SB 323

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE
Revised

Senate Bill 323 (The President) (Administration)
Budget and Taxation Appropriations

The Budget Reconciliation and Financing Act of 2002

This bill: (1) transfers various State special funds and nonbudgeted funds to the general fund; (2) makes certain targeted reversions and prior PAYGO cancellations in fiscal 2002 and 2003; (3) makes various changes to statutory funding requirements and revenue distribution provisions; and (4) authorizes spending on various projects from the Dedicated Purpose Fund, in order to implement the budget for fiscal 2003.

The bill takes effect June 1, 2002, with certain different effective date provisions for specific provisions within the bill.

Fiscal Summary

State Effect: General funds increase by $615.0 million in FY 2002 and $325.5 million in FY 2003 as a result of expenditure reductions and revenue increases. Future year effects vary according to the effective dates of various provisions. Other special funds and nonbudgeted funds are affected as discussed below.

($ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	$146.2	$246.2	$187.1	$140.1	$145.3
SF Revenue	(163.3)	(88.6)	(43.2)	(46.0)	(46.2)
NonBud Rev.	(23.0)	(37.2)	2.0	2.0	2.0
GF Expenditure	(468.8)	(79.2)	(61.0)	(50.1)	(39.1)
SF Expenditure	1.0	33.5	(5.6)	(5.6)	(5.6)
FF Expenditure	0	(5.6)	(5.6)	(5.6)	(5.6)
Net Effect	$427.8	$171.8	$218.1	$157.5	$151.4

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

Local Effect: Local government revenues would increase by approximately $8.2 million annually beginning in FY 2003.

Small Business Effect: Potential meaningful impact on small business vendors affected by the changes to vendor commissions for tax collection.

Analysis

Bill Summary: Below is a short summary of each section of the bill. Individual items in the bill are described in more detail in the **Appendix**. Items with a fiscal impact are summarized in **Exhibits 1, 2, 3, and 4**.

Section 1 transfers monies in fiscal 2002 from various sources to the general fund.

Section 2 transfers monies in fiscal 2003 from various sources to the general fund.

Section 3 alters the distribution of transfer tax revenues for fiscal 2003 and 2004.

Section 4 changes the statutory method by which State pension contributions are calculated for State employees and local education retirement contributions.

Sections 5 and 6 cancel a bond project of the Maryland Food Center Authority.

Section 7 repeals the existing corporate income tax provisions related to Transportation Trust Fund revenues.

Section 8 "rebases" certain statutory funding formulas, makes certain budget process changes, specifies the use of certain Cigarette Restitution Fund and Joseph Fund monies, increases executive salaries, and alters the timing of the funding circuit court law clerks.

Section 9 eliminates a funding requirement for the Governor's allowance for Baltimore City Community College for fiscal 2004 only.

Section 10 provides for local funding of circuit court law clerks until State funding begins on January 1, 2003.

Section 11 provides that any funds remaining in the terminated Right-of-Way Revolving Fund be credited to the Transportation Trust Fund.

Section 12 directs any cigarette attorneys fees settlement moneys to a special reserve fund.

Section 13 lists projects subject to reduction and reversion of unexpended appropriations, including PAYGO projects identified by the Governor that provided the basis for the original BRFA reduction, additional PAYGO projects, and certain operating appropriations.

Section 14 incorporates certain provisions of the Budget Financing Act (SB 828/HB 1274) and makes certain other revenue distribution changes, including reducing the period for presumption of abandoned property from five years to four years.

Section 15 is the short renumbering of the existing income tax "one-year decoupling" provision.

Section 16 provides for three income tax "federal decoupling" provisions: (1) one-year decoupling from federal changes affecting current year; (2) an addition modification for college tuition deduction; and (3) an addition modification for 30% additional allowance for depreciation and for special five-year net operating loss carryback provision to decouple from the recent federal "economic stimulus" bill. This section is applicable to all taxable years beginning after December 31, 2001.

Section 17 "decouples" the State estate tax from the repeal of federal credit for State death taxes paid. This section is applicable to any Act of Congress enacted on or after January 1, 2001 with respect to decedents dying after December 31, 2001.

Section 18 reduces vendor credits for collection of sales and use tax and motor vehicle excise tax for fiscal 2003 and 2004 only.

Section 19 provides that to recognize the reduction in the general fund requirement for debt service resulting from bond premiums, accrued interest, and refunding, for fiscal 2003 only, the General Assembly may reduce the general fund appropriation to school construction by up to $14,000,000.

Section 20 reduces the period for presumption of abandoned property from four years to three years, effective July 1, 2003.

Section 21 directs the revenue from uncashed racing tickets to a new special fund.

Section 22 establishes a special fund to capture overattainment of federal "Disproportionate Share" payments.

Section 23 provides that an additional $4.8 million of transfer tax revenues shall be targeted to the general fund contingent on enactment of controlling interest legislation (SB 316/HB 557).

Section 24 provides for the nonreversion of certain DHR Medicaid funds.

Section 25 requires repayment of certain donation incentives not paid in fiscal 2002 or 2003.

Section 26 authorizes certain expenditures from the Dedicated Purpose Fund, some of which are contingent on tobacco tax legislation.

Section 27 is a severability provision.

Sections 28 through 34 are the various effective date provisions.

Current Law: Current law for each item is discussed in the Appendix.

State Fiscal Effect: The total fiscal impact is illustrated in Exhibits 1, 2, 3, and 4. Individual fiscal impacts are discussed in the Appendix.

Local Fiscal Effect: Local government revenues would increase due to the following provisions of the bill: (1) motor fuel tax discount; (2) vehicle excise tax; and (3) the college tuition addition modification.

A portion of the motor fuel tax and motor vehicle excise tax revenues are distributed to local governments through the Gasoline and Motor Vehicle Revenue Account (GMVRA). Because the bill increases TTF revenues due to the reduction of the two vendor discounts, more revenues would be collected that would be distributed to local governments. Approximately 30% of GMVRA revenues are distributed to local governments. Based on the estimates discussed above, local government revenues would increase by approximately $1.0 million annually beginning in fiscal 2003.

Local government revenues would also increase as a result of the college tuition addition modification because it will increase adjusted gross income. Local government revenues would increase by approximately 55% of any State revenue increase associated with increasing the amount of adjusted gross income subject to tax. Based on the estimates discussed above, local government revenues would increase by approximately $7.2 million annually beginning in fiscal 2003.

Additional Information

Prior Introductions: None.

Cross File: HB 424 (The Speaker) (Administration) – Appropriations.

Information Source(s): Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - February 15, 2002
ncs/jr
Revised - Other - March 14, 2002
Revised - Senate Third Reader - March 18, 2002
Revised - Enrolled Bill - April 11, 2002

Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510

Exhibit 1
Summary of Fund Transfers and Targeted Reversions in Budget Reconciliation and Refinancing Act
$ in millions

	Agency	Fund Source	FY 2002	FY 2003
Fund Transfers				
DPF - Woodrow Wilson Bridge - Addison Rd. Metro	DPF-MDOT	SF	29.8	
Department of Business and Economic Development capital				
Economic Development Opportunities Fund (Sunny Day)	DBED	SF	7.5	
MD Economic Assistance Authority Fund (MEDAAF)	DBED	SF	8.5	
MD Industrial Development Financing Authority (MIDFA)	DBED	SF	5.0	
Smart Growth Econ. Dev. Infrastructure Fund (One MD)	DBED	SF	2.0	
Maryland Automobile Insurance Fund	MAIF	Non-Bud	20.0	
Program Open Space - unexpended balance	DNR	SF	15.0	
Department of Housing and Community Development capital				
Home Ownership Programs Fund	DHCD	SF	6.5	
Neighborhood Business Development Fund	DHCD	SF	2.5	
Special Loans Program Fund	DHCD	SF	1.0	
State Self-Insurance Fund	Treasurer	SF	5.0	
Transfer Tax Revenues	DNR	SF	11.2	
Waterway Improvement Fund	DNR	SF	8.0	
Used Tire Cleanup Fund	MDE	SF	2.5	
Insurance Regulation Fund	MIA	SF	2.0	
State Use Industries	DPSCS	SF	2.0	
911 Emergency Number Fund	DPSCS	SF	1.0	
Small Business Pollution Control Fund	MDE	SF	0.6	
Foreign Vehicle Registration Fund	State Police	SF	0.6	0.4
Board of Nursing	DHMH	SF	0.2	
Central Collection Unit	DBM	SF	0.2	0.2
DHMH Boards and Commissions	DHMH	SF	0.1	
Health Services Cost Review Commission	DHMH	SF	0.1	
Maryland Heritage Authorities Fund	DHCD	SF	3.0	
Joseph Fund	Reserves	SF	8.0	
Camden Station - Stadium Authority	Stadium	SF	1.0	
Food Center Authority	FCA	Non-Bud	3.0	
DPF - Family Investment Program	DPF	SF		39.3
Injured Workers' Insurance Reserve	IWIF	Non-Bud		39.2
Racing Facility Redevelopment Bond Fund	DLLR	SF		3.7
Cigarette Restitution Fund	CRF	SF		2.5
Subtotal*			**146.2**	**85.2**

Targeted Reversions and Cancellations
$ in millions

			FY 2002	FY 2003
GF PAYGO Capital Projects	BPW	n/a	457.2	
Higher Education Cost Containment	USM	GF	8.6	
State Board of Elections Voting Machine Cash Flow	Bd of El.	GF	2.0	
Current Expense Formula/Teacher Salary Challenge	MSDE	GF	1.0	
School Construction Reduction*	MSDE	GF		14.0
Subtotal**			**468.8**	**14.0**

* excludes $400,000 donation from Maryland Environmental Service (not specified in bill).
* reflected as FY 2003 operating budget reduction
** excludes $8.4 million in reversions not included in BRFA ($7.2 million from DHR; $1 million from Judiciary; $200,000 from Legislative)

Exhibit 2
Summary of Authorized Expenditures from the Dedicated Purpose Fund in the Budget Reconciliation and Refinancing Act
$ in millions

