Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 127 (The President) (By Request – Administration)
Budget and Taxation

Budget Reconciliation Act of 2005

This Administration bill is one of three omnibus bills required under the Governor's budget plan. The bill supports that plan primarily by providing relief from mandated funding levels for several programs throughout State government. Changes in these provisions of law would effectuate \$73.6 million in contingent general fund reductions in the fiscal 2006 budget bill (HB 150/SB 125). Some of the provisions have a one-time effect and some are ongoing. Additional budget benefits result from deferring or eliminating other funding requirements, expanding the uses of existing special funds, and transferring a portion of transfer tax revenues to the general fund for a multi-year period. The bill includes a severability clause.

The bill takes effect June 1, 2005.

Fiscal Summary

State Effect: General fund revenues increase by \$162.6 million in FY 2006, largely from redirecting a portion of transfer tax revenues; special fund revenues decrease correspondingly. General fund expenditures are reduced by \$80.2 million in FY 2006 primarily due to elimination or reduction of mandated general funding requirements for FY 2006. The net impact on the general fund is \$242.8 million in FY 2006, increasing to \$308.4 million in FY 2007. The longer-term net impact remains significant, but drops to \$112.8 million in FY 2010. Special fund expenditures also decrease by \$151.6 million in FY 2006, primarily due to the transfer tax revenue being redirected to the general fund rather than remaining available for use in land conservation programs.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revenue	$162,582,700	$206,892,500	$96,606,100	$50,606,100	($1,393,900)
SF Revenue	(136,619,800)	(185,286,300)	(75,000,000)	(29,000,000)	23,000,000
GF Expenditure	(80,246,200)	(101,554,300)	(112,244,800)	(113,244,600)	(114,214,700)
SF Expenditure	(151,570,200)	(149,786,300)	(36,100,000)	14,400,000	66,900,000
FF Expenditure	536,400	6,147,000	6,147,000	6,147,000	6,147,000
Net Effect	$257,242,900	$266,799,800	$163,803,900	$114,303,700	$62,773,800

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

Local Effect: The bill would have a significant impact on local jurisdictions. Local revenues would decrease primarily due to the bill's impact on the local share of Program Open Space (POS) revenues, elimination of the electric utility generating equipment property tax grant, elimination of the mandated funding for senior centers, and a reduction in the hold-harmless grants to local area agencies on aging. In addition, community colleges would receive less funding than anticipated in FY 2006 due to deferral of a portion of matching grants. Repeal of the Prevailing Wage Law could reduce public school construction costs for most local jurisdictions.

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

Bill Summary: Specifically, the bill:

Repeals Mandated Funding for the:

- electric utility generating equipment property tax grant paid to 11 counties, in the amount of $30.6 million, as well as the grant itself; and

- Senior Citizen Activities Center Operating Fund, in the amount of $500,000, but retains the fund.

Makes Permanent Reductions in Mandated Funding to the:

- State's share of non-public placement special education funding by increasing the local share (from 20% to 25% above the base local share); and

- activities aimed at reducing tobacco use (from $21 million to $10 million).

Reduces Mandated Appropriations for Fiscal 2006 Only for the:

- Maryland Tourism Development Board, setting the fiscal 2006 general fund appropriation at $5 million;

- State Arts Council, setting the fiscal 2006 general fund appropriation at $11.1 million;

- Baltimore City Community College (BCCC), setting the fiscal 2006 appropriation at $32 million;

- Joseph A. Sellinger aid to private colleges and universities, setting the fiscal 2006 general fund appropriation at $36.2 million and specifying the distribution of those funds;

- Statewide Academic Health Center Public Health Grant to the University of Maryland Medical Group and The Johns Hopkins Institutions, setting the fiscal 2006 special fund appropriation at $1.2 million for each grant; and

- Department of Aging hold-harmless grant to supplement federal grants to local area agencies on aging, setting the fiscal 2006 general fund appropriation at $279,485.

Postpones:

- for another year, repayment of Innovative Partnerships for Technology;

- to the end of fiscal 2006, the comprehensive evaluation of the Cigarette Restitution Fund Program (CRF); and

- by one year, the next Tobacco Study, with corresponding changes to required reports.

Redirects Transfer Tax Revenues:

- from the State's share of POS, up to $5.0 million to operate State forests and parks (from $1.2 million) on a permanent basis;

- from the estimated revenues in the budget to the State general fund for four years, phasing the amount of the transfer from 75% in fiscal 2006, to 66.67% in fiscal 2007, to 50% in fiscal 2008, and to 25% in fiscal 2009; and

- providing that the revenue attained over the amount estimated in the budget goes to the State general fund on a permanent basis.

