HB 871

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 871 (The Speaker and the Minority Leader) (By Request – Administration)
Appropriations

Budget Reconciliation Act of 2004

This Administration bill is one of three omnibus bills to help bring the fiscal 2005 budget into balance by modifying current law to provide relief from mandated funding levels in several programs throughout State government. Changes in these provisions of law would effectuate $71.0 million in contingent general fund reductions in the fiscal 2005 budget bill (SB 125/HB 200). Some of this relief has a one-time effect and some of it is ongoing. Additional general fund savings are achieved by deferring or eliminating other funding requirements and by expanding the uses of existing special funds. The bill also withdraws $124.3 million in fiscal 2004 appropriations for several programs and transfers that amount to the general fund. The bill includes a severability clause.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: State spending decreases by $94.8 million in FY 2005, primarily in general funds. About one-half of that spending reduction has a one-time only effect; however, spending continues at a lower level in future years.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	(84,435,300)	(52,496,100)	(74,402,400)	(97,864,100)	(102,676,100)
SF Expenditure	(6,239,300)	2,703,700	403,700	403,700	403,700
FF Expenditure	(4,112,400)	(843,300)	0	0	0
Net Effect	$94,787,000	$50,635,700	$73,998,700	$97,460,400	$102,272,400

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

Local Effect: Local costs will increase, primarily due to shifting certain costs for education to local school systems and repealing the electric utility generating equipment property tax grant.

Small Business Effect: A small business impact statement was not provided by the Administration in time for inclusion in this fiscal note. A revised fiscal note will be issued when the Administration's assessment becomes available.

Analysis

The provisions in the bill have been grouped into like categories and, to the extent feasible, are discussed in the order they appear in the bill. A summary of proposed actions in this bill is included as **Appendix 1**.

Education Funding Formulas

Transportation Grant

The State provides a base student transportation grant to each local school system using a formula to calculate the annual amount. Grants are based on the prior-year appropriation, adjusted annually for enrollment growth and inflation. The inflation adjustment uses the increase in the private transportation category of the consumer price index (CPI) for the Washington-Baltimore metropolitan area. However, annual adjustments may not be less than 3% or more than 8%. The bill alters this formula by setting the minimum threshold at 0% instead of 3%.

The effect of the modified formula depends on the CPI and is illustrated in **Exhibit 1** below. The increase in the private transportation category of the CPI over the next five years is projected to be less than 3% each year. Therefore, the State would realize savings by funding the base student transportation grant at a lower level than it otherwise would. Each year the savings would be magnified due to a lower base from which to calculate the following year's funding. In addition, as the CPI is projected to be negative in fiscal 2006, the minimum threshold of 0% would result in level funding of the inflation component rather than a decrease. However, due to the enrollment component of the transportation grant, some jurisdictions would still realize an increase in their grants. When the CPI is greater than 3%, there would not be a difference between current law and the modification in the bill. The savings for fiscal 2005 due to the bill would be $3.0 million, escalating to $13.3 million in fiscal 2009. The effect on local jurisdictions is shown in **Appendix 2**.

Exhibit 1
Effect of Modification on Base Transportation Grant

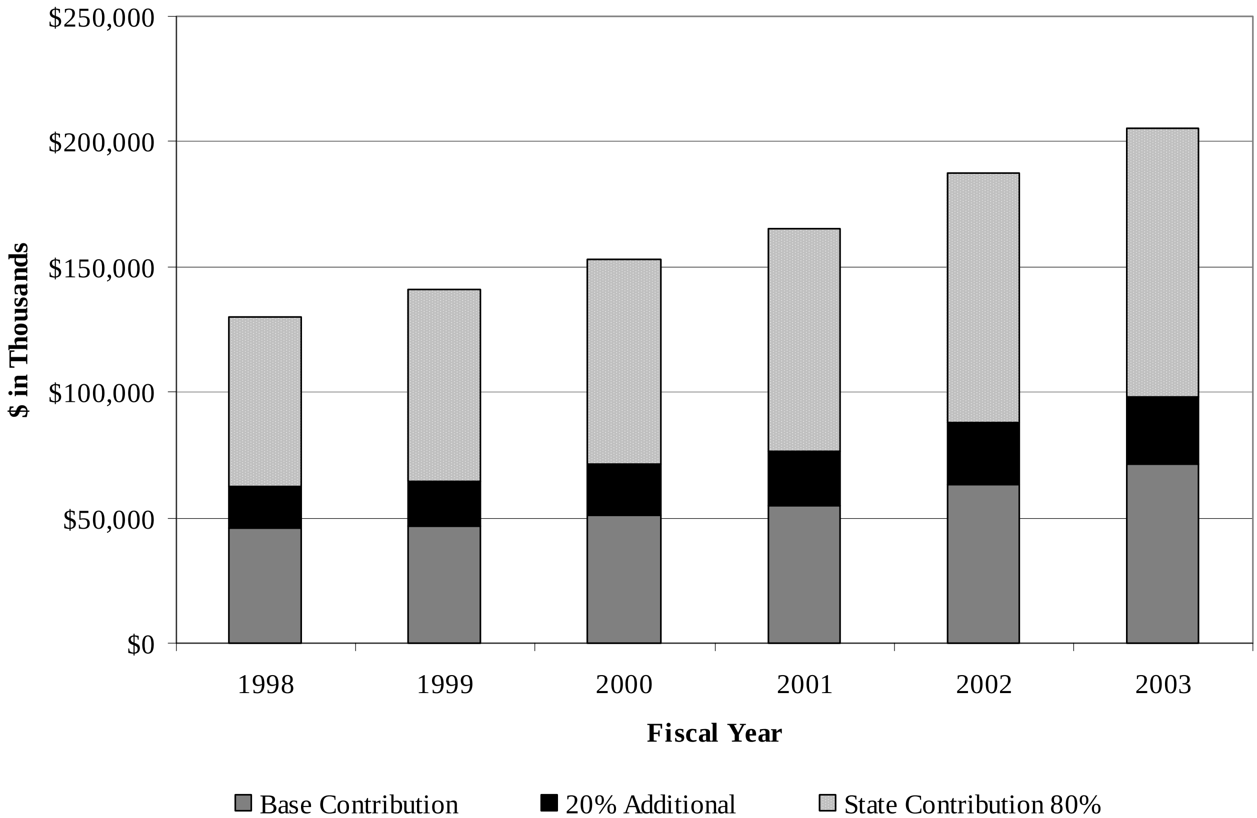
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Projected CPI Increase	1.0%	-1.7%	1.8%	2.1%	2.2%
Current Law					
Adjustment	3.0%	3.0%	3.0%	3.0%	3.0%
Total Funding ($ in 000s)	$156,458	$162,424	$168,472	$174,431	$180,074
Transportation Aid per Pupil	$188.74	$194.71	$200.87	$207.36	$214.83
Under the Bill					
Adjustment	1.0%	0.0%	1.8%	2.1%	2.2%
Total Funding ($ in 000s)	$153,453	$154,701	$158,574	$162,771	$166,735
Transportation Aid per Pupil	$185.11	$185.45	$189.07	$193.50	$198.91
Savings ($ in 000s)	$3,005	$7,724	$9,899	$11,660	$13,339

