expenditures would total $30,164. Future year expenditures reflect: (1) a full salary with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

The Comptroller's Office reports that it would incur additional expenses of $35,000 in one-time systems programming changes and systems testing in FY 2006 in addition to annual postage expenses of $10,000.

Local Effect: Local government revenues would increase in FY 2006 and beyond through increased distributions of local income tax revenues. These distributions are reduced by the amount of outstanding unpaid tax liabilities; reducing the amount of outstanding tax liabilities would increase distributions to local governments.

Location of Provision in the Bill: Section 3 (TG § 10-910), p. 52.

Transportation – Debt Service Requirements

Provision in the Bill: Reduces the FY 2005 appropriation for MDOT debt service.

Fiscal Impact:

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Expends	($21,911,313)				

State Effect: Reduces TTF expenditures in FY 2005 by $21.9 million and retains that amount in the TTF.

Program Description: In the 2004 legislative session, the General Assembly appropriated $175.9 million to support MDOT's debt service requirements. At the time, the appropriation was consistent with projected debt service requirements – based on such factors as the department's forecasted capital needs, projected revenue attainment, and expected bond market conditions. Changes in these factors can affect debt service needs. Since the 2004 session, the revenue over attainment and continued low interest rates reduced MDOT's FY 2005 debt service requirements by $21.9 million.

Location of Provision in the Bill: Section 22 (uncodified), pp. 66-67.

Transportation – Maglev

Provision in the Bill: Allows FF to be used in CY 2005 to complete the final environmental impact statement on Maglev.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
FF Expends	$1,000,000				

State Effect: Increases FF expenditures in FY 2006 by $1.0 million. No effect on revenues.

Program Description: All spending for a magnetic levitation transit system was prohibited as of July 1, 2005, per a provision in BRFA of 2004 (Chapter 430). Language in the FY 2005 budget authorized MDOT to process a budget amendment to spend a final $1.0 million in FF to support the completion of a final environmental impact statement on the Maglev system. However, the funds were not spent during FY 2005. This provision provides a six-month extension.

Location of Provision in the Bill: Section 31 (uncodified), p. 71.

Transportation – Redirect Highway User Revenues to the General Fund

Provisions in the Bill: Redirect $48.5 million of highway user revenues to the GF in FY 2006 and allow Baltimore City's share to increase according to a formula if total revenues exceed a specified amount.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$48,500,000				
SF Expends	($48,500,000)				

State Effect: Increases GF revenues by $48.5 million in FY 2006 and decreases TTF expenditures by an equivalent amount. The FY 2006 budget was reduced by this amount.

Local Effect: Decreases local revenues by $48.5 million in FY 2006 and ensures that Baltimore City receives a share of any over attainment.

Program Description: Since the early 1900s the State has shared motor vehicle-related revenues with the counties and Baltimore City. The State currently shares 30% of the revenues credited to the Gasoline and Motor Vehicle Revenue Account in the TTF with the counties, Baltimore City, and the municipalities; these revenues are commonly known as highway user revenues and are distributed according to an established formula.

Recent History: In both FY 2004 and 2005, highway user revenues were reduced by $102.4 million below statutorily required funding levels. Budget reconciliation legislation transferred the funds to the GF to balance the budget.

Additional Comments: Highway user revenues are further reduced by $582,600 in FY 2006 due to exempting State purchase of gasoline from the motor fuel tax (another provision in this bill). A provision in the FY 2006 budget bill restricts $25.8 million from the Community Safety and Enhancement Program to be allocated on the same basis as highway user revenues as a one-time grant to local jurisdictions, thereby partially offsetting the impact of these reductions.

Location of Provisions in the Bill: Section 21 (uncodified), pp. 65-66.

Transportation – 20-Year Forecast

Provision in the Bill: Modifies the schedule for revising the 20-year Maryland Transportation Plan from every three years to every five years.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends		(--)		--	(--)

State Effect: Reduces TTF expenditures associated with revising the plan under the existing schedule – in FY 2007 and 2010. Increases TTF expenditures in FY 2009, when the next revision of the plan would now be due.

Location of Provision in the Bill: Section 1 (TR § 2-103.1), pp. 40-42.

