

Department of Legislative Services
 Maryland General Assembly
 2013 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 102
 Appropriations

(The Speaker)(By Request - Administration)

Budget and Taxation

Budget Reconciliation and Financing Act of 2013

This Administration bill executes actions to enhance revenues and reduce future year general fund expenditures, increases local aid, and establishes a tax credit for tractor-trailer vehicle registrations for tax years 2014 through 2016.

The bill generally takes effect June 1, 2013.

Fiscal Summary

State Effect: General fund revenues decline by \$12.0 million while special fund revenues increase by \$13.5 million in FY 2013, due to transfer of \$15.4 million from the Local Income Tax Reserve Account to the Maryland Department of Transportation (MDOT) offset by other transfers to the general fund. General fund revenues increase by \$89.2 million in FY 2014 due to transfers and revenue enhancements. General fund expenditures decrease by \$94.1 million in FY 2014 from fund swaps, cost shifts, and mandate relief offset by increases in local aid including modification of the disparity grant program. Special fund revenues increase by \$2.2 million in FY 2014 due to revenue enhancements and cost shifts. Special fund expenditures decrease by \$72.3 million in FY 2014, mostly due to shifting transfer tax revenues that would otherwise be spent on Program Open Space (POS) and related programs to the general fund. Future year estimates reflect the ongoing effects of the bill. **This bill affects existing mandated appropriations.**

(\$ in millions)	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
GF Revenue	(\$12.0)	\$89.2	\$70.3	\$72.8	\$77.7
SF Revenue	\$13.5	\$2.2	\$1.9	\$1.9	\$1.9
GF Expenditure	\$0	(\$94.1)	(\$86.1)	(\$44.5)	(\$44.2)
SF Expenditure	\$0	(\$72.3)	(\$73.4)	(\$76.0)	(\$81.1)
Net Effect	\$1.5	\$258.0	\$231.7	\$195.2	\$204.9

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

Local Effect: Local revenues for the POS local share decline by \$23.7 million in FY 2014; however, these funds are programmed to be fully replaced from FY 2015 through 2016 with general obligation (GO) bonds as provided in the FY 2014 capital budget. The local share of POS is also impacted in fiscal 2015 through 2018, though replacement with GO bonds is also proposed. Modification of the disparity grant program will increase local aid to four counties by a total of \$6.4 million beginning in FY 2014. Local school boards will pay an estimated \$1.7 million annually beginning in FY 2014 toward nonpublic education placement of children in detention facilities with the Department of Juvenile Services (DJS) for 15 or more consecutive days. Four local school boards will receive \$2.2 million in additional education aid in FY 2014. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: The Administration has determined that some of the provisions in this bill may have meaningful positive or negative impacts on small business (attached as pages 56-57). The Department of Legislative Services generally concurs with this assessment. **(The attached assessment does not reflect amendments to the bill.)**

Analysis

Bill Summary: A brief overview of the bill's provisions is provided below. In general, the bill's actions enhance revenues and transfer funds, provide mandate relief, implement fund swaps and cost shifts, and control costs.

Revenue Enhancement and Transfers to the General Fund

- Transfers between \$75.1 million and \$89.2 million in transfer tax revenues to the general fund annually in fiscal 2014 through 2018.
- Transfers \$1.9 million from the Special Fund for Preservation of Cultural Arts in Maryland to the general fund in fiscal 2013.
- Transfers \$1.0 million from the State Insurance Trust Fund in fiscal 2013.
- Specifies that the \$7.50 surcharge on certain moving violations must be added to any *fine* imposed by the court, rather than to *court costs*.
- Transfers \$430,000 from the Sustainable Communities Tax Credit Reserve Fund in fiscal 2013.
- Cancels credits for commercial rehabilitation projects under the Sustainable Communities Tax Credit issued prior to fiscal 2006 on July 1, 2014, unless the applicant demonstrates that the project has a valid, unexpired building permit.
- Increases from \$10 to \$11 the maximum fee a notary public may be required to pay for the issuance of a notary public commission and authorizes the Secretary of State to increase the fees charged by notaries public.

Mandate Relief

- Repeals the requirement that the State annually transfer \$50.0 million to the Local Income Tax Reserve Account in fiscal 2014 through 2020.
- Defers the required repayment of State transfer tax revenue from fiscal 2014 to 2016.

Fund Swaps and Cost Shifts

- Transfers \$15.4 million from the Local Income Tax Reserve Account to a special fund in MDOT in fiscal 2013 to provide transportation grants to municipalities in fiscal 2014.
- Requires local school boards to reimburse DJS for the education costs of children from the county that are placed in detention facilities for 15 or more consecutive days.
- Authorizes the use of a portion of the State's share of POS funds for administrative expenses in the Department of Natural Resources, the Department of General Services, and the Maryland Department of Planning in fiscal 2014 and 2015.
- Authorizes transfer of \$3.5 million from the Oil Contaminated Site Environmental Cleanup Fund to the Maryland Oil Disaster Containment, Clean-Up, and Contingency Fund in fiscal 2013 and any remaining balance by December 31, 2013.
- Authorizes the Governor to transfer up to \$250,000 of the balance in the Fair Campaign Financing Fund to the State Board of Elections in fiscal 2014 to conduct specified studies required by Chapters 157 and 158 of 2013 (SB 279/ HB 224).

Cost Control Measures

- Limits growth in fiscal 2014 rates paid to providers of nonpublic special education placements to no more than 2.5% over the rates in effect on January 16, 2013.
- Limits growth in fiscal 2014 rates paid to residential child care providers that have their rates set by the Interagency Rates Committee to no more than 2.5% over the rates in effect on January 16, 2013.
- Requires the Department of Health and Mental Hygiene to achieve \$30.0 million in general fund savings in fiscal 2014 from a combination of specified actions.
- Requires the Health Services Cost Review Commission (HSCRC) to submit a report by December 15, 2013, that identifies projected Medicaid savings from tiered hospital rates.
- Authorizes HSCRC to take actions to ensure that the \$30.0 million in general fund Medicaid savings occur.

- Specifies the maximum amount of Medicaid hospital assessments in fiscal 2015 and thereafter and clarifies the Governor's authority to establish the level of the assessment and hospital remittances.
- Continues the current prohibition against merit increases for State employees prior to April 1, 2014, with specified exceptions.
- Requires the Department of Budget and Management and specified public four-year institutions to submit a report on operationally critical staff by December 1, 2013.

Local Aid Increases

- Modifies the disparity grant program, beginning with fiscal 2014, to provide a minimum grant amount based on local tax effort.
- Specifies that a supplemental grant to a local board of education for State financial assistance for public education may not be less than zero.
- Specifies that, for fiscal 2014 only, if a local board of education's total direct education aid is less than the prior year by more than 1%, the State must provide a grant equal to 25% of the decrease in total direct education aid.

Other Provisions

- For tax years 2014 through 2016 only, establishes a nonrefundable tax credit against the State income tax for the expense of registering any tractor-trailer (Class F vehicle) that is titled and registered in the State.
- Specifies how horse racing local impact aid grants must be distributed when revenues are insufficient to fully fund the grants.
- Clarifies that major information technology (IT) projects in which an agency contracts with higher education institutions to plan or implement a major IT project are subject to the same review as other major IT projects.
- Specifies that State regulations and fees for electronic gaming devices supersede local regulations and fees if they are not equivalent to State regulations and fees.
- Repeals the requirement that certain veterans' organizations purchase or lease instant ticket lottery machines from the State Lottery and Gaming Control Agency.
- Imposes a specified budget restriction on the fiscal 2013 Mental Hygiene Administration budget.
- Imposes specified budget restrictions on the fiscal 2013 Maryland State Department of Education budget to be used for the Quality Teacher Incentive Program.

- Requires the Comptroller to evaluate the impacts of recent tax changes to the Local Income Tax Reserve Account, study the impacts of altering interest paid on specified tax deficiencies and refunds, and report on any findings and recommendations by December 31, 2013.
- Requires the Comptroller, for scheduled distributions of county income tax in fiscal 2014, to make such distributions without adjustments for refunds or related changes resulting from amended returns for previous tax years that are determined to be extraordinary or anomalous.
- Implements a provision of Chapter 423 of 2013 (the fiscal 2014 budget bill) by prohibiting specified pension reinvestment funds held in reserve from reverting to the general fund and authorizing that the funds may only be transferred as specified in the fiscal 2014 budget.

Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add general fund spending to the budget introduced by the Governor, nor can general funds be used to restore reductions made by the General Assembly after adoption of the budget, except through an approved deficiency appropriation in the following year's budget.

Background: The December 2012 Spending Affordability Committee (SAC) report noted that the State's budgetary outlook shows modest improvement as the State and nation slowly continue the recovery from the national recession that began in December 2007. The actions taken in the 2012 first special session to increase certain taxes and voter approval of an expanded gaming program at the November 2012 election have improved the overall revenue and general fund outlook. Looming on the horizon, however, is uncertainty about potential actions – or inaction – at the federal level, which could significantly affect the State budget and revenue generation.

The baseline projection for fiscal 2014 resulted in an estimated structural deficit of \$383.2 million, which is estimated to narrow to approximately \$133.9 million in fiscal 2017, when the full impact of legislative actions and authorized gaming revenues are realized. In recognition of this outlook, SAC recommended that the fiscal 2014 budget as introduced and enacted resolve at least \$200.0 million of the general fund structural gap. With this reduction, SAC stated that any residual budget gap will be within normal budget management tolerances. SAC also recommended that the fiscal 2014 budget should result in a general fund balance of at least \$200.0 million. This bill implements statutory changes that, combined with the fiscal 2014 budget (Chapter 423 of 2013), accomplish these goals.

State Fiscal Effect: Estimates of the fiscal 2013 and 2014 impact of the bill on the State's general fund are shown in **Exhibit 1**.

In fiscal 2013, general fund revenues decline by a net of \$12.0 million, due to transfer of \$15.4 million in Local Income Tax Reserve Account funds to MDOT to be used in fiscal 2014 for transportation grants to municipalities and the transfer of \$1.9 million from the Special Fund for Preservation of Cultural Arts, \$1.0 million from the State Insurance Trust Fund, and \$430,000 from the Sustainable Communities Tax Credit Reserve Fund to the general fund. The State's general fund position improves by \$183.3 million in fiscal 2014, through a combination of transfers, revenue enhancement, fund swaps and cost shifts, and mandate relief offset by an \$8.6 million increase in local aid. The two-year impact on the general fund sums to \$171.3 million.

A discussion of each provision in the bill is provided in **Appendix A** (beginning on page 9). The fiscal 2013 to 2018 State effects for each provision, including the general fund impacts, the effects on any other fund types, and information about any related contingent actions in the fiscal 2014 budget are included with the discussions. **Appendix B** (pages 49-50) identifies the fiscal impact of separate provisions by fund type.

Exhibit 1
General Fund Impact of the Budget Reconciliation and Financing Act of 2013
Fiscal 2013 and 2014
(\$ in Millions)

	<u>FY 2013</u>	<u>FY 2014</u>
Revenues		
Transfers	(\$12.0)	\$89.2
Revenue Enhancement	<u>0.0</u>	<u>0.02</u>
<i>Revenue Subtotal</i>	<i>(\$12.0)</i>	<i>\$89.2</i>
Expenditures		
Fund Swaps and Cost Shifts	\$0.0	(\$2.7)
Mandate Relief	0.0	(100.0)
Local Aid Increases	0.0	8.6
<i>Expenditure Subtotal</i>	<i>\$0.0</i>	<i>(\$94.1)</i>
General Fund Improvement	(\$12.0)	\$183.3

Note: Numbers may not sum to total due to rounding.