Nonpublic Placements

Most students receive special education services in the public schools. If an appropriate program is not available in the public schools, however, the student is placed in a private school offering more specialized services. The costs for those students with severe disabilities who are placed in nonpublic day or residential facilities are shared between the local school systems and the State. The bill reduces the State's share of nonpublic placement special education funding by increasing the local share of funding. Under current law, for each nonpublic placement a local school system pays its respective local share of the basic cost of education plus two times the total basic cost of education, and 20% of any expense above that sum. The State pays for the remaining 80% of the costs above the base local funding. The bill shifts more of the costs above the base local share to local school systems by increasing the current local share of 20% to 25% in fiscal 2005 and phasing it upward until it reaches 50% in fiscal 2008 and thereafter. The fiscal 2005 budget bill includes a reduction of $6.4 million for this program, contingent on enactment of legislation reducing the State's share of costs.

Under current law, the State and local school systems actually share in the costs relatively equally despite steadily increasing total costs for nonpublic placements. **Exhibit 2** shows the breakdown of local education agency (LEA) costs as well as the State costs. The proportion of funds from each of these sources has remained relatively consistent for the past several years.

Exhibit 2
Makeup of Total Nonpublic Placement Spending
Fiscal 1998 – 2003



The Maryland State Department of Education (MSDE) has had to request deficiency appropriations in this program for the past several fiscal years due to higher-than-anticipated spending. Costs for the program not only increase due to new enrollments but are also dependent on the level of services the students require. For its out-year projections, MSDE estimates that State costs for nonpublic placements will increase at approximately 6.0% per year under current law. Estimating local costs is more difficult, because cost is directly related to the number of placements and the percent local share of basic costs in the jurisdiction. MSDE does not project the total number of placements that will be required, either statewide or by jurisdiction.

Consequently, estimating the impact of this modification on both the State and local school systems is particularly difficult. However, assuming a 10% increase in costs in the out-years, it appears that the savings to the State could be as much as $60.6 million in fiscal 2009 as shown in **Exhibit 3**. In contrast to the relatively evenly shared costs under current law, the fully phased-in modification would likely require LEAs to pay approximately two-thirds of the total cost of nonpublic placements.

Exhibit 3
Effect of Modification on Nonpublic Placement Program
($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Current Law					
State Share Above Base	80.0%	80.0%	80.0%	80.0%	80.0%
State Funding	$115,287	$126,816	$139,498	$153,447	$168,792
Under the Bill					
State Share Above Base	75.0%	70.0%	60.0%	50.0%	50.0%
State Funding	$108,762	$111,641	$106,113	$98,362	$108,198
Cost Shifted to Locals	$6,525	$15,175	$33,385	$55,085	$60,594

Governor's Teacher Salary Challenge

The bill repeals the Governor's Teacher Salary Challenge program one year before its termination date under current law. Established by Chapters 492 and 493 of 2000, under the program, the State provided a 1% match to school systems that increased teacher salaries by at least 4.0% in fiscal 2001 and 2002. Other components of the program provided grants to less wealthy school systems. Chapter 420 of 2001 continued the funding through fiscal 2003. The Bridge to Excellence in Public Schools Act of 2002 mandated that the funds be phased out by fiscal 2006 as the new Bridge to Excellence formulas significantly increased overall aid to local school systems. The program consists of four components: a percentage component, a wealth adjusted component, a targeted component, and a hold-harmless component. In fiscal 2004, only the targeted and hold-harmless components were funded. Seven jurisdictions received a total of $5.3 million.

