

Department of Legislative Services
 Maryland General Assembly
 2003 Session

FISCAL AND POLICY NOTE
Revised

House Bill 935
 Appropriations

(The Minority Leader) (By Request - Administration)

Budget and Taxation

Budget Reconciliation and Financing Act of 2003

This bill (2003 BRFA) helps implement the fiscal 2004 budget by: (1) transferring various State special funds and nonbudgeted funds to the general fund in fiscal 2003 and 2004; (2) making various changes to statutory funding requirements and revenue distribution provisions to allow for contingent reductions in the budget bill (HB 40 of 2003); (3) withdrawing several fiscal 2003 appropriations; (4) increasing several fees; and (5) raising additional revenues via tax compliance and other tax changes.

The bill takes effect June 1, 2003.

Fiscal Summary

State Effect: General fund, special fund, federal fund, and nonbudgeted fund revenues and expenditures are affected as indicated in the table below. All FY 2004 expenditure changes are incorporated in the budget bill as enacted.

(\$ in millions)	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
GF Revenue	\$420.9	\$491.7	\$254.5	\$135.2	\$118.8
SF Revenue	(340.9)	(309.3)	(89.0)	19.8	19.3
NonBud Rev.	(75.0)	0	0	0	0
GF Expenditure	0	(51.4)	(14.0)	(18.8)	(15.5)
SF Expenditure	0	(174.2)	(102.5)	6.7	6.9
FF Expenditure	0	(.9)	(.9)	(.9)	(.9)
Net Effect	\$5.0	\$409.0	\$282.9	\$168.1	\$147.7

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

Local Effect: See discuss below.

Small Business Effect: The Administration has determined that this bill has minimal or no effect on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: The bill's provisions are discussed individually in the attached **Appendix**. The fiscal impact of all the provisions is summarized in **Exhibit 1, Exhibit 2, Exhibit 3, and Exhibit 4**.

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

State Fiscal Effect: The total fiscal impact is illustrated in Exhibit 1, Exhibit 2, Exhibit 3, and Exhibit 4.

Local Fiscal Effect: Local revenues from State highway user revenue-sharing decline by \$102.4 million in fiscal 2004 and \$55.2 million in fiscal 2005. Aid to local governments for Program Open Space and other programs funded by the transfer tax decline in fiscal 2003, 2004, and 2005. Local governments are required to pay approximately \$2.5 million in additional State crime lab costs. Teachers' Salary Challenge expenditures are reduced by \$30.6 million in fiscal 2004. Certain State general fund expenditures for local circuit court operations are reduced. Property tax credit payments are reduced by \$10 million. Future year Arts Council grants may be reduced. Local income tax collections may increase by an indeterminate amount due to additional tax compliance efforts. See additional discussion in the Appendix.

Additional Comments: In this bill, the Budget Reconciliation and Financing Act of 2002 (Chapter 440 of 2002) is referred to as the "2002 BRFA."

Additional Information

Prior Introductions: None.

Cross File: SB 657 (The President) – Budget and Taxation.

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

Fiscal Note History: First Reader - February 27, 2003
ncs/jr Revised - House Third Reader - March 20, 2003
Revised - Enrolled Bill - May 6, 2003

Analysis by: Matthew D. Riven

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Exhibit 1
HB 935 – Budget Reconciliation and Financing Act of 2003
Budget Reduction Contingent on Enactment of 2003 BRFA
(\$ in Millions)

	<u>Fund</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Fiscal 2004 contingent expenditure reductions						
Reduce Teacher's Salary Challenge	GF	\$30.6	\$0	\$0	\$0	\$0
Defer circuit court rent costs	GF	1.2	0.5	5.0	1.2	2.5
Circuit court law clerks – 25% match	GF	1.4	1.4	1.4	1.4	1.5
offsetting SF expenditure increase	SF - JUD	-1.4	-1.4	-1.4	-1.4	-1.5
Local contributions to State Police crime lab	GF	2.5	2.5	2.5	2.5	2.6
Jud. GF reduction contingent on record fee increase	GF	5.0	5.2	5.3	5.5	5.6
offsetting SF expenditure increase	SF- JUD	-5.0	-5.2	-5.3	-5.5	-5.6
Medicaid employer-sponsored MCHP	GF	0.1	0.1	0.1	0.1	0.1
federal fund exp. reduction	FF	0.2	0.2	0.2	0.2	0.2
Medicaid prescription co-pays	GF	0.7	0.7	0.7	0.7	0.7
federal fund exp. reduction	FF	0.7	0.7	0.7	0.7	0.7
Arts Council rebasing*	GF	0.0	3.6	3.8	3.9	4.1
Property tax credit reductions	GF	10.0	0.0	0.0	0.0	0.0
DNR Transfer Tax	SF-DNR	61.5	57.8	0.0	0.0	0.0
Agricultural Land Preservation Fund	SF	14.7	0.0	0.0	0.0	0.0
Racing Redevelopment Fund	SF- Racing	2.0	0.0	0.0	0.0	0.0
Local share of transportation revenue	SF-TTF	102.4	51.2	0.0	0.0	0.0
Subtotal – expenditure reductions		\$226.6	\$117.4	\$13.1	\$9.5	\$10.9
General Funds subtotal		\$51.4	\$14.0	\$18.8	\$15.5	\$17.1
Special Funds subtotal		\$174.2	\$102.5	-\$6.7	-\$6.9	-\$7.1
Federal Funds subtotal		\$0.9	\$0.9	\$0.9	\$0.9	\$0.9

*Fiscal 2004 cut not contingent on BRFA.

Note: Fiscal 2004 impact of all contingent reductions are reflected in budget bill.

Source: Department of Legislative Services

Exhibit 2
HB 935 – Budget Reconciliation and Financing Act of 2003
Additional Revenues
(\$ in Millions)

	<u>Fund</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Tax Compliance Items						
Withholding from sales of real estate by nonresidents	GF	\$10.0	\$12.0	\$12.0	\$12.0	\$12.0
Remittance of payroll taxes on more frequent schedule	GF	6.5	21.0	22.1	23.2	24.3
Streamline bank attachment process	GF	10.0	12.5	5.0	5.0	5.0
Tax clearance for licenses	GF	10.0	10.0	10.0	5.0	5.0
Permit direct salary attachment for all taxes	GF	1.5	1.5	1.5	1.5	1.5
Withholding against racetrack winnings	GF	0.2	0.4	0.4	0.4	0.4
Limit withholding exemptions for tax delinquents	GF	1.0	1.0	1.0	1.0	1.0
Advance sales tax due date by one day	GF	0.3	0.3	0.3	0.3	0.3
Reduce EFT threshold from \$20,000 to \$10,000	GF	0.7	1.4	1.4	1.5	1.5
Increase “safe harbor” for estimated tax payments	GF	5.0	1.0	1.0	1.0	1.0
Require withholding from out-of-state contractors	GF	3.0	3.0	3.0	3.1	3.1
less 10% reduction for compliance overlap		-4.8	-6.4	-5.8	-5.4	-5.5
Subtotal – Tax Compliance		43.3	57.7	51.9	48.5	49.6
Set corporate filing fees to \$300	GF	59.4	59.4	59.4	59.4	59.4
	SF-SDAT	0.4	0.4	0.4	0.4	0.4
Eliminate graduated withholding – one time	GF	52.0	3.5	3.5	3.5	3.5
Cap Heritage Tax Credit at \$23 million in tax year 2003	GF	3.4	19.9	15.2	2.1	0.0
and \$15 million in tax year 2004	SF -TTF	0.1	0.7	0.6	0.1	0.0
Judiciary - increased land records fees	SF - JUD	18.8	18.8	18.8	18.8	18.8
DHMH vital records fees	GF	4.4	4.5	4.6	4.8	4.9
Comptroller vehicle identification card fees	GF	0.5	0.6	0.6	0.6	0.6
Subtotal - additional revenues		\$182.4	\$165.5	\$155.0	\$138.1	\$137.3
General Funds – additional revenues		\$163.0	\$145.5	\$135.2	\$118.8	\$118.0
Special Funds – additional revenues		\$19.4	\$20.0	\$19.8	\$19.3	\$19.2

Source: Department of Legislative Services

Exhibit 3
HB 935 – Budget Reconciliation and Financing Act of 2003
Fund Transfers and Withdrawn Fiscal 2003 Appropriations
(\$ in Millions)

	<u>Fund</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Transfer taxes	SF	\$38.7	\$55.6	\$57.8
Program Open Space – unexpended balances	SF	3.0		
Agricultural Land Preservation Fund	SF	18.8		
Waterway Improvement Fund	SF	8.0	11.0	
DBED – Md. Compet. Advan. (MCAFF)	SF	0.5		
DBED – Small Business Devel. (MSBDFA)	SF	1.0		
DBED – Md. Econ. Devel. Asst. (MEDAFF)	SF	4.0		
DBED – Enterprise Investment	SF	2.0		
DBED – One Maryland	SF	2.6		
DBED – Sunny Day	SF	10.0		
DHCD – Homeownership programs	SF	2.0		
Maryland Housing Fund	SF	10.0		
Transportation Trust Fund	SF	160.0	154.9	
Local share of transportation revenue	SF	17.9	102.4	51.2
Injured Workers Insurance Fund	NonBud	75.0		
University System of Maryland	SF	29.0		
Information Technology – major projects	SF	23.6		
State Use Industries	SF	2.0	2.0	
Cigarette Restitution Fund	SF	1.4		
Dedicated Purpose Fund	SF	0.9		
Racing Commission	SF	1.7	0.4	
Racing Facility Redevelopment Fund	SF	-1.5		
Universal Service Trust Fund	SF	3.0		
Vehicle Theft Prevention Fund	SF	1.3	1.4	
MD Higher Ed Supp Loan Authority	SF	0.0	1.0	
Various health boards	SF	1.0		
MHEC – grant to National Labor College/Meany Center	GF	0.2		
DNR – Blue Crab Advisory Committee	GF	0.1		
DBM – Office of IT salaries	GF	2.2		
Interagency Committee on School Construction	GF	0.0		
DJJ – delayed center openings	GF	2.5		
Subtotal – transfers and withdrawn appropriations		\$420.9	\$328.7	\$109.0
Special Fund revenue decreases		-\$340.9	-\$328.7	-\$109.0
Nonbudgeted fund revenue decreases		-\$75.0	\$0.0	\$0.0
Withdrawn appropriations		-\$5.0	\$0.0	\$0.0

Exhibit 4
HB 935 – Budget Reconciliation and Financing Act of 2003
Fiscal Impact Summary
(\$ in Millions)

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
General fund expenditure change	\$0.0	-\$51.4 *	-\$14.0	-\$18.8	-\$15.5	-\$17.1
Special fund expenditure change	0.0	-174.2 *	-102.5	6.7	6.9	7.1
Federal fund expenditure change	0.0	-0.9 *	-0.9	-0.9	-0.9	-0.9
Total expenditure impact	0.0	-226.6 *	-117.4	-13.1	-9.5	-10.9
General fund revenue change	420.9	491.7	254.5	135.2	118.8	118.0
Special fund revenue change	-340.9	-309.3	-89.0	19.8	19.3	19.2
Nonbudgeted fund revenue change	-75.0	0.0	0.0	0.0	0.0	0.0
Total Revenue Change	5.0	182.4	165.5	155.0	138.1	137.3
Net effect	\$5.0	\$409.0	\$282.9	\$168.1	\$147.7	\$148.2

*Fiscal 2004 expenditure actions are reflected in the fiscal 2004 budget as enacted.