Appropriations from the Dedicated Purpose Fund	**FY 2002**	**FY 2003**
UMMS Primary Care and Mental Health		3.0
East Baltimore Biotechnology Park		2.0
Maryland Primary Care Program		1.1
AG Legal expenses		0.9
Gun prosecution cases		1.0
Governor's Salary Commission recommendations		0.1
DGS security at DGS facilities	0.3	0.5
Charlotte Hall Veteran's Home	0.7	2.6
Annapolis Government Complex Security		1.4
DPSCS: Hagerstown Central Kitchen		3.4
Subtotal	**1.0**	**16.0**
Appropriations from the Dedicated Purpose Fund Contingent on a Tobacco Tax Increase		
UMBC Public Policy Institute		15.3
Community College Formula/Baltimore City Community College		1.0
UMB Structural Deficit		3.0
University System of Maryland Deferred Maintenance		2.8
Morgan Deferred Maintenance		1.0
Subtotal		**23.1**
Total Authorized Spending from Dedicated Purpose Fund	**1.0**	**39.1**

Exhibit 3
Summary of Ongoing Revenue and Expenditure Changes in Budget Reconciliation and Refinancing Act
$ in millions

Alteration of Statutory Formulas				**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Alter pension contribution methodology*	n/a	GF		37.7	37.7	37.7	37.7	37.7
Alter pension contribution methodology*	n/a	SF		5.6	5.6	5.6	5.6	5.6
Alter pension contribution methodology*	n/a	FF		5.6	5.6	5.6	5.6	5.6
Re-base community college aid formula*	MHEC	GF		14.4	12.8	6.9	0.0	0.0
Re-base BCCC aid formula*	BCCC	GF		4.7	2.7	1.5	0.0	0.0
Re-base "Sellinger" aid formula*	MHEC	GF		6.0	5.4	2.7	0.0	0.0
Tourism Board	DBED	GF		2.5	2.5	1.5	1.5	0.0
Subtotal - All Funds				**76.5**	**72.3**	**61.4**	**50.4**	**48.9**
Subtotal - General Funds				**65.2**	**61.1**	**50.2**	**39.2**	**37.7**
Additional Revenues			**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Vendor discounts and commissions								
Reducing sales tax vendor credit		GF		10.8	11.1	0.0	0.0	0.0
Reducing vendor credit - vehicle titling excise tax		TTF		2.0	2.0	0.0	0.0	0.0
Reducing motor fuel tax discount		TTF		1.4	1.4	1.4	1.4	1.4
Energy generation surcharge - vendor discount		SF		0.1	0.1	0.1	0.1	0.1
Emergency telephone (911) fee - vendor discount		SF		0.3	0.3	0.3	0.3	0.3
Tire recycling fee - vendor discount		SF		0.0	0.0	0.0	0.0	0.0
Decoupling from federal estate tax		GF		20.6	48.7	77.9	82.3	82.1
Decoupling from federal income tax - tuition deduction		GF		13.0	10.0	16.4	17.0	0.0
Decoupling from federal "economic stimulus"		GF/TTF		**100.0	**90.0	**60.0	**0.0	**-50.0
Sales tax on short-term vehicle rentals		GF		25.3	25.3	25.9	25.9	26.4
Security interest filing fees		GF		5.0	5.1	5.2	5.3	5.4
Personalized vehicle registration plates		GF		1.6	1.7	1.8	1.9	2.0
Uninsured motorist penalties to General Fund		GF		12.5	12.9	12.9	12.9	12.9
Uninsured motorist penalties to Vehicle Theft Prevention Fund		SF	2.0	2.0	2.0	2.0	2.0	2.0
Uninsured motorist penalties to School Bus Safety Enforcement Fund		SF		0.0	0.0	0.0	0.6	0.6
Uninsured motorist penalties to MAIF		Non-bud		2.0	2.0	2.0	2.0	2.0
TTF revenue reductions		TTF	-2.0	-48.4	-49.0	-49.8	-50.6	-51.3
Shortening abandoned property period		GF		25.0	25.0	0.0	0.0	0.0
Transfer tax		GF		47.3	47.3	0.0	0.0	0.0
Transfers of controlling interests***		GF		0.0	0.0	0.0	0.0	0.0
Subtotal - Revenue Gains and Losses - All Funds			**0.0**	**120.4**	**145.9**	**96.1**	**101.1**	**83.9**
Subtotal - GF******			**0.0**	**161.0**	**187.1**	**140.1**	**145.3**	**128.8**

* Reflected as FY 2003 operating budget reduction.
** Not included in total because existing revenue loss is not yet incorporated in official revenue estimates.
*** $4.8 million transfer in FY02 and FY03 was contingent on enactment of HB 557 (controlling interest), which failed.
**** Excludes $5.5 million in additional lottery revenues contingent on SB 93 not affected by BRFA.

Exhibit 4
Summary of Fiscal Impact of Budget Reconciliation and Financing Act
$ in millions

		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Revenue Changes							
Fund Transfers to General Fund	GF	146.2	85.2				
Fund Transfers from Transportation Trust Fund	SF	-69.9	0.0				
Fund Transfers from Special Funds (excluding TTF)	SF	-93.5	-46.0				
Fund Transfers from Non-budgeted Funds	Non-Bud	-23.0	-39.2				
Ongoing Revenue Changes - General Fund	GF	0.0	161.0	187.1	140.1	145.3	128.8
Ongoing Revenue Changes - Transportation Trust Fund	SF	-2.0	-45.0	-45.6	-48.4	-49.2	-49.9
Ongoing Revenue Changes - Other Special Funds	SF	2.0	2.3	2.4	2.4	3.0	3.0
Ongoing Revenue Changes - MAIF	Non-Bud	0.0	2.0	2.0	2.0	2.0	2.0
Total Revenue Impact		**-40.1**	**120.4**	**145.9**	**96.1**	**101.1**	**83.9**
Expenditure Changes							
Withdrawn appropriations/reductions	GF	-468.8	-14.0	0.0	0.0	0.0	0.0
Altering statutory formulas - General Fund	GF	0.0	-65.2	-61.1	-50.2	-39.2	-37.7
Altering statutory formulas - Special Funds	SF	0.0	-5.6	-5.6	-5.6	-5.6	-5.6
Altering statutory formulas - Federal Funds	FF	0.0	-5.6	-5.6	-5.6	-5.6	-5.6
Authorized expenditures from Dedicated Purpose Fund	SF	1.0	39.1	0.0	0.0	0.0	0.0
Expected ongoing expenditures from constitutional salaries	GF	0.0	0.0	0.1	0.1	0.1	0.1
Total Expenditure Impact		**-467.9**	**-51.3**	**-72.3**	**-61.4**	**-50.3**	**-48.8**
Net Fiscal Impact		**427.8**	**171.8**	**218.1**	**157.5**	**151.4**	**132.7**
General Fund Revenue Impact		146.2	246.2	187.1	140.1	145.3	128.8
General Fund Expenditure Impact		-468.8	-79.2	-61.0	-50.1	-39.1	-37.6
Net General Fund Impact		**615.0**	**325.5**	**248.1**	**190.2**	**184.4**	**166.4**

Appendix
Budget Reconciliation and Financing Act
(SB 323/HB 424)
Analysis by Action
Table of Contents

Budget Reconciliation and Financing Act Fund Balance Analysis

Board of Chiropractic Examiners Fund

Agency: Department of Health and Mental Hygiene

Purpose: The fund, consisting of various licensing fees, supports the activities of the State Board of Chiropractic Examiners.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$59,328	$122,730
Revenues	565,000	660,000
Interest	--	--
Expenditures	486,584	565,015
BRFA transfer	15,014	--
Ending Balance	$122,730	$217,715

Does transfer have to be repaid in future budgets: No

Comments: DHMH recommendation for board funding is 25% of the appropriation for boards with a budget of $ 250,000 to $1,000,000. The balance at the end of 6/30/02 meets this requirement. DHMH recommendations are in report prepared 12/1/98 pursuant to 1998 JCR.

Budget Reconciliation and Financing Act Fund Balance Analysis

Board of Professional Counselors and Therapists Fund

Agency: Department of Health and Mental Hygiene

Purpose: The fund supports the activities of the State Board of Professional Counselors and Therapists. It consists of various licensing and certification fees for professional counselors and therapists.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$95,732	$102,697
Revenues	375,000	477,500
Interest	--	--
Expenditures	278,706	346,053
BRFA transfer	89,329	--
Ending Balance	$102,697	$234,144

Does transfer have to be repaid in future budgets: No

Comments: DHMH recommendation for board funding is 25% of the appropriation for boards with a budget of $ 250,000 to $1,000,000. The balance at the end of FY 2002 meets this requirement. DHMH recommendations are in report prepared 12/1/98 pursuant to 1998 JCR.

Budget Reconciliation and Financing Act Fund Balance Analysis

Board of Nursing Fund

Agency: Department of Health and Mental Hygiene

Purpose: The fund, consisting of various licensing fees, is used to support the activities of the Board of Nursing.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$539,663	$1,021,803
Revenues	4,643,876	4,455,876
Interest	--	--
Expenditures	3,961,736	4,559,006
BRFA transfer	200,000	--
Ending Balance	$1,021,803	$918,673

Does transfer have to be repaid in future budgets: No

Comments: DHMH recommendation for board funding is 20% of the appropriation for boards with a budget over $1,000,000. The balances at the end of FY 2002 and FY 2003 meet this requirement. DHMH recommendations are in report prepared 12/1/98 pursuant to 1998 JCR.

Budget Reconciliation and Financing Act Fund Balance Analysis

Central Collection Unit

Agency: Department of Budget and Management

Purpose: The unit collects debt owed to the State.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$2,007,509	$2,161,555
	Revenues	5,245,377	6,708,479
	Interest	--	--
	Expenditures	4,941,331	6,404,433
	BRFA transfer	150,000	150,000
Ending Balance		$2,161,555	$2,315,601

Does transfer have to be repaid in future budgets: No

Comments: The ending balances are used as a non-budgeted reserve, which are transferred in to cover operating expenditures when collections are insufficient.

Budget Reconciliation and Financing Act Fund Balance Analysis

State Reserve Fund, Dedicated Purpose Fund

Agency: Dedicated Purpose Fund

Purpose: A total of $95 million was appropriated to the Dedicated Purpose Fund in FY 2001 and 2002 toward the cost of the Woodrow Wilson Bridge and the Addison Road Metro extension. $25.1 million was spent by MDOT in FY 2001.