Local Fiscal Effect: In fiscal 2014, revenues for municipalities increase by \$15.4 million from MDOT transportation grants. Grants will be distributed in the same manner as highway user revenues (based on a local jurisdiction's vehicle registrations and road miles). **Appendix C** (pages 51-55) shows the anticipated grants by municipality, while grants by county are shown in **Exhibit 2**. Funding from highway user revenues for municipalities is anticipated to be approximately \$7.0 million in fiscal 2014.

Also in fiscal 2014, a total of \$23.7 million is transferred from the POS local share. The fiscal 2014 reduction by county resulting from this transfer is shown in Exhibit 2. Under the Administration's budget plan, all of these local funds would be replaced with GO bonds in fiscal 2015 and 2016.

Exhibit 2
Impact of Budget Reconciliation and Financing Act on
Fiscal 2014 Direct Aid to Counties and Municipalities
(\$ in Thousands)

County	Program Open Space	Municipal Transportation Grants	Disparity Grants	Education Aid	Total
Allegany	(\$264)	\$779			(\$264)
Anne Arundel	(2,858)	669			(2,189)
Baltimore City	(1,892)				(1,892)
Baltimore	(3,225)				(3,225)
Calvert	(284)	191			(93)
Caroline	(125)	276			151
Carroll	(640)	894		868	1,122
Cecil	(330)	431	299		400
Charles	(583)	255			(328)
Dorchester	(107)	312			205
Frederick	(673)	1,699			1,026
Garrett	(133)	257		298	422
Harford	(951)	735		942	726
Howard	(1,706)				(1,706)
Kent	(80)	161	70	97	248
Montgomery	(4,314)	2,457			(1,857)
Prince George's	(3,644)	3,153			(491)
Queen Anne's	(174)	107			(67)
St. Mary's	(323)	53			(270)
Somerset	(77)	119			42
Talbot	(182)	425			243
Washington	(502)	1,016	1,546		2,060
Wicomico	(335)	866	4,457		4,988
Worcester	(325)	527			202
Total	(\$23,727)	\$15,380	\$6,372	\$2,205	\$230

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

As shown in Exhibit 2, modification of the disparity grant provides an additional \$6.4 million to Cecil, Kent, Washington, and Wicomico counties, while changes to calculations of supplemental education grants and direct education aid yield an additional \$2.1 million to Carroll, Garrett, Harford, and Kent counties in fiscal 2014.

Beginning in fiscal 2014, expenditures for local boards of education increase annually to reimburse DJS for nonpublic education placement of children in detention facilities for 15 or more consecutive days. The requirement excludes children in State-supervised care who are nonpublic special education placements. The total impact on all local boards of education is anticipated to be approximately \$1.7 million annually.

Additional Information

Prior Introductions: None.

Cross File: SB 127 (The President)(By Request - Administration) - Budget and Taxation.

Information Source(s): Dorchester, Garrett, and Montgomery counties; City of Rockville; State Department of Assessments and Taxation; Maryland Department of Agriculture; Department of Business and Economic Development; Governor's Office for Children; Department of Budget and Management; Department of Natural Resources; Maryland Department of Planning; Maryland State Department of Education; Department of General Services; Maryland Health Insurance Plan; Department of Health and Mental Hygiene; Comptroller's Office; Department of Juvenile Services; Department of Labor, Licensing, and Regulation; Maryland Association of Counties; Maryland Municipal League; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - February 25, 2013
ns/rhh Revised - House Third Reader - March 22, 2013
Revised - Enrolled Bill - June 18, 2013
Revised - Clarification - July 30, 2013

Analysis by: Jennifer B. Chasse

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Transfer Tax Special Fund

Provision in the Bill: Authorizes the transfer of \$89,198,555 in transfer tax revenues to the general fund in fiscal 2014, \$75,062,000 in fiscal 2015, \$77,654,000 in fiscal 2016, \$82,771,000 in fiscal 2017, and \$86,028,000 in fiscal 2018. The transfers may not be taken into account for purposes of determining any allocation or appropriation required under the statutory provisions relating to the repayment of the transfers in subsequent years.

Agencies: Department of Natural Resources; Maryland Department of Agriculture

Type of Action: Fund balance transfers

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$0	\$89.2	\$75.1	\$77.7	\$82.8	\$86.0
SF Exp	\$0	(\$89.2)	(\$75.1)	(\$77.7)	(\$82.8)	(\$86.0)

State Effect: General fund revenues increase by \$89.2 million in fiscal 2014, \$75.1 million in fiscal 2015, \$77.7 million in fiscal 2016, \$82.8 million in fiscal 2017, and \$86.0 million in fiscal 2018 due to the transfers. It is assumed that, without the transfer, these special funds would have been used to support Program Open Space (POS), the Rural Legacy Program, the Maryland Agricultural Land Preservation Foundation (MALPF), and the Heritage Conservation Fund in fiscal 2014 through 2018. Thus, special fund expenditures decrease by a corresponding amount in each respective year. The fiscal 2014 budget reduces special fund expenditures for the Department of Natural Resources (DNR) and the Maryland Department of Agriculture (MDA) by \$89.2 million, contingent upon the enactment of legislation crediting transfer tax revenues to the general fund.

As the bill specifies that the transfers may not be considered for purposes of determining any allocation or appropriation required for the repayment of the State transfer tax, the funds may be transferred without future repayment to the affected programs. However, although not required by the bill, \$83.5 million of the \$89.2 million in transferred funds are programmed to be replaced over a three-year period (fiscal 2014 through 2016) with general obligation (GO) bonds, as provided in the fiscal 2014 capital budget, which includes preauthorization language for the replacement of funds planned for fiscal 2015 and 2016.

The fiscal 2014 transfers and the replacement schedule are shown by agency in **Exhibit 1**. The total \$89.2 million transferred includes (1) \$21.9 million in POS State share; (2) \$23.7 million in POS local share; (3) \$14.7 million in POS capital

improvements; (4) \$10.7 million in Rural Legacy Program funds; and (5) \$18.1 million from MALPF. Exhibit 1 also shows the proposed fiscal 2015 through 2018 transfers and the corresponding replacement schedule, which continues through fiscal 2020. A total of \$321.5 million is transferred between fiscal 2015 and 2018.

Exhibit 1
Proposed Transfers and Replacement Schedule by Agency
Fiscal 2014-2020
(\$ in Millions)

	<u>MDA</u>	<u>DNR</u>	<u>Total</u>
FY 2014 Transfer	\$18.11	\$71.09	\$89.20
FY 2014 GO Bond Replacement	0.00	9.03	9.03
FY 2015 GO Bond Replacement	9.05	28.20	37.25
FY 2016 GO Bond Replacement	9.05	28.20	37.25
FY 2014-2016 Total Replacement	\$18.11	\$65.43¹	\$83.54
FY 2015-2018 Transfers	\$67.64	\$253.88	\$321.52
FY 2016 GO Bond Replacement	7.91	29.62	37.53
FY 2017 GO Bond Replacement	16.09	60.27	76.36
FY 2018 GO Bond Replacement	16.88	63.34	80.21
FY 2019 GO Bond Replacement	17.73	66.67	84.40
FY 2020 GO Bond Replacement	9.03	33.98	43.01
FY 2015-2020 Total Replacement	\$67.64	\$253.88	\$321.52

DNR = Department of Natural Resources
GO = general obligation
MDA = Maryland Department of Agriculture

¹The \$5.7 million that is not replaced reflects the allocation for the Natural Resources Development Fund, a component of POS capital improvements.

Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Local Effect: Local governments receive grants for land acquisition, the development of park and recreational facilities, and the purchase of easements funded through the local share of POS, Rural Legacy Program, and MALPF. Under this bill, in fiscal 2014 a total of \$52.5 million is transferred from these programs (including \$23.7 million in funds from the POS local share); however, those funds are programmed to be fully replaced from fiscal 2014 through 2016 with GO bond funds as provided in the fiscal 2014 capital budget (including preauthorizations for fiscal 2015 and 2016). Consequently some of the funding that otherwise would have been provided to local governments in fiscal 2014 will be delayed, but the total amount provided over the three-year period is not affected.

The fiscal 2015 through 2018 transfers also impact funding for the local share of POS, Rural Legacy Program, and MALPF. Similar to the fiscal 2014 transfers and fiscal 2014 through 2016 replacements, if the fiscal 2015 through 2018 transfers are replaced with GO bonds in fiscal 2016 through 2020 as proposed, some of the funding for local governments may be delayed, but the total amount provided over the five-year period is not affected.

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 land conservation programs in DNR and MDA. First, transfer tax revenues for debt service on POS Acquisition Opportunity Loan of 2009 GO bond authorizations are credited to the Annuity Bond Fund. Second, before any program-specific allocations are made, 3% of the transfer tax is distributed to DNR and the other agencies involved in POS for their administration of the program. Third, approximately 76% of the remaining transfer tax historically has been allocated to POS, which has three main components: a State share, local share, and Maryland Park Service operations share. All other funds are allocated to the Rural Legacy Program, MALPF, and the Heritage Conservation Fund pursuant to statute.

Recent History: State transfer tax revenue and unexpended balances have been redirected and transferred to the general fund in recent years pursuant to budget reconciliation legislation. As shown in **Exhibit 2**, from fiscal 2006 through 2013, a total of \$629.9 million in transfer tax revenue and fund balances has been redirected, of which \$505.0 million has been or is scheduled to be replaced through fiscal 2015, pursuant to current law.

Exhibit 2
Transfer Tax Transferred to the General Fund and Replacement Schedule under
Current Law, Reflecting Actions Taken through the 2012 First Special Session
Fiscal 2006-2015
(\$ in Millions)

<u>Fiscal Year</u>	<u>Transfers</u>	<u>Replacement</u>
2006	\$90.0	\$0.0
2007	0.0	0.0
2008	0.0	0.0
2009	136.5	0.0
2010	188.5	135.6
2011	23.5	156.5
2012	94.5	46.2
2013	96.9	81.9
2014 Est.	0.0	55.0
2015 Est.	0.0	29.8
Total	\$629.9	\$505.0

Notes: This exhibit reflects all \$70.0 million of POS Acquisition Opportunity Loan of 2009 funding split between fiscal 2010 and 2011. In addition, the exhibit reflects all actions taken up to and including the 2012 first special session; thus, transfers and replacements authorized in the Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the 2012 first special session) and the fiscal 2013 capital budget, including preauthorizations of GO bonds in fiscal 2014 and 2015, are shown even though the fiscal 2014 capital budget modifies those preauthorizations. Transfers proposed in this bill and additional replacement of funds planned in the *Capital Improvement Program* are not included.

This exhibit does not reflect repayment of the \$90.0 million in transfer tax revenue transferred to the general fund in fiscal 2006. For more information on that transfer and the required repayment provision, please see the Deferral of Transfer Tax Payment provision of this bill.

Funds transferred under the Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the 2012 first special session) went to the Budget Restoration Fund rather than the general fund; even so, these fund transfers are reflected above.

Source: Department of Legislative Services

Location of Provision(s) in the Bill: Section 1 (p. 17)

Analysis prepared by: Andrew D. Gray

Special Fund for Preservation of Cultural Arts in Maryland

Provision in the Bill: Authorizes the Governor to transfer any funds in the Special Fund for Preservation of Cultural Arts in Maryland to the general fund on or before June 30, 2013.