Source: Department of Legislative Services

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2003 BRFA Action Analysis

Program Name: Vehicle Identification Card Fees

Agency: Comptroller's Office

Program Description: The Comptroller requires a vehicle identification card in order for a company to transport and store alcohol in the State. The permit costs \$2.00 and generated approximately \$134,000 in general fund revenues in fiscal 2002.

<u>Item</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>Revenue Increase</i>	\$536,000	\$552,080	\$568,642	\$585,702	\$603,273

Description of Action: This fee has not been increased in more than ten years. Increasing the fee to \$10 would increase general fund revenues by approximately \$536,000 in fiscal 2004. Out-years assume 3% growth.

Action analysis prepared by: Brian Baugus

2003 BRFA Action Analysis

Program

Name: “Good Government” Provisions

Agency: Various

Program See discussion below.

Description:

Description of Action: The bill makes several changes to the operations of State government that were recommended by the Department of Legislative Services to improve the effectiveness or efficiency of the affected agencies:

- The bill codifies annual budget bill language that stipulates due dates for prior year per diem closeout data for local jail payments. Codifying existing practice eliminates the need to add language to the budget bill each year.
- Section 18-108 of the Health-General Article requires the Governor to include \$1,000,000 in general funds in the annual allowance for the Women, Infants, and Children Supplemental Nutrition Program (WIC). General funds, repeatedly reduced by the General Assembly, represent a small percentage of total program expenditures. General funds are allocated to administrative expenses, which are also provided by federal funds. This action reduces the amount the Governor is required to include in the allowance to \$250,000, while not prohibiting the Family Health Administration from requesting additional general funds in future fiscal years.
- The bill prohibits general fund PAYGO appropriations from being transferred to operating programs. As part of the fiscal 2002 closeout, the Maryland Department of Agriculture transferred over \$700,000 in general fund PAYGO capital to the operating budget to close shortfalls. The bill is expected to improve oversight of operating budget shortfalls and ensure that PAYGO appropriations are used for their legally intended purposes.
- The bill amends the “maintenance of effort” requirement as it is affected by the disparity grant program. \$11.9 million in additional disparity grant funds were provided in fiscal 2003 to local jurisdictions, with the stipulation that the funds be earmarked for public schools. The General Assembly adopted budget bill language that excluded the targeted funding from counting toward the local maintenance of effort requirement for public schools, but the underlying statute was not changed. Disparity grant funding is decreasing in fiscal 2004; however, the maintenance of effort requirement would still be in effect absent this amendment.

- The bill deletes the requirement that the Office of Legislative Audits (OLA) perform an annual audit of the University of Maryland, Baltimore Wellmobile program (Health-General 13-1303). The program can be reviewed periodically by OLA during routine fiscal/compliance audits, which are conducted once every three years.
- The bill requires the Maryland Economic Development Corporation (MEDCO) to submit an annual financial statement by November 1 for the prior fiscal year. DLS prepares an annual analysis of MEDCO but has had difficulty each year obtaining financial statements from MEDCO for the prior fiscal year. This provision allows six months after the end of the year for MEDCO to complete this material and will improve legislative oversight of MEDCO's operations.

Action analysis prepared by: William M. Honablew, Jr.; Suzanne M. Owen; Hiram L. Burch, Jr.; Matthew D. Riven

2003 BRFA Action Analysis

Program

Name: Miscellaneous Technical Changes

Agency: Various

Program N/A

Description:

Description of Action: The bill makes various technical changes:

- Section 1 of this bill is amended to modify the allocation of the remaining transfer tax consistent with the budget. As introduced, the bill stipulates that remaining transfer tax receipts that are not transferred to the general fund are to be allocated according to the statute. However, the funding allocations in fiscal 2004 are not consistent with current law. The bill clarifies that funds be provided as stated in the fiscal 2004 budget bill.
- The bill deletes provisions of the law regarding the Law Enforcement and Correctional Training Fund (LECTF) pertaining to construction of the Public Safety Training Center (PSTC). During the 2002 session, the legislature expressed the intent that the monies collected should be used to support the operating budget of the Police and Correctional Training Commissions, and that all remaining PSTC construction should be funded with general obligation debt.
- Section 11-105 of the Correctional Services Article describes the criteria under which the State provides 100% of the funds for local detention center capital projects. When Article 27 was revised to create the Correctional Services Article, Section 11-105 inadvertently changed the criteria under which the State provides 100% of funds for local detention center capital projects. Section 11-105 should indicate that the State provides 100% of the costs for additional inmates sentenced from 6 to 12 months to local detention centers as a result of the 1986 law change pertaining to inmates sentenced to local facilities.
- The bill repeals the provision requiring a general fund appropriation for the Department of Labor, Licensing, and Regulation's (DLLR) Division of Labor and Industry (Business Regulation 3-201). Chapter 487 of 2002 created a special fund for Workers' Compensation assessments, which is to be used for this purpose.
- The bill amends the Labor and Employment Article to provide railroad safety funding for DLLR from the Public Utility Regulation Fund. Legislation enacted in 2002 created a special fund for the Public Service Commission and the Office of People's Counsel but

inadvertently left off the railroad safety function in DLLR (which is also funded by the assessment on utilities). The bill amends the respective law so that the function is not required to receive a general fund appropriation but is instead funded directly from the Public Utility Regulation Fund.

- The bill terminates the Commission on Maryland's Fiscal Structure as of June 1, 2003.

Action analysis prepared by: Beth V. McCoy; William H. Honablew, Jr.; Daniel P. Tompkins;
Matthew D. Riven

2003 BRFA Action Analysis

Program

Name: Racing Facility Redevelopment Fund

Agency: Racing Commission – Department of Labor, Licensing, and Regulation

Program Description: The Racing Commission regulates activities generally related to thoroughbred and harness horse racing, including off-track betting, the racing schedule, and testing laboratories. The Racing Redevelopment Fund, which is overseen by the commission, is established to service any debt issued in relation to racetrack improvements. The fund consists of two sources: (1) proceeds from additional takeout allocations; and (2) uncashed parimutuel tickets.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
<i>2003 BRFA Reversion</i>	<i>-\$1,488,716 (uncashed tickets)</i>	<i>0</i>
<i>2003 BRFA Transfer</i>	<i>\$1,692,000 (commission)</i>	<i>\$243,100(uncashed tickets)</i>
<i>2003 BRFA Contingent Transfer</i>		<i>\$150,000</i>

Description of Action: There are two, partially offsetting, transfers affecting the uncashed tickets portion of the fund for fiscal 2003. A provision of the 2002 BRFA transferred \$3.7 million from the Redevelopment Fund to the general fund. However, only \$2.21 million was actually available to transfer from the fund; therefore, the funds available for use in fiscal 2003 are reduced by \$1.48 million. This proposal also transfers \$1.69 million from the Racing Commission in fiscal 2003.

There is also a \$243,100 transfer in fiscal 2004 from the uncashed tickets portion of the fund. An additional \$150,000 will be transferred to the general fund because it was contingent on the failure of HB 1149. HB 1149 was not passed and the contingency has been satisfied.

Action analysis prepared by: Brian Baugus

2003 BRFA Action Analysis

Program

Name: Circuit Court – Rent Payments

Agency: Judiciary

Program Description: Chapter 453 of 2002 requires the State to pay rent directly to the counties for space occupied in county facilities (the courthouse) by clerks of the court. To the extent provided in the State budget, the rent is calculated on the basis of per net usable square foot at the following rates: for fiscal 2004, at a rate not to exceed \$2.50; for fiscal 2005, at a rate not to exceed \$5.00; and for fiscal 2006 and each year thereafter, at a rate of \$10.

<u>Item</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>Contingent Reduction</i>	\$1,225,000	\$500,000	\$4,973,800	\$1,244,175	\$2,489,850

Description of Action: The bill delays implementation of the State assumption of such rent payments until fiscal 2007, saving \$1.2 million in general funds. Because Chapter 453 limited expenditures on this program to \$250,000 in fiscal 2004, it is not clear why a higher amount was included in the Judiciary's fiscal 2004 budget request. Out-year estimates are based on the difference between the projected costs in the fiscal note for Chapter 453 and the projected costs under this provision.

Action analysis prepared by: James L. Stoops, Rita Reimer

2003 BRFA Action Analysis

Program Name: Circuit Court Clerks

Agency: Judiciary

Program Description: The State is required to pay 100% of law clerk salaries for the circuit court.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance		
Contingent Reduction		\$1,350,000

Description of Action: The bill requires local governments to provide a 25% match for funding of law clerks, allowing for a contingent reduction of \$1,350,000 in fiscal 2004. This savings will be ongoing. The bill creates a special fund into which the local governments may contribute their 25% share.

Action analysis prepared by: James L. Stoops

2003 BRFA Action Analysis

Program Name: Land Record Fees

Agency: Judiciary

Program Description: The State Court Administrator may establish a surcharge not to exceed \$5 for each type of recordable instrument to be recorded among the land records and the financing statement records. The circuit court clerk's office in each county must collect the surcharge. Receipts from the surcharge must be placed in the Circuit Court Real Property Records Improvement Fund. These surcharge provisions sunset on June 30, 2006. The Circuit Court Real Property Records Improvement Fund is a special fund used to repair, replace, improve, modernize, and update office equipment and equipment-related services in the land records office of each circuit court clerk's office.

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>Contingent Reduction</i>	\$5,000,000	\$0	\$0	\$0	\$0
<i>Special Fund Revenue Increase</i>	\$18,841,500	\$18,841,500	\$18,841,500	\$18,841,500	\$18,841,500

Description of Action: The bill increases the land record surcharge by an additional \$15 (to \$20) to supplement funding for the personnel and operating expenses of the land records office. Increasing the surcharge to \$20 increases special fund revenues by approximately \$18.8 million and allows for a fiscal 2004 general fund contingent reduction.

Action analysis prepared by: James L. Stoops, Rita Reimer

2003 BRFA Action Analysis

Program

Name: Maryland School for the Deaf; Maryland School for the Blind

Agency: N/A

Program Description: The Maryland School for the Blind and the Maryland School for the Deaf receive State funding through a formula based upon their prior year appropriation, changes in student enrollment, and the statewide per pupil foundation amount.

Description of Action: This bill permits reductions in the schools' formula funding for administrative expenses.

