

**Department of Legislative Services**  
 Maryland General Assembly  
 2004 Session

**FISCAL AND POLICY NOTE**  
**Revised**

House Bill 110 (Chairman, Economic Matters Committee)  
 (By Request – Departmental – Labor, Licensing and Regulation)

Economic Matters

**State Board of Public Accountancy - Special Fund**

This departmental bill changes the funding source for the State Board of Public Accountancy from the general fund to a special fund, creates a State Board of Public Accountancy Fund, and gives the board fee-setting authority.

The bill takes effect June 1, 2004.

**Fiscal Summary**

**State Effect:** General fund revenues would decrease by \$324,900, assuming the current fee structure, and special fund revenues would increase by \$496,400, assuming a fee increase, in FY 2005. Out-year revenues reflect the differences in licensing activity over each two-year period. General fund expenditures would decrease by \$290,000 in FY 2005 and an additional 4.6% annually thereafter. Special fund expenditures would increase by \$434,000 in FY 2005 to cover all costs associated with the board and by 4.6% annually thereafter.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
GF Revenue	(\$324,900)	(\$308,300)	(\$324,900)	(\$308,300)	(\$324,900)
SF Revenue	496,400	472,200	496,400	472,200	496,400
GF Expenditure	(290,000)	(303,300)	(317,300)	(331,900)	(347,200)
SF Expenditure	434,000	454,000	474,800	496,700	519,500
Net Effect	\$27,500	\$13,200	\$14,000	(\$900)	(\$800)

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

**Local Effect:** None.

**Small Business Effect:** The Department of Labor, Licensing, and Regulation (DLLR) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

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## **Analysis**

**Bill Summary:** The bill establishes a State Board of Public Accountancy Fund as a special, nonlapsing fund.

The Secretary of Labor, Licensing, and Regulation will calculate, in consultation with the board, the direct and indirect costs attributable to the State Board of Public Accountancy. The board must establish fees based on the Secretary's calculations. Fees may not increase by more than 12.5% over the previous year's fees.

The bill repeals fees that are set in statute and authorizes the board to set reasonable fees to cover the direct and indirect costs associated with the board in the calculation performed by the Secretary. Current fees in statute remain in effect until the board has set fees in accordance with the provisions in this bill related to cost allocation.

**Current Law:** The board currently deposits the fees it collects into the general fund. The Governor includes a general fund allowance for the board within the budget of DLLR.

**Background:** The State Board of Public Accountancy currently licenses and regulates approximately 19,000 individuals and accounting firms. DLLR advises that license activity for public accountants and firms is staggered, with a greater share of activity occurring in odd-numbered fiscal years. Current fees for accountants and firms are \$15 for an original active license, \$40 for a two-year renewal of an active license, and \$20 for a two-year renewal of an inactive license.

In October 1999, the House Economic Matters Committee formed a work group to study issues identified in the 1998 and 1999 *Joint Chairmen's Report* (JCR) concerning the funding of regulatory boards. Only three of 18 boards generated enough revenues to cover all their direct and attributable indirect costs; the cumulative deficit over those fiscal years for the 18 boards was \$7.1 million. SB 681 was introduced as a departmental bill in 2001 in response to the 1999 JCR; the bill would have created one special fund for the 18 regulatory boards, including the State Board of Public Accountancy, within DLLR. The bill, modeled after the funding method used by the health occupations regulatory programs, was an attempt to ensure that the total costs attributable to these

boards were covered by fee revenue. An amended bill was passed by the Senate but received an unfavorable report from the House Economic Matters Committee.

DLLR advises that this bill is modeled after Chapter 227 of 2003 which, among other things, established a special fund with related fee-setting authority for the five professional design regulatory boards. However, the Department of Legislative Services (DLS) advises that the fee-setting authority and special fund for the design boards was implemented as a pilot program and will terminate on June 30, 2008.

**State Fiscal Effect:** DLLR advises that licensing activity for the State Board of Public Accountancy covered 9,362 and 9,800 licensees in fiscal 2002 and 2003, respectively. Assuming that licensing activity remains stable, general fund revenues would decrease by approximately \$324,900 in fiscal 2005; this estimate accounts for odd-numbered year licensing activity at the current fee levels. General fund revenue decreases in the out-years reflect stable biennial licensing activity at current fee levels. General fund expenditures would decrease by \$290,000 in fiscal 2005; this accounts for all direct costs currently associated with the board. As the indirect costs currently attributable to the board are a paper allocation only and are not included in the board's budget, they are not included in the general fund expenditures. Out-years reflect biennial licensing activity and a growth factor of 4.6% in operating expenses.

Since the bill becomes effective in an odd-numbered fiscal year, special fund revenues must be sufficient in fiscal 2005 to cover all fiscal 2005 costs and generate enough additional funds to cover expenses in fiscal 2006 not met by special fund revenues generated in that year. DLS estimates a fee increase of \$17.50 for each license type would generate sufficient revenue to cover all odd-numbered year costs, create surplus revenues to cover expenditures in even-numbered years when special fund revenues are below costs, and create a balance to cover other unforeseen circumstances that increase expenditures or decrease revenues. Accordingly, assuming license fees are increased by \$17.50 each and the number of licensees remains stable, special fund revenues would increase by approximately \$496,400 in fiscal 2005; this estimate accounts for odd-numbered year licensing activity. Special fund revenues in the out-years reflect stable biennial licensing activity with the fee increase. Special fund expenditures would increase by \$434,000 in fiscal 2005 and by an additional 4.6% annually thereafter; this accounts for all direct and indirect costs associated with the board.

For illustrative purposes, **Exhibit 1** details the special fund revenues and expenditures if all licenses are increased by \$17.50. Under these circumstances, the board would likely not need to consider another license fee increase until fiscal 2009 at the earliest.

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**Exhibit 1**  
**Special Fund Balance**  
**State Board of Public Accountancy**

	<u><b>FY 2005</b></u>	<u><b>FY 2006</b></u>	<u><b>FY 2007</b></u>	<u><b>FY 2008</b></u>	<u><b>FY 2009</b></u>
Starting Balance	\$0	\$62,390	\$80,586	\$102,130	\$77,600
SF Revenues	496,390	472,160	496,390	472,160	496,390
SF Expenditures	434,000	453,964	474,846	496,689	519,537
<b>Ending Balance</b>	<b>\$62,390</b>	<b>\$80,586</b>	<b>\$102,130</b>	<b>\$77,600</b>	<b>\$54,453</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Labor, Licensing, and Regulation; Department of Legislative Services

**Fiscal Note History:** First Reader - February 24, 2004  
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