Agency: Department of Business and Economic Development

Type of Action: General fund revenue enhancement

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$1.9	\$0	\$0	\$0	\$0	\$0
SF Rev	(\$1.9)	\$0	\$0	\$0	\$0	\$0

State Effect: General fund revenues increase by an estimated \$1,900,500 in fiscal 2013, with a corresponding decrease in revenues for the Special Fund for Preservation of Cultural Arts in Maryland. Future years are not affected.

Program Description: The Special Fund for Preservation of Cultural Arts in Maryland is a special, nonlapsing fund in the Department of Business and Economic Development that consists of State admissions and amusement tax revenue from electronic bingo and tip jar machine proceeds and any other money accepted for the benefit of the fund. The fund is used to provide supplemental grants to cultural arts organizations in the State that qualify for general operating support grants from the Maryland State Arts Council. These grants may not supplant other funding that the organization qualifies to receive. Due to the diversion of funds for cost containment and other budgetary purposes, the special fund has never been used for its intended purposes.

Location of Provision(s) in the Bill: Section 12 (p. 26)

Analysis prepared by: Heather N. Ruby

State Insurance Trust Fund

Provision in the Bill: Authorizes the transfer of \$1,000,000 from the State Insurance Trust Fund to the general fund in fiscal 2013.

Agency: Office of the State Treasurer

Type of Action: Fund balance transfer

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$1.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

State Effect: General fund revenues increase by \$1.0 million in fiscal 2013 due to the transfer. Future years are not affected. The transfer will reduce the estimated balance on June 30, 2013, to \$27.7 million, which is \$67,000 above the actuarial recommended minimum fund balance.

Program Description: The State Insurance Trust Fund is used to pay claims under the State's self-insurance program and to purchase commercial insurance to cover catastrophic property and liability losses. State agency budgets include funding for insurance premiums, which are deposited into the State Insurance Trust Fund.

Recent History: More than \$22.4 million has been transferred from the State Insurance Trust Fund since fiscal 2002. The Budget Reconciliation and Financing Act of 2002 (Chapter 440) transferred \$5.0 million to the general fund in fiscal 2002, the Budget Reconciliation and Financing Act of 2009 (Chapter 487) transferred \$10.0 million to the general fund in fiscal 2009, the Budget Reconciliation and Financing Act of 2010 (Chapter 484) transferred \$5.2 million to the general fund in fiscal 2010, and the Budget Reconciliation and Financing Act of 2011 (Chapter 397) transferred \$2.0 million to the general fund in fiscal 2012. The Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the 2012 first special session) transferred \$206,000 to the Budget Restoration Fund in fiscal 2013.

Location of Provision(s) in the Bill: Section 5 (p. 24)

Analysis prepared by: Steven D. McCulloch

Moving Violation Surcharge

Provision in the Bill: Specifies that the \$7.50 surcharge on certain moving violations must be added to any *fine* imposed by the court, rather than to *court costs*.

Agency: Judiciary (Administrative Office of the Courts)

Type of Action: Special fund revenue enhancement

Fiscal	(\$ in dollars)					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
SF Rev	\$42,582	\$510,983	\$510,983	\$510,983	\$510,983	\$510,983

State Effect: Special fund revenues increase by \$42,582 in fiscal 2013, which reflects the June 1, 2013 effective date of this provision. In fiscal 2012, judges waived court costs (including the \$7.50 surcharge) for 68,131 citations. Under the bill, the surcharge is no longer part of court costs and cannot be waived. Assuming that the same number of citations would otherwise have court costs waived in future years, special fund revenues increase by an estimated \$510,983 annually beginning in fiscal 2014.

Program Description: For certain traffic offenses in the District Court, court costs of \$22.50 plus a \$7.50 surcharge are imposed. An amount annually set forth in the State budget from the surcharge must be distributed to the Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program. After funds have been distributed to the Riley Scholarship, \$200,000 must be distributed to the Maryland State Firemen's Association. Until a total of \$20.0 million has been distributed to the Volunteer Company Assistance Fund (VCAF), remaining revenues must be distributed to VCAF. Once \$20.0 million has been distributed to VCAF, remaining revenues go to the Maryland Emergency Medical System Operations Fund (MEMSOF).

Recent History: Moving violation surcharge revenues are about \$4.8 million annually based on 650,000 citations. The Riley Scholarship has received \$340,979 annually since fiscal 2012. The VCAF balance is anticipated to reach \$20.0 million in fiscal 2014, at which time remaining revenues will accrue to MEMSOF. Collection of additional special fund revenues will accelerate the VCAF balance reaching \$20.0 million, and funds will begin to accrue to MEMSOF sooner.

Location of Provision(s) in the Bill: Section 1 (pp. 9-11)

Analysis prepared by: Jennifer B. Chasse

Sustainable Communities Tax Credit Program

Provisions in the Bill: Transfer \$430,000 from the Sustainable Communities Tax Credit Reserve Fund to the general fund in fiscal 2013. Credits for commercial rehabilitation projects approved prior to fiscal 2005 are cancelled on July 1, 2014, unless the applicant demonstrates that the project has a valid, unexpired building permit. The Director of Planning must notify the owner or developer in writing of this requirement and report to the Comptroller by August 1, 2014, on the number of tax credits and the amount of the tax credits that have expired.

Agency: Maryland Department of Planning

Type of Action: Fund balance transfer

Fiscal	<i>(in dollars)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$430,000	\$0	\$0	\$0	\$0	\$0

State Effect: General fund revenues increase by \$430,000 in fiscal 2013, which reflects initial commercial tax credit certificates issued in fiscal 2007 that have expired (have not been claimed or extended) as acknowledged by the Maryland Historical Trust. These funds otherwise would have accrued to the general fund in future years. Cancellation of credits approved prior to fiscal 2005 does not have a fiscal effect but reduces future liabilities; 45 such initial credit certificates were issued (an estimated \$17.4 million in credits) for which for a credit has not been claimed. No credits were issued in fiscal 2006, which was a transitional year.

Program Description: The Maryland Sustainable Communities Tax Credit Program was created by Chapter 487 of 2010 (HB 475) as an extension and alteration of the existing Heritage Structure Rehabilitation Tax Credit Program – a budgeted tax credit. The program has a commercial and a residential component, but only the commercial component is a budgeted tax credit. Funding for the program is required for the commercial credit in fiscal 2011 through 2014, and the Maryland Historical Trust is authorized to award an unlimited amount of residential credits to applications received through June 30, 2014.

Recent History: The tax credit was established as an uncapped, nonbudgeted tax credit by Chapter 601 of 1996 (HB 1) and has been modified periodically over the intervening years. Chapter 76 of 2004 (HB 679) created the Maryland Heritage Structure Rehabilitation Tax Credit Program, which involved creating a tax credit reserve fund and, thus, appropriating an annual amount of tax credits in the State budget. It was during this time that a statute of limitations was placed on the time period in which the tax credit is redeemable.

Location of Provision(s) in the Bill: Sections 1 and 9 (pp. 18-19 and 25-26)

Analysis prepared by: Andrew D. Gray

Notary Public Fees

Provision in the Bill: Increases from \$10 to \$11 the maximum fee the Secretary of State (SOS) may require a notary public to pay for the issuance of a notary public commission. SOS is also authorized to increase from \$2 up to \$4 the fee that may be charged by a notary public for an original notarial act.

Agency: Secretary of State

Type of Action: General fund revenue enhancement

Fiscal	<i>(\$ in dollars)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$0	\$22,000	\$22,000	\$22,000	\$22,000	\$22,000

State Effect: General fund revenues increase by approximately \$22,000 annually beginning in fiscal 2014 assuming a \$1 increase in the notary public commission fee paid by approximately 22,000 individuals annually. While collected by the clerks of the circuit courts, these fees are paid to the State Treasury.

Local Effect: None. Any additional fees collected by the clerks of the circuit courts will be paid to the general fund.

Program Description: Applications for appointment as a notary public must be submitted to SOS and are forwarded to the State senator of the applicant's senatorial district. If approved, the application is returned to SOS for appointment by the Governor. Following gubernatorial appointment, an official commission is prepared. An appointee must appear before the clerk of the circuit court of the county (or Baltimore City) in which he or she resides to receive his or her commission. The appointee must pay to the clerk a fee of \$10 for the commission and \$1 to register the name, address, and commission expiration date of the notary. The term of a notary commission is four years. The same fees are required upon renewal. There are more than 80,000 registered notaries public in Maryland.

Per regulations issued by SOS in 2000, a notary public may receive a fee of up to \$2 per original notarial act, up to \$1 per signature on each additional copy of the same document, and up to \$1 per copy of a notarized document. A notary public may also charge up to 31 cents per mile and a fee of up to \$5, as compensation for travel required for the performance of a notarial act.

Location of Provision(s) in the Bill: Section 1 (p. 15)

Analysis prepared by: Jennifer B. Chasse

Local Income Tax Reserve Account

Provision in the Bill: Repeals the requirement that the State transfer \$50,000,000 annually to the Local Income Tax Reserve Account in fiscal 2014 through 2020.

Agency: Comptroller's Office

Type of Action: Mandate relief

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Exp	\$0	(\$50.0)	(\$50.0)	(\$50.0)	(\$50.0)	(\$50.0)

State Effect: General fund expenditures decline by \$50.0 million annually in fiscal 2014 through 2020. The fiscal 2014 budget includes a \$50.0 million general fund reduction that is consistent with this provision. Repealing the repayment of these funds creates an additional unfunded liability on the State's balance sheet.

Program Description: The Local Income Tax Reserve Account is used to manage the cash flow of personal income tax payments and distributions to local governments. It is administered by the Comptroller's Office. The account is also used to meet the State's liability for local income taxes according to generally accepted accounting principles. Each month a portion of personal income tax net receipts is put into the account, representing an estimate of local income tax payments. In all but two months, a distribution of local income tax revenue is made from the account to local governments. The account balance fluctuates throughout the year, but the balance was \$930.7 million at the end of January 2013.

Recent History: The Budget Reconciliation and Financing Act of 2010 (Chapter 484) required the Comptroller to transfer \$350.0 million from the Local Income Tax Reserve Account to the Education Trust Fund on or before June 30, 2010. From fiscal 2014 through 2020, Chapter 484 requires the State to repay \$50.0 million annually to replenish the transfer.

Location of Provision(s) in the Bill: Section 1 (p. 16)

Analysis prepared by: Robert J. Rehrmann

Deferral of Transfer Tax Repayment

Provision in the Bill: Defers until fiscal 2016 the required repayment of State transfer tax revenue transferred to the general fund.

Agencies: Department of Natural Resources; Maryland Department of Agriculture

Type of Action: Special fund mandate relief

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Exp	\$0	(\$50.0)	(\$40.0)	-	-	\$0

State Effect: General fund expenditures decline by \$50.0 million in fiscal 2014. Currently, \$90.0 million in transfer tax revenue, transferred to the general fund in fiscal 2006, is subject to repayment. The fiscal 2014 budget includes a \$50.0 million general fund reduction that is consistent with this provision. Absent this provision, repayment could again be required in fiscal 2015; thus, general fund expenditures are reduced by \$40.0 million in fiscal 2015.

Chapter 473 of 2005 (SB 306) requires that, beginning in fiscal 2012, State transfer tax revenues transferred to the general fund after fiscal 2005 be repaid. This repayment provision is triggered if the unappropriated general fund surplus as of June 30 of the second preceding year is more than \$10.0 million. If this trigger is met, the Governor must include in the budget bill at least the lesser of \$50.0 million or the excess surplus over \$10.0 million to repay those transfers. Currently, an unappropriated surplus is not forecast for fiscal 2014 and subsequent years; therefore, it is not possible to estimate the expenditures required to repay the \$90.0 million in transfer tax revenue beginning in fiscal 2016.