Action analysis prepared by: Beth V. McCoy

2003 BRFA Action Analysis

Program

Name: Formula Aid to Higher Education Institutions

Agency: Maryland Higher Education Commission, Baltimore City Community College

Program Description: The Senator John A. Cade Funding Formula provides 15 of the State's 16 community colleges with State operating support. Under the formula, the community colleges receive at least 23.1% of the State's prior year general fund appropriation per full-time equivalent student at selected four-year public institutions in fiscal 2004, at least 24.0% in fiscal 2005, and at least 25.0% in fiscal 2006 and beyond.

The Joseph A. Sellinger Funding Formula provides State operating support to eligible independent institutions. Under the formula, the independent institutions receive at least 14.3% of the State's prior year general fund appropriation per full-time equivalent student at selected four-year public institutions of higher education in fiscal 2004, at least 15.2% in fiscal 2005, and at least 16.0% in fiscal 2006 and beyond.

Baltimore City Community College is a State agency that offers two-year associate's degrees, certificate programs, and personal and professional enrichment courses to State residents. State operating support for the college is based upon a percentage of the State's prior year general fund appropriation per full-time equivalent student at selected four-year public institutions of higher education. In fiscal 2004, the percentage is 60.9%, increasing to 63.4% in fiscal 2005, and to 66.0% in fiscal 2006 and beyond.

Description of Action: These actions assure that the State's prior year general fund appropriation per full-time equivalent student used in calculating the relevant aid formulas reflects any amendments or reductions made to the appropriation.

The bill also repeals a provision of law that allows institutions that are only candidates for regional accreditation to receive Sellinger formula aid under certain circumstances. It also creates an exception for institutions that achieved candidacy prior to July 1, 1999, provided that such an institution is accredited by September 2004. This exception will allow the National Labor College to receive Sellinger aid in fiscal 2004.

Action analysis prepared by: Beth V. McCoy, M. Kathleen Gardiner

2003 BRFA Action Analysis

Program

Name: Innovative Partnerships for Technology Program

Agency: Maryland Higher Education Commission

Program Description: This program requires the State to match certain private technology donations to community colleges.

Description of Action: The provision delays the payments for the Innovative Partnerships for Technology Program (IPT). Under current law, the State is obligated to make a \$3,264,764 payment on prior technology donations and potentially could owe another \$6.6 million between fiscal 2006 and 2008. The provision would delay the payment by an additional year, generating a budget savings of \$3,264,764 in fiscal 2004.

The bill also corrects a drafting error in Chapter 413 of 2002 (Community College – Innovative Partnerships for Technology Program) indicating the amount the State will provide for each eligible institution.

Action analysis prepared by: Beth V. McCoy

2003 BRFA Action Analysis

Program

Name: Private Donation Incentive Grant Program

Agency: Maryland Higher Education Commission

Program Description: The program provides State matching funds for certain private donations to public colleges and universities.

Description of Action: This is not a transfer of a fund balance. It changes the obligations of the State relative to the program. The changes include:

- deferring payments to all institutions other than the four historically black institutions;
- spreading deferred payments evenly over four fiscal years (2005 through 2008); and
- repealing the chapter law that defers fiscal 2003 payments to fiscal 2004.

The amount owed in fiscal 2004 would otherwise be \$11,757,664. The allowance provides \$3,097,950, which is the amount currently due to the four historically black institutions. The remaining \$8,659,714 would be paid to the other institutions spread evenly over fiscal 2005 through 2008.

Matching funds for additional eligible donations raised by institutions other than the HBIs after the start of fiscal 2003, up to \$5,090,287, would be paid in fiscal 2005 through 2008. Matching funds for additional eligible donations to the HBIs, up to \$2,902,050, would continue to be due in the fiscal year two years after the fiscal year in which the donation was received.

2003 BRFA Action Analysis

Program

Name: Vital records fees

Agency: Department of Health and Mental Hygiene

Program Description: Vital records include the registering, indexing, filing, and protecting of all records of birth, death, fetal death, marriage and divorce, adoption, and legitimation and adjudication of paternity.

<u>Item</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>Additional Revenue</i>	\$4,350,000	\$4,480,500	\$4,614,915	\$4,753,362	\$4,895,963

Description of Action: The bill adds \$6 to current fees charged for copies and searches of vital records and expands the records for which a fee can be charged. Together these actions will generate \$4.35 million that accrues to the general fund. Maryland's current fees rank in the bottom quintile nationwide, and the scope of records for which fees are charged is also limited relative to other states. Out-year revenues reflect assumed 3% growth.

Action analysis prepared by: Simon G. Powell, Susan John

2003 BRFA Action Analysis

Program Name: Community Service Provider Reimbursement

Agency: Developmental Disabilities Administration

Program Description: Section 7-307 of the Health-General article establishes a schedule for increasing salaries of community direct service workers.

Description of Action: This bill reduces the amount by which the Department of Health and Mental Hygiene is required to increase reimbursement for community service providers given the reduced availability of funds. The action increases the scheduled increase in fiscal 2005 by the amount reduced in fiscal 2004.

Action analysis prepared by: Suzanne M. Owen

2003 BRFA Action Analysis

Program Name: Cigarette Restitution Fund (CRF)

Agency: N/A

Program Description: This continuing nonlapsing fund accounts for all revenues received by the State from the settlement with the major tobacco manufacturers.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$103,522,000	\$48,703,964
Revenues	174,432,000	149,147,000
Interest/Other Adjustments	6,732,000	13,608,000
Expenditures	232,144,946	211,422,907
2002 BRFA Transfer	2,450,000	0
<i>2003 BRFA Transfer</i>	<i>1,387,090</i>	0
Ending Balance	\$48,703,964	\$36,057

Description of Action: The bill takes several CRF actions.

- Transfers \$1,387,090 from CRF to the general fund in fiscal 2003. These funds, previously budgeted for the Alcohol and Drug Abuse Administration's eSAMIS information technology development, were made available for general fund use as funding for this project will be supported by a surplus in the Department of Budget and Management's Information Technology Fund in fiscal 2004.
- Requires the Department of Health and Mental Hygiene (DHMH) to conduct tobacco and cancer studies on a biennial basis, rather than an annual basis as currently required.
- Reduces the amount the Governor is required to include in the fiscal 2004 allowance for tobacco control to \$18 million, restores the amount required in the allowance in future years to \$21 million, and codifies the provision that requires the Governor to include \$21 million in the allowance for tobacco control.
- Reduces the frequency at which CRF local public health grant funds are calculated. DHMH is currently required to recalculate local public health awards each year; this action requires the department to recalculate local public health awards every four years. The action also establishes a minimum amount of funding for awards to small jurisdictions.

Action analysis prepared by: Suzanne M. Owen

2003 BRFA Action Analysis

Program

Name: HealthChoice Performance Incentive Fund

Agency: Department of Health and Mental Hygiene (DHMH)

Program Description: Fines paid by Medicaid managed care organizations are deposited in the HealthChoice Performance Incentive Fund. By law, DHMH may only utilize the fund for the Medicaid managed care program, HealthChoice.

Description of Action: The bill alters the allowable uses of the fund for fiscal 2004 through 2006 from the HealthChoice program to the Medbank program. Allocations to Medbank are capped at \$1.2 million in fiscal 2004, \$1 million in fiscal 2005, and \$0.5 million in fiscal 2006. Chapters 134 and 135 of 2001 established the Medbank program to assist individuals without prescription drug insurance by providing access to medically necessary prescription drugs through patient assistance programs sponsored by the pharmaceutical manufacturers. Medbank received appropriations of \$2.5 million in fiscal 2002 and \$2 million in fiscal 2003. The fiscal 2004 budget bill contains \$800,000 for Medbank.

Action analysis prepared by: David C. Romans

2003 BRFA Action Analysis

Program

Name: Maryland Children's Health Program (MCHP)

Agency: Department of Health and Mental Hygiene (DHMH)

Program Description: MCHP provides comprehensive health care services to children with family incomes above the threshold for Medicaid eligibility but at or below 300% of federal poverty guidelines. State law requires that when feasible DHMH subsidize the purchase of employer-sponsored health insurance for MCHP participants with family incomes above 200% of the poverty level. Most MCHP enrollees, however, are served through Medicaid managed care organizations.

Item

Annual Savings FY 2004 - 2008

Contingent Reduction

\$133,000 General Funds

\$247,000 Federal Funds

Description of Action: The requirement that DHMH subsidize employer-sponsored coverage when feasible rather than enroll the child with a Medicaid managed care organization is repealed. A contingent reduction of \$133,000 in general funds is included in the budget bill. The savings are attributable to a decrease in administrative costs as the employer-sponsored program cost more than \$2,000 per person to administer. The 200 children currently enrolled in the employer-sponsored program will instead enroll with a managed care organization. Out-year savings are assumed to be relatively flat.

The budget bill and the Budget Reconciliation and Financing Act both include language limiting new MCHP enrollment to children from families with incomes at or below 200% of the federal poverty level and extending premiums of roughly 2% of family income to participants with family incomes above 185% of the federal poverty guidelines but at or below 200% of the poverty guidelines. These provisions sunset at the end of fiscal 2004. The General Assembly reduced MCHP funding by \$10.9 million (\$3.8 million of general funds) to recognize savings from these actions.

Action analysis prepared by: David C. Romans

2003 BRFA Action Analysis

Program Name: Waterway Improvement Fund (WIF)

Agency: Department of Natural Resources

Program Description: WIF is funded by special funds primarily from an excise tax on the sale of boats and is used for efforts related to waterway improvement, such as dredging and marking channels, constructing and maintaining marine facilities, and controlling shore erosion.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$11,319,287	\$925,665
SF Revenues	23,000,000	27,000,000
Operating Expenditures	14,193,622	13,846,442
Capital Expenditures	11,200,000	3,000,000
<i>2003 BRFA Transfer*</i>	<i>8,000,000</i>	<i>11,000,000</i>
Ending Balance	\$925,665	\$79,223

* WIF revenue over the estimated revenue attainment will be transferred to the general fund. DNR advises that the \$11.2 million in estimated fiscal 2003 project funds will not be affected.

Description of Action: This legislation redirects \$8.0 million in unexpended fiscal 2003 special funds to the general fund. In addition, \$11.0 million in fiscal 2004 special fund revenue is transferred to the general fund.

The bill also includes language that allows the Department of Natural Resources to use 100% of WIF funds in fiscal 2003 and 2004 for administrative expenses related to implementing the purposes of WIF.

Action analysis prepared by: Amanda M. Mock

2003 BRFA Action Analysis

Program

Name: Reserve Fund

Agency: N/A

Program See discussion below.

Description:

Description of Action: The bill makes several changes to the operation of the Reserve Fund.

