

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1095
Economic Matters

(Delegate Krebs, *et al.*)

State Board of Public Accountancy Fund

This bill establishes the State Board of Public Accountancy Fund as a special, nonlapsing fund in the Department of Labor, Licensing, and Regulation (DLLR) to cover the actual documented direct and indirect costs of the State Board of Public Accountancy and repeals the provision of current law providing that all fees collected by the board be deposited into the general fund. DLLR, in consultation with the board, must annually calculate the direct and indirect costs attributable to the board. The board is required to establish fees, based on these calculations, effective July 1, 2006. The board is prohibited from increasing each fee established by more than 12.5% of the existing and corresponding fee on an annual basis. In the meantime, the bill establishes and increases specified fees. Unspent monies at the end of each fiscal year in excess of 10% of the direct and indirect costs attributable to the board revert to the general fund by October 1. The Secretary of Labor, Licensing, and Regulation administers the fund. The Office of Legislative Audits is required to audit the fund.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: General fund revenues would decrease by \$453,000, assuming the current fee structure, and special fund revenues would increase by \$578,000 in FY 2006. Out-years reflect stable licensing activity. General fund expenditures would decrease by \$280,000 in FY 2006. Special fund expenditures would increase by approximately \$539,000 in FY 2006 to cover all costs associated with the commission and by 5% annually thereafter.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	(\$453,000)	(\$453,000)	(\$453,000)	(\$453,000)	(\$453,000)
SF Revenue	578,000	578,000	578,000	578,000	578,000
SF Expenditure	539,000	566,000	594,200	624,000	655,200
Expenditure	(280,000)	(294,000)	(308,700)	(324,100)	(340,300)
Net Effect	(\$134,000)	(\$147,000)	(\$160,500)	(\$174,900)	(\$189,900)

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Current Law: Fees collected by the State Board of Public Accountancy are deposited in the general fund. The board is funded through an annual general fund appropriation. **Appendix 1** shows the board's current fee schedule.

Background: The State Board of Public Accountancy qualifies, licenses, and regulates individuals seeking licensure to practice as a certified public accountant and firms that offer public accounting services. The board investigates complaints against licensees as well as complaints related to unlicensed practice. The board may issue a reprimand, suspend or revoke a license, and assess a civil penalty up to \$5,000 for violations of the law and regulations.

The proposed fiscal 2006 budget includes \$1.0 million in general fund revenues and \$927,279 in general fund expenditures. However, this includes pass through revenues and expenditures for exams that are not affected by the bill.

State Fiscal Effect: The bill changes the State Board of Public Accountancy from a generally funded entity to specially funded entity. Beginning in fiscal 2006, all revenues from license fees would be deposited into the State Board of Public Accountancy Fund established by the bill to cover the direct and indirect costs of the board. As a result, general fund revenues and expenditures for the board would decline. The bill also increases specified fees effective July 1, 2005, as shown in **Exhibit 1**. Accordingly, special fund revenues and expenditures would increase by a greater amount.

Exhibit 1
Fee Increases for the State Board of Public Accountancy as Proposed by HB 1095

	<u>Current Fee</u>	<u>Proposed Fee</u>
Original Licenses	\$15	\$50
Active Renewal	\$40	\$50
Inactive Renewal	\$20	\$30
License Reinstatement Fee	\$60	\$75
Original Firm Permit	\$25	\$100
Renewal Firm Permit	\$80	\$100

Based on current and projected licensing patterns, general fund revenues would decrease by approximately \$453,000 in fiscal 2006 and beyond; this estimate accounts for licensing activity at the current fee level. DLLR advises that licensing for the board remains relatively constant – approximately 3% to 5% of licensees do not renew their licenses but are replaced by a 3% to 5% increase in new licensees.

General fund expenditures would decrease by approximately \$280,000 in fiscal 2006. 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. Special fund expenditures reflect direct costs and indirect costs attributable to the board, as well as an enhanced level of service to licensees and permit holders. Out-years reflect stable biennial licensing activity and a growth factor of 5% in operating expenses.

The fee increases proposed by the bill are estimated to further increase special fund revenues by approximately \$125,000 annually. *For illustrative purposes*, **Exhibit 2** details the special fund revenues and expenditures based on current licensing patterns. As shown, the board would have to consider increasing fees for fiscal 2009 to cover its costs.

Exhibit 2
State Special Fund Balance
State Board of Public Accountancy

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Starting Balance	-	\$39,000	\$51,050	\$34,803	(\$11,157)
SF Revenues	\$578,000	578,000	578,000	578,000	578,000
SF Expenditures	539,000	565,950	594,248	623,960	655,158
Ending Balance	\$39,000	\$51,050	\$34,803	(\$11,157)	(\$88,315)

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - March 16, 2005
mp/ljm

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Appendix 1
Current Fee Schedule for the State Board of Public Accountancy

Licenses

Examination Fees

Application Review	\$40
Auditing and Attestation	\$151
Business Environment and Concepts	\$115
Financial Accounting and Reporting	\$142
Regulation	\$125

Individual CPA License – Active

Original First Time	\$15
Renewal	\$40
Reinstatement Fee	\$60

Reciprocal License/Documentation

Initial Application	\$50
Fee After Approval	\$15

Individual CPA License – Inactive

First Time	\$20
Renewal	\$20
Late Fee	\$20

Transfer of Grade

Initial Application	\$25
Fee After Approval	\$15

Limited License – Individual

Application Fee	\$25
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Permits

Initial Application

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25

Permit Fee After Approval

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25

Limited Permit – Application Fee

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25