Local Effect: Local governments are impacted to the extent the transfer tax repayment would have been allocated for the local share of Program Open Space (POS) in fiscal 2014 and 2015.

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 the Department of Natural Resources (DNR) and the Maryland Department of Agriculture. First, transfer tax revenues for debt service on POS Acquisition Opportunity Loan of 2009 general obligation bond authorizations are credited to the Annuity Bond Fund. Second, before any program-specific allocations are made, 3% of the transfer tax is distributed to DNR and the other agencies involved in POS for administration of the program. Third, approximately 76% of the remaining transfer tax

historically has been allocated to POS, which has three main components: a State share, a local share, and a Maryland Park Service operations share. All other funds are allocated to the Rural Legacy Program, Maryland Agricultural Land Preservation Foundation, and the Heritage Conservation Fund pursuant to statute.

Recent History: Pursuant to general mandate relief authority provided in budget reconciliation legislation, the Governor did not include the \$50.0 million repayment expected in the fiscal 2012 budget. In fiscal 2013, the General Assembly struck the contingent reduction language in the operating budget and deleted the \$50.0 million general fund appropriation repayment amount.

Location of Provision(s) in the Bill: Section 1 (p. 17)

Analysis prepared by: Andrew D. Gray

Local Income Tax Reserve Account – Maryland Department of Transportation Grants

Provision in the Bill: Requires the Comptroller to transfer \$15,379,979 from the Local Income Tax Reserve Account to a special fund established in the Maryland Department of Transportation (MDOT) for the purpose of providing transportation grants to municipalities. The grants must be allocated to eligible municipalities in the same manner as highway user revenues.

Agencies: Comptroller; Maryland Department of Transportation

Type of Action: Fund transfer

Fiscal Impact:	<i>(\$ in millions)</i>					
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	(\$15.4)	\$0	\$0	\$0	\$0	\$0
SF Rev	\$15.4	\$0	\$0	\$0	\$0	\$0
SF Exp	\$0	\$15.4	\$0	\$0	\$0	\$0

State Effect: General fund revenues decrease by \$15.4 million in fiscal 2013, with a corresponding increase in special fund revenues. Special fund expenditures increase by \$15.4 million in fiscal 2014 to provide grants to municipalities. The fiscal 2014 budget includes \$15.4 million in special fund expenditures contingent on legislation authorizing the use of funds from the Local Income Tax Reserve Account for this purpose.

Local Effect: Municipalities will receive \$15.4 million in transportation grants in fiscal 2014, as shown in **Appendix C** beginning on page 51.

Program Description: The Local Income Tax Reserve Account is used to manage the cash flow of personal income tax payments and distributions to local governments. It is administered by the Comptroller’s Office. The account is also used to meet the State’s liability for local income taxes according to generally accepted accounting principles (GAAP). Each month, a portion of personal income tax net receipts is put into the account, representing an estimate of local income tax payments. At the end of each fiscal year, excess funds are transferred to the general fund or general funds are transferred into the account if the balance is deemed insufficient. For fiscal 2013, the Bureau of Revenue Estimates has recognized an excess of \$32.9 million in the account and has booked this amount as general fund revenue. This provision transfers \$15.4 million of this excess to a special fund in MDOT, thereby reducing the transfer that would otherwise accrue to the general fund.

Highway user revenues consist of the motor fuel tax, registration fees, the corporate income tax, and a portion of the titling and rental car sales tax. These revenues are shared between the State and local jurisdictions. The local distribution for counties and municipalities is based upon a jurisdiction's registrations and road miles. In fiscal 2014, MDOT receives 90.4% of revenues, while local jurisdictions receive 9.6%. The 9.6% local share is divided between Baltimore City (7.7%), the counties (1.5%), and the municipalities (0.4%).

Prior to fiscal 2010, local jurisdictions received 30% of eligible revenues; however, that amount was reduced as a result of the recession. To balance the general fund budget, local transportation aid was significantly reduced beginning in fiscal 2010. Before the reduction, municipalities received \$44.7 million in fiscal 2008 and \$39.8 million in fiscal 2009. Once the reduction to local aid went into effect in fiscal 2010, funding to municipalities fell to \$6.2 million. Absent this provision, funding for municipalities in fiscal 2014 is expected to be approximately \$7.0 million.

Recent History: A provision in the Budget Reconciliation and Financing Act of 2009 (Chapter 487) required the Comptroller to transfer \$366.8 million from the Local Income Tax Reserve Account to the State's general fund in fiscal 2009. The amount transferred represented estimated tax year 2008 local income tax refunds from revenues collected in fiscal 2008, the reserve required under GAAP.

Location of Provision(s) in the Bill: Section 1 (pp. 16-17)

Analysis prepared by: Steven D. McCulloch

School Board Reimbursement for Students in Juvenile Services Placements

Provision in the Bill: Requires a local board of education to reimburse the Department of Juvenile Services (DJS) for each child from the county that is placed in a detention facility for 15 or more consecutive days. The reimbursement amount is equivalent to the average amount of State and local funds spent for the public education of a nondisabled child in the county. The reimbursement amount will only be calculated for children who were included in a county's annual public school enrollment count. The requirement specifically excludes children in State-supervised care who are placed in nonpublic special education placements.

Agencies: Department of Juvenile Services; Maryland State Department of Education

Type of Action: Cost shift; fund swap

Fiscal Impact:	(\$ in millions)					
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
SF Rev	\$0	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
GF Exp	\$0	(\$1.5)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)
SF Exp	\$0	\$1.5	\$1.7	\$1.7	\$1.7	\$1.7

State Effect: General fund expenditures decrease by \$1,458,671 in fiscal 2014 due to the use of local school board reimbursements, rather than general funds, to support educational costs for children in State-supervised care. The fiscal 2014 budget includes contingent general fund reductions totaling \$1,458,671 for the Maryland State Department of Education (MSDE).

Special fund revenues increase by as much as \$1,653,887 in fiscal 2014 due to reimbursements from school boards for the education of certain children placed in State-supervised care. Special fund expenditures increase by \$1,458,671 to replace the contingent general fund reduction. The estimates are based on the information and assumptions shown below:

- in fiscal 2013, the statewide average basic cost is \$10,248 (an average daily cost of \$39.42);
- there are 6,783 youth in State-supervised detention facilities with educational services funded by a State agency;
- approximately 2,374 (35%) of the 6,783 youth stay for 15 or more consecutive days, with an average length of stay of 17.5 days; and
- it is unknown how many of these youth have been included in the enrollment count for their home counties.

Future years reflect expected 1% annual increases in the statewide average basic cost per child and a stable number of children in detention facilities for 15 or more consecutive days for whom school boards will provide reimbursements. It is assumed that, in future years, general fund savings will match special fund revenues and expenditures.

Local Effect: Cost shift to local boards of education for nonpublic education placement of children in detention facilities for 15 or more consecutive days who are not designated as special education students.

Program Description: In fiscal 2014, MSDE will educate an estimated 4,200 nondisabled youth in detention facilities. It is unclear what proportion of these students were included in local school system enrollment counts in current and prior years.

Recent History: The Budget Reconciliation and Financing Act of 2011 (Chapter 397) requires local boards of education to reimburse DJS and the Department of Human Resources for each child from the county who is placed in State-supervised care in a nonpublic residential placement that also provides the education program for the child. The provision excludes children who were not included in the county's annual public school enrollment count, children placed in nonpublic special education placements, and children in detention facilities. As a result, DJS collected \$327,532 in fiscal 2012 and \$574,883 in fiscal 2013, which was transferred to MSDE to support such children receiving education services at the Victor Cullen and J. DeWeese Carter youth facilities.

Location of Provision(s) in the Bill: Section 1 (pp. 13-14)

Analysis prepared by: Rachel N. Silberman

Program Open Space Administration

Provision in the Bill: Authorizes the use of \$1,217,000 of the State's share of Program Open Space (POS) funds in fiscal 2014 and 2015 for administrative expenses in the Department of Natural Resources (DNR), the Department of General Services, and the Maryland Department of Planning.

Agency: Department of Natural Resources

Type of Action: Fund swap

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Exp	\$0	(\$1.2)	(\$1.2)	\$0	\$0	\$0

State Effect: Overall POS special fund expenditures are not affected. POS special fund expenditures of \$1.2 million per year are shifted from land acquisition to other purposes for fiscal 2014 and 2015 only. The fiscal 2014 budget includes a \$1.2 million general fund reduction for DNR contingent upon the enactment of legislation allowing POS funds to be used for administrative costs.

Program Description: POS was established in 1969 to expedite the acquisition of outdoor recreation and open space, before property cost and development made it impossible, and to accelerate the development of outdoor recreation facilities. 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 the Maryland Department of Agriculture. Before any program-specific allocations are made, 3.0% of the transfer tax revenue is distributed to DNR and the other agencies involved in POS for their administration of the program.

Recent History: The steep decline in transfer tax revenues in recent years has resulted in insufficient funding for POS administration. Therefore, the Budget Reconciliation and Financing Act of 2009 (Chapter 487) included a provision authorizing the use of funds for administrative expenses for fiscal 2010 and 2011 only. This provision was extended to fiscal 2012 and 2013 by the Budget Reconciliation and Financing Act of 2011 (Chapter 397).

Location of Provision(s) in the Bill: Section 1 (p. 14)

Analysis prepared by: Andrew D. Gray

Oil Contaminated Site Environmental Cleanup Fund

Provisions in the Bill: Authorize the transfer of \$3,500,000 from the Oil Contaminated Site Environmental Cleanup Fund (Reimbursement Fund) to the Maryland Oil Disaster Containment, Clean-Up, and Contingency Fund (Oil Fund) by June 1, 2013. On or before December 31, 2013, the Governor may transfer the remaining balance in the Reimbursement Fund to the Oil Fund. The Secretary of the Environment must convene a workgroup to review and assess the long-term funding needs of the State's oil pollution program and report the findings and recommendations by December 31, 2013.

Agency: Maryland Department of the Environment

Types of Action: Fund transfer; administrative

State Effect: The Maryland Department of the Environment (MDE) indicates that the \$3.5 million transfer in fiscal 2013 will result in fiscal 2014 opening fund balances of \$1.5 million for the Reimbursement Fund and \$4.5 million for the Oil Fund. Transfer of the remaining Reimbursement Fund balance will further increase the Oil Fund balance by as much as \$1.5 million.

Local Effect: None.

Program Description: The Oil Fund was established in 1986 to provide funding to MDE's oil pollution prevention programs. Revenues accrue to the fund from a fee imposed on each barrel of oil transferred into the State. In fiscal 2013, the fee is 5.75 cents per barrel. In fiscal 2014, the fee will be 3.0 cents per barrel. Costs incurred by the State from the Oil Fund are required to be reimbursed by responsible parties; reimbursements are also deposited into the fund.

The Reimbursement Fund was established in 1993 to reimburse underground storage tank owners for costs incurred during site cleanups. Eligible owners and operators are authorized to apply for reimbursement for costs incurred in performing site rehabilitation until June 30, 2013. An additional fee on each barrel of oil transferred to the State provided revenues to the Reimbursement Fund through fiscal 2010.