- Current law requires an annual appropriation of the lesser of the amount necessary for the balance to exceed 5% or \$50 million. If the Revenue Stabilization Fund (RSF) balance is projected to be below 5% of general fund revenues the bill still requires the Governor to appropriate up to \$50 million in the next fiscal year if the RSF balance is between 3% and 5% of general fund revenues. If the balance falls below 3%, the bill requires that the appropriation must be at least \$100 million.
- The bill eliminates the delineation between “general” dedicated purposes and “specific” dedicated purposes and establishes one approval procedure for all dedicated purposes.
- The bill changes the name of each “fund” to “account,” because each is an account within the overall fund.
- The bill repeals uncodified language stipulating that Family Investment Program and “purchase of child care” funds placed in the Dedicated Purpose Fund shall not transfer to the Rainy Day Fund if not spent in four years. All funds have been removed from the Dedicated Purpose Fund, and the provision is no longer needed.

Action analysis prepared by: Patrick S. Frank

2003 BRFA Action Analysis

Program

Name: Arts Council

Agency: Department of Business and Economic Development

Program Description: The Maryland State Arts Council supports the performing visual and creative arts, provides grants to individual artists, arts organizations, and county arts councils, and promotes statewide awareness of the arts resources and opportunities.

Description of Action: Section 7-325 of the State Finance and Procurement Article is amended to change the manner in which the Arts Council's statutory funding formula works. The required annual allowance will now be based on the previous year's appropriation rather than the allowance.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: **Transfer Tax**

Agency: Maryland Department of Agriculture (MDA), Department of Natural Resources (DNR), Heritage Areas Authority

Program Description: Real estate transfer tax revenue special funds are dedicated to several departments and programs, including MDA's Maryland Agricultural Land Preservation Foundation (MALPF), DNR's Program Open Space and Heritage Conservation Fund, and the Heritage Areas Authority.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>FY 2005</u>
<i>2003 BRFA Transfer</i>	\$38,656,033	\$55,565,284	\$57,808,500

Description of Action: The bill transfers a total of \$152.0 million in transfer tax revenues to the general fund in fiscal 2003, 2004, and 2005. These transfers are described below:

- \$20.6 million in fiscal 2002 transfer tax collections and \$18.1 million in fiscal 2003 transfer tax collections is redirected to the general fund in fiscal 2003. This revenue is the result of the transfer tax revenue estimate being less than the actual revenue attainment for that year. These funds would have been distributed via formula to Program Open Space and other transfer tax-funded programs.
- \$55.6 million in additional transfer tax revenues are redirected to the general fund in fiscal 2004. The 2002 BRFA stipulated that \$47.3 million in transfer tax revenues should be allocated to the general fund in fiscal 2004. To help offset this decrease, general obligation bond funding is provided to programs in the fiscal 2004 budget allowance.
- A change to the transfer tax allocation formula for fiscal 2005 diverts 50% of the estimated transfer tax special funds to the general fund. Remaining funds are allocated to programs via the transfer tax allocation formula described in current law. Current estimates indicate that \$115.6 million in transfer tax revenue is anticipated in fiscal 2005. Using this estimate, this legislation would allocate \$57.8 million of these special funds to the general fund, and \$57.8 million in special funds would remain available for distribution via the current transfer tax allocation formula.

These diversions of special funds to the general fund will reduce the availability of special funds for several programs. Under current law, after a reduction is made to cover administrative costs,

transfer tax revenues are distributed as follows: 75% to DNR's Program Open Space, 5% to DNR's Rural Legacy program, 2% to the Heritage Conservation Fund, and 17% to MDA's MALPF. To partially offset the impact of this diversion of special funds, the fiscal 2004 general obligation bond capital budget includes \$32.1 million for Program Open Space, \$21.2 million for MALPF, and \$5.0 million for Rural Legacy.

These reductions are in addition to specific fiscal 2003 fund transfers from Program Open Space (\$3.0 million) and MALPF (\$18.8 million). These transfers are discussed separately in this document under their respective program names.

Action analysis prepared by: Amanda M. Mock

2003 BRFA Action Analysis

Program

Name: Maryland Department of Transportation

Agency: Maryland Transit Administration

Program Description: The Maryland Transit Administration is currently conducting an environmental impact study of a proposed magnetic levitation (Maglev) transportation project between Washington and Baltimore. It is one of two demonstration projects selected in January 2001 by the federal government for consideration to receive \$950 million authorized under the Transportation Equity Act for the 21st Century (TEA-21).

Description of Action: This bill prohibits: (1) the State from entering into an agreement for construction or operation of a rail system based on magnetic levitation technology except pursuant to an Act of the General Assembly specifically authorizing the project; and (2) the expenditure of State general or special funds for the purpose of studying, developing, or constructing a Maglev system. This action allows the expenditure of federal funds for the purpose of completing an environmental impact statement on a Maglev system. The fiscal 2004 budget does not include any State funds for this purpose.

Action analysis prepared by: Lucinda Lessley

2003 BRFA Action Analysis

Program

Name: Motor Vehicle Administration Cost Recovery

Agency: Maryland Department of Transportation

Program Description: The Motor Vehicle Administration (MVA) is responsible for supplying motor vehicle services to the citizens of Maryland. These services include: licensing all passengers and commercial vehicles; registering and titling vehicles; issuing tags and permits for persons with a disability; providing photo identification cards for nondriver residents; regulating motor vehicle dealers, vehicle rental companies, and driver education schools; and administering the compulsory insurance compliance program, vehicle emissions inspection program, and driver safety programs.

Description of Action: The bill amends Section 12-120(d) of the Transportation Article to require that the total amount of the projected revenues from all miscellaneous fees for an upcoming fiscal year total between 95% and 100% of the operating budget of the administration (including the administration's portion of the cost for that fiscal year of the department's data center operations, except for the cost of data center operations attributable to other administrations' activities).

Action analysis prepared by: Lucinda D. Lessley

2003 BRFA Action Analysis

Program

Name: Military Leave

Agency: Military Department

Program See discussion below.

Description:

Description of Action: There is a \$1.922 million fiscal 2003 deficiency appropriation related to military pay for active duty State employees. Chapter 285 of 2002 authorizes the Secretary of Budget and Management to grant leave from the State employees leave bank for any employee who is a military reservist or guardsman and has been activated for federal duty. The Secretary made the necessary authorizations; therefore, State agencies must pay full salaries to employees who are called up for active military duty. This law was retroactively effective to January 1, 2002, and had a significant impact on the Military Department. Ninety-six of the department's civilian employees (about 30% of its labor force) are reservist or members of the Maryland National Guard. In total, 34 of these employees have been called to full-time duty, or about 10% of the department's labor force. Of those activated, 22 positions were either fully or partially funded with federal funds. When employees holding federally funded positions are activated, the federal funds for that position are reverted and are no longer available to the State Military Department. Chapter 285 forced the department to continue to pay these employees, but without federal funds, the salaries had to be general funds. In addition to this, these employees had to be replaced, either with contractual employees or overtime, for the Military Department to be able to continue to function.

Chapter 285 would have sunset December 31, 2003. This bill sunsets Chapter 285 on June 30, 2003, to prevent further deficiencies in fiscal 2004.

Action analysis prepared by: Brian Baugus

2003 BRFA Action Analysis

Program

Name: Medicaid Prescription Co-payments

Agency: Department of Health and Mental Hygiene

Program Description: Medicaid funds comprehensive health care services for indigent children, pregnant women, parents, and the elderly and disabled.

<u>Item</u>	<u>Annual Savings FY 2004-2008</u>
<i>Contingent Reduction</i>	<i>\$700,000 General Funds</i> <i>\$700,000 Federal Funds</i>

Description of Action: The bill repeals a provision in State law barring the Department of Health and Mental Hygiene from applying prescription drug co-payments to Medicaid beneficiaries enrolled with a managed care organization. Language in the budget bill directs the department to require the same \$2 co-pay for brand-name drugs that is currently required from fee-for-service enrollees. Out-year savings are assumed to be relatively flat.

2003 BRFA Action Analysis

Program Name: Crime Laboratory Assessments

Agency: Department of State Police

Program Description: The Department of State Police provides evidence-testing services for local jurisdictions out of the State Police crime lab in Pikesville, Maryland and regional crime laboratories around the State. Currently these services are provided at no charge to the local jurisdictions.

<u>Item</u>	<u>Fiscal 2004</u>
<i>Contingent Reduction</i>	\$2,465,446

Description of Action: The bill directs the Maryland State Police to recover 30% of the State crime laboratories costs from local jurisdictions. In fiscal 2004 the allowance provides \$8,218,152; therefore, the new crime lab assessment on local jurisdictions will recover \$2,465,446 in general funds. This will be assessed as a reduction in each jurisdiction's State Aid for Police Protection formula grants. A portion of the assessment (one-third) will be based on each jurisdiction's share of total Part I crime in the State, and the remaining portion of the assessment (two-thirds) will be based on the assessable wealth of each jurisdiction. Part I crimes are defined as murder, forcible rape, robbery, aggravated assault, breaking and entering, larceny-theft, and motor vehicle theft. The assessment collected from each jurisdiction will not appear as a revenue source to the State police budget but will instead reduce the total amount of State Aid for Police Protection grants to be distributed.

The table on the following page illustrate the county-by-county impact. Out-year savings assume 1% growth based on projected payroll costs.

Crime Lab Assessments – Amendment to State Aid for Police Protection Formula

<u>County</u>	<u>Total Assessment</u>	<u>FY 2004 State Aid for Police Protection Grants after Crime Lab Assessment</u>
Allegany	\$20,026	\$879,385
Anne Arundel	243,132	6,364,743
Baltimore City	295,714	24,036
Baltimore County	341,939	9,518,911
Calvert	33,622	694,478
Caroline	9,238	316,562
Carroll	57,108	1,471,092
Cecil	32,269	865,031
Charles	52,659	1,088,541
Dorchester	10,662	357,438
Frederick	82,723	2,020,577
Garrett	9,875	240,925
Harford	84,532	2,106,968
Howard	132,895	2,872,055
Kent	7,211	196,189
Montgomery	491,768	14,132,512
Prince George's	377,314	13,228,526
Queen Anne's	18,255	373,245
St. Mary's	30,197	206,603
Somerset	5,416	793,784
Talbot	18,970	392,330
Washington	43,040	1,356,460
Wicomico	33,736	922,064
Worcester	33,143	649,957
Total	\$2,465,446	\$61,072,410

Action analysis prepared by: Christine A. Romans

2003 BRFA Action Analysis

Program

Name: Teachers' Salary Challenge

Agency: Maryland State Department of Education

Program Description: Under the Bridge to Excellence in Public Schools Act of 2002, the Governor's Teacher Salary Challenge Program phases out over the next two fiscal years and is eliminated entirely by fiscal 2006. In fiscal 2004, the first year of the phase-out, the appropriations for the percentage and wealth adjusted components of the program are scheduled to represent 50% of the fiscal 2002 appropriations, or \$30,565,078.

Item

Fiscal 2004

Contingent Reduction

\$30,565,078

Description of Action: The budget bill, as amended, reduces the fiscal 2004 appropriation for the Governor's Teacher Salary Challenge Program by \$30,565,078, contingent on a provision of this bill. Funding for the percentage and wealth adjusted components of the program is reduced by 100%, but full funding for the targeted and hold harmless components is retained.