The fiscal 2005 budget bill contains a total appropriation of $20.9 million for this program, with a reduction of $12.6 million contingent on enactment of legislation reducing the amount of the grant. As this bill would eliminate the program entirely, the remaining $8.3 million in the budget would be discretionary funding. That $8.3 million would provide jurisdictions that received targeted component funding in fiscal 2004 with equivalent grants in fiscal 2005 and provide a $3.0 million hold-harmless grant to

Montgomery County, which will receive $3.0 million less in the foundation program in fiscal 2005 than in fiscal 2004. Under current law, however, the targeted component would phase down to 25% and only $2.6 million would be required for this component. **Appendix 3** compares funding for each jurisdiction under full statutory funding, the Governor's allowance for fiscal 2005, and statutory funding of only the targeted and hold-harmless components.

Higher Education Funding

Baltimore City Community College

Funding for Baltimore City Community College (BCCC) is based on a percentage of the State's general fund appropriation per full-time-equivalent student (FTES) to the four-year public institutions of higher education. In addition, the Governor is required to propose a budget for BCCC that is equivalent to or greater than the amount proposed the year before. The funding formula for BCCC was established by Chapters 568 and 569 of 1998 to compensate for insufficient local funding. Under the formula, State support per FTES for BCCC was set at 60.0% of the prior year State appropriation per FTES at selected public four-year colleges for fiscal 1999, 63.0% for fiscal 2000, and 66.0% for every year thereafter. However, under the Budget Reconciliation and Financing Act (BRFA) of 2002, the General Assembly reduced the percentage from 66.0% to 60.9% for two years, bumped it up slightly to 63.4% in fiscal 2005, and reset it at 66.0% in fiscal 2006 and every year thereafter.

The bill modifies these funding requirements in two ways. First, it reduces the percentage to 60.1% for fiscal 2005 only, which equates to a reduction of $1.6 million. In subsequent years, the percentage will be 66.0% as under current law. Second, the bill permanently changes the other requirement so that the Governor's proposed budget for BCCC must be equivalent to or greater than the amount of the appropriation in the previous year. This modification would allow the Governor's proposed budget to take into consideration any legislative reductions to the allowance from the previous year as well as any reductions approved by the Board of Public Works. This change equates to a reduction of $1.9 million. The combined effect of these changes in the bill would reduce BCCC's funding from $33.9 million to $30.4 million. The fiscal 2005 budget bill includes a reduction of $3.5 million, contingent on enactment of these provisions.

Private Donation Incentive Grant Program

The Private Donation Incentive Program (PDIP) was established in 1999 to increase fundraising efforts at the community colleges and four-year public colleges and universities. Subject to certain limitations, the State matches eligible contributions from eligible donors. The State's commitment extends to matching pledged amounts paid before January 1, 2006 for the historically black institutions (HBIs) and pledged amounts paid before July 1, 2004 for all other institutions. BRFA of 2002 deferred the portion of fiscal 2002 and 2003 payments for PDIP that were not funded in the fiscal 2003 budget to fiscal 2004. BRFA of 2003 further delayed the time frame for payment of the State match for the non-HBI institutions until fiscal 2005 so that a payment would not be required in fiscal 2004. Consequently, under current law these payments are to be made in equal installments in fiscal 2005 through 2008. The State match for HBIs is to be made in the year following payment of the pledged amount. This bill further defers the State's match for non-HBI institutions by one year, allowing a savings of $2.4 million in fiscal 2005 as shown in **Exhibit 4**.

Exhibit 4
Effect of Modification on Payment Schedule for PDIP
($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Current Law					
Match for HBIs	$1,180	$399	$399	$399	
Match for All Others	$2,376	$2,376	$2,376	$2,376	
Under the Bill					
Match for HBIs	$1,180	$399	$399	$399	
Match for All Others		$2,376	$2,376	$2,376	$2,376
Effect of Deferral	($2,376)				$2,376

Innovative Partnerships for Technology

The bill provides some relief in general funding requirements by slightly modifying the payment schedule for the State's obligations under the Innovative Partnerships for Technology Program. This program was established by Chapters 600 and 601 of 1998 to provide State matching technology grants of up $400,000 to each community college based on private technology donations made in specified years. Technology donations are defined as monies designated for technology purposes such as hardware, software, and computer training. Fiscal 2004 was to have been the fourth and final year for paying out matching grants under the program, but Chapter 413 of 2002 altered and extended the program. The State must also match each dollar of technology donations in fiscal 2003 and 2004 up to $150,000. Similarly, the State must match each dollar received in technology donations in fiscal 2005 and 2006, again up to $150,000.

A provision in BRFA of 2003 deferred the payment due of $3,264,764 to fiscal 2005. No payments were made in fiscal 2004. Additionally, BRFA of 2003 adjusted the timetable for meeting the State's obligations for the second phase of matching grants, such that the State must pay these matches in the third fiscal year following the eligible donation. Fiscal 2006 will be the first year in which donations up to $150,000 must be matched, and fiscal 2009 will be the final year for paying out the matching grants mandated by Chapter 413.

The bill specifies the amount of payments to be made to each community college in fiscal 2005 and allows the portion of payments not funded in fiscal 2005 to be deferred to fiscal 2006. Hence, the Governor's allowance does not fully fund the State's obligations under this program for fiscal 2005. The allowance includes $1,632,382 for this program or 50% of the total due as shown in **Exhibit 5**. Under the bill, the other half of this obligation would be shifted to fiscal 2006, along with the first installment for the second phase of matching grants. The Maryland Higher Education Commission estimates that the second phase will require additional matching funds of $6.6 million between fiscal 2006 and 2009.