Chapter 377 of 2010 (SB 1117) required the Secretary of the Environment to convene a workgroup to review and assess the long-term funding needs of the State's oil pollution programs. MDE was required to report the workgroup's findings and recommendations by December 31, 2012. The report was submitted on March 26, 2013.

Location of Provision(s) in the Bill: Sections 14-16 (pp. 27-28)

Analysis prepared by: Jennifer B. Chasse

Optical Scan Voting System and Election Studies

Provisions in the Bill: Authorize the Governor to transfer up to \$250,000 of the balance in the Fair Campaign Financing Fund (FCFF) to the State Board of Elections (SBE) in fiscal 2014 to conduct specified studies required by Chapters 157 and 158 of 2013 (SB 279/HB 224). Any transferred funds not used to conduct the studies must revert to FCFF. The amount the Governor is required to transfer in the fiscal 2014 budget from FCFF to purchase a new optical scan voting system is reduced from \$2,000,000 to \$1,750,000.

Agency: State Board of Elections

Type of Action: Budget restriction

State Effect: None. The provisions allow \$250,000 in special funds otherwise earmarked for a new optical scan voting system to instead be used by SBE to conduct specified studies.

Local Effect: None.

Program Description: SBE has been mandated to select, certify, and implement a new statewide optical scan voting system. Funds were provided in fiscal 2009 and 2010 for the new system, but due to cost containment actions the amount was reduced and nearly all of the remainder was cancelled. No funding was included in the fiscal 2011, 2012, or 2013 budgets. The Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the 2012 first special session) required the transfer of \$2.0 million from FCFF to the Maryland Information Technology Development Project Fund for the new system. The fiscal 2014 budget includes \$1.2 million in special funds for SBE for planning for the new system.

Chapters 157 and 158 of 2013 require SBE to conduct (or commission) four studies: (1) an analysis of extending early voting through the Sunday before Election Day; (2) a review and analysis of maximum voting wait times during the 2010 and 2012 elections; (3) an accessibility and usability evaluation of the online ballot marking tool; and (4) an independent consultant study on improving the security of online voter services. All four study findings and recommendations must be submitted to the Senate Education, Health, and Environmental Affairs Committee and the House Ways and Means Committee by December 31, 2013.

Location of Provision(s) in the Bill: Section 1 (pp. 20-21)

Analysis prepared by: Jennifer B. Chasse

Providers of Nonpublic Placements

Provision in the Bill: Limits growth in fiscal 2014 rates paid to providers of nonpublic special education placements to no more than 2.5% over the rates in effect on January 16, 2013.

Agency: Maryland State Department of Education

Type of Action: Cost control

State Effect: None. Provider rate increases for nonpublic special education placements are determined based in part on the prior-year consumer price index, which for fiscal 2013 is estimated to be 1.8%, and the average salary increase for first and fifth year teachers, which for fiscal 2013 is 0.5%. As a result, fiscal 2014 general fund expenditures are not expected to be impacted by the implementation of a 2.5% cap on provider rate increases.

Local Effect: None. As provider rate increases are anticipated to be below the proposed 2.5% cap, no change in local costs for nonpublic placements is anticipated.

Program Description: Most students with disabilities receive special education services in the public schools. However, if an appropriate program is not available in the public schools, a student may be placed in a private school offering more specialized services. The costs for these students, who are placed in nonpublic day or residential facilities, are shared by the local school systems and the State. The school system contributes an amount equal to the local share of the basic cost of educating a child without disabilities plus two times the total basic cost. Any costs above this are split 70% State/30% local.

Recent History: The Budget Reconciliation and Financing Act of 2009 (Chapter 487) decreased the State share of funding for nonpublic placements from 80% to 70% of the costs exceeding the base local contribution. Chapter 487 also limited fiscal 2010 increases in the rates paid to providers of nonpublic placements to 1%. Budget reconciliation legislation enacted in 2010 (Chapter 484) and 2011 (Chapter 397) prohibited any increases in the fiscal 2011 and 2012 rates paid to these providers, while budget reconciliation legislation enacted in 2012 (Chapter 1 of the 2012 first special session) limited the rate increase to 1.0%.

Location of Provision(s) in the Bill: Section 6 (p. 24)

Analysis prepared by: Rachel N. Silberman

Rates for Residential Child Care Group Homes

Provision in the Bill: Limits growth in fiscal 2014 rates paid to residential child care providers that have their rates set by the Interagency Rates Committee (IRC) to no more than 2.5% over the rates in effect on January 16, 2013.

Agencies: Department of Human Resources; Department of Juvenile Services

Type of Action: Cost control

State Effect: Potential minimal general and federal fund savings in fiscal 2014. Rates for residential child care group homes are set through IRC for each individual group home on a cost basis, which generally allows for increases due to inflation. The fiscal 2014 budget includes funding to provide rate increases of up to 2.5%. As a result, fiscal 2014 general and federal fund expenditures will not be constrained by a 2.5% cap. However, individual group home providers that have rates lower than the average rate for group homes providing similar levels of treatment are eligible for a rate increase to bring their rates up to the average rate, which may require rate increases in excess of 2.5%. To the extent that the bill prevents such increases, minimal general and federal fund savings may be achieved. The exact amount of such savings will depend on the rates for each individual facility and the level of utilization of residential child care group home placements.

Program Description: IRC establishes rates for certain out-of-home residential services for children. The committee includes representatives from the Department of Budget and Management, the Department of Health and Mental Hygiene, the Department of Human Resources, the Department of Juvenile Services, the Maryland State Department of Education, and the Governor's Office for Children.

Recent History: In fiscal 2009, cost-containment actions taken by the Board of Public Works reduced rates for residential child care placements by 1%. Budget reconciliation language (Chapter 487 of 2009, Chapter 484 of 2010, and Chapter 397 of 2011) froze the rates for three consecutive years. The Budget Reconciliation and Financing Act of 2012 (Chapter 1 of the 2012 first special session) allowed rate increases of up to 1%.

Location of Provision(s) in the Bill: Section 7 (p. 24)

Analysis prepared by: Steven D. McCulloch

Ensuring Fiscal 2014 Medicaid Savings

Provisions in the Bill: Require the Department of Health and Mental Hygiene (DHMH) to achieve \$30,000,000 in general fund savings in fiscal 2014 from a combination of tiered rates for hospital outpatient and emergency department services and hospital update factors that are lower than those assumed in the fiscal 2014 Medicaid budget. The Health Services Cost Review Commission (HSCRC) must engage an independent consultant to project the savings from tiered rates. By December 15, 2013, HSCRC must submit a report to the Governor and the General Assembly that identifies projected savings from tiered rates. If projected savings from tiered rates and the fiscal 2014 hospital update factor are less than those assumed in the fiscal 2014 Medicaid budget, HSCRC is authorized to take actions, including adjusting the Medicaid hospital assessment or reducing the Maryland Health Insurance Plan assessment, to ensure that \$30,000,000 in general fund savings occur.

Agency: Department of Health and Mental Hygiene

Type of Action: Cost control

Fiscal	<i>(in dollars)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
SF Exp	\$0	\$50,000	\$0	\$0	\$0	\$0

State Effect: Special fund expenditures for HSCRC increase by \$50,000 in fiscal 2014 to hire an independent consultant as required by the bill. The bill's reporting requirement can be handled with existing budgeted resources.

The fiscal 2013 and 2014 budgets assume \$30 million in general fund savings from hospital outpatient and emergency department tiered rates. This provision is intended to provide an alternative mechanism to generate that level of savings if savings assumed from tiered rates and the fiscal 2014 hospital update factor cannot be achieved.

Program Description: Medicaid is a joint federal and state program that provides assistance to indigent and medically indigent individuals. The federal government generally covers 50% of Medicaid costs. Medicaid eligibility is limited to children, pregnant women, elderly or disabled individuals, and low-income parents. To qualify for benefits, applicants must pass certain income and asset tests.

HSCRC provides hospitals with an annual hospital update factor (or inflationary adjustment). For fiscal 2013, the combined inpatient/outpatient hospital update factor provides for a net increase in hospital revenues of 0.3%. This is also the assumed rate in the fiscal 2014 budget for the Medical Care Programs Administration.

Recent History: From 1994 until 2008, HSCRC permitted tiered outpatient rates. While the rates were supposed to be cost-based and applied uniformly across payors, the commission did not formally approve the rates. Based on concerns about the cost-based nature of the rates, tiered rates were discontinued in 2008, and all outpatient services were assigned the same charge in any one facility.

The fiscal 2013 budget included a proposal to return to tiered rates for hospital outpatient and emergency department services. Under this proposal, low-cost outpatient services, such as primary care and mental health counseling services would have a lower rate than a specialty surgical visit. However, the rates would be set so that each facility would, on average across all outpatient and emergency department services, have a rate equal to that currently in effect. Savings would accrue to Medicaid because, on average, Medicaid recipients have greater utilization of less expensive types of hospital outpatient services. Additional costs would be borne by commercial payors and Medicare, whose recipients tend to use more expensive types of hospital outpatient services. HSCRC has authorized tiered rates, but on a voluntary basis. To date, the level of savings generated from tiered rates has not reached anticipated levels due to a delayed start in implementation and the fact that not all hospitals have implemented tiered rates (although most of the high Medicaid volume hospitals submitted proposals, which have been approved by HSCRC). If anticipated savings are not achieved, DHMH will need to consider alternative proposals to reduce hospital expenditures.

Location of Provision(s) in the Bill: Section 8 (pp. 24-25)

Analysis prepared by: Simon G. Powell

State Employee Merit Increases

Provisions in the Bill: Prohibit merit increases for State employees prior to April 1, 2014. This provision does not affect (1) salaries for constitutional officers or members of the General Assembly; (2) increases necessary to retain faculty at public four-year institutions of higher education; (3) payments made pursuant to a collective bargaining agreement that covers certain transportation workers; and (4) for fiscal 2014 only, operationally critical staff. By December 1, 2013, the Department of Budget and Management (DBM), the University System of Maryland (USM), Morgan State University, and St. Mary's College of Maryland must each submit a report to specified committees of the General Assembly that details the policies adopted to designate operationally critical staff, all staff identified as critical, and any merit increases awarded as a consequence of this designation.

Agencies: All

Type of Action: Cost control; administrative

State Effect: The Budget Reconciliation and Financing Act of 2011 (Chapter 397) prohibited merit increases prior to April 1, 2014, with the same exceptions as the provisions in this bill; however, the operationally critical staff provision only applied for fiscal 2012. Consequently, there could be a potential minimal increase in general fund and higher education expenditures for merit increases provided to operationally critical staff in fiscal 2014 before April 1, 2014.

Program Description: Merit increases are salary increments that are allotted to employees who meet or exceed performance expectations. Merit increases and annual salary review reclassifications (as well as cost-of-living increases) were not awarded in fiscal 2003, 2004, and 2010 through 2013. Performance bonuses have not been awarded since fiscal 2002. Similar provisions prohibiting merit increases for State employees have been included in budget reconciliation legislation since fiscal 2010.

Recent History: The Budget Reconciliation and Financing Act of 2011 (Chapter 397) and 2012 (Chapter 1 of the 2012 first special session) permitted DBM and public four-year institutions to increase salaries in order to retain "operationally critical staff" for fiscal 2012 and 2013. USM designated a total of 240 personnel as operationally critical in fiscal 2013: 44 staff and 196 faculty received salary raises totaling \$3.7 million (of which \$1.7 million was paid using State funds). DBM did not adopt an operationally critical staff policy; consequently, no merit increases were awarded to other Executive Branch employees in fiscal 2013. The fiscal 2014 budget includes funds for a general salary increase and increments. All employees will receive a 3% general salary increase on January 1, 2014. Qualified employees will also receive a merit increase effective on April 1, 2014.