Consistent with the budget action the bill reduces to 0% the percentage and wealth adjusted components of the fiscal 2002 appropriations.

Action analysis prepared by: Beth V. McCoy

2003 BRFA Action Analysis

Program Name: Maryland Higher Education Supplemental Loan Authority

Agency: Maryland Higher Education Commission

Program Description: See discussion below.

<u>Item</u>	<u>Fiscal 2004</u>
<i>2003 BRFA Transfer</i>	<i>\$990,000</i>

Description of Action: The loan authority (established under §§18-1301 to 18-1319 of the Education Article) has been defunct for years and is repealed. At issue is \$990,000 in seed money the State advanced when the loan authority was created. It was retained and not transferred to the successor private entity now administering student loans. Title to the funds is not absolutely clear. The authorizing statutes did not express any intent to recoup the seed money; and there is an argument that under a first-in, first-out accounting theory, the seed money was spent and is not recoverable. This issue was raised in 1997; however, neither the private entity now administering the loans, nor the federal Department of Education have made any further claim on the \$990,000.

Action analysis prepared by: Matthew D. Riven

2003 BRFA Action Analysis

Program

Name: Employee Transit Benefit

Agency: Statewide

Program Description: The employee transit program provides free ridership to State employees in the Baltimore area.

Description of Action: In fiscal 2003, funds were appropriated to various State agencies and would have been transferred to the Maryland Department of Transportation (Maryland Transit Administration) to defray the cost of providing the employee transit benefit. This bill restricts the expenditure of these funds, meaning that funds appropriated in Executive Branch agencies (\$1.5 million in general funds) will revert at the end of fiscal 2003. Special and federal fund revenues budgeted for this expense will revert to their original fund sources.

Pursuant to the fiscal 2004 Budget Bill (HB 40) for fiscal 2004, the Maryland Transit Administration is expected to continue to provide free transit to State employees, but will not be reimbursed by the Executive Branch agencies.

2003 BRFA Action Analysis

Program Name: **Withdrawn Appropriations**

Agency: Various

Program Description: Current year appropriations cannot be withdrawn without statutory authority.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
<i>Withdrawn Appropriations – Total</i>	<i>\$5,025,058</i>	
<u>Agency</u>	<u>GF</u>	<u>Explanation</u>
MHEC	200,000	Grant to National Labor College/George Meany Center that remains unexpended because the agency does not have the authority to spend the funds.
DNR	95,000	Blue Crab Advisory Committee – Budget bill language makes fund contingent on Virginia providing a match. Virginia has not matched the funds.
DBM-OIT	2,200,000	Reduction based on available salaries. Based on the abolition of positions in fiscal 2003 and as proposed in the fiscal 2004 allowance, additional savings can be realized in regular salary expenditures above and beyond those already taken as part of fiscal 2003 cost containment.
IAC	30,058	Turnover reduction following retirement of agency head.
Juvenile Justice	2,500,000	Savings based on delayed opening of new juvenile justice centers: in Baltimore City and Western Maryland. The fiscal 2003 appropriation included funding for both the Baltimore City Juvenile Justice Center and the Western Maryland Detention Center on the assumption that those facilities would be open for part of the current fiscal year. However, openings at both facilities have been delayed. As a result, additional savings can be realized above and beyond those already taken as part of fiscal 2003 cost containment.
Total	\$5,025,058	

MHEC	Maryland Higher Education Commission
DNR	Department of Natural Resources
DBM-OIT	Department of Budget and Management (Office of Information Technology)
IAC	Interagency Committee on School Construction

Action analysis prepared by: M. Kathleen Gardiner, Simon G. Powell, Matthew D. Riven

2003 BRFA Action Analysis

Program

Name: State Employee Compensation

Agency: Statewide

Program Description: The Governor did not include any performance bonuses, merit increases, or cost-of-living increases in the fiscal 2004 allowance.

Description of Action: The bill confirms that the three components of compensation listed above will not be paid to employees employed by “any entity,” including the University System of Maryland, Morgan State University, and St. Mary’s College of Maryland, to which funds are appropriated in the State budget. The only exception is to aid in faculty retention at the University System of Maryland, Morgan State University, and St. Mary’s College of Maryland.

Action analysis prepared by: Lori J. O’Brien

2003 BRFA Action Analysis

Program

Name: Provider Rates for Nonpublic School Placements

Agency: Maryland State Department of Education (MSDE)

Program Description: Rates for providers of nonpublic placements and rates set for providers under the “Interagency Rates Committee” are established by the Interagency Rates Committee and the State Department of Education.

Description of Action: This bill freezes rates for providers of nonpublic placements and providers whose rates are set by the Interagency Rates Committee at the rates in effect on January 17, 2003. The bill applies this freeze throughout fiscal 2004. Payment in excess of the rates may be made in cases of extreme financial hardship.

The MSDE fiscal 2004 budget allowance for nonpublic special education placements reflects a projected \$4 million in savings from the rate freeze. Absent the enactment of this language the Department of Budget and Management advises that the program would likely incur a deficiency in fiscal 2004. Incorporating savings from the Department of Human Resources results in total potential savings of approximately \$8 million. The Subcabinet for Children, Youth, and Families is authorized to grant hardship exceptions.

Budget bill language permits payment above the frozen rates for hardships that are approved by the Department of Budget and Management, which conflicts with this bill.

Action analysis prepared by: Beth V. McCoy, David C. Romans

2003 BRFA Action Analysis

Program

Name: Injured Workers' Insurance Fund (IWIF) Long-term Liability Account

Agency: Injured Workers' Insurance Fund

Program Description: The IWIF long-term liability account provides a reserve toward the liability for State employees' workers' compensation claims. The long-term liability fund is commonly called the "Unfunded Liability" account, which refers to the difference between what the actuaries have determined is adequate to cover future liability and what the State has deposited in the account. Unfunded liability on June 30, 2003, is estimated to be \$173,462,664; on June 30, 2004, it is estimated to be \$206,383,577.

Estimated Reserves Needed	\$206.0
Beginning Balance of Long-term Liability Account	
Beginning Balance	\$97.5
State's Contribution	20.0
Transfer – 2002 BRFA	-39.2
<i>Transfer – 2003 BRFA</i>	-76.0
Interest	1.5
Ending Balance of Long-term Liability Account	3.8
Balance of Operating Account ¹	27.7
Unfunded Long-term Liability	\$174.5

¹The balance of the operating account offsets the long-term liability of the State.

Description of Action: Two separate transfers are made from the IWIF long-term liability account. The first transfer for \$39.2 million was required under the 2002 BRFA; the second will be made through this bill in the amount of \$76.0 million. Of the \$76.0 million transfer, \$75.0 million is to go to the general fund and \$1.0 million is to be used for enhanced risk management services to the State. If an unexpected high level of workers' compensation claims are made against the State, the level of the fund balances remaining after these transfers may require the State to make additional contributions to cover the claims on a pay-as-you-go basis.

Action analysis prepared by: Lori J. O'Brien

2003 BRFA Action Analysis

Program

Name: University System of Maryland Fund Balance

Agency: University System of Maryland (USM)

Program Description: USM, which consists of 11 degree-granting institutions and 2 research centers, has increased reserves in recent years to strengthen its financial position. Bond rating agencies have indicated that USM should have a fund balance equal to one-half of its outstanding debt to maintain its current Aa3 bond rating. An adequate fund balance allows the system access to indirect debt through public-private partnerships, lower interest rates on debt, and lower issuance costs. It also allows institutions to save for particular purposes and respond to unanticipated emergencies. The sources of the reserves are the unrestricted fund revenue sources of the system: State general funds, tuition and fees, indirect cost recovery related to grants and contracts, and other revenues.

Description of Action: This action transfers \$29 million from the University System of Maryland to the general fund. USM began fiscal 2003 with a fund balance of approximately \$286 million, of which approximately \$69 million was attributable to State funds.

Action analysis prepared by: M. Kathleen Gardiner

2003 BRFA Action Analysis

Program

Name: Maryland Agricultural Land Preservation Fund (MALPF)

Agency: Maryland Department of Agriculture

Program Description: MALPF seeks to preserve agricultural land and woodland by buying permanent conservation easements on land that meets certain criteria.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
<i>2003 BRFA Transfer</i>	<i>\$18,800,000</i>	<i>See Transfer Tax Discussion</i>

Description of Action: This legislation impacts funding for MALPF in multiple fiscal years. First, \$18.8 million in unexpended prior year property and agricultural transfer tax revenues would be transferred to the general fund in fiscal 2003. Second, \$14.7 million in transfer tax revenues that would be transferred to MALPF in accordance with current transfer tax law is redirected to the general fund. This impact is discussed at greater length under discussion of the Transfer Tax. To partially offset the impact of this legislation, the fiscal 2004 general obligation bond allowance includes \$21.2 million for this program.

Action analysis prepared by: Amanda M. Mock

2003 BRFA Action Analysis

Program

Name: Homeownership Programs

Agency: Department of Housing and Community Development

Program Description: Three programs comprise the Homeownership Programs: the Maryland Home Financing Program which makes direct loans to very low-income households to purchase homes; the Reverse Equity Mortgage Program which provides mortgage loans to limited-income elderly homeowners; and the Down Payment and Settlement Expense Loan Program which assists limited-income families with closing costs in the purchase of a home.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$0	\$0
Revenues	2,781,000	2,247,000
Interest/Other Adjustments	6,307,000	6,488,000
Expenditures	7,088,000	8,735,000
<i>2003 BRFA Transfer</i>	<i>2,000,000</i>	<i>0</i>
Ending Balance	\$0	\$0

Description of Action: The transfer of \$2.0 million requires a one-for-one reduction in planned encumbrances for fiscal 2003 because the nonlapsing fund does not have a revolving unencumbered balance.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program Name: Smart Growth Economic Infrastructure Fund (One Maryland)

Agency: Department of Business and Economic Development (DBED)

Program Description: This program provides grants, loans, or equity investments to qualified distressed jurisdictions or MEDCO. Funds can be used for acquisitions, improvements, and rehabilitation of land for industrial sites and parks, development of infrastructure, and shell buildings. Currently there are seven jurisdictions qualified as distressed jurisdictions: Baltimore City and Allegany, Caroline, Dorchester, Garrett, Somerset, and Worcester counties.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$3,700,000	-\$1,050,000
Revenues*	7,500,000	7,500,000*
Interest/Other Adjustments	400,000	500,000
Expenditures/Encumbrances	10,100,000	7,000,000
<i>2003 BRFA Transfer</i>	<i>2,550,000</i>	<i>0</i>
Ending Balance	-\$1,050,000	-\$50,000

*Fiscal 2004 revenues consist of general obligation bond funds.

Description of Action: The \$2,550,000 transfer in fiscal 2003 is attainable with current fund balances. The transfer, however, may ultimately require the delay of some projects until fiscal 2004 depending upon the “readiness” of projects in the pipeline.