	Item	Fiscal 2002
Starting Balance		$24,854,673
	Revenues	45,000,000
	Interest	--
	Expenditures	--
	BRFA transfer	
	From FY 2001	24,854,673
	From FY 2002	$45,000,000
Ending Balance		- -

Does transfer have to be repaid in future budgets: No

Comments: The transfer of $69.9 million to the general fund will require the Maryland Department of Transportation to assume a greater share of the Wilson Bridge and Addison Road projects through the Transportation Trust Fund. In response, MDOT has rescheduled projects to later years to accommodate the revised cash flow estimates. In its forecast MDOT assumes that future general fund support will be provided in 2004 and 2005.

Section 1 of BRFA transfers the $24.9 million for FY 2001 and $4.9 million of the FY 2002 funds. The remaining $40.1 million in FY 2002 funds are transferred according to the provisions of Section 26.

Budget Reconciliation and Financing Act Fund Balance Analysis

Economic Development Opportunities Program ("Sunny Day") Fund

Agency: Department of Business and Economic Development

Purpose: This program offers grants, loans, or conditional grants subject to performance requirements based on expected job creation and private investments. It is designed to allow the State to take advantage of extraordinary economic development opportunities.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$13,810,000	$1,533,000
Revenues	15,248,000	3,174,000
Interest	--	--
Expenditures	20,025,000	4,103,000
BRFA transfer	7,500,000	--
Ending Balance	$1,533,000	$604,000

Does transfer have to be repaid in future budgets: No

Comments: DLS believes that DBM's estimated FY 2002 encumbrance level will not be reached. For instance, the Legislative Policy Committee has only approved $2.0 million in transactions at its June and December 2001 meetings combined.

Budget Reconciliation and Financing Act Fund Balance Analysis

Health Services Cost Review Commission - User Fees

Agency: Department of Health and Mental Hygiene

Purpose: HSCRC is the hospital rate-setting authority in Maryland. User fees are assessed on hospitals to fund the ongoing operating expenses of HSCRC. The current user fee cap is $4 million annually.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$1,304,161	$689,106
	Revenues	3,210,297	3,161,643
	Interest	16,945	--
	Expenditures	3,742,297	3,361,643
	BRFA transfer	100,000	--
Ending Balance		$689,106	$489,106

Does transfer have to be repaid in future budgets: No

Comments: Interest in FY 2002 is for July - November 2001 only. User fees are derived from hospitals for which the HSCRC sets rates.

Budget Reconciliation and Financing Act Fund Balance Analysis

Home Ownership Programs Fund

Agency Department of Housing and Community Development

Purpose: The fund provides below-market interest rate mortgage loans with minimum down payments to low and moderate income families.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$1,092,000	--
	Revenues	5,765,000	$3,210,000
	Interest	5,890,000	6,125,000
	Expenditures	6,247,000	9,335,000
	BRFA transfer	6,500,000	--
Ending Balance		--	--

Does transfer have to be repaid in future budgets: No

Comments: The transfer would deplete all available funds by the close of FY 2002 based upon projected encumbrances. This also assumes a transfer of $505,000 from the department's Special Loan Programs during FY 2002. Encumbrance activity is estimated by DBM to be $4.4 million in FY 2002. As of January 14, 2002, total encumbrances are $158,284.

Budget Reconciliation and Financing Act Fund Balance Analysis

Insurance Regulation Fund

Agency: Maryland Insurance Administration

Purpose: The fund, consisting of licensing fees, examination fees, fraud fees, and a regulatory assessment fee, is used to support the Maryland Insurance Administration.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$5,443,884	$1,767,468
Revenues	19,717,146	18,704,423
Interest	--	--
Expenditures	21,393,562	19,621,891
BRFA transfer	2,000,000	--
Ending Balance	$1,767,468	$850,000

Does transfer have to be repaid in future budgets: No

Comments: By statute any fund balance attributable to the regulatory assessment must be returned to the insurance companies through a lower assessment fee in the following year. The Office of Legislative Audits has identified $4.4 million in the fund balance as attributable to the assessment fee. MIA has approved budget amendments for computer system enhancements and expenses related to the CareFirst conversion of $1.7 million, which would reduce this excess to $2.7 million. The transfer is intended by the Administration to reflect $1 million of the $2.7 million balance attributable to the assessment fee and $1 million of licensing fees in July 1999 inadvertently put in the Insurance Regulation Fund instead of the general fund. Under statute the $2.7 million should be used to reduce the assessment fee for FY 2003. After the transfer only $1.7 million will be available for fee reduction.

Budget Reconciliation and Financing Act Fund Balance Analysis

Maryland Automobile Insurance Fund - Uninsured Division

Agency: Maryland Automobile Insurance Fund

Purpose: The uninsured motorist division provides funds for Maryland residents who are involved in accidents in Maryland with uninsured motorists and "hit and run" drivers.

Item	Calendar 2001	Calendar 2002
Starting Balance	$24,983,564	$26,179,557
Revenues	--	--
Interest	1,640,054	1,800,000
Other	2,411,983	1,250,000
Expenditures	2,856,044	3,282,000
BRFA transfer	--	20,000,000
Ending Balance	$26,179,557	$5,947,557

Does transfer have to be repaid in future budgets: No

Comments: The uninsured motorist fund formerly received revenues from penalties charged by the Motor Vehicle Administration. Chapter 568 of 2001 shifted these revenues from MAIF's uninsured fund to the Transportation Trust Fund through FY 2008, however, the amended bill restores $2 million annually to the fund starting in FY 2003. The fund would have approximately $5.9 million after the transfer.

Budget Reconciliation and Financing Act Fund Balance Analysis

Maryland Economic Development Assistance Authority Fund (MEDAAF)

Agency: Department of Business and Economic Development

Purpose: The fund provides below-market long-term fixed rate financing to specific growth-industry sector businesses locating or expanding operations in a priority funding area.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$27,021,000	$13,141,000
Revenues	27,156,000	18,773,000
Interest	--	--
Expenditures	32,536,000	31,464,000
BRFA transfer	8,500,000	--
Ending Balance	$13,141,000	$450,000

Does transfer have to be repaid in future budgets: No

Comments: DLS believes that the ending FY 2002 fund balance will be higher than anticipated by DBM based upon the pipeline of activity for the program.

Budget Reconciliation and Financing Act Fund Balance Analysis

Maryland Industrial Development Financing Authority Fund (MIDFA)

Agency: Department of Business and Economic Development

Purpose: The fund provides financing support to manufacturing, industrial, and technology businesses located in, or moving to, Maryland.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$45,307,000	$33,660,000
Revenues	2,261,000	1,792,000
Interest	--	--
Expenditures	8,908,000	3,094,000
BRFA transfer	5,000,000	--
Ending Balance	$33,660,000	$32,358,000

Does transfer have to be repaid in future budgets: No

Comments: Although a significant balance would remain in the fund after the proposed $5.0 million transfer, because it is a guarantee program a balance is required in order to maintain a leverage ratio within banking standards. The proposed transfer would not move the leverage ratio above the 5:1 ratio required.

Budget Reconciliation and Financing Act Fund Balance Analysis

Foreign Vehicle Registration Enforcement Fund

Agency: Department of State Police

Purpose: The fund's purpose is to increase State motor vehicle registration compliance through programs of public education and enhanced enforcement. Revenues are from uninsured motorist penalties collected by the MVA.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$436,924	$283,214
Revenues	400,000	400,000
Interest	--	--
Expenditures		
BRFA transfer	553,710	400,000
Ending Balance	$283,214	($283,214)

Does transfer have to be repaid in future budgets: No

Comments: The response from local law enforcement agencies has been less than anticipated. The Department of State Police reports that the increased security profile since September 11, 2001 and increased overtime has reduced the opportunities to participate in this program. The Department of Budget and Management advises that it will propose a technical amendment to the BRFA to change the amount of transfer from this fund. The fund is slated to sunset at the end of FY 2003.

Budget Reconciliation and Financing Act Fund Balance Analysis

Neighborhood Business Development Fund

Agency: Department of Housing and Community Development

Purpose: The program funds community-based economic development activities in revitalization areas designated by local governments.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$2,975,000	$1,616,000
	Revenues	4,903,000	0
	Interest	2,833,000	2,967,000
	Other	256,000	256,000
	Expenditures	6,851,000	4,706,000
	BRFA transfer	2,500,000	--
Ending Balance		$1,616,000	$133,000

Does transfer have to be repaid in future budgets: No

Comments: Based upon planned encumbrances for FY 2002, the transfer would leave the fund with $1.6 million at the close of FY 2002.

Budget Reconciliation and Financing Act Fund Balance Analysis

911 Trust Fund

Agency: Department of Public Safety and Correctional Services

Purpose: The trust fund, consisting of revenues from a monthly fee on each telephone service provider account of 10 cents, is used to pay for capital improvements to local 911 operating systems.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$6,917,264	$301,972
Revenues	25,038,121	32,060,736
Interest	--	--
Expenditures	30,653,413	32,060,736
BRFA transfer	1,000,000	--
Ending Balance	$301,972	$396,957

Does transfer have to be repaid in future budgets: No

Comments: Expenditures include $15.8 million in grants already made in FY 2002 and another $12.9 in grants approved (encumbered). Transfer represents an amount equivalent to projects for which funds were encumbered in 1997 or earlier for which no cash has been drawn.

Budget Reconciliation and Financing Act Action Analysis

Program Open Space

Agency: Department of Natural Resources

Purpose: The program expedites acquisition of outdoor recreation and open space areas and accelerates development and capital renewal of outdoor recreation activities.

	Item	Fiscal 2002
Fiscal Impact		
	POS – State Share	$15,000,000

Comments: As of October 2001, the State had $67.3 million in unencumbered POS balances. The reduction would leave $52.3 million in unencumbered State POS balances. Local POS funding and fund balances are unaffected.

Budget Reconciliation and Financing Act Fund Balance Analysis

Small Business Pollution Compliance Fund

Agency: Maryland Department of the Environment

Purpose: The program provides loans to owners of small businesses to finance eligible costs of upgrading and replacing capital equipment to comply with air emission standards.

Item	Fiscal 2002
Starting Balance	$832,169
Revenues	--
Expenditures	215,000
BRFA transfer	617,169
Ending Balance	$0

Does transfer have to be repaid in future budgets: No

Comments: While appropriated $215,000 for FY 2002, program activity is anticipated to be only $80,000. If program activity is $80,000, then the program will have a balance of $135,000 for FY 2003. MDE indicates that the bill effectively eliminates this program.