Location of Provision in the Bill: Section 13 (pp. 26-27)

Analysis prepared by: Jennifer B. Chasse

Disparity Grant Program

Provisions in the Bill: Modify the disparity grant program to provide a minimum grant amount based on local tax effort. The minimum local tax rate required to be eligible for a disparity grant is raised from 2.4% to 2.6%. Beginning in fiscal 2014, an eligible county or Baltimore City may receive no more than the amount distributed in fiscal 2010 or a minimum of (1) 20% of the total grant if the local income tax rate is at least 2.8% but less than 3.0%; (2) 40% of the total grant if the rate is at least 3.0% but less than 3.2%; or (3) 60% of the total grant if the rate is at least 3.2%.

Agency: Payments to Civil Divisions

Type of Action: Local aid increase

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Exp	\$0.0	\$6.4	\$6.7	\$7.0	\$7.4	\$7.7

State Effect: General fund expenditures increase by \$6,372,062 in fiscal 2014 to expand access to the disparity grant program. The fiscal 2014 budget includes a total of \$127.8 million in general funds for disparity grants (including \$6,372,062 as provided in the supplemental budget, contingent on legislation modifying the disparity grant formula as described above). Future years reflect 5% growth in the cost of modifying the disparity grants.

Local Effect: State aid for four counties (Cecil, Kent, Washington, and Wicomico) increases by a total of \$6.4 million in fiscal 2014. The increases are shown in Exhibit 2 on page 7.

Program Description: Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which is one of the larger revenue sources for most counties. A county with per capita taxable income of less than 75% of the statewide average receives a grant, unless the county has an income tax rate below 2.4%. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75% of the statewide average, assuming a 2.54% tax rate, but is capped at the amount of disparity grant aid the county received in fiscal 2010.

Location of Provision(s) in the Bill: Sections 2, 3, 20, and 21 (pp. 21-23 and 29)

Analysis prepared by: Jennifer B. Chasse

Supplemental Education Grants and Direct Education Aid to Counties

Provisions in the Bill: Specify that a supplemental grant to a local board of education for State financial assistance for public education may not be less than zero. For fiscal 2014 only, if a local board of education’s total direct education aid in the current fiscal year is less than the prior year by more than 1%, the State must provide a grant to the local board of education equal to 25% of the decrease in total direct education aid from the prior fiscal year to the current fiscal year.

Agency: Maryland State Department of Education

Type of Action: Local aid increase

Fiscal	<i>(\$ in dollars)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Exp	\$0	\$2,205,226	\$123,667	\$123,667	\$123,667	\$123,667

State Effect: General fund expenditures increase by \$2,205,226 in fiscal 2014, including \$123,667 to ensure that no local school system receives a supplemental grant of less than zero and \$2,081,559 to provide grants to restore 25% of the reduction to local school systems for which total direct education aid in fiscal 2014 is less than the amount received in fiscal 2013 by more than 1%. The fiscal 2014 budget restricts \$2,205,226 in surplus general funds that would otherwise be used for student transportation for these purposes, with \$2,081,559 contingent on the enactment of legislation establishing the one-time grants. General fund expenditures to ensure that no local school system receives a supplemental grant of less than zero are ongoing.

Local Effect: Local boards of education will receive \$2,205,226 in additional direct education aid in fiscal 2014, including \$123,667 annually to Carroll and Harford counties to ensure that their supplemental grant is not less than zero. Four school systems are receiving more than 1% less in direct education aid in fiscal 2014 and will therefore receive a one-time grant under this provision. The direct education aid provided through these provisions is shown in Exhibit 2 on page 7.

Program Description: State direct education aid includes funding for supplemental grants. For fiscal 2009 and 2010, the State was required to provide a supplemental grant to a local board of education that did not receive at least a 1% increase in State financial assistance for public education over the amount received in the previous fiscal year in an amount necessary to increase that county’s State financial assistance by 1% over the amount received in the previous fiscal year. For fiscal 2011 and each fiscal year thereafter, a local board of education must receive a supplemental grant equal to the amount the county board received in the prior fiscal year. Due to adjustments in State aid

formulas, two counties received negative supplemental grants in fiscal 2010, which became permanent.

The State has provided one-time grants to local school systems receiving more than 6.5% and 5.0% less in direct education aid compared to the prior year in fiscal 2012 and 2013, respectively.

Location of Provision(s) in the Bill: Section 1 (pp. 11-13)

Analysis prepared by: Jennifer B. Chasse

Tax Credit for Tractor-trailer Vehicle Registration

Provisions in the Bill: Establish a nonrefundable \$400 tax credit against the State income tax for the expense of registering in Maryland any tractor-trailer (Class F vehicle) that is titled and registered in the State, contingent upon an increased toll structure at Maryland toll facilities. The tax credit takes effect September 1, 2013, and applies to tax years 2014 through 2016.

Agency: Comptroller, Maryland Department of Transportation

Type of Action: Tax credit

Fiscal	<i>(\$ in millions)</i>					
Impact:	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
GF Rev	\$0.0	\$0.0	(\$4.8)	(\$4.9)	(\$5.1)	\$0.0
TTF Rev	0.0	0.0	(0.2)	(0.2)	(0.2)	0.0
HEIF Rev	0.0	0.0	(0.08)	(0.08)	(0.08)	0.0

State Effect: General fund revenues decrease by \$4,758,200 in fiscal 2015 as a result of credits claimed against the personal and corporate income tax for tax year 2014. Transportation Trust Fund (TTF) and Higher Education Investment Fund (HEIF) revenues also decline by \$208,600 and \$75,600 in fiscal 2015, respectively. The credit terminates December 31, 2016; thus, similar decreases in revenues are projected for fiscal 2016 and 2017.

Local Effect: Local highway user revenues distributed from TTF will decrease as a result of credits claimed against the corporate income tax. Local expenditures are not affected.

Program Description: For each Class F vehicle, the annual registration fee is based on the maximum gross weight of the vehicle in combination with a trailer or semitrailer. For a maximum gross weight of 40,000 to 60,000 pounds, the annual registration fee is \$21.00 per 1,000 pounds. For a maximum gross weight of 60,001 to 80,000 or more, the fee is \$22.50 per 1,000 pounds. Several toll increases are planned to take effect on July 1, 2013.

Location of Provision(s) in the Bill: Sections 4 and 22 (pp. 23-24 and 29)

Analysis prepared by: Jennifer B. Chasse

Horse Racing – Local Impact Aid

Provisions in the Bill: Require the Comptroller, in any fiscal year that revenues to the horse racing special fund are not sufficient to fully fund local impact aid, to proportionately reduce the amount of grants required to be paid. The Comptroller must pay the local impact aid as an annual grant rather than in half-yearly installments. The bill also specifies that the Comptroller is only required to pay grants to the Maryland-Bred Race Fund, Maryland Standardbred Race Fund, and Maryland Agricultural Education and Rural Development Assistance Fund in years in which revenues to the horse racing special fund are sufficient to fund all local impact aid grants.

Agencies: Comptroller; State Racing Commission

Type of Action: Administrative

State Effect: If special fund revenues are not sufficient to cover mandated local impact grants, the bill specifies that special fund expenditures for local impact grants are proportionally reduced.

Local Effect: The bill neither increases nor decreases the amount of local impact aid, but rather authorizes the proportionate reduction of such aid when revenues are not sufficient. Current law does not specify how grants are to be adjusted if revenues do not cover the mandated allocations. This provision prioritizes the allocation – agriculture and the fairs receive their full allocations and, if the remaining expected revenues are not sufficient to fully fund the local impact grants, there is a proportional reduction to the impact grants.

Exhibit 1 shows the mandated uses of the horse racing special fund. With mandates totaling more than \$3.56 million and expected revenues of only \$2.87 million, a shortfall of \$689,150 is anticipated in fiscal 2014. After making the required distributions to agriculture and fairs, \$562,650 will be available for local impact aid grants, compared with the \$1.25 million required. Exhibit 1 compares the mandated appropriation for local impact aid with the anticipated proportional distribution under the bill for fiscal 2014.

Program Description: Horse racing impact aid consists of grants to counties and municipalities that contain or are located close to thoroughbred tracks. The aid has been in place since 1975 and is derived in part from the collection of the tax on horse race wagering. The amounts granted to each jurisdiction are mandated by statute and are largely based on the number of racing days held each year. In the past few years, and in the current year, despite cost-containment reductions, revenues have been insufficient to fulfill the expected allocation to each jurisdiction and to the other mandated uses. This is due, mainly, to the reduction in racing days in recent years.

Exhibit 1
Horse Racing Special Fund – Mandated Uses
Fiscal 2014

	<u>Mandated</u> <u>Appropriation</u>	<u>Proportional</u> <u>Distribution</u>
<u>Agriculture and Fairs</u>		
Great Pocomoke Fair	\$20,000	
Great Frederick Fair	40,000	
Agricultural Education Foundation	75,000	
Agricultural Fair Board	825,000	
Maryland State Fair and Agricultural Society	500,000	
Maryland Million	500,000	
Standardbred Race Fund Sire Stakes	350,000	
<i>Subtotal</i>	<i>\$2,310,000</i>	
<u>Impact Aid</u>		
Anne Arundel	\$339,000	\$152,371
Baltimore	50,000	22,474
Howard	84,750	38,093
Prince George's	100,000	44,947
Baltimore City	609,000	273,729
Bowie	18,200	8,180
Laurel	50,850	22,856
<i>Subtotal</i>	<i>\$1,251,800</i>	<i>\$562,650</i>
Total	\$3,561,800	
Estimated Revenues Fiscal 2014	\$2,872,650	
Shortfall	(\$689,150)	

Source: Governor's Budget Books, Fiscal 2014; Racing Commission

Recent History: In the past four fiscal years, revenues have been insufficient to fully fund local impact grants. In fiscal 2010 and 2011, the grants were proportionately allocated through the budget. In fiscal 2012 and 2013, the grants were eliminated due to continued concerns about lagging revenues. The fiscal 2013 budget included a contingent reduction to the Department of Labor, Licensing, and Regulation's allowance that reduced horse racing impact aid by \$720,800. The reduction was contingent upon the enactment of a provision in the Budget Reconciliation and Financing Act of 2012
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(Chapter 1 of the 2012 first special session), which specified that in fiscal 2013 the Governor was not required to fund any mandates above the amount that was budgeted in fiscal 2012.

Location of Provision(s) in the Bill: Section 1 (pp. 6-7)

Analysis prepared by: Michael Sanelli

Definition of Major Information Technology Projects

Provision in the Bill: Clarifies that major information technology (IT) projects for which an agency contracts with a public higher education institution to plan or implement the project are subject to the same review as other major IT projects.

Agency: Department of Information Technology (DoIT)

Type of Action: Administrative

State Effect: The purpose of the language is to ensure all major IT projects receive sufficient oversight. Increased oversight may result in some cost savings, but any such savings cannot be reliably estimated.

Program Description: State agencies regularly enter into memoranda of understanding (MOU) with higher education institutions to operate, maintain, or perform routine upgrades to IT systems and programs. Concerns have been raised by auditors that these contracts can evolve into major IT projects, in which a higher education institution could support the planning, implementation, installation, and testing of a new major IT project. State Finance and Procurement Article (§ 3A-301(b)) clearly defines these activities as major IT projects that require DoIT review. While the statute defines major IT projects, it does not specifically state that MOUs with higher education institutions are also major IT projects if they have all the characteristics of major IT projects. The language clarifies the statute.