Use of State Reserve Fund for Paygo Capital Projects

Provision in the Bill: Authorizes transfer of funds from the Revenue Stabilization Account for purposes specified in the FY 2006 budget bill.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	$45,161,000				

State Effect: No effect on revenues. SF expenditures would increase by $45.2 million to support two Paygo capital projects detailed in the FY 2006 budget bill: $9.0 million to DBED for MEDAF grants and loans and $36.2 million to DPSCS for the North Branch Correctional Institution. Absent this authorization, the funds could not be transferred for this purpose. In the FY 2006 capital budget, the GO bond authority for these projects was reduced, thus creating GO bond capacity which was used to increase the amount of bonds authorized for public school construction.

Local Effect: Local jurisdictions would benefit to the extent they receive grants and loans through MEDAF.

Program Description: The Revenue Stabilization Account is more commonly known as the Rainy Day Fund. It is one of five accounts within the State Reserve Fund. The account was established in 1986 to retain State revenues to meet future needs and reduce the need for future tax increases by moderating revenue growth. To transfer funds from the Rainy Day Fund requires an Act of the General Assembly or specific authorization in the budget bill – and then monies may only be transferred to the GF. Funds may not be transferred by budget amendment.

Current law provides that the end-of-year fund balance for the Rainy Day Fund be at least 5% of GF revenues for that year. The budget passed by the General Assembly has a Rainy Day Fund balance that is projected to be $180.9 million over the 5% threshold.

Location of Provision in the Bill: Section 26 (uncodified), pp. 67-68.

Other Provisions – Expressions of Legislative Intent

Provisions in the Bill: Express intent to consider a reduction to the State property tax rate in FY 2007 and to phase out and repeal the Maryland-mined coal tax credit during the 2006 legislative session.

Fiscal Impact: These provisions would not directly affect State finances.

Location of Provisions in the Bill: Section 20 (uncodified), p. 65; and Section 29 (uncodified), p. 70.

Other Provisions – Enhanced Legislative Oversight

Provisions in the Bill: Require quarterly reporting from the Interagency Committee on School Construction; increase the reporting elements related to Major Information Technology Development Projects; and codify submission of the draft and final Consolidated Transportation Programs (CTPs).

Fiscal Impact: These provisions would not directly affect State finances. The requirement to submit draft and final CTPs codifies a former practice of MDOT.

Location of Provisions in the Bill: Section 1 (ED § 5-301), p. 19; Section 1 (SFP § 3-410.2), pp. 31-32; and Section 1 (TR § 2-103.1), pp. 40-42.

Other Provisions – Study and Reporting Requirements

Provisions in the Bill: Require a study and report on the most accurate enrollment figures to use in higher education funding formulas, actuarial certification that cost containment will not produce inadequate managed care reimbursement rates, a study and report on the impact of using academic health centers on the HealthChoice program, and a study on enhancing retirement benefits for teachers and State employees with legislation to be introduced in the 2006 legislative session.

Fiscal Impact: These provisions would not directly affect State finances. It is assumed that any such studies could be undertaken with existing resources; however, actuarial assistance related to the study on enhancement of retirement benefits could increase expenditures within DLS in FY 2006.

Location of Provisions in the Bill: Section 30 (uncodified), pp. 70-71; Section 32 (uncodified), p. 71; Section 33 (uncodified), pp. 71-72; and Section 34 (uncodified), p. 72.

Appendix 3. Summary of Fiscal Impacts in HB 147, the Budget Reconciliation and Financing Act of 2005
FY 2006 -- FY 2010