Budget Reconciliation and Financing Act Fund Balance Analysis

Smart Growth Economic Development Infrastructure Fund ("One Maryland")

Agency: Department of Business and Economic Development

Purpose: The fund provides grants, loans and equity investments to qualified distressed jurisdictions or to the Maryland Economic Development Corporation.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$10,586,000	$70,000
	Revenues	7,734,000	7,677,000
	Interest	--	--
	Expenditures	16,250,000	7,700,000
	BRFA transfer	2,000,000	--
Ending Balance		$70,000	$47,000

Does transfer have to be repaid in future budgets: No

Comments: A small fund balance would remain at the end of FYs 2002 and 2003.

Budget Reconciliation and Financing Act Fund Balance Analysis

DHCD Special Loans Program

Agency: Department of Housing and Community Development

Purpose: The program provides preferred interest rate loans to low and moderate income families, sponsors of rental properties occupied primarily by limited income families, and nonprofit sponsors of housing facilities.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$1,011,000	$333,000
	Revenues	5,957,000	6,648,000
	Interest	5,751,000	5,880,000
	Other	(505,000)	--
	Expenditures	10,881,000	12,861,000
	BRFA transfer	1,000,000	--
Ending Balance		$333,000	--

Does transfer have to be repaid in future budgets: No

Comments: The transfer would deplete the fund by the close of FY 2003 based upon projected encumbrance levels and a $505,000 transfer to the Home Ownership Program.

Budget Reconciliation and Financing Act Fund Balance Analysis

State Self-Insurance Trust Fund

Agency: Treasurer's Office

Purpose: The State Insurance Trust Fund is sued to provide self-insurance coverage. The State pays up to $2.5 million per incident before commercial excess coverage kicks in. State agencies are assessed in their budgets to fund the liabilities.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$28,997,625	$15,009,859
Revenues	9,045,425	9,860,580
Interest	--	--
Expenditures	18,033,218	15,934,848
BRFA transfer	5,000,000	--
Cash Ending Balance	15,009,859	8,755,591
GAAP Accrual Adjustment	(9,308,949)	(9,308,949)
Revised Ending Balance	$5,700,910	($553,358)

Does transfer have to be repaid in future budgets: Yes

Comments: The State Treasurer's Office advises that the $5 million reduction to SITF will not jeopardize the State's ability to pay future claims. The Treasurer has indicated that the premiums it charges State agencies will increase to replenish the fund to the recommended actuarial levels. The fund balance shown above includes the $9.3 million GAAP accrual required to pay future claims as projected by the actuary.

Budget Reconciliation and Financing Act Fund Balance Analysis

State Use Industries

Agency: Department of Public Safety and Correctional Services

Purpose: The program provides work experience and rehabilitation for inmates. Its goods and services are available to governmental agencies and certain nonprofit businesses.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$21,772,136	$21,023,136
Revenues	41,741,000	40,336,000
Interest	--	--
Expenditures	40,490,000	38,723,594
BRFA transfer	2,000,000	--
Ending Balance	$21,023,136	$22,635,542

Does transfer have to be repaid in future budgets: No

Comments: SUI is operated as a financially self-sufficient entity for which revenues must meet or exceed expenses. The large fund balance is an accumulation of the excess of revenues over expenses.

Budget Reconciliation and Financing Act Fund Balance Analysis

Used Tire Cleanup and Recycling Fund

Agency: Maryland Department of the Environment

Purpose: The program funds cleanup and recycling of used tires across the State. A 40 cent surcharge is applied to tires sold in the State to fund the program.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$6,243,743	$426,604
	Revenues	1,700,000	2,100,000
	Expenditures	5,017,139	4,957,459
	BRFA transfer	2,500,000	--
Ending Balance		$426,604	($2,424,855)

Does transfer have to be repaid in future budgets: No

Comments: The transfer would require a reduction in either FY 2002 or 2003 of approximately $2.5 million of tire cleanup/recycling projects. SB 871 would increase the amount of fees collected for the fund by charging $1.00 a tire vs. the current $.40 a tire.

Budget Reconciliation and Financing Act Fund Balance Analysis

Waterway Improvement Fund

Agency: Department of Natural Resources

Purpose: The program serves the boating public by funding projects that mark channels, clear debris, build and maintain boat facilities, improve bridges that may obstruct boats, and other activities. Financial support for the fund comes primarily from the 5% excise tax on the sale of motorized vessels and .3% of eligible proceeds from Maryland's motor fuel tax.

	Item	Fiscal 2002	Fiscal 2003
Starting Balance		$12,794,384	$2,168,429
	Revenues	23,000,000	23,000,000
	Expenditures	25,625,955	--
	BRFA transfer	8,000,000	--
Ending Balance		$2,168,429	--

Does transfer have to be repaid in future budgets: No

Comments: DNR may cancel projects. How the cancellations will be split among State and local projects has yet to be determined. The cancellations will be targeted at projects that have not made timely progress. The BRFA provides that it is the intent of the General Assembly that any projects deferred as a result of this transfer shall receive priority for funding in FY 2004.

The bill also sanctions use of the Waterway Improvement Fund for administration in DNR. The Department of Natural Resources currently uses the Waterway Improvement Fund in a manner inconsistent with the statute. While the General Assembly has sanctioned the improper use of the fund, the extent of the inconsistent uses was not discovered until recently. This provision will allow DNR to use 50% of the WWIF for administrative expenses for FY 2003 and 2004. During this time, a work group comprising legislators and representatives from DBM and DNR will work to identify a solution to the special fund problems in DNR.

Budget Reconciliation and Financing Act Action Analysis

Transfer Tax

Agency: Department of Natural Resources

Purpose: Transfer tax revenues are special funds dedicated to various programs including Ag Land Preservation, Program Open Space, Heritage Conservation, and Heritage Areas Authority.

(in dollars)	**FY 2002**	**FY 2003**	**FY 2004**
SF Revenue	(11,227,758)	(47,268,585)	(47,268,585)
GF Revenue	11,227,758	47,268,585	47,268,585
Net Effect	0	0	0

The bill transfers $11,227,425 in excess actual transfer tax collections for FY 2001 to the general fund and allocates $47.3 million to the general fund for FYs 2003 and 2004 only. This figure is approximately equivalent to 50% of transfer tax revenue. Overattainment above revenue estimates would be distributed according to the statutorily-mandated distribution formula.

Crediting the specified amount of the FY 2003 and 2004 transfer tax revenues to the general fund will result in annual reductions in the following special fund programs and revenues.

	FY 2003
POS State Acquisition	$8,925,198
POS State Development	3,858,659
State Park Operating	950,000
Local Program	17,261,171
Heritage Areas Authority	1,000,000
Heritage Conservation	850,835
Rural Legacy	6,363,429
Ag Land Preservation	8,059,294
Total	$47,268,585

Budget Reconciliation and Financing Act Fund Balance Analysis

Maryland Heritage Areas Authority

Agency: Department of Housing and Community Development

Purpose: Provide operating and project grants to assist the development of historic and cultural tourism destination.

	Item	Fiscal 2002
Starting Balance		$4,230,962
	Revenues	1,000,000
	Interest	162,809
	Other	0
	Expenditures	1,595,2340
	BRFA transfer	3,000,000
Ending Balance		$797,816

Does transfer have to be repaid in future budgets: No

Comments: The BRFA action would transfer $3.0 million of available fund balance and leave approximately $800,000 in the fund at the close of FY 2002. The Maryland Heritage Areas Authority Fund will continue to receive a $1.0 million dedicated transfer from the State transfer tax which would provide when combined with the fund balance of $800,000 a total of $1.8 million for grants during FY 2003.

Budget Reconciliation and Financing Act Fund Balance Analysis

Joseph Fund

Agency: State Reserve Fund

Purpose: The fund was established in 1999 to meet the emergency needs of economically disadvantaged citizens of the State, especially in times of economic downturn.

Item	Fiscal 2002	Fiscal 2003
Starting Balance ($ millions)	$10.6	$8.0
Appropriation	5.0	--
Interest	.4	.3
BRFA transfer	8.0	--
Ending Balance	$8.0	$8.3

Does transfer have to be repaid in future budgets: Yes

Comments: The bill transfers $8.0 million from the Joseph Fund to the general fund. This action, in combination with the removal of the $5.0 million appropriation assumed by the Governor for FY 2003, leaves the fund with a balance of $8.3 million at the end of FY 2003. The controlling legislation for the Joseph Fund requires that $5.0 million or 20% of the unappropriated general fund surplus from two years previous may be added to the fund until the balance reaches $15.0 million, when traditional transfers out of the fund are allowed. Those traditional transfers are made with the recommendation of the Joseph Fund Board, and are more restricted in use than the funds transferred through this bill.

The bill also provides that up to $3.3 million from the Joseph Fund in FY 2003 and the remaining balance of approximately $5 million in FY 2004 is authorized for expenditure by budget amendment or through the budget bill for the purpose of increasing the Temporary Cash Assistance allowance.

Budget Reconciliation and Financing Act Fund Balance Analysis

Maryland Food Center Authority

Agency: Maryland Food Center Authority

Purpose: The authority is a nonbudgeted agency which develops and oversees various food facilities.

	Fiscal 2002
Fiscal Impact	**$3,000,000**

Does transfer have to be repaid in future budgets: No

Provisions of the bill transfer $3.0 million of the agency's fund balance to the general fund, repeal a debt obligation for a facility that no longer exists, repeal a debt obligation for food center bond issue that has been repaid, and pay off or defease food center revenue bonds that have two small repayments remaining.

Budget Reconciliation and Financing Act Fund Balance Analysis

Dedicated Purpose Fund for Family Investment Program

Agency: Dedicated Purpose Fund

Purpose: The program was established to finance increases in welfare costs associated with a recession.