Location of Provision(s) in the Bill: Section 1 (pp. 14-15)

Analysis prepared by: Patrick S. Frank

Electronic Gaming Devices

Provision in the Bill: If the State Lottery and Gaming Control Commission does not make a determination that (1) a county's licensing and regulatory process for electronic gaming devices is equivalent to the State process or (2) a county license for owning, operating, or manufacturing an electronic gaming device in that county is equivalent to a State license, then the regulations and licensing requirements of the commission supersede (1) the application of any county fees or regulations and licensing requirements for electronic gaming or (2) a requirement for a county license for owning, operating, or manufacturing an electronic gaming device.

Agency: State Lottery and Gaming Control Commission

Type of Action: Administrative

State Effect: None.

Local Effect: None.

Program Description: Chapter 603 of 2012 (SB 864) required the commission to certify and regulate the operation, ownership, and manufacture of an electronic gaming device authorized under Title 12 of the Criminal Law Article, excluding authorized paper tip jar gaming and authorized Eastern Shore slot machines that are subject to regulation by the Comptroller's Office. Chapter 603 also authorized the commission to determine that a county's licensing and regulatory process for electronic gaming devices is equivalent to the State process and that a county license for owning, operating, or manufacturing an electronic gaming device in that county is equivalent to a State license.

Location of Provision(s) in the Bill: Section 1 (p. 11)

Analysis prepared by: Jennifer B. Chasse

Veterans' Organizations – Instant Ticket Lottery Machines

Provision in the Bill: Repeals the requirement that certain veterans' organizations purchase or lease instant ticket lottery machines from the State Lottery and Gaming Control Agency (SLGCA).

Agency: State Lottery and Gaming Control Agency

Type of Action: Administrative

State Effect: None. Although licenses have yet to be issued to veterans' organizations, any revenues to SLGCA from the sale or lease of instant ticket lottery machines would have been a direct pass-through solely to cover the cost of the machines.

Program Description: Chapter 1 of the 2012 second special session (SB 1) authorizes SLGCA to issue certain veterans' organizations a license for up to five instant ticket lottery (pull tab) machines. Veterans' organizations in counties on the Eastern Shore and in Montgomery County are not eligible. After deductions for commissions (to the veterans' organizations) and prize payouts, the proceeds go to the State general fund. Beginning July 1, 2014, 10% of the proceeds will be distributed to the Maryland Veterans Trust Fund. Veterans' organizations issued a license must purchase or lease the instant ticket lottery machines from SLGCA. An organization may not use receipts from the sale of tickets for the costs of purchasing or leasing such machines. SLGCA must ensure that the conduct of gaming and the operation of the pull tab machines are consistent with the holding in the case of *Chesapeake Amusements Inc. v. Riddle*, 363 Md. 16 (2001).

Location of Provision(s) in the Bill: Section 1 (p. 15)

Analysis prepared by: Jennifer B. Chasse

Medicaid Hospital Assessments

Provisions in the Bill: Specify that, in fiscal 2013 and 2014, the Health Services Cost Review Commission (HSCRC) and the Department of Health and Mental Hygiene (DHMH) must adopt policies that will provide *at least* \$389,825,000 from a combination of special fund revenues and general fund savings from reduced Medicaid hospital or other payments. For fiscal 2015 and annually thereafter, HSCRC and DHMH must adopt policies to provide *up to* \$389,825,000 in special fund revenues from hospital assessment and remittance revenue. HSCRC and DHMH may adopt policies that result in new general fund savings from reduced Medicaid hospital or other payments. Those savings may be used to offset hospital assessment and remittance revenue in the first year those policies are adopted.

Agency: Department of Health and Mental Hygiene

Type of Action: Administrative

State Effect: None. The provisions change the \$389,825,000 hospital assessment and remittance amount from a floor to a ceiling beginning in fiscal 2015 and clarify the Governor's authority to establish the level of the assessment and hospital remittances.

Program Description: The Budget Reconciliation and Financing Act of 2011 (Chapter 397) required HSCRC to approve a combination of additional hospital assessments and remittances in the amount of \$389,825,000 to support the general operations of the Medicaid program in fiscal 2012. HSCRC was permitted to reduce assessments or remittances to reflect savings resulting from commission-approved changes in hospital rates or policies. For fiscal 2013 and thereafter, HSCRC and DHMH must adopt policies that continue to generate at least \$389,825,000 annually in special fund revenues and/or general fund savings from reduced Medicaid hospital or other payments. However, these policies must be in lieu of fiscal 2012 assessment and remittance revenues but may include other assessments and remittances. HSCRC and DHMH must, to the maximum extent possible, adopt policies that preserve the State's federal Medicare waiver.

Recent History: In both fiscal 2012 and 2013, hospitals paid a total of \$56.5 million in remittances while the remaining \$333.3 million was generated from an increase in hospital rates for all payors. The fiscal 2014 budget includes \$390.0 million in special fund revenues from the Medicaid hospital assessment.

Location of Provision(s) in the Bill: Section 1 (pp. 19-20)

Analysis prepared by: Jennifer B. Chasse

Mental Hygiene Administration – Fiscal 2013 Budget Restriction

Provision in the Bill: Restricts \$4.2 million in fiscal 2013 general funds to eliminate general fund unprovided-for-payables rolled over from fiscal 2012 into 2013.

Agency: Department of Health and Mental Hygiene

Type of Action: Budget restriction

State Effect: None. The action merely restricts surplus fiscal 2013 funds for a specific purpose. These funds are already in the fiscal 2013 community mental health budget, which is projected to be overfunded based on favorable enrollment and utilization trends. Surplus fiscal 2013 funds are used to offset prior-year deficits that would ordinarily be paid for with surplus funds in the subsequent year or through a deficiency appropriation. However, the restriction prevents any new one-time or ongoing spending from occurring in fiscal 2013. Any funds not used for this specified purpose revert to the general fund.

Recent History: There are a total of \$4.6 million in general fund unprovided-for-payables for fiscal 2012. This amount represents bills from fiscal 2012 that were rolled into fiscal 2013 because the agency had insufficient funds to pay those bills in fiscal 2012. This item was not provided a deficiency appropriation in the fiscal 2014 budget.

Location of Provision(s) in the Bill: Section 10 (p. 26)

Analysis prepared by: Simon G. Powell

Quality Teacher Incentive Program

Provision in the Bill: Restricts any unexpended and unencumbered general fund appropriations from the fiscal 2013 appropriation for Out-of-county Living Arrangements and the Nonpublic Placement Program to be used only for the Quality Teacher Incentive Program.

Agency: Maryland State Department of Education

Type of Action: Budget restriction

State Effect: None. Fiscal 2013 expenditures for Out-of-county Living Arrangements and the Nonpublic Placement Program are expected to fall below the fiscal 2013 appropriation by \$1.5 million and \$5.5 million, respectively. Under this provision, these funds may instead be used for the Quality Teacher Incentive Program, which could otherwise require a general fund deficiency appropriation. Any funds not used for this specified purpose revert to the general fund.

Background/Recent History: The Quality Teacher Incentive Program provides stipends to eligible classroom teachers achieving National Board Certification and teachers holding Advanced Professional Certificates that teach in comprehensive needs schools. The number of teachers receiving funds through the program has risen dramatically in recent years as the number of schools identified as having comprehensive needs under the federal No Child Left Behind Act has increased. As a result, the \$5.2 million fiscal 2013 working appropriation is not expected to cover anticipated expenditures for this program.

The State provides a contribution to counties for educating students who are not permanent residents of the county but may be attending the local school. This includes students who live near county lines and the closest school is not in their county of residence as well as students in State-supervised or foster care who are not living in the county where their legal guardian resides.

Most students with disabilities receive special education services in the public schools. If an appropriate program is not available in the public schools, however, a student may be placed in a private school offering more specialized services. The costs for these students, who are placed in nonpublic day or residential facilities, are shared by the local school systems and the State. The school system contributes an amount equal to the local share of the basic cost of educating a child without disabilities, plus two times the total basic cost.

Location of Provision(s) in the Bill: Section 11 (p. 26)

Analysis prepared by: Rachel N. Silberman

Study of the Local Income Tax Reserve Account

Provisions in the Bill: Require the Comptroller to evaluate the impacts of recent tax changes to the Local Income Tax Reserve Account, including the process by which revenue is distributed from the account and the current and future unfunded liabilities for the account, and study the impacts of altering interest paid on specified tax deficiencies and refunds. The Comptroller must report on any findings and recommendations by December 31, 2013. The Comptroller is also required, for scheduled distributions of county income tax in fiscal 2014, to make such distributions without adjustments for refunds or related changes resulting from amended returns for previous tax years that are determined to be extraordinary or anomalous. Any adjustments that would ordinarily be administered in fiscal 2014 must instead be administered in subsequent reconciliation distributions.

Agency: Comptroller

Types of Action: Administrative

State Effect: None.

Local Effect: None.

Program Description: The Local Income Tax Reserve Account is used to manage the cash flow of personal income tax payments and distributions to local governments. It is administered by the Comptroller's Office. The account is also used to meet the State's liability for local income taxes according to generally accepted accounting principles.

Location of Provision(s) in the Bill: Section 17 (p. 28)

Analysis prepared by: Jennifer B. Chasse

Federal Sequestration/Pension Reinvestment

Provision in the Bill: Implements a provision of Chapter 423 of 2013 (the fiscal 2014 budget bill) by prohibiting specified pension reinvestment funds held in reserve from reverting to the general fund and authorizing that the funds may only be transferred as specified in the fiscal 2014 budget.

Agency: All

Types of Action: Budget restriction

State Effect: None.

Local Effect: None.

Program Description: Section 42 of Chapter 423 restricts \$87.1 million of fiscal 2014 pension reinvestment funds (general funds) for the pension systems for State employees, teachers, State Police, and law enforcement officers be held in reserve. These funds may instead be transferred to the Dedicated Purpose Account to support critical programs impacted by federal sequestration. The Governor is required to make a determination as to whether the funds are needed to offset the effects of federal sequestration; if they are not, they are to be transferred to the Accumulation Funds of the State Retirement and Pension System on January 1, 2014, and thereby be reinvested in the pension system.

In addition to the \$87.1 million impacted by this provision, \$10.0 million is appropriated to the Dedicated Purpose Account to address the impacts of federal sequestration on State agency programs.