The 2002 BRFA transferred \$2.0 million from this program to the general fund.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: Maryland Competitive Advantage Financing Fund (MCAFF)

Agency: Department of Business and Economic Development (DBED)

Program Description: The program provides direct loans to small businesses that are unable to borrow from traditional lenders. Financial assistance is restricted to companies with less than \$1.0 million in annual revenues and fewer than 100 employees. Financial assistance can take the form of loans, loan guarantees, and interest subsidies and can range from \$10,000 to \$100,000. Eligible businesses must be located in a State priority funding area.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$1,600,000	\$950,000
Revenues/General Funds	800,000	0
Interest/Other Adjustments	300,000	300,000
Expenditures	1,300,000	0
<i>2003 BRFA Transfer</i>	<i>450,000</i>	<i>0</i>
Ending Balance	\$950,000	\$1,250,000

Description of Action: The \$450,000 transfer in fiscal 2003 is attainable with current fund balances.

The bill also eliminates the MCAFF program by repealing its authorizing statutory provisions. All remaining unencumbered funds and existing loans will be transferred to the MEDAFF.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: **Equity Participation Program**

Agency: Maryland Small Business Development Financing Authority, Department of
Business and Economic Development (DBED)

Program Description: This program was created to offer financing assistance to small businesses that do not meet the established credit criteria of financial institutions and are unable to obtain adequate business financing in reasonable terms through normal financing channels. The authority currently offers four financing programs: the Contract Financing Program provides loans and loan guarantees for small contractors performing work under federal, State, local government, or public utility contracts; the Long-Term Guaranty Program provides guarantees of loans from private lenders; the Surety Bond Program assists small businesses in obtaining bid, performance, or payment bonds; and the Equity Participation Program assists small businesses through equity participation investments.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$1,841,000	\$1,672,000
Revenues/General Funds	1,905,000	500,000
Interest/Other Adjustments	16,244,000	16,658,000
Expenditures	17,318,000	18,566,000
2003 BRFA Transfer	1,000,000	0
Ending Balance	\$1,672,000	\$264,000

Description of Action: The \$1.0 million transfer in fiscal 2003 is attainable with current fund balances from the Equity Participation Program. Furthermore, program encumbrance activity could be curtailed to ensure the funds are available at the end of the fiscal year.

The fund balance information includes the Contract Finance and Equity Participation programs. The Surety Bond and Guaranty Fund programs have been excluded because the larger than normal fund balances associated with these programs are maintained to provide leverage ratio coverage required by participating financial institutions.

2003 BRFA Action Analysis

Program

Name: Maryland Enterprise Investment Fund

Agency: Department of Business and Economic Development (DBED)

Program Description: The Enterprise Fund provides capital through equity purchases to start-up companies that are developing innovative technologies with commercial applications. Investments, except those made in venture capital limited liability companies, are limited to 25% of a company's total equity or no more than \$500,000 and may not exceed 15 years in duration.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$17,100,000	\$2,400,000
Revenues/General Funds	4,500,000	4,500,000
Interest/Other Adjustments	700,000	300,000
Expenditures	17,900,000	5,900,000
<i>2003 BRFA Transfer</i>	<i>2,000,000</i>	<i>0</i>
Ending Balance	\$2,400,000	\$1,300,000

Description of Action: The transfer of \$2.0 million in fiscal 2003 from the Enterprise Fund is attainable, as a sufficient balance currently exists to meet the transfer. Program activity could also be reduced, e.g., by making fewer investments to meet this transfer. If DBED is aware that the funds will not be there, it can adjust its encumbrance activity accordingly.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: Maryland Economic Development Assistance Authority Fund (MEDAAF)

Agency: Department of Business and Economic Development (DBED)

Program Description: The program provides below-market long-term fixed financing to specific growth industry sector businesses locating or expanding operations in a State priority funding area. Financing can take the form of loans, conditional loans, grants, conditional grants, and investments. The program also provides direct assistance to local jurisdictions or MEDCO to assist with local economic development projects or fund local revolving loan funds.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$45,500,000	\$24,400,000
Revenues/General Funds	2,000,000	0
Interest/Other Adjustments	15,400,000	14,300,000
Expenditures	34,500,000	34,500,000
<i>2003 BRFA Transfer</i>	<i>4,000,000</i>	<i>0</i>
Ending Balance	\$24,400,000	\$4,200,000

Description of Action: The \$4.0 million transfer in fiscal 2003 is attainable with current available balances. A sizable balance exists in the fund, and DBED should be able to adjust encumbrance activity to meet the proposed transfer even if activity levels increase throughout the fiscal year.

The 2002 BRFA transferred \$8.5 million from MEDAAF to the general fund.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: State Use Industries

Agency: Department of Public Safety and Correctional Services – Division of Correction

Program Description: State Use Industries (SUI) provides work and job training for inmates incarcerated in the Division of Correction. State Use Industries produces goods and supplies services at a cost that does not exceed the prevailing average market price. These goods and services are used by local, State, and federal agencies. They are also available for charitable, civic, educational, fraternal, or religious organizations for their own use.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$13,317,355	\$12,203,950
Revenues	39,500,000	38,137,936
Interest/Other Adjustments	0	0
Expenditures	38,613,405	38,137,936
<i>2003 BRFA Transfer</i>	<i>2,000,000</i>	<i>2,000,000</i>
Ending Balance	\$12,203,950	\$10,203,950

Description of Action: SUI is operated as a financially self-sufficient entity for which revenues must meet or exceed expenses. The bill transfers \$2.0 million in fiscal 2003 and 2004 from SUI. The large fund balance is an accumulation of the excess of revenues over expenses. The 2002 BRFA transferred \$2 million in fiscal 2002 funds from State Use Industries to the general fund. The agency's projected fiscal 2004 revenues may be lower than projected due to cutbacks in purchases by other State agencies.

Action analysis prepared by: William M. Honablew, Jr.

2003 BRFA Action Analysis

Program

Name: Program Open Space (POS)

Agency: Department of Natural Resources

Program Description: This program is funded by the transfer tax and expedites the acquisition of outdoor recreation and open space areas and accelerates development and capital renewal of outdoor recreation activities.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
2003 BRFA Transfer	\$3,000,000	<i>See Transfer Tax Discussion</i>

Description of Action: Under this legislation, funding for POS is reduced through several provisions:

- \$3.0 million in fiscal 2003 POS State program funds are redirected to the general fund for cost containment.
- \$20.6 million in transfer tax collections from fiscal 2002 and \$18.1 million in transfer tax collections from fiscal 2003 are redirected to the general fund in fiscal 2003. The excess revenue is the result of the transfer tax revenue estimate being less than the actual revenue attainment for that year. These funds would have been distributed via formula to POS and other transfer tax-funded programs.
- \$55.6 million in additional transfer tax revenue is redirected to the general fund in fiscal 2004. For fiscal 2004, GO bond funding is provided to help offset this decrease.
- Changing the transfer tax allocation formula for fiscal 2005 diverts 50% of the estimated transfer tax special funds to the general fund. Remaining funds are allocated to programs as described in current law. As transfer tax revenues fund POS, the program could be substantially impacted by these reductions. (See discussion under Transfer Tax).

In fiscal 2004, the remaining POS special fund appropriations would be dedicated primarily to program operation and administration costs and critical maintenance projects. To partially offset the impact of this legislation, the fiscal 2004 capital budget includes \$32.1 million in general obligation bond funding for POS.

Action analysis prepared by: Amanda M. Mock

2003 BRFA Action Analysis

Program

Name: Information Technology – Major Projects

Agency: Department of Budget and Management (DBM)

Program Description: The Major Information Technology Project Development Fund provides funding support for certain major information technology projects.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$3,657,745	\$2,730,644
Revenues	30,562,175	4,250,000
Interest/Other Adjustments	0	0
Expenditures	7,861,776	6,910,546
<i>2003 BRFA Transfer</i>	<i>23,627,500</i>	<i>0</i>
Ending Balance	\$2,730,644	\$70,098

Description of Action: The \$23.6 million transfer in fiscal 2003 defers a number of information technology projects that could otherwise have been supported by those funds. The transfer essentially reduces the fund balance below the level needed to support proposed projects requiring prioritization among those projects. That prioritization has been made by DBM and added to by the General Assembly.

Action analysis prepared by: Simon G. Powell

2003 BRFA Action Analysis

Program Name: Dedicated Purpose Fund

Agency: State Reserve Fund

Program Description: The Dedicated Purpose Fund (DPF) was established to retain appropriations for major, multi-year expenditures where the magnitude and timing of cash needs are uncertain and to meet expenditure requirements which may be effected by changes in federal law or fiscal policies, or other contingencies.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$100,770,434	\$11,430,759
Revenues	0	0
Interest/Other Adjustments	0	0
Expenditures	88,428,675	11,430,759
<i>2003 BRFA Transfer</i>	<i>911,000</i>	<i>0</i>
Ending Balance	\$11,430,759	\$0

Description of Action: The bill transfers \$661,000 from the DPF that were dedicated to the Woodrow Wilson Bridge replacement and the Addison Road Metrorail extension and \$250,000 from the DPF that were dedicated to utility restructuring education funds, both in fiscal 2003. Insofar as DPF will no longer support the Maryland Department of Transportation projects this action transfers these residual funds into the general fund.

Action analysis prepared by: Patrick S. Frank

2003 BRFA Action Analysis

Program

Name: Economic Development Opportunities Fund (Sunny Day)

Agency: Department of Business and Economic Development

Program Description: The purpose of the Sunny Day Fund is to enhance the State's competitive position by providing a resource through which extraordinary economic development opportunities may be addressed.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$33,400,000	\$8,800,000
Revenues	3,200,000	3,200,000
Interest/Other Adjustments	-1,300,000	-1,300,000
Expenditures	16,500,000	10,000,000
<i>2003 BRFA Transfer</i>	<i>\$10,000,000</i>	<i>0</i>
Ending Balance	\$8,800,000	\$700,000

Description of Action: This bill transfers \$10.0 million from the fund balance of the Sunny Day Fund to the general fund in fiscal 2003. After the transfer, sufficient funds will still be available to support \$10.0 million in encumbrances during fiscal 2004. Should an extraordinary economic development opportunity be presented and require funds over and above what is available in the Sunny Day Fund, a deficiency appropriation could be provided.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: Vehicle Theft Prevention Fund

Agency: Department of State Police

Program Description: The Vehicle Theft Prevention Council (VTPC) administers vehicle theft prevention grants to jurisdictions around the State using funds from the Vehicle Theft Prevention Fund (VTPF). VTPF is supported by \$2 million from penalties collected for lapsed or terminated insurance coverage and salvage fees collected by the Transportation Trust Fund.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
<i>2003 BRFA Transfer</i>	<i>\$1,315,977</i>	<i>\$1,361,156</i>

Description of Action: In light of the worsening fiscal situation of the State, the budget committees did not approve a fiscal 2003 budget amendment transferring \$1,315,977 to the VTPC for expenditure. This bill transfers \$1.3 million from VTPF to the general fund in fiscal 2003 and \$1.4 million in fiscal 2004.