Item	Fiscal 2002	Fiscal 2003
Starting Balance	$72,800,000	$50,700,000
Revenues	9,600,000	--
Interest	--	--
Negative Deficiency Appropriation	9,600,000	--
Expenditures	22,100,000	--
BRFA transfer	--	39,300,000
Ending Balance	$50,700,000	$11,400,000

Does transfer have to be repaid in future budgets: No

Comments: The Dedicated Purpose Fund for the Family Investment Program was established to finance increases in welfare costs associated with a recession. Maryland's welfare caseload has not increased in recent months despite a sluggish economy. As a result, the Governor proposed transferring all but $700,000 of the fund balance to the general fund. This additional reserve may be needed, however, given the volatility of the welfare caseload and the possibility that Maryland's share ($229.1 million) of the federal Temporary Assistance for Needy Families Block Grant (TANF) will be reduced when Congress considers reauthorization later this year. Transferring funds to the general fund rather than spending them directly on services for low-income families may also draw criticism from Congress on the grounds that Maryland accumulated a fund balance by supplanting general fund costs with TANF dollars but then failed to spend the dollars on TANF families. The General Assembly action restores $10.7 million to the fund. Additional General Assembly actions reduce TANF spending by $4 million leaving the State with $15.9 million in State and federal reserves. The funding level is sufficient to finance cash assistance for almost 10,000 people for one year.

Budget Reconciliation and Financing Act Fund Balance Analysis

Cigarette Restitution Fund

Agency: Cigarette Restitution Fund

Purpose: Special fund for revenues from tobacco settlement.

	Fiscal 2003
Transfer	**$2,450,000**

Transfer from CRF special fund to the general fund.

The bill also amends the Cigarette Restitution Fund to require that 25% of appropriations are for Medicaid for FYs 2003 through 2006. Presently 50% of appropriations must be for health/tobacco related purposes. The FY 2003 allowance provides $31 million for Medicaid which represents 23% of all CRF spending. Medicaid faces an $80-100 million general fund shortfall in FY 2003 and costs are expected to escalate in future years. If a portion of the CRF dollars are not earmarked for Medicaid, costs funded with CRF dollars in FY 2003 could shift back to the general fund in FY 2004, further taxing the general fund.

Budget Reconciliation and Financing Act Fund Balance Analysis

Injured Workers' Insurance Fund

Agency: Injured Workers' Insurance Fund

Purpose: This account is the State's reserve toward the liability for State employees workers compensation. The State self-insures for workers' compensation and IWIF administers the compensation structure. IWIF charges State agencies, via the budget process, workers' compensation "premiums" (based on liability experience) to fund these liabilities.

Item	**Fiscal 2003**		
	Liability	**Reserve Fund**	**Unfunded Liability**
Beginning Balance	$194,000,000	$105,000,000	$89,000,000
Increase	12,000,000	42,200,000	--
Interest	--	--	--
BRFA transfer	--	39,200,000	--
Ending Balance	$206,000,000	$108,000,000	$94,000,000

Does transfer have to be repaid in future budgets: No

Comments: The estimate of workers' compensation liability does not exactly agree with DBM estimated amounts. DLS liability figures estimated by the IWIF actuary. The State has committed to paying $20 million per year towards the unfounded liability. The transfer will either extend the time period or increase future annual payments needed to eliminate the unfounded liability.

Budget Reconciliation and Financing Act Fund Balance Analysis

Racing Facility Redevelopment Bond Fund

Agency: Department of Labor, Licensing, and Regulation

Purpose: The fund, consisting of proceeds from additional takeout allocations and uncashed parimutual tickets, is used to support the interest and principal payment on bonds issued to support redevelopment of racetrack facilities.

Item	Fiscal 2003 "Takeout"	Fiscal 2003 Uncashed Tickets
Starting Balance	$3,200,000	1,700,000
Revenues	$1,600,000	2,000,000
Interest	--	--
Expenditures	--	--
BRFA transfer	$4,500,000	3,700,000
Ending Balance	$300,000	--

Does transfer have to be repaid in future budgets: No

Comments: No racetrack redevelopment bonds have been issued to date.

The fund consists of two sources: (1) an additional takeout allocation; and (2) uncashed parimutual tickets. The Administration proposes to transfer that portion of the fund estimated to be from uncashed parimutual tickets. As amended, $4.5 million of the portion of the fund estimated to be from the takeout allocation will be transferred to a special fund, with 11% to be used to increase bred funds and 89% used to enhance purses.

Budget Reconciliation and Financing Act Action Analysis

Pension Contributions to the State Retirement and Pension System

Agency: Statewide

Purpose: Current law requires that the State pension system be funded by an appropriation equal to the product of State payroll times the actuarially certified contribution rates for each pension subsystem.

Item	Fiscal 2003			
Fiscal Impact	**GF**	**SF**	**FF**	**Total**
Local Education Retirement Aid	$20,066,187	-	-	$20,066,187
Retirement Aid	777,712	-	-	777,712
State Employees	16,818,532	5,606,177	5,606,177	28,030,887
Total	**$37,662,431**	**$5,606,177**	**$5,606,177**	**$48,874,785**

(numbers may not total due to rounding)

Comments: Under the "corridor" methodology developed by DLS and the State's pension actuary, the contribution rates for the employees and teachers' systems would be fixed (at the FY 2002 certified rate) so long as the actual funding of these systems remained between 90% and 110%. The three smaller systems -- for judges, State police, and law enforcement officers -- would continue to operate under the current system, whereby the rate is reset each year. The new methodology would also apply in FY 2004 (providing comparable savings) and beyond.

The bill also provides that the Governor must fund any collectively bargained pension initiatives in the current year budget.

Budget Reconciliation and Financing Act Action Analysis

Maryland Tourism Development Board

Agency: Department of Business and Economic Development

Purpose: Promotes tourism development through marketing and promotional activities.

	Fiscal 2003
Fiscal Impact	**$2,500,000**

Does transfer/action have to be repaid in future budgets: No

Comments: This is a general fund program, though unspent funds revolve to the next year. Current law requires an $8.5 million annual appropriation. The bill, as amended, will fund the tourism board at the following levels:

FY 2003	$6.0 million
FY 2004	$6.0 million
FY 2005	$7.0 million
FY 2006	$7.0 million
FY 2007	$8.5 million

Budget Reconciliation and Financing Act Fund Balance Analysis

Altering Restrictions on Health Claims Arbitration Fund

Agency: Health Claims Arbitration Fund

Purpose: Provides alternative dispute resolution forum for health claims disputes.

The provision in this bill allows fund to also be used for expenses of the Health Claims Arbitration Office. Currently, the fund can only be used to pay for arbitrators. A contingent budget reduction of $40,000 was made to permit use of a balance in the fund for these expenses.

Budget Reconciliation and Financing Act Fund Balance Analysis

Altering Restrictions on Law Enforcement and Correctional Training Fund

Agency: Law Enforcement and Correctional Training Fund

Purpose: Special fund used to fund law enforcement and correctional training capital projects.

This provision permits use of the fund for operations of the Police and Correctional Training Commissions (PCTC). Currently, money from the fund may not be used to supplant the budget of the Police Training Commission or the Correctional Training Commission. The Senate Budget and Taxation Committee deleted $3.2 million in special fund PAYGO appropriations in the allowance for the Public Safety Training Center in favor of possible bond funding. Use of the fund for PCTC operations saves $3.2 million in general funds in FY 2003.

Budget Reconciliation and Financing Act Action Analysis

Community College Aid Formula (Excluding BCCC)

Agency: Maryland Higher Education Commission

Purpose: The aid formula (Cade formula) is the primary source for State aid to community colleges.

The FY 2003 reduction of $14.4 million in community college aid is not contingent on the BRFA. However, the BRFA "rebases" the colleges' aid formula. Currently, the statutory aid formula is 25% of the prior year's aid per full-time equivalent student at selected four-year public institutions of higher education. Consistent with the $14.4 million reduction, the BRFA rebases the funding formula to return it to the previous statutory level by FY 2006.

While the FY 2003 budget incorporates the current year reduction, the savings associated with re-basing require passage of this bill. The fiscal impact from re-basing the formula is estimated as follows:

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Reduction	$14,388,418	$12,775,889	$6,919,460	--	--
Formula	23.1%	23.1%	24.0%	25.0%	25.0%

Budget Reconciliation and Financing Act Action Analysis

Baltimore City Community College

Agency: Baltimore City Community College

Purpose: BCCC is a State agency with a budgeted appropriation.

The FY 2003 reduction of $4.7 million in the BCCC appropriation is not contingent on the BRFA. However, the BRFA "rebases" BCCC's funding formula. Currently, the BCCC statutory funding formula is 66% of the State's general fund per-student appropriation to certain public institutions of higher education. Consistent with the $4.7 million FY 2003 reduction, the BRFA rebases the funding formula to return it to the previous statutory level by FY 2006.

While the FY 2003 budget incorporates the current year reductions, the savings associated with re-basing require passage of this bill. The fiscal impact from re-basing the formula is estimated as follows:

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Reduction	$4,686,810	$2,731,395	$1,485,836	--	--
Formula	60.9%	60.9%	63.4%	66.0%	

Budget Reconciliation and Financing Act Action Analysis

"Sellinger" Aid to Nonpublic Institutions

Agency: Maryland Higher Education Commission

Purpose: The program provides State aid to nonpublic institutions of higher education in Maryland.

Comments: The FY 2003 reduction in Sellinger aid of $6.0 million is not contingent on the BRFA. However, the BRFA "rebases" the Sellinger formula for FYs 2003 through 2005. Currently, nonpublic institutions receive, per student, 16% of the previous year's per student general fund support for certain public, four-year institutions. Consistent with the $6.0 million reduction adopted in the budget bill, the BRFA rebases the funding formula to return it to the previous statutory level by FY 2006.

While the FY 2003 budget incorporates the current year reduction, the savings associated with re-basing require passage of this bill. The fiscal impact from re-basing the formula is estimated as follows:

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Reduction	$6,000,000	$5,426,890	$2,654,998	--	--
Formula	14.3%	14.3%	15.2%	16.0%	16.0%

Budget Reconciliation and Financing Act Fund Balance Analysis

State Budgetary Process Changes ("Good Government Provisions")

Agency: Various

Purpose: Various

Reporting GF PAYGO in the Capital Improvement Program: The Spending Affordability Committee recommended that, for the out-years, the CIP should not include general fund PAYGO for projects/programs that are eligible for tax-exempt debt, because the availability of out-year general funds for PAYGO is unknown.

Reporting PAYGO appropriations in programs/subprograms in the operating budget: Provision codifies annual boilerplate budget bill language.

Codifying the "Sweeper" amendment in the Rainy Day Fund: The sweeper provision provides a mechanism by which surplus general funds are consistently set aside in the Rainy Day Fund. Transfers out of the Rainy Day Fund are made at the discretion of the Governor and the General Assembly through specific authorization by an act of the General Assembly or by specific authorization in the budget bill. Continuing application of the sweeper provision provides for continued oversight of surplus general funds by the General Assembly.