Exhibit 5
Obligations Under Phase One
Innovative Partnerships for Technology Program

Eligible Donations FY 99-02	State Payments FY 01-03	Balance Due Fiscal 2005	Fiscal 2005 Allowance	Remaining Balance
$8,737,252	$5,472,488	$3,264,764	$1,632,382	$1,632,382

Joseph A. Sellinger Aid to Nonpublic Institutions

The fiscal 2005 budget bill makes an $11.7 million reduction in aid to nonpublic institutions of higher education, contingent on enactment of legislation to reduce the amount of aid mandated by statute. This bill specifies the amount of aid that would be provided to each institution as shown in **Exhibit 6**. Essentially, the reduction will result in funding the program at the reduced fiscal 2004 level, consistent with the treatment of the public higher education institutions. The distribution of the reduced aid to the nonpublic institutions is consistent with the mandated funding formula that is based on the per student general fund support of selected public institutions in the previous year.

Exhibit 6
Joseph A. Sellinger Aid to Nonpublic Institutions in Fiscal 2005

Eligible Institutions	Fall 03 FTES	State Aid: At Statutory 15.2%	State Aid: Under the Bill	Difference
Baltimore Hebrew University	87.40	$101,384	$73,888	$27,496
Baltimore International College	546.60	634,056	462,095	171,961
Capitol College	386.13	447,911	326,434	121,477
College of Notre Dame	1,383.33	1,604,663	1,169,465	435,198
Columbia Union College	847.60	983,216	716,560	266,656
George Meany Center - NLC	592.20	686,952	500,645	186,307
Goucher College	1,652.57	1,916,981	1,397,080	519,901
Hood College	1,023.40	1,187,144	865,181	321,963
Johns Hopkins University	15,258.53	17,699,895	12,899,539	4,800,356
Loyola College	4,472.83	5,188,483	3,781,324	1,407,159
MD Institute College of Art	1,569.10	1,820,156	1,326,515	493,641
McDaniel College	2,332.57	2,705,781	1,971,951	733,830
Mount St. Mary's College	1,544.13	1,791,191	1,305,405	485,786
St. John's College	636.20	737,992	537,842	200,150
Sojourner-Douglass College	1,055.73	1,224,647	892,513	332,134
Villa Julie College	2,334.03	2,707,475	1,973,185	734,290
Washington College	1,509.07	1,750,521	1,275,766	474,755
Total	**37,231.42**	**$43,188,448**	**$31,475,388**	**$11,713,060**
Grant per FTES		**$1,160.00**	**$845.40**	

St. Mary's College of Maryland

The bill sets the general fund appropriation for St. Mary's College of Maryland for fiscal 2005 at $13.7 million, thereby level-funding the college. This is consistent with the treatment of other public higher education institutions and with aid to nonpublic institutions. The fiscal 2005 budget bill includes a reduction of $301,023 contingent on enactment of this bill. Under current law, funding for the college is based on the prior-year appropriation augmented by the funds required to offset inflation. This involves multiplying the prior-year appropriation by the implicit price deflator, which is 2.2% for fiscal 2005. The mandated grant increase would be $301,023, or the amount of the contingent reduction. In fiscal 2006, the allowance for St. Mary's College would be based on inflating the reduced grant for fiscal 2005.

Including Wor-Wic in Size-Factor Component of the Cade Funding Formula

The fiscal 2005 budget bill includes Wor-Wic Community College in the size-factor component of the Cade funding formula. Under current statute, the size-factor component distributes 2% of total Cade funding equally among community colleges with enrollment less than or equal to 80% of the statewide median. Wor-Wic qualified for the size-factor grant in fiscal 2004 but for fiscal 2005 has enrollment of approximately 82% of the statewide median. This bill would modify eligibility for the size-factor component, for fiscal 2005 only, so that each board of trustees that received funding under that component in fiscal 2004 would receive the same share in fiscal 2005. The revision would distribute the 2% size component equally among seven, rather than six, community colleges.

As the total amount for the size-factor component would not change, the allocation to each community college would be reduced by $69,238 – from $484,662 to $415,424. Due to this lower size-factor component allocation, Garrett Community College would become eligible for a hold-harmless grant of $60,406; whereas due to inclusion in the size-factor component, Wor-Wic would no longer be eligible for a hold-harmless grant of $65,352. The difference in these two hold-harmless grants results in a general fund savings of $4,947.

Cigarette Restitution Fund

In 1998, the five major tobacco companies agreed to settle all outstanding litigation with 46 states, five territories, and the District of Columbia. Under the terms of this agreement, the State has received annual variable payments of $150 to $200 million since 2000. The State established the Cigarette Restitution Fund (CRF) in Chapter 173 of 1999 as a special non-lapsing fund to account for all tobacco settlement revenue. Legislation further specified nine health- and tobacco-related priorities to which no less than 50% of funds must be appropriated annually. To support this goal the following year, the

General Assembly created the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program within the Family Health Administration of the Department of Health and Mental Hygiene (DHMH) to address both the causes and effects of tobacco use. The fund also supports existing health programs such as substance abuse treatment and Medical Assistance.