2003 BRFA Action Analysis

Program

Name: Maryland Housing Fund

Agency: Department of Housing and Community Development

Program Description: The Maryland Housing Fund (MHF) protects the purchasers of revenue bonds sold by the Community Development Administration (CDA) by guaranteeing payment of the mortgage obligation which underlies their securities.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$23,200,000	\$18,200,000
Revenues	5,000,000	5,000,000
Interest/Other Adjustments	0	0
Expenditures	0	0
<i>2003 BRFA Transfer</i>	<i>\$10,000,000</i>	<i>0</i>
Ending Balance	\$18,200,000	\$23,200,000

Description of Action: The bill transfers \$10.0 million from the Unallocated Reserve Fund of the Maryland Housing Fund to the general fund in fiscal 2003. Funds in the Unallocated Reserve Fund are maintained as a general reserve account and are not pledged as insurance reserves to any specific CDA bond program.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: Health Occupation Boards

Agency: Department of Health and Mental Hygiene

Program Description: The boards are responsible for licensing, regulating, and disciplining health professionals.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
<i>BRFA Transfer</i>		<i>\$1,031,500</i>

Description of Action: The bill transfers \$1,031,500 from the fund balances of six health occupation boards to the general fund in fiscal 2004. The transfer is only of funds in excess of each board's target balance amount and only boards with a stable financial history are included. The transfer is allocated as follows:

Kidney Disease Fund:	\$78,000
State Board of Physical Therapy Examiners Fund:	\$244,500
Board of Physician Quality Assurance Fund:	\$476,500
State Board of Podiatric Medical Examiners Fund:	\$2,000
State Board of Professional Counselors and Therapists Fund:	\$12,500
State Board of Social Work Examiners Fund:	\$218,000

Action analysis prepared by: Brian Baugus

2003 BRFA Action Analysis

Program

Name: Universal Services Trust Fund

Agency: Department of Budget and Management

Program Description: The Universal Services Trust Fund supports the Maryland Relay Program which offers services to the hearing-impaired

<u>Item</u>	<u>Fiscal 2003</u>
Starting Balance (March 2003)	\$4,744,000
Estimated Revenues (remainder of year)	1,800,000
Estimated Expenditures (remainder of year)	1,800,000
<i>2003 BRFA Transfer</i>	<i>3,000,000</i>
Ending Balance	\$1,744,000

Description of Action: The \$3 million transfer in fiscal 2003 removes those funds that are surplus to requirements for operating current services under the Maryland Relay Program. This surplus has been accumulated based on a recent rule change by the Federal Communications Commission (FCC) whereby the FCC took over responsibility for payment of services that were traditionally the State's responsibility. Typically the revenues of this program should only cover expenditures.

Action analysis prepared by: Simon G. Powell

2003 BRFA Action Analysis

Program

Name: Maryland Emergency Medical System Operations Fund (MEMSOF)

Agency: N/A

Program Description: MEMSOF is funded by an \$11 surcharge on motor vehicle registrations for certain classes of vehicles. The surcharge was increased from \$8 to \$11 by Chapter 33 of 2001. Interest earned annually on the fund balance is credited to the fund.

Description of Action: The bill authorizes the transfer of \$5,000,000 for fiscal 2004 from MEMSOF to the Low Interest Revolving Loan Account (LIRLA). If the authorized transfer is not made for fiscal 2004, the Governor shall include a special fund appropriation in the fiscal 2005 annual budget bill that would transfer \$5,000,000 from MEMSOF to LIRLA.

For each of the first five fiscal years beginning with the fiscal year after the fiscal year for which the transfer is made, \$1,000,000 of funds in LIRLA shall be transferred to MEMSOF. If the transfer occurs in fiscal 2004, the action would result in a fiscal 2004 MEMSOF ending fund balance of \$1,552,750, and repayment would occur from fiscal 2005 through 2009. If the transfer occurs in fiscal 2005, the action would result in a fiscal 2005 MEMSOF ending fund balance of \$1,676,727, and repayment would occur from fiscal 2006 through 2010.

For fiscal 2004 only, \$403,744 of funds in MEMSOF will be transferred to the Emergency Assistance Trust Account. The General Assembly reduced \$403,744 in general funds for the Emergency Assistance Trust Account in the fiscal 2004 budget bill. The Emergency Assistance Trust Account provides grants or loans to purchase fire equipment by volunteer fire companies.

Action analysis prepared by: Gregory W. Potts

2003 BRFA Action Analysis

Program

Name: Tax Credit Payments

Agency: State Department of Assessments and Taxation (SDAT)

Program Description: The tax credit program provides financial assistance to low-income homeowners, renters, and businesses that operate in designated enterprise zones.

<u>Item</u>	<u>Fiscal 2004</u>
<i>Contingent Reduction</i>	<i>\$10,000</i>
<i>Contingent Reduction</i>	<i>\$10,000,000</i>

Description of Action: The budget bill includes language reducing SDAT's budget contingent on enactment of legislation allowing the State to recover from the counties a portion of the cost associated with property tax administration for local governments. This recovery will be accomplished by withholding \$10,000 from the tax credit funds SDAT provides the local jurisdictions. The \$10,000 reduction is allocated to the counties based on the assessed value of county property. An additional \$10,000,000 is also withheld from the counties based on each county's share of property assessment costs.

Action analysis prepared by: Hiram L. Burch, Jr.

2003 BRFA Action Analysis

Program

Name: Joseph Fund

Agency: State Reserve Fund

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

Description of Action: The 2002 BRFA authorized the use of the fund to support increased Temporary Cash Assistance (TCA) payments in fiscal 2003 and 2004. Because the required increase was nominal, the funds were not needed for TCA payments. With this budget, the Administration proposed using these funds to support the administration of the Department of Human Resources' Child Welfare Program, which supports such activities as foster care and adoption services. The \$8.2 million savings is already reflected in the fiscal 2004 budget for the Department of Human Resources. The bill authorizes the \$8.2 million transfer.

Action analysis prepared by: Patrick S. Frank

2003 BRFA Action Analysis

Program

Name: Local Highway User Revenues

Agency: Maryland Department of Transportation (MDOT)

Program Description: This program shares certain MDOT revenues with local jurisdictions based on each jurisdiction's total county road miles and number of registered vehicles. The shared revenues include motor fuel tax receipts, titling taxes, corporate income taxes, sales tax on rental vehicles, and a portion of motor vehicle registration fees.

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
<i>2003 BRFA Transfer</i>	<i>17,949,407</i>	<i>102,440,128</i>	<i>\$51,220,064</i>

Description of Action: Additional fiscal 2003 highway user revenues are available due to the excess receipts over the estimate assumed in the fiscal 2003 appropriation. This bill reduces local distributions by \$17.9 million in fiscal 2003, \$102.4 million in fiscal 2004, and \$51.2 million in fiscal 2005. For fiscal 2004, the reduction represents approximately 22% of highway user revenues.

The distribution by county of this reduction is shown on the next page. Baltimore City's share of highway user revenues is set at \$170 million for fiscal 2004 and 2005 under the legislation. The counties and municipalities share the remaining revenues per the current formula which is based on road mileage and vehicle registrations.

**State Highway User Revenues
Fiscal 2003 - 2004**

<u>County</u>	<u>FY 2003 Contingent Reduction</u>	<u>FY 2004 Contingent Reduction</u>
Allegany	\$231,139	\$2,064,536
Anne Arundel	953,845	8,519,748
Baltimore City	8,155,818	14,963,702
Baltimore	1,312,353	11,721,950
Calvert	187,070	1,670,911
Caroline	152,472	1,361,878
Carroll	420,889	3,759,383
Cecil	237,065	2,117,464
Charles	289,862	2,589,047
Dorchester	173,874	1,553,046
Frederick	550,165	4,914,076
Garrett	196,800	1,757,824
Harford	485,017	4,332,175
Howard	479,905	4,286,513
Kent	87,811	784,329
Montgomery	1,366,386	12,204,572
Prince George's	1,183,019	10,566,734
Queen Anne's	172,063	1,536,869
St. Mary's	223,372	1,995,157
Somerset	104,326	931,838
Talbot	138,937	1,240,990
Washington	359,959	3,215,160
Wicomico	278,701	2,489,361
Worcester	<u>208,561</u>	<u>1,862,865</u>
Total	\$17,949,407	\$102,440,128

2003 BRFA Action Analysis

Program

Name: Transportation Trust Fund

Agency: Maryland Department of Transportation (MDOT)

Program Description: The Transportation Trust Fund consists of motor fuel tax receipts, titling tax revenues, vehicle registration fees, a portion of the corporate income tax, revenues generated by the modal units of the department, and proceeds from bond sales.

(\$ in Millions)

<u>Item</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>
Starting Balance	\$173.0	\$100.0
Revenues (net)	1,741.0	1,805.0
Interest/Other Adjustments	408.0	413.0
Expenditures	2,072.0	2,608.0
<i>2003 BRFA Transfer</i>	<i>160.0</i>	<i>154.9</i>
Ending Balance	\$100.0	\$100.0

Description of Action: Motor vehicle registration revenues and other user fees from the Motor Vehicle Administration are transferred to the general fund in fiscal 2003 and 2004. MDOT has made operating reductions in fiscal 2003 and 2004 and capital project reductions in fiscal 2003 through 2008 to reduce expenditures sufficiently to permit the transfer of \$315 million (\$160 million in fiscal 2003 and \$155 million in fiscal 2004).

The bill also requires the Governor to prepare a plan for replacing funds transferred from the Transportation Trust Fund.

Action analysis prepared by: Christine A. Romans

2003 BRFA Action Analysis

Program

Name: Maryland Affordable Housing Trust

Agency: Department of Housing and Community Development

Program Description: The trust is a charitable public corporation that was created to promote affordable housing throughout the State. It is funded in part by a portion of the interest generated by title company escrow accounts.

Description of Action: The bill requires the Maryland Affordable Housing Trust fund to be used to support rent subsidy payments under the State Rental Allowance Program in the amount of \$2.3 million and to support grants under the Self-Help Ownership Program in the amount of \$500,000 in fiscal 2004.

Action analysis prepared by: Matthew D. Klein

2003 BRFA Action Analysis

Program

Name: Heritage Structure Rehabilitation Tax Credit

Agency: Department of Housing and Community Development

Program Description: Under the Maryland Heritage Structure Rehabilitation Tax Credit program a person may claim a tax credit equal to 20% of the taxpayer's qualified rehabilitation expenditures for the rehabilitation of a certified heritage structure, for the taxable year in which a certified rehabilitation is completed. The State tax credit under the program may not exceed \$3 million for any single commercial project.