Repealing an Obsolete Transportation Right-of-Way Revolving Fund: Section 8-305 of the Transportation Article establishes the Right-of-Way Revolving Fund to provide funds for the purchase of right-of-way for highway projects. The revolving fund balance is $8 million. The Maryland Department of Transportation capital program provides funds for the purchase of right-of-way. A separate, non-budgeted revolving fund is not necessary. Repealing the fund would increase the balance of the Transportation Trust Fund by $8.0 million.

Technical change for distribution of corporate income tax to the TTF: Clarify the amount of corporate income taxes distributed to the TTF, which stands at 24% per year. The Tax General Article contains a series of percentage calculations based on years of unrelated incremental changes.

Budget Reconciliation and Financing Act Fund Balance Analysis

Constitutional Officers - Salary

Agency: N/A

BRFA implements the salary recommendations of the Governor's Salary Commission for the Treasurer, Comptroller, Attorney General, and Secretary of State for the next following term of office, as originally introduced in HB 257 and SB 203. The provisions establish, in statute, the salaries of the Treasurer, Comptroller, Attorney General, and Secretary of State for each year of the next four-year term as follows:

Year of Term	Treasurer, Comptroller, and Attorney General	% Change from Current Salary	Secretary of State	Current Salary % Change from	Net Fiscal Impact
First	$112,500	12.5	$78,750	12.5	$25,200
Second	$116,667	16.7	$81,667	16.7	$58,800
Third	$120,833	20.8	$84,583	20.8	$75,400
Fourth	$125,000	25.0	$87,500	25.0	$92,000

Currently, the salaries of the four constitutional officers: Treasurer, Comptroller, Attorney General, and Secretary of State are not established in statute, but are as provided for in the State budget. The current salaries, as provided in the Governor's FY 2003 budget, are: $100,000 per year for the Treasurer, Comptroller, and Attorney General; and $70,000 per year for the Secretary of State.

General fund expenditures will increase by $25,200 in FY 2003 for salaries and fringe benefits reflecting the effective date of the start of the next term of office. This amount will grow in future years, reflecting annualization and the statutory salary increases, to $100,300 in FY 2007.

Budget Reconciliation and Financing Act Fund Balance Analysis

Budgeting of Collective Bargaining Items with Fiscal Impact

Agency: N/A

The bill requires completion of collective bargaining of items requiring appropriations. The provision requires the parties to conclude negotiations before January 1 for any item requiring an appropriation of funds for the fiscal year that begins on the following July 1. The Governor's budget bill must include any amounts in the budgets of the principal units required to accommodate any additional costs resulting from the negotiations.

In addition the bill further specifies that the Governor's proposed budget must include funds for collectively bargaining pension legislation in the current fiscal year. Currently, any pension liabilities are not amortized until beginning in the fiscal year after the one for which the budget is being prepared. Under the bill, non-collectively bargained bills will continue under the current system, but collectively bargained bill will begin payment one year earlier because the executive is aware of, and can budget for, these payments.

Budget Reconciliation and Financing Act Fund Balance Analysis

Deferral of Funding for Circuit Court Law Clerks

Agency: Judiciary

Purpose: Chapter 677 of 2001 requires the State to fund the salaries of law clerks for Circuit Court judges, effective July 1, 2002.

This provision amends Chapter 677 to change the effective date from July 1, 2002 to January 1, 2003. Each county and Baltimore City are required to continue to provide funds to employ one law clerk for each circuit court judge through December 31, 2002 at the rate of compensation set by the judge for a law clerk who begins employment after June 30, 2002. The provision is not to be construed to prevent a county or Baltimore City from providing additional funds for employment of additional law clerks. This defers State funding for circuit court law clerks; the budget bill contains a reduction of over $4.0 million based on this deferral.

Budget Reconciliation and Financing Act Fund Balance Analysis

Tobacco Settlement Attorney's Fees

BRFA creates a Special Fund for Attorneys Fees associated with tobacco settlement. In the event of a settlement or decision in the dispute with the Law Offices of Peter G. Angelos, Inc. over legal fees, the following will be deposited into a new Special Reserve Fund: (a) payments to the State by tobacco manufacturers for legal fees and costs for outside counsel; (b) any disbursement to the State from the settlement or decision (including the current escrow account) as a result of the settlement; and (c) any funds that would have been deposited in the escrow account in FY 2002 and 2003 if there had been no settlement.

Of the moneys credited to the fund, the first $20,000,000 may be used only to fund tobacco use cessation and cancer prevention and the next $73 million may be used only for the purposes of the Maryland Medical Assistance Program. Any excess over these amounts shall be retained in reserve and may not be spent for any purpose. The monies in the Special Reserve Fund cannot be spent, and on July 1, 2003, the fund balance transfers to the Revenue Stabilization Fund.

Budget Reconciliation and Financing Act Action Analysis

General Fund PAYGO Cancellations

Agency: Board of Public Works

Purpose: These items include general fund PAYGO projects from FY 1999 through FY 2002 that had not yet been expended and other PAYGO projects.

DLS Estimate **$457,247,750**

Does transfer/action have to be repaid in future budgets: No

Comments: The bill as amended lists the PAYGO reversions anticipated in the budget as introduced ($279,646,750) and a further set of PAYGO reversions identified subsequent to the introduction of the budget ($177,601,000) for total PAYGO reversions of $457,247,750. The capital budget as introduced includes $237,483,000 in general obligation bond funding to replace the PAYGO reversions anticipated in the budget as introduced. The bond replacement in the budget as introduced was $40,363,750 less than the reversions and represented reductions in program activity in the Departments of Natural Resources, Housing and Community Development, and Business and Economic Development. The housing and economic development programs are not eligible for tax-exempt financing. The expectation for the additional PAYGO reversions is that they will also be funded with bonds either in FY 2003 or in the future.

Budget Reconciliation and Financing Act Fund Balance Analysis

Higher Education Hiring Freeze Savings

Agency: State Higher Education Institutions

Purpose: This funding would otherwise provide $8,581,011 in general fund support to institutions of higher education.

Comments: In November 2001, the Governor instituted a hiring freeze University System of Maryland institutions and Morgan State University. Fiscal 2002 savings associated with the hiring freeze total $8,581,011. Unlike the first round of cost containment, hiring freeze savings have not been formalized through budget amendment. This action ensures that the planned hiring freeze savings at institutions of higher education are realized.

Budget Reconciliation and Financing Act Fund Balance Analysis

State Board of Elections – Voting Machines – Cash Flow

Agency: State Board of Elections

Purpose: Fiscal 2002 appropriation for the statewide voting system.

Item	Fiscal 2002
Withdrawn Appropriation	$1,979,000

Does transfer have to be repaid in future budgets: No

Comments: The FY 2002 appropriation included $2.1 million to support development of a statewide voting system. The most recent project cost estimate projects that the board requires only $121,000 for a new position and consulting work in FY 2002. Capital costs, which represent the largest portion of the project's costs, are not required until FY 2003. The bill reduces over-budgeted funds to reflect the most recent FY 2002 cost estimate. The budget committees and the Legislative Policy Committee have approved release of the $121,000 for FY 2002 for the board but rejected the board's request to release the additional $1,979,000.

Budget Reconciliation and Financing Act Fund Balance Analysis

Education – Targeted Reversions

Agency: Maryland State Department of Education

Targeted Reversions – FY 2002

RA02.01	State Share of Current Expenses	$450,000
RA02.56	Governor's Teacher Salary Challenge	$550,000

Comments The bill reverts $450,000 in FY 2002 funds for the current expense formula available due to an enrollment adjustment. The bill also reverts $550,000 in FY 2002 for the Governor's Salary Challenge that were not spent because Dorchester County did not meet its match for FY 2002 and the salary base came in lower than estimated.

Budget Reconciliation and Financing Act Fund Balance Analysis

Camden Station – Unencumbered Fiscal 2002 Appropriations

Agency: Maryland Stadium Authority

Purpose: The Maryland Stadium Authority will not require $1.0 million of a total of $2.0 million appropriated in the FY 2002 budget to provide repairs to Camden Station.

	FY 2002
Fiscal Impact:	**$1 million**

Does transfer have to be repaid in future budgets: No

Comments: The BRFA action would transfer $1.0 million of FY 2002 special fund appropriations made to the Maryland Stadium Authority for repairs of the Camden Station building. FY 2002 budget language withheld the entire $2.0 million appropriated for the repairs pending a report from the MSA. The report has been provided and the MSA will only require $1.0 million of the withheld funds to complete the necessary repairs

Budget Reconciliation and Financing Act Fund Balance Analysis

Alteration of Vendor Commissions

Agency: N/A

Purpose: The State allows vendors of certain taxed items to retain a portion of the collected tax revenue to compensate the vendor for the costs of collecting and remitting the tax.

Vendor Discounts and Commissions		**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Reducing sales tax vendor credit	GF	$10,806,529	$11,130,725	-	-	-
Reducing vendor credit - vehicle titling excise tax	TTF	2,000,000	2,000,000	-	-	-
Reducing motor fuel tax discount	TTF	1,400,000	1,400,000	1,400,000	1,400,000	1,400,000
Energy generation surcharge - vendor discount	SF	77,310	80,248	83,297	86,462	89,748
Emergency telephone (911) fee - vendor discount	SF	259,019	271,970	285,569	299,847	314,839
Tire recycling fee - vendor discount	SF	13,040	13,301	31,200	31,824	32,460
Total		$14,555,898	$14,896,244	$1,800,066	$1,818,133	$1,837,047

Reducing Vendor Commissions and Discounts

Reducing the amount of the discounts or credits offered to the collectors of the various taxes discussed below would have the effect of increasing general fund and TTF revenues while reducing the amount of the commission or discount received by the vendors.

Motor Fuel Discount: Dealers and sellers are allowed to retain 1% of the first 10 cents of their fuel tax liability per gallon as a discount for shrinkage and evaporation, as well as for collecting and remitting the tax. The bill reduces the amount of the discount from 1.0% of the first 10 cents to 0.5% of the first 10 cents. Motor fuel tax collections are estimated to be approximately $681.3 million in FY 2003. It is estimated that the discount is equal to approximately 0.2% of total revenues. Therefore it is estimated that annual TTF revenues would increase by approximately $1.4 million beginning in FY 2003. Future year motor fuel gallonage is assumed to be relatively flat.