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
General Fund Revenues					
"Tax Compliance" Provisions:					
Require withholding on lump-sum distributions	$25,006,891	$3,005,782	$3,186,129	$3,377,297	$3,579,935
Increase withholding on nonresident realty sales	7,495,182	3,329,591	3,496,070	3,670,874	3,854,417
Increase withholding on gambling winnings	521,491	87,330	89,897	92,540	95,262
Limit exemptions for State debtors	3,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Require tax clearance for insurance license renewal	1,007,738	1,343,651	1,343,651	1,343,651	1,343,651
Authorize reciprocal agreements	500,000	1,000,000	1,000,000	1,000,000	1,000,000
Increase tax rate for pass-through entity tax	6,197,104	2,141,622	2,184,454	2,228,143	2,272,706
Extend pass-through entity tax to nonresident entities (excluding REITs)	--	--	--	--	--
Eliminate the use tax vendor discount for voluntary payments	531,212	1,115,545	1,171,323	1,229,889	1,291,383
Increase commission for lottery agents		-7,633,845	-7,862,860	-8,098,746	-8,341,709
Decouple for qualified domestic production activities	13,713,440	12,532,780	17,052,120	20,691,760	25,182,980
Subtotal	***$57,973,058***	***$20,922,456***	***$25,660,784***	***$29,535,408***	***$34,278,625***
"Financing" Provisions:					
Grandfather heritage tax credits	-$500,000	(--)			
Clarify decoupling for small business expensing	--	--	--	--	--
Exempt State agency purchases from motor fuel tax	-40,983	-$40,983	-$40,983	-$40,983	-$40,983
Increase supervision fee on probationers	709,635	1,310,400	1,310,400	1,310,400	1,310,400
Eliminate LECTF and redirect fee revenue to GF		4,200,000	4,200,000	4,200,000	4,200,000
Increase District Court-imposed fee for costs by $2.50		2,100,000	2,100,000	2,100,000	2,100,000
Subtotal	***$168,652***	***$7,569,417***	***$7,569,417***	***$7,569,417***	***$7,569,417***
"Reconciliation" Provisions:					
Redirect transfer tax revenues to GF	$90,000,000				
Redirect highway user revenues to GF	48,500,000				
Subtotal	***$138,500,000***				
Total	**$196,641,710**	**$28,491,873**	**$33,230,201**	**$37,104,825**	**$41,848,042**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Special Fund Revenues					
"Tax Compliance" Provisions:					
Decouple for qualified domestic production activities	$4,330,560	$3,957,720	$5,384,880	$6,534,240	$7,952,520
Subtotal	***$4,330,560***	***$3,957,720***	***$5,384,880***	***$6,534,240***	***$7,952,520***
"Financing" Provisions:					
Grandfather heritage tax credits	(--)	(--)			
Authorize heritage tax credit fee	$200,000	$200,000	$200,000		
Clarify decoupling for small business expensing	--	--	--	--	--
Authorize DDMP program fee	7,581,600	7,581,600	7,581,600	$7,581,600	$7,581,600
Increase District Court-imposed fee for costs by $2.50	2,100,000				
Eliminate LECTF and redirect existing fee revenue to GF		-4,200,000	-4,200,000	-4,200,000	-4,200,000
Increase timeframe to file claim for Medicaid estate recovery	--	--	--	--	--
Increase user fee cap for HSCRC/MHCC	1,833,000				
Exempt State agency purchases from motor fuel tax	-2,240,191	-2,240,191	-2,240,191	-2,240,191	-2,240,191
Subtotal	***$9,474,409***	***$1,341,409***	***$1,341,409***	***$1,141,409***	***$1,141,409***
"Reconciliation" Provisions:					
Remove RICAs from cost share formula	-$1,695,881	-$1,695,881	-$1,695,881	-$1,695,881	-$1,695,881
Prohibit DHMH from billing locals for RICA expenses		-2,046,117	-2,046,117	-2,046,117	-2,046,117
Subtotal	***-$1,695,881***	***-$3,741,998***	***-$3,741,998***	***-$3,741,998***	***-$3,741,998***
Total	**$12,109,088**	**$1,557,131**	**$2,984,291**	**$3,933,651**	**$5,351,931**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
General Fund Expenditures					
"Tax Compliance" Provisions:					
Increased expenditures for Comptroller	$149,164	$62,167	$65,357	$68,790	$72,488
Subtotal	***$149,164***	***$62,167***	***$65,357***	***$68,790***	***$72,488***
"Financing" Provisions:					
Increase supervision fee on probationers	$598,000	$598,000	$598,000	$598,000	$598,000
Authorize heritage tax credit fee	-200,000	-200,000	-200,000		
Authorize DDMP program fee for five years	-7,581,600	-7,581,600	-7,581,600	-7,581,600	-7,581,600
Increase District Court-imposed fee for costs by $2.50	-750,906				
Eliminate LECTF and redirect fee revenue to GF		4,326,000	4,455,780	4,589,453	4,727,137
Increase timeframe to file claim for Medicaid estate recovery	(--)	(--)	(--)	(--)	(--)
Assess HSCRC/MHCC for indirect costs	-1,833,000				
Exempt State agency purchases from motor fuel tax	-875,000	-1,003,717	-1,003,717	-1,003,717	-1,003,717
Subtotal	***-$10,642,506***	***-$3,861,317***	***-$3,731,537***	***-$3,397,864***	***-$3,260,180***
"Reconciliation" Provisions:					
Disallow COLA when judicial compensation increased		-$1,024,018	-$2,113,364	-$3,270,045	-$3,270,045
Expand uses of Circuit Court Real Property Record Improvement Fund	-$5,213,644	-5,677,937	-5,848,275	-6,023,723	
Exempt atypical antipsychotics from prior authorization	2,000,000	2,200,000			
Increase local share of nonpublic special education placements	-5,799,866				
Remove RICAs from cost share formula	1,135,611	1,135,611	1,135,611	1,135,611	1,135,611
Prohibit DHMH from billing locals for RICA services		2,046,117	2,046,117	2,046,117	2,046,117
Defer Innovative Partnerships for Technology Matching Grants	-1,816,301	1,816,301			
Level fund EEEP	-2,407,813				
Mandate appropriations for Employment Standards/Prevailing Wage Unit		700,000	700,000	700,000	700,000
Mandate Challenge Grant funding		3,788,827			
Fund Social Worker Academy		425,000	425,000	425,000	425,000
Mandate supplemental local area agency on aging grants		442,210			
Convert MIPAR contractual employees to permanent State employees	-600,000	-606,000	-612,060	-618,181	-624,362
Increase POS State share of funding for forest and park operations	-1,300,000				