Revenue Savings (\$ in Millions)	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
General Fund	\$3.4	\$19.9	\$15.2	\$2.1	\$0.0
Special Fund (TTF)	\$0.1	\$0.7	\$0.6	\$0.1	\$0.0

Description of Action: For commercial rehabilitations the bill limits the amount of proposed expenditures that may be preliminarily approved for purposes of the credit by the historic trust, between February 1, 2003 and December 2004, to expenditures that in the aggregate will result in no more than \$23 million in tax credits. In tax year 2004, the trust may approve expenditures for commercial rehabilitations in the aggregate that will not exceed \$15 million in tax credits. The table above reflects the estimated revenue savings associated with the cap, based on the estimated timing of when credits will be claimed. Under current law, the program sunsets May 31, 2004.

Action analysis prepared by: Michael Sanelli

2003 BRFA Action Analysis

Program

Name: Corporate Filing Fees

Agency: State Department of Assessments and Taxation (SDAT)

Program Description: The bill raises the fees that business entities are required to pay with their annual reports filed with SDAT. For Maryland and foreign corporations and specified financial institutions, the fee increases from \$100 to \$300. For a real estate investment trust (REIT), the annual filing fee increases from \$25 to \$300. The bill also charges a \$300 fee for the annual filing of a Maryland or foreign limited liability company (LLC), limited liability partnership (LLP), or limited partnership (LP).

The bill increases fees for various documents filed upon business formation and change of formation, and for financing statements filed with SDAT under Title 9 of the Maryland Uniform Commercial Code (Md. UCC). The bill also increases the filing fee for expedited processing of certificates of status.

<u>Item</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
<i>General Fund</i>					
<i>Revenues</i>	\$59,428,750	\$59,428,750	\$59,428,750	\$59,428,750	\$59,428,750
<i>Special Fund</i>					
<i>Revenues</i>	\$403,440	\$403,440	\$403,440	\$403,440	\$403,440

Description of Action: There are approximately 127,800 Maryland corporations, 28,100 foreign corporations, 200 Maryland financial institutions, 200 foreign financial institutions, and 250 REITs that would have their filing fees increased under the bill. In addition, there are approximately 79,000 noncorporate business entities (LLCs, LLPs, and LPs) that currently do not pay a fee with their annual filings. Based on this information, general fund revenues increase by approximately \$55 million annually beginning in fiscal 2004 from fees for annual filings with SDAT.

There are approximately 207,000 documents filed or recorded annually with SDAT for which fees are raised and that involve business formation, change of business formation, or a Md. UCC filing. The fee increases range from \$5 to \$80 and are estimated to generate approximately \$4.4 million in general fund revenues (from all documents) and approximately \$403,000 in special fund revenues (from the expedited processing fees) annually beginning in fiscal 2004.

Total annual general fund revenues from annual filing fees and from documents filed or recorded with SDAT are approximately \$59.4 million

Action analysis prepared by: Ryan Wilson

2003 BRFA Action Analysis

Program

Name: Tax Compliance and Elimination of Graduated Withholding

Agency: Comptroller's Office

Description of Action: The bill makes several changes regarding tax compliance. The fiscal impact of these changes is summarized following the discussion of each provision.

Income Tax – Sales of Property by Nonresidents

The bill requires that certain payments be made to either the Clerk of the Circuit Court or the Department of Assessments and Taxation in order to record a change of ownership in a sale or exchange of real property by a nonresident or nonresident entity. The payment is to be transferred to the Comptroller within 30 business days as a withholding for income taxes due on the sale of the property. The payment is either 4.75% of the total payment for a nonresident or 7% of the total payment for a nonresident entity. Certain exemptions from the payment are specified in the bill.

In most cases, a real estate sale by a nonresident involves property that is not the individual's primary residence, meaning the sale may trigger a capital gain that is taxable under Maryland income tax. Given that the nonresident may not file a Maryland return and the federal return would not necessarily indicate Maryland taxable income, it is difficult under current law to collect Maryland taxes owed from these transactions. The increase in State income tax revenues from the provisions of this bill cannot be reliably estimated at this time, but based roughly on the experience of other states, it is reasonable to assume that the provision would increase tax collections by \$12 million on an annualized basis (\$10 million in fiscal 2004).

Require Withholding Taxes to Be Remitted on More Frequent Schedule

Currently, employers are generally required to remit State withholding tax collections monthly. This bill requires Maryland income tax withheld by an employer to be remitted within three business days after payroll (which, for most employers is biweekly) once \$700 of liability is reached, if total withholding for the prior calendar year was \$15,000 or more. This provision takes effect January 1, 2004. Because \$15,000 of withholding for a calendar year equates to approximately \$250,000 of wages, most businesses will be required to withhold more frequently than under current law. Additional revenues reflect additional interest earnings by the State.

Streamline Bank Attachment Process

This provision streamlines the process by which the Comptroller attaches funds in bank accounts of taxpayers subject to a tax lien. The Comptroller advises that under the proposed streamlining, it would be able to process attachments of tax liens in bulk, thereby increasing the number of

such attachments. This process would be similar to that currently employed for child support enforcement collections. The additional revenues from such an increase in attachments cannot be precisely estimated at this time, but is estimated to be approximately \$10 million in fiscal 2004 (reflecting the current backlog of attachments and the October 1, 2003 effective date of this provision). Future year revenues would decline as the backlog of accounts of tax delinquents declines.

Expansion of License Clearance and Requirement for Agency Verification of Tax Clearance

The bill requires that before various licenses or permits may be renewed, the issuing authority must verify through the Comptroller's Office that the applicant has paid all undisputed taxes and unemployment insurance contributions or that the applicant has provided for payment in a manner satisfactory to the unit responsible for collection. Covered licenses and permits include those governing business occupations and professions, regulated industries, natural resources and environment, health occupations, other licenses granted by the Comptroller, and certain motor vehicle licenses and permits (but not motor vehicle registrations or drivers' licenses). The additional revenues from such an increase in attachments cannot be precisely estimated at this time but based on the experience with current clearance programs, it is expected that collection of delinquent taxes will increase by approximately \$10 million or more annually. This increase could flatten or decline in the out-years, after all licensees have cycled through one renewal. To the extent that additional income taxes are paid, local revenues could also increase.

Permit Direct Salary Attachment for Other Taxes

The Comptroller currently has the authority to directly attach salaries for the individual income tax. This provision extends that authority to all other taxes collected by the Comptroller, such as the sales tax, the admissions and amusement tax, etc. Additional revenues from this action are estimated at \$1.5 million annually.

Require Withholding from Nonresident Contractors

The bill requires any person doing business with a nonresident contractor under a contract for \$50,000 or more to withhold payment of 3% of the contract price until the contract is complete and the Comptroller has issued a tax clearance certificate. For contracts to improve residential real property, only contracts valued at \$500,000 or more are subject to the withholding requirement. The Comptroller advises that there is currently no effective mechanism for collecting sales and withholding taxes from out-of-state contractors. This provision is estimated to raise approximately \$3.0 million annually related to taxes that are already owed but for which there is currently no effective compliance mechanism.

Increase "Safe Harbor" for Estimated Tax Payments from 100% of Last Year's Liability to 110%

Conforming to the federal safe harbor provision (whereby the taxpayer is not charged interest or penalties on taxes owed) of 110% of the previous year's liability will generate approximately \$5.0 million in additional revenues in fiscal 2004 as taxpayers increase their estimated tax payments and/or wage withholdings. Future year revenues of approximately \$1 million per year

reflect additional interest earnings on taxes paid during the year they are owed rather than the following year.

Required State Income Tax Withholding from Racetrack Winnings

The bill requires State income tax withholding whenever federal income tax withholding is required for track winnings. The bill does not impose a new tax on the track winnings, but allows the imposed withholdings to be offset against winners' tax liabilities, raising approximately \$200,000 in fiscal 2004 and \$400,000 in fiscal 2005 and thereafter.

Enable Comptroller to Limit Withholding Exemptions of Tax Delinquents

The Comptroller may currently reduce withholding exemptions in the case of fraud. The bill enables the Comptroller to limit withholding exemptions to the actual exemptions shown on the prior year's return for tax delinquents. The Comptroller would advise the employer as to the allowable number of exemptions. The additional tax collections from this provision are estimated at approximately \$1 million annually.

Advance Sales Tax Due Date By One Day

Sales tax returns and payments are currently due by the twenty-first of the following month. This provision requires returns and payments by the twentieth of the following month. Additional interest earnings to the general fund are estimated at \$250,000 per year. In addition, advancing the date would put the State in compliance with the minimum required under the Streamlined Sales Tax Agreement.

Reduce Electronic Fund Transfer Threshold from \$20,000 to \$10,000

Currently, any tax payments exceeding \$20,000 (except individual income tax payments) must be made by electronic fund transfer. Reducing the threshold results in increased interest earnings to the general fund and reduced processing costs. These savings are estimated at \$700,000 in fiscal 2004 and \$1.4 million in fiscal 2005 and thereafter.

Elimination of Graduated Withholding

Under the bill, all personal income tax would be withheld based on the top marginal income tax rate of 4.75%, without regard to the lower marginal rates actually imposed on the first \$3,000 of taxable income. For fiscal 2004, the State would raise approximately \$52.0 million in additional revenues by collecting additional taxes from withholding during the tax year. To the extent that this withholding was greater than actual tax liabilities, then the State would pay additional amounts as tax refunds. In the meantime, the State would earn additional interest earnings and be able to offset the tax refunds against any other tax liabilities or other debts to the State that the taxpayer might have. These additional earnings and tax liability offsets are estimated to generate ongoing additional State revenues.

Total Revenue Impact

In total, these compliance items are estimated to increase State tax revenues by approximately \$48 million in fiscal 2004. Many of these items, however, use different means to collect the same outstanding tax liabilities. There may therefore be an overlap factor (assumed to be 10%) because any captured tax liabilities can be captured only once, resulting in an estimated \$43.3 million in additional collections.

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Tax Compliance Items					
Withholding from sales of real estate by nonresidents	\$10.0	\$12.0	\$12.0	\$12.0	\$12.0
Remittance of payroll taxes on more frequent schedule	6.5	21.0	22.1	23.2	24.3
Streamline bank attachment process	10.0	12.5	5.0	5.0	5.0
Tax clearance for licenses	10.0	10.0	10.0	5.0	5.0
Permit direct salary attachment for all taxes	1.5	1.5	1.5	1.5	1.5
Withholding against race track winnings	0.2	0.4	0.4	0.4	0.4
Limit withholding exemptions for tax delinquents	1.0	1.0	1.0	1.0	1.0
Advance sales tax due date by one day	0.3	0.3	0.3	0.3	0.3
Reduce EFT threshold from \$20,000 to \$10,000	0.7	1.4	1.4	1.5	1.5
Increase "safe harbor" for estimated tax payments	5.0	1.0	1.0	1.0	1.0
Require withholding from out-of-state contractors	3.0	3.0	3.0	3.1	3.1
less 10% reduction for compliance overlap	-4.8	-6.4	-5.8	-5.4	-5.5
Subtotal - Tax Compliance	\$43.3	\$57.7	\$51.9	\$48.5	\$49.6
Eliminate graduated withholding	\$52.0	\$3.5	\$3.5	\$3.5	\$3.5

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