Sales Tax Vendor Credit: the amount of the sales tax vendor credit is equal to 1.2% of the first $6,000 in tax collected and 0.9% of the excess collected each month. The bill reduces the amount of the credit by 50%, to 0.6% of the first $6,000 in tax collected and 0.45% of the excess collected each month in fiscal 2003 and 2004 only. Net sales and use tax collections are estimated to be approximately $2.5 billion in FY 2003. The amount of the vendor credit is estimated to be approximately 0.32% of net collections. As a result, it is estimated that general fund revenues would increase by approximately $10.8 million in FY 2003 and $11.1 million in fiscal 2004.

Motor Vehicle Excise Tax Credit: Currently, licensed dealers are allowed to keep an amount equal to the lesser of 1.2% of the gross tax collected up to $24 per vehicle. The bill reduces the discount to 0.6% of the gross tax collected up to $12 per vehicle for fiscal 2003 and 2004 only. Vehicle excise tax collections, after the discount, are estimated to be approximately $612.0 million in FY 2003. Motor vehicle excise tax revenues are dedicated to the TTF. It is estimated that TTF revenues would increase by approximately $2.0 million in FY 2003 and FY 2004.

Other Vendor Discounts: the bill also permanently reduces the vendor discounts for three smaller programs: the energy generation surcharge (collected and remitted by utility companies), the emergency telephone system (911) fee (collected and remitted by the telephone companies), and the tire recycling surcharge (collected and remitted by tire dealers). The savings from these reduced commissions would be captured by the respective special funds associated with these programs.

The energy generation surcharge is levied on the number of kilowatt hours of electricity generated. These funds are dedicated to the Environmental Trust Fund. In FY 2001, approximately $9.6 million was collected. The State provides electricity producers a discount equal to 1.5% of the surcharge paid. In FY 2001, this resulted in a total discount of approximately $143,500. Reducing the amount of the discount by one-half, to .75%, would result in an increase in revenues of approximately $77,300 beginning in FY 2003.

The emergency telephone systems tax is a $.10 per month paid by each subscriber. Counties can charge up to an additional $.50 per month. Telephone companies are granted a discount in the amount of 1.5% of the total collected for remitting the tax. In FY 2001, approximately $31.2 million was collected. The amount of the discount was approximately $470,000. Reducing the amount of the discount to .75% would increase revenues by approximately $235,000 beginning in FY 2003.

The tire recycling fee is a fee imposed on each new tire sold. The current fee is $.40. Sellers are granted a discount equal to 1.2% of the amount of the fee collected. In FY 2001, approximately $2.1 million was collected. The total amount of the discount was approximately $25,000. Reducing the discount would increase general fund revenues by approximately $13,000 for FY 2003 and 2004. Beginning in FY 2005, the tire recycling fee increases to $1.00. As a result, revenues would increase by approximately $31,000 due to the reduction of the collection discount.

Budget Reconciliation and Financing Act Fund Balance Analysis

Reducing the Period of Presumption for Abandoned Property

Agency: Comptroller's Office

Purpose: Bank accounts and other assets held in Maryland are presumed to be abandoned and are transferred to the State after expiration of a specified statutory period; however, a citizen may apply to reclaim them at any time.

Item	Fiscal 2003	Fiscal 2004
Fiscal Impact	**$25,000,000**	**$25,000,000**

Does action have to be repaid in future budgets: No

In FY 2003, the bill reduces the period for presumption of abandoned property from five years to four years. In FY 2004 and thereafter, the bill reduces the period for presumption of abandoned property from four years to three years. As a result, additional bank account funds and other assets would transfer to the State. These revenues can only be captured once, so there is no fiscal impact beyond FY 2004. The additional revenues would be offset by an indeterminate, but proportionally smaller, increase in the number of applications for reclaimed property.

Budget Reconciliation and Financing Act Fund Balance Analysis

Restoring General Funds Transferred by the Mass Transit Initiative

Agency: Maryland Department of Transportation

Purpose: Restores certain revenue streams that were previously directed to the general fund, but which were diverted to the Transportation Trust Fund under Chapter 568 of 2001 (Transit Initiative).

		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Sales tax on short-term vehicle rentals	GF		$25.3	$25.3	$25.9	$25.9	$26.4
Security interest filing fees	GF		5.0	5.1	5.2	5.3	5.4
Personalized vehicle registration plates	GF		1.6	1.7	1.8	1.9	2.0
Uninsured motorist penalties to GF	GF		12.5	12.9	12.9	12.9	12.9
Uninsured motorist penalties to Vehicle Theft Prevention Fund	SF	2.0	2.0	2.0	2.0	2.0	2.0
Uninsured motorist penalties to School Bus Safety Enforcement Fund	SF		0	0	0	.6	.6
Uninsured motorist penalties to MAIF	Non-bud		2.0	2.0	2.0	2.0	2.0
TTF Revenue Reduction	SF	($2.0)	($48.4)	($49.0)	($49.8)	($50.6)	($51.3)

Rental Car Sales Tax: In Maryland, short-term rental cars are exempt from the titling tax. Instead, there is an 11.5% sales tax on short-term rentals. In FY 2001, the general fund received 55% of rental car sales tax receipts and the Transportation Trust Fund (TTF) received 45% of rental car sales tax receipts. Chapter 568 of 2001 (Governor's mass transit initiative), changed the distribution of revenues so that 100% of rental car sales tax is now distributed to the TTF. This bill proposes to distribute 55% of rental car sales taxes to the general fund, effective July 1, 2002. The TTF would continue to receive 45% of revenues. Under the bill between $25 million and $26 million would be distributed annually to the general fund, instead of the TTF.

Security Interest Filing Fees: Maryland has a $20 security interest filing fee. The fee is payable on motor vehicle purchase liens. In FY 2001, Baltimore City received $5 from each filing, the general fund received $9 from each filing, and the TTF received $6 from each filing. FY 2001 collections totaled $10.9 million, with $2.7 million for Baltimore City, $3.3 million for the TTF, and $4.9 million for the general fund.

Chapter 568 of 2001 (mass transit initiative) changed the distribution of fees. Under the new law, Baltimore City receives $5 for each filing and the TTF receives $15 for each filing. The bill proposes to credit $9 for each filing into the general fund, instead of the TTF. As a result, general funds would increase by $4.95 million in FY 2003, and by $5.4 million in FY 2007, while TTF revenues would decrease by the same amount.

Personalized Vehicle Registration Plates: An individual may apply for a special, personalized registration plate number. The cost of this special registration number is $25 annually, in addition to the registration fee. In FY 2001, the special tags generated $2.7 million in revenues, which were distributed to the following funds and programs:

- $1.2 million to the TTF;
- $380,000 supporting scholarship programs; and
- $1.1 million to the general fund.

Chapter 568 of 2001 (mass transit initiative) changed the distribution of the special tag revenue receipts, effective in FY 2003. Under the new law, scholarship programs receive $380,000 and the remainder is distributed to the TTF. The bill proposes that the general fund would once again receive the remainder of the fees collected. The TTF could retain a portion of the fees associated with its costs of administering special license tags. Under the bill, between $1.6 million to $2 million in fees would be distributed to the general fund, instead of the TTF.

Uninsured Motorist Penalty Fees: If a vehicle is not insured for a period of 1 to 30 days, the owner is assessed a $150 penalty. Beginning on the thirty-first day, the owner is assessed $7 for each additional day that the vehicle is not insured. In FY 2001, uninsured motorist penalty fee collections were distributed so that 30% ($7.9 million) were credited to the TTF. The remaining 70% of funds were distributed to the following funds:

- $400,000 to the Motor Vehicle Registration Enforcement Fund (MVREF);
- $600,000 to the School Bus Safety Enforcement Fund (SBSEF);
- $2.0 million to the Vehicle Theft Prevention Fund (VTPF);
- $3.5 million to the Maryland Automobile Insurance Fund (MAIF); and
- $12.0 million (the remainder) to the general fund.

Chapter 568 of 2001, changed the distribution of the penalty fees. The TTF still received 30% of funds ($8.0 million). For FY 2002, the remaining 70% would be distributed to the following funds:

- $400,000 to the MVREF;
- $600,000 to the SBSEF;
- $11.6 million to the TTF; and
- $5.5 million (the remainder) to the general fund.

For FY 2003, Chapter 568 provided that the TTF still received 30% ($7.5 million) of funds. For the remaining 70%, the receipts would be distributed as follows:

- $400,000 to the MVREF;
- $600,000 to the SBSEF; and
- $16.5 million (the remainder) to the TTF.

BRFA changes the distribution of uninsured motorist penalty fees beginning in FY 2002. The TTF would still receive 30% of funds. The table below shows the changes to the distribution of revenues resulting from the bill for the remaining 70%.

Changes to Distribution of Uninsured Motorist Fees

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF		12.5	12.9	12.9	12.9	12.9
TTF	(2.0)	(16.5)	(16.9)	(16.9)	(17.5)	(17.5)
VTPF	2.0	2.0	2.0	2.0	2.0	2.0
SBSEF*		0.0	0.0	0.0	0.6	0.6
MAIF	.	2.0	2.0	2.0	2.0	2.0
Net Effect	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

*The SBSEF would continue to receive $600,000 in FY 2003 – 2005 as under current law but the bill removes the sunset for future years.

Source: Maryland Department of Transportation, January 2002

Increasing the Maryland Department of Transportation's (MDOT) Debt Limit from $1.2 Billion to $1.5 Billion: The Maryland Department of Transportation (MDOT) is funded by the TTF. Motor fuel taxes, motor vehicle excise taxes, motor vehicle registration fees, a portion of corporate income taxes, and other revenues are credited to the TTF. The department can also issue debt supported by the TTF. BRFA increases the ceiling for total debt outstanding from $1.2 billion to $1.5 billion. Debt outstanding is also limited by bond coverage tests. The more restrictive test, the net revenues test, requires that MDOT's net revenues are at least 2.0 times maximum future annual debt service. The department has an administrative policy that net revenues are at least 2.5 times maximum future annual debt service.