The bill modifies several provisions related to these programs:

- Under current law, transfer of funds among components of the Tobacco Use Prevention and Cessation Program is limited to 10% of the total amount of funds allocated to the program and must be authorized in the budget bill. The bill repeals the requirement that such a transfer be first authorized in the annual budget bill. Pursuant to current law, the Administrative Component could have funds transferred from it to another component but not have funds transferred to it.

- The bill postpones the next Tobacco Study required under the Tobacco Use Prevention and Cessation Program by one year to fiscal 2006 and makes corresponding changes to required reports. These studies were required annually until BRFA of 2003 changed the requirement to a biennial study. The last Tobacco Study was undertaken in fiscal 2003. This deferral shifts the estimated $2.3 million cost of this study to fiscal 2006.

- Activities aimed at reducing tobacco use have a mandated minimum appropriation level of $21 million. The bill permanently reduces that amount to $12 million. The BRFA of 2003 reduced the required amount to $18 million for fiscal 2004 only. Should this provision fail, contingency language in the fiscal 2005 budget bill requires $8.6 million intended for cancer prevention, screening, or treatment programs to be expended for activities aimed at reducing tobacco use in Maryland.

- Under current law, transfer of funds among components of the Cancer Prevention, Education, Screening, and Treatment Program is limited to 10% of the total amount of funds allocated to the program and must be authorized in the budget bill. The bill repeals the requirement that such a transfer be first authorized in the annual budget bill. Pursuant to current law, the Statewide Academic Health Center Component and the Administrative Component could have funds transferred from them to another component but would not be able to have any funds transferred to them.

- Under current law, the two statewide academic health centers (The Johns Hopkins Institutions and the University of Maryland Medical Group) may each apply for a grant of $2 million to implement the local public health program in Baltimore City under the Cancer Prevention, Education, Screening, and Treatment Program. The bill modifies this amount to a minimum of 9.5% of the total amount for Baltimore

City and local health departments, reflecting reduced availability of funds for the program. Funding for local public health was originally intended at $21 million per year, with at least $4 million reserved for Baltimore City. The bill maintains the same minimum proportion of funds for Baltimore City public health. The Governor has appropriated 12% of local public health funds to each of the institutions in the fiscal 2005 allowance, more than the minimum percentage that would be required.

- The bill indefinitely postpones a comprehensive evaluation of the Cigarette Restitution Fund Program pending availability of funds. This evaluation was originally intended to be conducted at the end of fiscal 2004. CRF evaluation costs are estimated at $1 million. The bill would require a comprehensive evaluation to be submitted within 18 months of an appropriation for the evaluation.

Expanded Use of Existing Funds

Waterway Improvement Fund

The Waterway Improvement Fund (WWIF) within the Department of Natural Resources (DNR) finances projects to expand and improve public boating access throughout the State. Financial support to the fund is derived from the 5% excise tax on the sale of motorized vessels within the State and from 0.3% of the eligible proceeds from Maryland's motor fuel tax. BRFA of 2002 redirected $8 million in unexpended WWIF revenues to the general fund and authorized up to 50% of the monies in WWIF to be used, in fiscal 2003 and 2004 only, for administrative expenses directly relating to implementing the purposes of the fund. This adjustment was made with the understanding that the fund would be evaluated as part of a larger effort to improve DNR's special funds management and collection practices. That evaluation effort was postponed until the 2003 interim.

BRFA of 2003 modified the authorization to use WWIF for administrative expenses in fiscal 2003 and 2004 by repealing the 50% limitation. That modification was necessary because the legislation also diverted $19 million in WWIF monies to the general fund for cost containment purposes: $8 million in unexpended fiscal 2003 funds and $11 million in fiscal 2004 special fund revenues. The DNR Special Funds Work Group concluded its study during the 2003 interim and recommended authorizing use of WWIF for administrative purposes, but establishing a schedule for reducing the 10% administrative cost rate currently applied by DNR by 2% a year. This bill allows WWIF to be used for administrative expenses on a permanent basis.

Maryland Emergency Medical System Operations Fund (MEMSOF)

Funding for Maryland's emergency medical services (EMS) system is provided from a variety of State, local, and volunteer sources. Annual State budget support for EMS is provided from MEMSOF, which is funded by an $11 annual surcharge on motor vehicle registrations for certain classes of vehicles. Interest earned annually on the fund balance is credited to the fund.

Money in MEMSOF is statutorily limited to the several components of Maryland's EMS program. One of these components is the Low Interest Revolving Loan Account (LIRLA), which assists volunteer fire, rescue, and ambulance companies with up to 75% of the cost of purchasing or refurbishing fire and rescue equipment and updating or replacing facilities needed to store equipment. LIRLA is one of two accounts in the Volunteer Company Assistance Fund (VCAF) administered by the Maryland State Firemen's Association. The other account, the Emergency Assistance Trust Account (EATA), provides grants and loans to volunteer companies for replacement of equipment or structures that house equipment. EATA has historically been funded with a general fund grant as it has not been eligible for MEMSOF funding. However, BRFA of 2003 authorized the use of $403,744 in MEMSOF funds for EATA in fiscal 2004 only. This bill broadens the use of MEMSOF to permanently include both accounts within VCAF. The fiscal 2005 budget bill makes $403,744 in special funds for EATA contingent on the enactment of this provision, thereby freeing an equivalent amount of general funds for other purposes.

