

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 880 (Delegate James, *et al.*)
 Appropriations

Transfer Tax Special Fund – Repayment of Transfers to the General Fund

This bill requires the repayment of State transfer tax revenues that were diverted from special funds to the general fund in fiscal 2004 and 2005. Beginning in fiscal 2006, the annual repayment must be the lesser of \$20 million or an amount equal to the difference between the cumulative amount of the repayments and the total amount of State transfer tax revenues diverted to the general fund. In addition, beginning in fiscal 2006, the General Assembly must approve a repayment schedule prior to diverting special fund revenues to the general fund.

The bill takes effect July 1, 2004.

Fiscal Summary

State Effect: General fund expenditure increase of \$20.0 million annually for FY 2006 through FY 2014. Corresponding increase in special fund revenues and expenditures of \$20.0 million.

(\$ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revenue	\$0	\$20.0	\$20.0	\$20.0	\$20.0
GF Expenditure	0	20.0	20.0	20.0	20.0
SF Expenditure	0	20.0	20.0	20.0	20.0
Net Effect	\$0	(\$20.0)	(\$20.0)	(\$20.0)	(\$20.0)

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

Local Effect: State aid to local governments under Program Open Space (POS) would increase by \$7.5 million beginning in FY 2006.

Small Business Effect: None.

Analysis

Background: The State transfer tax funds several programs in the Department of Natural Resources (DNR) and the Department of Agriculture. A portion of State transfer tax revenues (3%) is earmarked to defray administrative costs within DNR, the Department of General Services, and the Maryland Department of Planning. The remainder of the revenue is dedicated to various programs including POS, the Maryland Agricultural Land Preservation Fund (MALPF), Rural Legacy, and the Heritage Conservation Fund. **Exhibit 1** shows the normal distribution of State transfer tax revenues after administrative costs are deducted. POS funding is distributed evenly to the State and local governments.

Exhibit 1

Distribution of State Transfer Tax Revenues

POS	75.15%
POS Land Acquisition	1.00%
MALPF	17.05%
Rural Legacy	5.00%
Heritage Conservation Fund	<u>1.80%</u>
Total	100.0%

The Budget Reconciliation and Financing Acts (BRFA) of 2002 and 2003 redirected transfer tax revenues to the general fund. Chapter 440 of 2002 transferred \$11.2 million in excess actual transfer tax collections for fiscal 2001 to the general fund and allocated \$47.3 million to the general fund for fiscal 2003 and 2004 only. This figure was estimated to be approximately equivalent to 50% of transfer tax revenue. Overattainment above revenue estimates would be distributed according to the statutorily-mandated distribution formula.

Chapter 203 of 2003 made the following changes in the distribution transfer tax revenues:

- \$20.6 million in fiscal 2002 transfer tax collections and \$18.1 million in fiscal 2003 transfer tax collections was 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 POS and other transfer tax-funded programs.

- \$55.6 million in additional transfer tax revenues were redirected to the general fund in fiscal 2004. (The 2002 BRFA already stipulated that \$47.3 million in transfer tax revenues should be allocated to the general fund in fiscal 2004.)
- 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. Actual revenues indicate a transfer of approximately \$77.1 million for fiscal 2005.

To partially offset the impact of this diversion of special funds, the fiscal 2004 general obligation bond capital budget included \$32.1 million for POS, \$21.2 million for MALPF, and \$5.0 million for Rural Legacy.

State Fiscal Effect: Approximately \$179.9 million in State transfer tax revenues diverted to the general fund in fiscal 2004 and 2005 will have to be repaid to the appropriate special funds. This includes \$102.8 million diverted in fiscal 2004 and \$77.1 million diverted in fiscal 2005. **Exhibit 2** shows the proposed repayment schedule as specified in the bill. **Exhibit 3** shows the distribution from the special fund, as required by statute, for each \$20 million that is repaid.

Exhibit 2

Proposed Repayment of Transfer Tax Revenues

<u>Fiscal Year</u>	<u>Annual Repayment</u>
2006	\$20,000,000
2007	20,000,000
2008	20,000,000
2009	20,000,000
2010	20,000,000
2011	20,000,000
2012	20,000,000
2013	20,000,000
2014	<u>19,927,591</u>
Total	\$179,927,591

Exhibit 3

Distribution of Transfer Tax Revenue per \$20 Million Repayment

<u>Amounts Distributed to Special Funds</u>	<u>Percentage</u>	<u>Amount</u>
Program Open Space (POS)	75.15%	15,030,000
POS Land Acquisition	1.00%	200,000
MALPF	17.05%	3,410,000
Rural Legacy	5.00%	1,000,000
Heritage Conservation Fund	1.80%	<u>360,000</u>
Total		\$20,000,000

Additional Comments: The Fund Transfers Act of 2004 (SB 509) seeks to transfer \$41.8 million resulting from overattainment in fiscal 2004 and an additional \$70.3 million to the general fund for fiscal 2005.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

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