In recent years, MDOT's net revenues have been four to five times debt service, far exceeding the debt test, and the capital program has been constrained by the law's $1.2 billion limit on total debt outstanding. BRFA increases debt outstanding, which provides for additional revenues in the short term. Specifically, increasing debt outstanding to $1.5 billion allows MDOT to issue almost $300 million in additional bonds from FY 2003 to 2007 (the current program period affected by the bill). This increases total bonds sold in the period from $900 million to almost $1.2 billion. The capital program would receive almost $268 million in additional revenues, increasing total expenditures to over $6.4 billion. Total debt service increases $26 million, to $780 million.

In spite of the additional bonds, the loss of revenues proposed by the bill (e.g., uninsured motorist fees, rental car sales tax, security interest filing fees, and special tag fees) exceeds the additional bonding capacity generated from FY 2003 to 2007. The current program proposed with the 2002 Consolidated Transportation Program supports $6.53 billion while the proposed legislation supports $6.41 billion, a difference of about $120 million.

These estimates assume that the TTF will not receive future general fund support for the Woodrow Wilson Bridge Replacement and Material's Addison Road extension.

Budget Reconciliation and Financing Act Fund Balance Analysis

Decoupling from Federal Tax Changes

Agency: N/A

Purpose: Certain components of the State's estate tax and income tax structure are tied to that of the federal government. Hence, federal tax changes can have the effect of increasing or reducing State tax revenues. Several provisions of the bill prevent or reverse the State revenue losses from federal tax changes.

Item		FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Decoupling from federal estate tax	GF	$20,600,000	48,700,000	77,900,000	82,300,000	82,100,000
Decoupling from federal income tax - tuition deduction	GF	13,000,000	10,000,000	16,400,000	17,000,000	0
Total		$33,800,000	$58,700,000	$94,300,000	$99,300,000	$82,100,000

Partial "Decoupling" from Federal Estate Tax Changes

The federal Economic Growth and Tax Reconciliation Act of 2001 reduces and ultimately repeals the amount of the credit allowed under the federal estate tax for state death taxes paid ("federal credit"). Maryland, like most states, has an estate tax that is linked to the federal credit. The phase-out of the federal credit under the 2001 federal tax act will eliminate the State estate tax because the State tax is linked to the federal tax. This section of the bill continues the Maryland estate tax without reduction. The section provides that other provisions of federal estate tax law, including the applicable unified credit (tax liability threshold for the estate tax) allowed against the federal estate tax, are those in effect on the date of the decedent's death. Under the federal act the amount of the unified credit is increased from $700,000 to $1.0 million in 2002. By 2009, the unified credit will be $3.5 million under the federal tax act (versus $1.0 million under prior law). In doing so, the federal act raises the threshold at which estates become subject to the federal estate tax. This higher taxability threshold would also apply to the State estate tax, and would not be affected by this bill.

As a result of the federal tax act, without statutory changes the Maryland estate tax will diminish and disappear as the federal credit phases out. As a result of the repeal of the federal credit, together with the phased increase in the unified credit allowed under the federal estate tax, the State is projected to lose up to $100 million annually by FY 2007. Under the bill, the Maryland estate tax would be partially decoupled from the changes made to the federal credit under the 2001 federal tax act. The State estate tax would be calculated as if the federal tax act had not phased-out the federal credit.

The partial decoupling under this bill preserves a portion of Maryland's estate tax revenue notwithstanding the phase-out and repeal of the federal credit. Based on the nine-month lag between date of death and payment of estate taxes, it is estimated that the partial decoupling will raise $20.6 million in FY 2003. By FY 2007, this recoupment is estimated at $82.1 million. Because of the increases in the unified credit effective exemption amount, under the bill the State would still lose roughly $18 million in estate tax revenues in that year as a result of the federal tax act.

"Decoupling" of the Federal College Tuition Deduction

Under current law, deductions allowed on the federal income tax return that reduce federal adjusted gross income (FAGI) reduce Maryland revenues because Maryland uses federal adjusted gross income as the starting point for calculating Maryland income tax. Therefore, federal income tax changes that reduce federal adjusted gross income reduce Maryland revenues as well.

The 2001 federal tax act created a new federal deduction for qualified higher education expenses. Under the act, for tax years 2002 and 2003, single taxpayers with FAGI under $65,000 and joint taxpayers with FAGI under $130,000 can deduct up to $3,000 of qualifying expenditures (including tuition and required fees, but excluding room and board), even if they do not itemize. For tax years 2004 and 2005, the deduction increases to $4,000. This provision of the federal act sunsets at the end of tax year 2005. This bill provides for an addition modification to be made on the Maryland income tax return in the amount of any deduction taken on the federal return for higher education expenses. It is estimated that this addition modification would prevent the loss of approximately $13.0 million in general funds in FY 2003, $10.0 million in FY 2004, $16.4 million in FY 2005, and $17.0 million in FY 2006.

Internal Revenue Code Amendments if Greater than $5 Million

The bill also decouples the Maryland income tax from federal income tax changes for the taxable year in which there are any amendments to the Internal Revenue Code, unless that action is estimated by the Comptroller to have a State impact of less than $5.0 million in the fiscal year that begins during the calendar year the amendment is enacted. Current law provides that taxpayers are not affected by federal changes that would increase Maryland adjusted gross income in the year the change occurs. The bill provides the State a similar protection from federal tax changes that would decrease Maryland adjusted gross income. The actual impact of this provision cannot be estimated and depends on the potential impact on State revenues of any federal income tax changes as determined by the Comptroller.

Federal "Economic Stimulus" Bill

H.R. 3090 (Job Creation and Worker Assistance Act of 2002) was signed on March 10 by the President. It contains two provisions with significant potential fiscal impact on Maryland: (a) a special depreciation allowance (30% "bonus" depreciation for property in the first year placed in service); and (b) an extended net operating loss carryback period (five years for net operating losses for taxable years ending during 2001 or 2002).

It is estimated that absent a decoupling from these federal income tax changes, State corporate income tax revenues could decline by approximately $100 million in FY 2003 as a result of the two provisions. (A portion of this loss would be reflected in lower Transportation Trust Fund revenues, based on the statutory allocation of State corporate income tax revenues.) Because the Bureau of Revenue Estimates has not incorporated this revenue loss into its forecast, decoupling technically does not result in any "additional" revenues at this time. If the State does not decouple, however, revenues would be revised downward by approximately this amount in the future.

Budget Reconciliation and Financing Act Fund Balance Analysis

Public School Construction Debt Service

Agency: Maryland State Department of Education

Purpose: Program RA02.45 is used to budget funds to pay debt service on bonds issued to construct public schools.

	Fiscal 2003
Fiscal Impact	$14,000,000

Comments: Authorizes the General Assembly, for FY 2003 only, to reduce by up to $14 million the funds budgeted to pay debt service on bonds used to construct public schools. The reduction is possible due to additional special fund revenue resulting from the State receiving a bond premium on the March 6, 2002 general obligation bond sale, the payment by the bond underwriters of accrued interest, and by a reduction in the amount of debt service resulting from the refunding of previously issued debt. The reduction affects neither the payment of debt service nor the level of school construction financing.

Budget Reconciliation and Financing Act Fund Balance Analysis

Overattainment of Federal Disproportionate Share Payments

Agency: Department of Health and Mental Hygiene

FY 2002	$40,632,772
FY 2003	$14,017,000

Comments: Based on a new understanding of the methodology for calculating federal disproportionate share payments in FYs 2000, 2001 and 2002, the Department of Health and Mental Hygiene (DHMH) has claimed an additional $40 million for the period FY 2000 through 2002. Funds have already been claimed, although they will be subject to federal audit in May 2002. DHMH estimates that it will be able to claim a further $14 million over the official estimates in FY 2003.

BRFA establishes a special fund to capture overattainments of disproportionate share federal funds, which will be used to reduce mental health system deficit accumulated prior to FY 2003.

Budget Reconciliation and Financing Act Fund Balance Analysis

Controlling Interest Legislation – Transfer Tax

Agency: N/A

Comments: BRFA would transfer additional general fund money from transfer tax for FY 2003 and 2004 contingent on Controlling Interest Bill. BRFA recognizes $4.8 million additional general fund transfer tax revenues for FY 2003 and 2004 only, pending passage of controlling interest legislation (SB 316/HB 557). These bills failed, so no transfer is effective.

Budget Reconciliation and Financing Act Fund Balance Analysis

Nonreversion of Unexpended Department of Human Resources Funds

Agency: Department of Human Resources

Comments: BRFA provides for nonreversion of up to $1.5 million of unexpended DHR Funds for Medicaid Wavier for Individuals with Disabilities in FY 2002. This allows DHR to carry over up to $1.5 million of unexpended funds.

Budget Reconciliation and Financing Act Fund Balance Analysis

Deferral of Private Donation Incentive Payments and "Innovative Partnership for Technology" Payments

Agency: Higher Education

Comments: BRFA defers to FY 2004 the portion of FY 2002 and 2003 payments not made in FY 2003.

Budget Reconciliation and Financing Act Fund Balance Analysis

Authorized Expenditures from Dedicated Purpose Fund

Agency: N/A

Comments: In addition to the authorized expenditures related to the tobacco settlement escrow account, the BRFA authorizes additional expenditures from the Dedicated Purpose Fund (DPF), as listed below. A portion of those DPF authorizations are contingent on enactment of tobacco tax legislation (SB 856/HB 1294).

Summary of Authorized Expenditures

Tobacco Settlement Escrow Account

Medicaid	$73,000,000
Cancer Prevention and Tobacco Cessation	20,000,000
	$93,000,000

Appropriations from the Dedicated Purpose Fund

UMMS Primary Care and Mental Health	$3,000,000
East Baltimore Biotechnology Park	2,000,000
Maryland Primary Care Program	1,111,000
AG Legal expenses	850,000
Gun prosecution cases	$1,000,000
Governor's Salary Commission recommendations	78,353
DGS security at DGS facilities	792,000
Charlotte Hall Veteran's Home	3,261,000
Annapolis Government Complex Security	1,400,000
DPSCS: Hagerstown Central Kitchen	3,441,000
	$16,933,353

Appropriations from the Dedicated Purpose Fund Contingent on Enactment of Tobacco Tax Legislation

UMBC Public Policy Institute	$15,338,000
Community College Formula/Baltimore City Community College	1,000,000
UMB Structural Deficit	3,000,000
University System of Maryland Deferred Maintenance	2,800,000
Morgan Deferred Maintenance	1,000,000
	$23,138,000