Lead Poisoning Prevention Fund

The bill repeals the requirement that at least $750,000 of the monies in the Lead Poisoning Prevention Fund within the Maryland Department of the Environment (MDE) be dedicated to the Community Outreach and Education Program, which targets the highest risk lead areas. Instead, monies for that program will be as provided in the State budget. MDE advises that the funding level will not change in fiscal 2005. However, the fiscal 2005 budget bill makes a reduction of $350,000 in the Lead Poisoning Prevention Program contingent on increased fees in the Budget Financing Act of 2004 and the removal of restrictions on the use of funding in this bill.

One-time-only Mandate Relief in Other Areas

Tourism and Arts Council

Funding levels within the Division of Tourism, Film, and the Arts in the Department of Business and Economic Development (DBED) are statutorily mandated as follows:

- The Office of Tourism Development – the Governor must submit a general fund allowance at least equal to the amount the Governor proposed for fiscal 2001, or $6.5 million.

- The Maryland Tourism Development Board (MTDB) Fund – the mandated funding level increases each year until it stabilizes at $8.5 million in fiscal 2007 and subsequent years. These funding levels were rebased in 2001 and again by BRFA of 2002. Under current law, mandated funding in fiscal 2005 is $7 million. The MTDB Fund is a special non-lapsing fund used to plan, advertise, and develop tourism and travel industries in the State.

- The Maryland State Arts Council (MSAC) – the Governor's allowance is indexed to the appropriation from the prior year, increased by the same percentage that the projected general fund revenues for the upcoming year exceed the official revised general fund revenue estimates for the current year. For fiscal 2005, the percentage increase would be about 4.5%, thereby requiring a total allowance of $12.2 million. Most of this funding is for grants to more than 250 arts organizations, individual artists, and county arts councils.

The bill reduces these funding requirements for fiscal 2005 only, consistent with contingent reductions in the fiscal 2005 budget bill. Enactment of this bill would reduce the general funds within the division by $2.6 million – $568,274 for the Office of Tourism Development, $1.5 million for the MTDB Fund, and $538,268 for MSAC – level-funding these programs. The funding levels for the Office of Tourism Development and the MTDB Fund would be as required under current law for fiscal 2006; however, MSAC funding would essentially be rebased due to the formula being indexed to the appropriation.

Deferred Compensation Match

The deferred compensation program is an employer matching program operated under Internal Revenue Code 401(a). Participation in this plan, which became operational on July 1, 1999, is open to all State employee members of the Employees' Pension System (EPS). Upon the inception of the 401(a) deferral plan, the State contributed a dollar-for-dollar amount of up to $600 for each participant. For fiscal 2003, budget bill language reduced the State's maximum contribution to $500. The fiscal 2004 budget eliminated funding for the match for one year.

The fiscal 2005 budget bill includes language in Section 29 that eliminates funding for the deferred compensation employer match for Executive Branch agencies. However, this bill would relieve the State of the obligation to make any employer contributions in fiscal 2005, which would include the Legislative and Judicial Branches. Savings of $7.7 million in general funds are attributed to this action, but the general fund savings would increase by $1.3 million if the match is not provided to any State employees. Corresponding savings in special funds and federal funds would also be realized.

Permanent Relief for Mandated Funding in Other Areas

Senior Citizens Activities Centers

Under current law, the Governor's allowance for the Senior Citizens Activities Center Operating Fund, a special non-lapsing fund within the Department of Aging, must be $500,000 annually. The bill permanently modifies mandated funding to be $400,000 annually. The fiscal 2005 budget bill includes a reduction of $100,000, contingent on enactment of this bill. The Department of Aging awards grants on a competitive basis, with a maximum award of $50,000 per senior center. The department has been disbursing more than $400,000 annually and would likely either reduce the number of grants provided or the award amount per grantee.

Electric Utility Generating Equipment Property Tax Grant

Legislation restructuring Maryland's electric utility tax system was enacted in 1999 (Chapters 5 and 6). Beginning with fiscal 2001, the legislation phased in over two years a 50% personal property tax exemption for machinery and equipment used to generate electricity for sale. To partially offset the revenue losses, the legislation provided grants to the 11 counties impacted by the exemption. The dollar amounts of the grants are written into the statute (Article 24, Section 9-1102). In fiscal 2001, the counties received half the amounts for a total of $15.3 million. In fiscal 2002 and 2003, the grants totaled $30.6 million. The fiscal 2004 appropriation was reduced by $4.4 million, or 14.4%, by the Board of Public Works on July 30, 2003. The adjusted appropriation for fiscal 2004 totals $26.2 million.

This bill repeals the electric utility generating equipment property tax grant, and the fiscal 2005 budget bill eliminates funding for the grant contingent upon the enactment of legislation. **Exhibit 7** shows the allocation of the grants for fiscal 2003 through 2005. The Town of Williamsport receives 35% of Washington County's allocation.

Exhibit 7
Electric Utility Generating Equipment Property Tax Grants

County	FY 2003	FY 2004	FY 2005
Anne Arundel	$7,820,202	$6,752,694	$0
Baltimore City	453,421	340,066	0
Baltimore	1,794,835	1,346,126	0
Calvert	6,096,574	5,425,079	0
Charles	2,522,612	1,891,959	0
Dorchester	187,442	140,582	0
Garrett	11,907	8,930	0
Harford	860,767	645,575	0
Montgomery	2,765,553	2,074,165	0
Prince George's	7,744,806	7,308,604	0
Washington	357,082	267,812	0
Total	**$30,615,201**	**$26,201,592**	**$0**

Individual Development Account Demonstration Program

The bill provides that there shall be no appropriation for the Individual Development Account Demonstration Program within the Department of Human Resources (DHR) in fiscal 2005 or 2006. This demonstration program was authorized for the five-year period from fiscal 2002 through fiscal 2006. Consequently, the bill effectively terminates this program two years early. The fiscal 2005 budget bill includes reductions of $111,000 in general funds and $843,270 in federal funds, contingent on enactment of this bill. The federal funds would be available to be appropriated by budget amendment for other purposes.