Location of Provision(s) in the Bill: Section 18 (p. 28)

Analysis prepared by: Jennifer B. Chasse

Appendix B

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>General Fund Revenues</u>						
Revenue Enhancements and Transfers						
Transfer Tax Special Fund		89,198,555	75,062,000	77,654,000	82,771,000	86,028,000
Local Income Tax Reserve Account to MDOT	(15,379,979)					
Special Fund for Preservation of Cultural Arts in Maryland	1,900,500					
State Insurance Trust Fund	1,000,000					
Sustainable Communities Tax Credit	430,000					
Notary Public Fees		22,000	22,000	22,000	22,000	22,000
<i>Subtotal – Revenue Enhancements and Transfers</i>	<i>(12,049,479)</i>	<i>89,220,555</i>	<i>75,084,000</i>	<i>77,676,000</i>	<i>82,793,000</i>	<i>86,050,000</i>
Other Measures						
Tax Credit for Tractor-trailer Vehicle Registration			(4,758,200)	(4,900,975)	(5,074,125)	
Total General Fund Revenues	(12,049,479)	89,220,555	70,325,800	72,775,025	77,718,875	86,050,000
<u>Special Fund Revenues</u>						
Local Income Tax Reserve Account to MDOT	15,379,979					
Special Fund for Preservation of Cultural Arts in Maryland	(1,900,500)					
School Board Reimbursement for Students in DJS Detention (Reimbursable)		1,653,887	1,670,426	1,687,130	1,704,002	1,721,042
Tax Credit for Tractor-trailer Vehicle Registration						
Transportation Trust Fund			(208,600)	(214,800)	(195,200)	
Higher Education Investment Fund			(75,600)	(77,900)	(80,200)	
Moving Violation Surcharge	42,582	510,983	510,983	510,983	510,983	510,983
Total Special Fund Revenues	13,522,061	2,164,870	1,897,209	1,905,413	1,939,585	2,232,025

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
<u>General Fund Expenditures</u>						
Fund Swaps and Cost Shifts						
School Board Reimbursement for Students in DJS Detention (Reimbursable)		(1,458,671)	(1,670,426)	(1,687,130)	(1,704,002)	(1,721,042)
Program Open Space Administration		(1,217,000)	(1,217,000)			
<i>Subtotal – Fund Swaps and Cost Shifts</i>		<i>(2,675,671)</i>	<i>(2,887,426)</i>	<i>(1,687,130)</i>	<i>(1,704,002)</i>	<i>(1,721,042)</i>
Mandate Relief						
Repeal Required Repayment of Local Income Tax Reserve Account		(50,000,000)	(50,000,000)	(50,000,000)	(50,000,000)	(50,000,000)
Deferral of Transfer Tax Repayment		(50,000,000)	(40,000,000)	-	-	
<i>Subtotal – Mandate Relief</i>		<i>(100,000,000)</i>	<i>(90,000,000)</i>	<i>(50,000,000)</i>	<i>(50,000,000)</i>	<i>(50,000,000)</i>
Local Aid Increases						
Disparity Grant Program		6,372,062	6,690,665	7,025,198	7,376,458	7,745,281
Supplemental Education Grants and Education Aid		2,205,226	123,667	123,667	123,667	123,667
<i>Subtotal – Local Aid Increases</i>		<i>8,577,288</i>	<i>6,814,332</i>	<i>7,148,865</i>	<i>7,500,125</i>	<i>7,868,948</i>
Total General Fund Expenditures		(94,098,383)	(86,073,094)	(44,538,265)	(44,203,877)	(43,852,094)
<u>Special Fund Expenditures</u>						
Transfer Tax – DNR		(71,091,338)	(59,234,000)	(61,296,000)	(65,376,000)	(67,969,000)
Transfer Tax – MDA		(18,107,217)	(15,828,000)	(16,358,000)	(17,395,000)	(18,059,000)
Transportation Grants to Municipalities		15,379,979				
School Board Reimbursement for Students in DJS Detention (Reimbursable)		1,458,671	1,670,426	1,687,130	1,704,002	1,721,042
HSCRC Study to Ensure Fiscal 2014 Medicaid Savings		50,000				
Total Special Fund Expenditures		(72,309,905)	(73,391,574)	(75,966,870)	(81,066,998)	(84,306,958)

Appendix C – Municipal Transportation Grant Allocation

<u>County</u>	<u>Municipality</u>	<u>Sum of Amount</u>
Allegany	Barton	\$13,420
	Cumberland	527,466
	Frostburg	145,484
	Lonaconing	24,808
	Luke	4,120
	Midland	11,795
	Westernport	51,802
Allegany Total		\$778,893
Anne Arundel	Annapolis	663,077
	Highland Beach	5,581
Anne Arundel Total		\$668,658
Calvert	Chesapeake Beach	139,181
	North Beach	51,735
Calvert Total		\$190,916
Caroline	Denton	96,086
	Federalsburg	63,300
	Goldsboro	3,336
	Greensboro	34,947
	Henderson	1,750
	Hillsboro	3,156
	Preston	18,182
	Ridgely	54,510
	Templeville	404
Caroline Total		\$275,672
Carroll	Hampstead	99,571
	Manchester	94,617
	Mount Airy	115,543
	New Windsor	31,387
	Sykesville	80,059
	Taneytown	120,778
	Union Bridge	29,235
	Westminster	322,558
Carroll Total		\$893,747

<u>County</u>	<u>Municipality</u>	<u>Sum of Amount</u>
Cecil	Cecilton	9,372
	Charlestown	31,559
	Chesapeake City	15,640
	Elkton	208,745
	Northeast	45,125
	Perryville	74,846
	Port Deposit	7,020
	Rising Sun	38,716
	Cecil Total	\$431,024
Charles	Indian Head	74,583
	La Plata	180,901
Charles Total	\$255,484	
Dorchester	Cambridge	231,634
	East New Market	8,001
	Hurlock	48,921
	Secretary	12,019
	Vienna	11,411
Dorchester Total	\$311,986	
Frederick	Frederick	1,016,760
	Brunswick	116,055
	Burkittsville	8,697
	Emmitsburg	55,896
	Middletown	91,821
	Mount Airy	84,538
	Myersville	30,835
	New Market	22,342
	Thurmont	128,471
	Walkersville	113,438
	Woodsboro	29,906
Frederick Total	\$1,698,759	
Garrett	Accident	13,225
	Deer Park	12,248
	Friendsville	16,815
	Grantsville	20,118
	Kitzmiller	22,030
	Loch Lynn Heights	21,475
	Mountain Lake Park	69,520
	Oakland	81,761
Garrett Total	\$257,194	

<u>County</u>	<u>Municipality</u>	<u>Sum of Amount</u>
Harford	Aberdeen	284,244
	Bel Air	221,868
	Havre De Grace	229,215
Harford Total		\$735,327
Kent	Betterton	12,394
	Chestertown	89,976
	Galena	11,221
	Millington	7,459
	Rock Hall	39,565
Kent Total		\$160,616
Montgomery	Somerset	20,566
	Brookeville	3,828
	Chevy Chase Section	51,251
	Chevy Chase Section III	12,057
	Chevy Chase Section V	9,723
	Chevy Chase Section View	16,773
	Chevy Chase Village	39,420
	Drummond	1,907
	Friendship Heights	28,581
	Gaithersburg	740,675
	Garrett Park	18,825
	Glen Echo	6,721
	Kensington	42,628
	Laytonsville	7,203
	Martins Addition	12,992
	North Chevy Chase	9,615
	Oakmont	2,093
Poolesville	97,544	
Rockville	1,117,350	
Takoma Park	200,314	
Washington Grove	17,057	
Montgomery Total		\$2,457,125
Prince George's	Berwyn Heights	59,689
	Bladensburg	78,754
	Bowie	1,007,708
	Brentwood	43,069
	Capitol Heights	64,146
	Cheverly	90,015
	College Park	252,774

<u>County</u>	<u>Municipality</u>	<u>Sum of Amount</u>
	Colmar Manor	21,283
	Cottage City	20,962
	District Heights	90,725
	Eagle Harbor	7,298
	Edmonston	26,827
	Fairmount Heights	25,453
	Forest Heights	42,826
	Glenarden	72,777
	Greenbelt	214,062
	Hyattsville	216,395
	Landover Hills	25,160
	Laurel	336,868
	Morningside	24,250
	Mount Rainier	87,702
	New Carrollton	134,576
	North Brentwood	9,901
	Riverdale	85,388
	Seat Pleasant	52,841
	University Park	48,199
	Upper Marlboro	13,192
Prince George's Total		\$3,152,843
Queen Anne's	Barclay	2,837
	Centreville	72,137
	Church Hill	10,248
	Millington	269
	Queenstown	14,132
	Sudlersville	6,666
	Templeville	603
Queen Anne's Total		\$106,891
St. Mary's	Leonardtwn	53,081
St. Mary's Total		\$53,081
Somerset	Crisfield	68,529
	Princess Anne	50,528
Somerset Total		\$119,057
Talbot	Easton	345,234
	Oxford	24,356
	St. Michaels	32,099
	Trappe	22,949
Talbot Total		\$424,637

<u>County</u>	<u>Municipality</u>	<u>Sum of Amount</u>
Washington	Boonsboro	68,902
	Clear Spring	9,945
	Funkstown	18,859
	Hagerstown	722,882
	Hancock	43,804
	Keedysville	25,894
	Sharpsburg	22,680
	Smithsburg	55,167
	Williamsport	47,561
Washington Total		\$1,015,695
Wicomico	Commonwealth of Delmar	63,387
	Fruitland	111,837
	Hebron	25,260
	Mardela Springs	13,300
	Pittsville	41,948
	Salisbury	556,945
	Sharptown	27,052
	Willards	26,084
Wicomico Total		\$865,812
Worcester	Berlin	83,082
	Ocean City	298,068
	Pocomoke City	88,246
	Snow Hill	57,165
Worcester Total		\$526,562
Grand Total		\$15,379,979

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Budget Reconciliation and Financing Act of 2013

BILL NUMBER: SB 127 / HB 102

PREPARED BY: Budget and Management

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

DBM estimates that the following provisions of the proposed legislation will have minimal or no economic impact on Maryland small business:

Racing Grants - \$689,150 special contingent reduction to localities if revenues are not sufficient to cover mandated expenditures.

Juvenile Services Education Program – Requires LEAs to pay a portion of the cost of educating youth in State run detention facilities.

Program Open Space Administrative Funding – Allows \$1.2 million in POS funding to be used for operating costs instead of general funds.

Redirect Revenue from Preservation of Cultural Arts Fund to General Fund – Proposes to eliminate 5% distribution of State admissions and amusement tax on electronic bingo and electronic tip jars to fund, and increases general fund revenue by the same amount.

Local Income Tax Refund Reserve Account – Repeals required repayment.

Transfer Tax Repayment – Defers required repayment of funds transferred from Program Open Space to the General Fund.

Transfer Tax Revenue – Proposes the transfer of a portion of the capital eligible transfer tax allocations for land preservation to the General Fund.

MD Mined Coal Tax Credit – Proposes the repeal of the tax credit. Beneficiaries of the tax credit are large multi-jurisdictional public service companies.

Fund Balance Transfer – Transfers \$1.0 million from State Insurance Trust Fund to the General Fund in FY 2014.

DBM estimates that the following provisions of the proposed legislation will have meaningful economic impact on Maryland Small Business:

Unclaimed Property Advertising – Requires Comptroller to place quarterly ads in newspapers directing readers to the Comptroller’s website rather than publishing the name of every individual with unclaimed property in an insert.

Economic Impact Analysis – Reduced funding will have an indeterminate, but negative impact on the newspaper industry.

Local Income Tax Reserve Account Revenue to MDOT – Transfers \$15.4 million to MDOT for grants to municipalities.

Economic Impact Analysis – Indeterminate, but could have a positive economic impact on contractors to the extent that municipalities use additional funding for highway maintenance.

Transfer VLT Proceeds to MSBDFA – Proposes to authorize the transfer of \$2.0 million from the Small, Minority, and Women-owned Business Account (Supported with VLT proceeds) to the MD Small Business Development Financing Authority. Should the legislation be enacted, MSBDFA would realize a \$1.0 million increase in overall funding in FY 2014.

Economic Impact Analysis – Indeterminate, but will have a positive economic impact on small businesses.

Group Home and Non-Public Placement Rate Increases – Allows for up to a 2.5% rate increase.

Economic Impact Analysis – Indeterminate, but will have a positive economic impact on group home and Non-Public placement providers.