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Mandate appropriation for DNR library		88,000			
Direct 30% of CRF to Medicaid		-43,500,000	-51,900,000	-52,400,000	-52,900,000
Increase limit on CRF administrative expenditures		(--)	(--)	(--)	(--)
Establish new SF with Medicare funds for employee & retiree health benefits	-8,500,000	-17,000,000			
Enhance cost-sharing for State employee and retiree health benefits	-34,100,000	-38,089,700			
Subtotal	***-$56,602,013***	***-$93,255,589***	***-$56,166,971***	***-$58,005,220***	***-$52,487,679***
Total	**-$67,095,355**	**-$97,054,739**	**-$59,833,151**	**-$61,334,294**	**-$55,675,371**
Special Fund Expenditures					
"Tax Compliance" Provisions:					
Increased Retirement agency expenditures	$100,000				
Subtotal	***$100,000***				
"Financing" Provisions:					
Authorize heritage tax credit fee	$200,000	$200,000	$200,000		
Authorize DDMP program fee	7,581,600	7,581,600	7,581,600	$7,581,600	$7,581,600
Increase District Court-imposed fee for costs by $2.50	750,906				
Eliminate LECTF and redirect fee revenue to GF		-4,326,000	-4,455,780	-4,589,453	-4,727,137
Increase timeframe to file claim for Medicaid estate recovery	--	--	--	--	--
Assess HSCRC/MHCC for indirect costs	1,833,000				
Exempt State agency purchases from motor fuel tax	-900,000	-935,281	-935,281	-935,281	-935,281
Reduced highway user revenues due to motor fuel tax exemption	-582,600	-668,850	-668,850	-668,850	-668,850
Subtotal	***$8,882,906***	***$1,851,469***	***$1,721,689***	***$1,388,016***	***$1,250,332***
"Reconciliation" Provisions:					
Fund Social Worker Academy	$425,000				
Increase POS State share of funding for forest and park operations	1,300,000				
Direct portion of POS State share to Baltimore City	1,500,000				
Alter POS State share distribution of funds to cover parks and the city	-2,800,000				
Redirect transfer tax revenues to GF – POS State share	-40,837,500				
Redirect transfer tax revenues to GF – POS local share	-33,817,500				
Redirect transfer tax revenues to GF – MALPP share	-15,345,000				