The program was implemented to assist low-income people save monies for postsecondary and vocational education expenses other than tuition, acquisition costs for a home, major structural home repairs, or a business capitalization account. The State general funds match on a 2-to-1 basis participants' deposits. Since the program's inception, only 26 savings accounts have been opened. The goal was to serve 56; however, an additional 31 applied but did not meet the eligibility requirements for the savings account. Many of those individuals have been able to take advantage of other services provided, such as financial literacy counseling. It is likely that any reprogrammed federal TANF monies could be used for this or a similar purpose.

Targeted Fiscal 2004 Reversions

The bill withdraws appropriations totaling $124.3 million as shown in **Exhibit 8** and transfers the entire amount to the general fund. With the exception of the $2.9 million for school wiring debt service payments that will not be required in fiscal 2004, the amounts are due to receipt of one-time federal aid.

Exhibit 8
Targeted Fiscal 2004 Reversions in the Bill

Budget Code	Program Name	Amount
D25E03.02	Board of Public Works – Interagency Committee for School Construction – School Wiring	$2,923,440
M00Q01.03	Medical Care Programs Administration – Medical Care Provider Reimbursements	31,300,000
W00A01.01	Maryland State Police – Office of the Superintendent	4,899,660
W00A01.02	Maryland State Police – Field Operations Bureau	52,139,981
W00A01.03	Maryland State Police – Support Services Bureau	20,917,560
W00A01.04	Maryland State Police – Administrative Services Bureau	7,724,085
W00A01.10	Maryland State Police – Information Technology and Communications Bureau	4,372,781
Total Reverted to General Fund		**$124,277,507**

State Fiscal Effect: The changes in mandated funding have a significant impact on State spending in fiscal 2005 and future years. Withdrawn appropriations for fiscal 2004 reduce current-year spending by $124.3 million.

Spending reductions are primarily related to reducing aid to local government by requiring local school systems to pay a greater share of the costs for nonpublic placements, modifying the formula for the base transportation grant to local school systems, terminating the Governor's Teacher Salary Challenge program one year early, and repealing the electric utility generating property tax grant. These four actions reduce State spending by $52.6 million in fiscal 2005 alone, with a greater effect in future years.

State spending for higher education is also constrained by more than $19.5 million in fiscal 2005 only, with about $4.0 million of that mandated spending deferred to future years.

The effect of other spending reductions is primarily one-time only. The total fiscal impact is illustrated in Appendix 1.

Local Fiscal Effect: Local government revenues would decrease in direct correlation to many of the State spending reductions described above. In particular, aid for education would decrease by $22.0 million in fiscal 2005. One of the education programs would have terminated in fiscal 2006, so the ongoing effect of the aid reductions would be related to just two programs – basic student transportation and nonpublic placements. The effect for these two programs is estimated to total $73.9 million by fiscal 2009.

In addition, the 11 local governments that currently receive the electric utility generating property tax grant would be adversely impacted due to its repeal. The amount of the grants is set in statute at $30.6 million total. The grant amounts range from $11,907 for Garrett County to $7.8 million for Anne Arundel County. This action could have a need to increase tax rates or other revenues to offset the State reductions. Thirteen counties raised taxes for fiscal 2004, and several have submitted legislation to seek new or increased tax authority for fiscal 2005.

Additional Information

Prior Introductions: None.

Cross File: SB 510 (The President) (By Request – Administration) – Budget and Taxation.

Information Source(s): Department of Human Resources, Independent College and University Association, Department of Natural Resources, Department of Business and Economic Development, Comptroller's Office, Maryland Association of Boards of Education, Maryland Department of the Environment, Maryland State Department of Education, St. Mary's College, Department of State Police, Maryland Supplemental Retirement Plans, Maryland Association of Counties, Maryland State Treasurer's Office, Department of Health and Mental Hygiene, Maryland Institute for Emergency Medical Services Systems, University of Maryland Medical System, University System of Maryland, Department of Aging, Public School Construction Program, Maryland Higher Education Commission, Department of Budget and Management, Maryland Health Care Foundation, Baltimore City Community College, Department of Legislative Services

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Appendix 1
Summary of Proposed Actions in the Budget Reconciliation Act of 2004
Effect on State Spending

Action	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
General Fund Changes						
Student Transportation*		(3,005,344)	(7,723,557)	(9,898,510)	(11,659,902)	(13,339,302)
Nonpublic Placements*		(6,395,199)	(15,174,992)	(33,384,989)	(55,085,232)	(60,593,755)
Teacher Salary Challenge		(12,632,536)				
BCCC		(3,507,375)	(--)	(--)	(--)	(--)
Private Donation Incentives		(2,375,935)				2,375,935
Innovative Partnerships Tech		(1,632,382)	1,632,382			
Sellinger Aid to Nonpublics		(11,713,060)				
St. Mary's College		(301,023)	(--)	(--)	(--)	(--)
Cade Funding - Com. Colleges		(4,947)				
Office of Tourism Developmt		(568,274)				
MD Tourism Developmt Bd		(1,502,451)				
MD State Arts Council		(538,268)	(--)	(--)	(--)	(--)
Deferred Compensation Match		(9,028,569)				
Senior Activities Centers		(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Electric Util. Gen. Tax Grants		(30,615,201)	(30,615,201)	(30,615,201)	(30,615,201)	(30,615,201)
Individual Developmt Accts		(111,000)	(111,000)			
Use of EATA in MEMSOF		(403,744)	(403,744)	(403,744)	(403,744)	(403,744)
Targeted Reversions	(124,277,507)					
Subtotal Changes to GF	**(124,277,507)**	**(84,435,308)**	**(52,496,112)**	**(74,402,444)**	**(97,864,079)**	**(102,676,067)**
Special Fund Changes						
Tobacco Study - CRF		(2,300,000)	2,300,000			
Comprehensive Evaln - CRF		(1,000,000)				
Waterway Improvemt Fund		(--)	(--)	(--)	(--)	(--)
Lead Poisoning Outreach		(--)	(--)	(--)	(--)	(--)
Use of EATA in MEMSOF		403,744	403,744	403,744	403,744	403,744
Deferred Compensation Match		(3,342,996)				
Subtotal Changes to SF		**(6,239,252)**	**2,703,744**	**403,744**	**403,744**	**403,744**
Federal Fund Changes						
Deferred Compensation Match		(3,269,094)				
Individual Developmt Accts		(843,270)	(843,270)			
Subtotal Changes to FF		**(4,112,364)**	**(843,270)**			
Total Effect	**(124,277,507)**	**(94,786,924)**	**(50,635,638)**	**(73,998,700)**	**(97,460,335)**	**(102,272,323)**

*Contingent reduction number used for fiscal 2005 effect.

Appendix 2
Base Transportation Formula Calculation

County	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
CPI Adjustment	1.0%	0.0%	1.8%	2.1%	2.2%
Allegany	($58,528)	($148,954)	($189,482)	($221,940)	($253,172)
Anne Arundel	($262,462)	($668,890)	($851,035)	($999,437)	($1,140,200)
Baltimore City	($212,262)	($540,206)	($687,187)	($804,902)	($918,171)
Baltimore	($328,991)	($843,372)	($1,078,552)	($1,264,225)	($1,442,872)
Calvert	($69,917)	($181,553)	($235,790)	($280,659)	($321,828)
Caroline	($32,551)	($82,843)	($105,540)	($123,625)	($141,027)
Carroll	($119,986)	($309,735)	($398,253)	($469,764)	($538,276)
Cecil	($62,586)	($162,136)	($208,178)	($246,696)	($283,236)
Charles	($123,057)	($320,064)	($413,434)	($489,576)	($562,463)
Dorchester	($30,185)	($77,068)	($98,077)	($114,902)	($131,091)
Frederick	($139,638)	($360,960)	($467,028)	($556,487)	($644,452)
Garrett	($38,864)	($98,909)	($125,820)	($147,373)	($168,112)
Harford	($151,839)	($388,048)	($493,922)	($578,707)	($660,287)
Howard	($178,449)	($462,242)	($597,818)	($710,213)	($817,129)
Kent	($20,299)	($51,660)	($65,716)	($76,973)	($87,805)
Montgomery	($395,080)	($1,015,907)	($1,306,898)	($1,548,302)	($1,772,453)
Prince George’s	($437,547)	($1,130,618)	($1,450,540)	($1,703,109)	($1,944,935)
Queen Anne’s	($41,073)	($105,239)	($134,701)	($157,911)	($180,368)
St. Mary’s	($78,144)	($201,963)	($259,000)	($305,583)	($350,544)
Somerset	($23,548)	($60,033)	($76,777)	($90,132)	($102,849)
Talbot	($20,242)	($51,525)	($65,627)	($76,873)	($87,694)
Washington	($78,927)	($203,254)	($259,593)	($305,837)	($349,128)
Wicomico	($62,897)	($160,788)	($205,323)	($240,977)	($274,972)
Worcester	($38,271)	($97,591)	($124,217)	($145,698)	($166,239)
Unallocated	$0	$0	$0	$0	$0
Total	**($3,005,343)**	**($7,723,557)**	**($9,898,510)**	**($11,659,902)**	**($13,339,302)**

Appendix 3
Governor's Teacher Salary Challenge
Fiscal 2005 Funding Scenarios

LEA	Full Statutory Funding	Governor's Allowance	Statutory Funding of Hold Harmless and Targeted Components
Allegany	$408,459	$375,874	$187,937
Anne Arundel	1,138,184		
Baltimore City	3,782,067	3,549,296	1,774,648
Baltimore County	1,796,203		
Calvert	132,721		
Caroline	155,390	197,174	98,587
Carroll	468,987		
Cecil	568,897	568,467	284,234
Charles	432,022		
Dorchester	43,127		
Frederick	616,485		
Garrett	86,291		
Harford	673,682		
Howard	833,477		
Kent	41,513		
Montgomery	5,918,217	2,961,776	2,961,776
Prince George's	2,278,413		
Queen Anne's	104,947		
St. Mary's	257,074		
Somerset	112,377	107,130	53,565
Talbot	64,877		
Washington	345,795		
Wicomico	523,635	502,061	251,030
Worcester	111,474		
Total	**$20,894,314**	**$8,261,778**	**$5,611,777**