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Redirect highway user revenues to GF	-48,500,000				
Modify schedule for 20-Year Maryland Transportation Plan		(--)		--	(--)
Use CRF to fund Challenge Grants	3,500,000				
Use CRF to fund academic health center grants	6,700,000				
Use CRF to fund adult literacy	1,200,000				
Use CRF to fund summer youth program	150,000				
Use CRF to fund family support centers	847,000				
Use CRF to fund nonpublic textbooks and computers	1,000,000				
Mandate CRF funding for Statewide Academic Health Center grants		$15,400,000	$15,400,000	$15,400,000	$15,400,000
Direct 30% of CRF to Medicaid		43,500,000	51,900,000	52,400,000	52,900,000
Reduce mandated CRF funding for smoking cessation	-9,700,000				
Reduce mandated CRF funding for Statewide Academic Health Center grants	-1,564,000				
Defer CRF biennial tobacco study	-2,000,000	2,000,000	-2,000,000	2,000,000	-2,000,000
Increase limit on CRF administrative expenditures		--	--	--	--
Remove RICAs from cost share formula	-1,695,881	-1,695,881	-1,695,881	-1,695,881	-1,695,881
Prohibit DHMH from billing locals for RICA services		-2,046,117	-2,046,117	-2,046,117	-2,046,117
Expand uses of Circuit Court Real Property Records Improvement Fund	5,512,560	5,677,937	5,848,275	6,023,723	
Use Revenue Stabilization Account for capital projects	45,161,000				
Establish new SF with Medicare funds for employee & retiree health benefits	8,500,000	17,000,000			
Enhance cost sharing for State employee and retiree health benefits	-11,350,000	-12,677,950			
Subtotal	***-$91,814,321***	***$67,157,989***	***$67,406,277***	***$72,081,725***	***$62,558,002***
Total	**-$82,831,415**	**$69,009,458**	**$69,127,966**	**$73,469,741**	**$63,808,334**

Reimbursable Fund Expenditures

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Exempt State agency purchases from motor fuel tax		-$22,812	-$22,812	-$22,812	-$22,812

Nonbudgeted Expenditures

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Exempt State agency purchases from motor fuel tax		-$136,870	-$136,870	-$136,870	-$136,870

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Federal Fund Expenditures					
"Financing" Provisions:					
Increase timeframe to file claim for Medicaid estate recovery	(--)	(--)	(--)	(--)	(--)
Subtotal					
"Reconciliation" Provisions:					
Fund Social Worker Academy	$1,275,000	$1,275,000	$1,275,000	$1,275,000	$1,275,000
Convert MIPAR contractual employees to permanent State employees	600,000	606,000	612,060	618,181	624,362
Enhance cost sharing for State employee and retiree health benefits	-11,350,000	-12,677,950			
Exempt State agency purchases from motor fuel tax	-167,000	-182,494	-182,494	-182,494	-182,494
Exempt atypical antipsychotics from prior authorization	2,000,000	2,200,000			
Authorize Maglev budget amendment for FEIS	1,000,000				
Subtotal	***-$6,642,000***	***-$8,779,444***	***$1,704,566***	***$1,710,687***	***$1,716,868***
Total	**-$6,642,000**	**-$8,779,444**	**$1,704,566**	**$1,710,687**	**$1,716,868**
Net Impact on General Funds	**$263,737,065**	**$125,546,612**	**$93,063,352**	**$98,439,119**	**$97,523,413**
Net Impact on Special Funds	**$94,940,503**	**-$67,452,327**	**-$66,143,675**	**-$69,536,090**	**-$58,456,403**
Net Impact on Reimbursable Funds		**$22,812**	**$22,812**	**$22,812**	**$22,812**
Net Impact on Nonbudgeted Funds		**$136,870**	**$136,870**	**$136,870**	**$136,870**
Net Impact on State Funds	**$358,677,568**	**$58,253,967**	**$27,079,359**	**$29,062,711**	**$39,226,692**
Net Impact on All Funds	**$365,319,568**	**$67,033,411**	**$25,374,793**	**$27,352,025**	**$37,509,824**

Notes: Increasing the supervision fee for probationers would result in a GF contingent appropriation of $598,000 to the Division of Parole and Probation; it is assumed that an appropriation would continue at the same level in the out years.

Imposing a monthly program fee for the Drinking Driver Monitor Program would result in a SF contingent appropriation of $8,251,830; however, as Legislative Services estimates a lower level of fee collection, the SF revenues and corresponding GF and SF expenditures reflect the estimate, not the contingent appropriation. The fee collections estimated by Legislative Services would be sufficient to fund the program, based on actual expenditures in previous years.

The GF expenditure reductions shown due to exempting State agency purchases from the motor fuel tax include higher education expenditures and local health department expenditures. The contingent reductions in the FY 2006 budget related to this provision reflect the amount associated with Executive Branch agencies only.

Appendix 4. Index to Appendix 2