Authorizes/Mandates Use of Special Funds/Programs for Other Purposes:

- authorizes use of the Community Services Trust Fund by the Developmental Disabilities Administration (DDA) in the Department of Health and Mental Hygiene (DHMH) for purchase of community-based services in fiscal 2006;

- authorizes use of the State Board of Social Work Examiners Fund for the costs of the social worker training academy within the Department of Human Resources (DNR) for fiscal 2006 only; and

- mandates use of the CRF to help support the Medicaid program on a permanent basis at 30%.

Provides Other Relief/Makes Additional Changes:

- eliminates the State match for employee contributions to the deferred compensation program in fiscal 2006 only;

- uses the proceeds and accumulated interest ($13.7 million) from demutualization of MetLife Insurance Company for the State Employee and Retiree Health and Welfare Benefits Program;

- delays abrogation of the Senior Prescription Drug Program to January 1, 2006, and on its termination, requires nonprofit health service plans to subsidize the Maryland Pharmacy Assistance Program;

- repeals the Prevailing Wage Law;

- repeals Senatorial and Delegate Scholarship programs and mandates an appropriation equivalent to the amount previously provided (at least $11.3 million) for need-based scholarships; and

- authorizes use of restricted fiscal 2005 appropriations for a contract at the Charles H. Hickey, Jr. School to be used for State operation of the facility and other programs in the Department of Juvenile Services (DJS).

The bill effectuates the contingent reductions in the fiscal 2006 budget bill as shown in **Exhibit 1**.

Exhibit 1
Contingencies in FY 2006 Budget Bill Effectuated by Provisions in the Budget Reconciliation Act of 2005

Budget Code	Agency	Item Contingent on Enactment of Legislation to:	Amount	Fund
		FY 2006 Reductions:		
A20T00.01	Local Aid	Eliminate Electric Utility Generating Equipment Property Tax Grant	-30,615,201	GF
D26A07.01	Aging	Reduce hold-harmless grant to local area agencies on aging	-162,725	GF
D26A07.02	Aging	Reduce mandated amount for Senior Citizen Activities Center Operating Fund	-500,000	GF
D80Z02.02	MIA	Authorize SPDP subsidy for MPAP effective January 1, 2006	-11,750,000	SF
K00A04.01	DNR	Increase State share of transfer tax revenues to operate State Forests and Parks to $5 million	-3,000,000	GF
K00A05.10	DNR	Alter amount of transfer tax revenues distributed to POS		
		State Share	-77,883,671	SF
		Local Share	-61,348,627	SF
L00A11.11	MDA	Alter amount of transfer tax revenues distributed to MALPP	-27,837,501	SF
M00M02.01	DHMH	Provide funding for community placements for 40 Rosewood residents during FY 2006	-1,227,038	GF
M00Q01.03	DHMH	Authorize SF from premium tax exemption on nonprofit health service plan for MPAP effective January 1, 2006	-11,750,000	GF
R00A02.07	MSDE	Reduce State's share of cost of educating children with disabilities in the nonpublic placements program	-5,799,866	GF
R62I00.03	MHEC	Reduce required appropriation for support of nonpublic institutions of higher education	-10,094,601	GF
R75T00.01	Higher Ed	Reduce required appropriation for support of BCCC	-1,628,829	GF
T00G00.03	DBED	Reduce required appropriation for support of Maryland Tourism Development Board Fund	-1,000,000	GF
T00G00.05	DBED	Reduce required appropriation for support of Maryland State Arts Council	-180,000	GF
Back of Bill	Sec 18	Eliminate payment of employer contributions for State supplemental plans in FY 2006 (Executive Branch share only)	-7,601,505	GF
		Eliminate payment of employer contributions for State supplemental plans in FY 2006 (Executive Branch share only)	-3,713,898	SF
		Eliminate payment of employer contributions for State supplemental plans in FY 2006 (Executive Branch share only)	-3,029,667	FF
		General Fund Contingent Reductions	***-73,559,765***	***GF***
		Special Fund Contingent Reductions	***-182,533,697***	***SF***
		Federal Fund Contingent Reductions	***-3,029,667***	***FF***
		Total Fund Contingent Reductions	**-259,123,129**	**TF**
		FY 2006 Transfers:		
M00F03.06	DHMH	Failure to alter minimum amount to be included in the annual budget for reducing tobacco use -- transfer from cancer prevention, screening, or treatment programs	10,000,000	SF
R62I00.12	MHEC	Repeal Senatorial Scholarships -- transfer amount to Educational Excellence Awards	6,486,000	GF
R62I00.15	MHEC	Repeal Delegate Scholarships -- transfer amount to Educational Excellence Awards	4,813,000	GF
		FY 2005 Deficiency Appropriations:		
F10A02.08	DBM	Authorize use of MetLife demutualization proceeds for health insurance costs	13,645,949	SF

Appendix 1 is a list of acronyms used throughout the document; many of which are otherwise undefined in the subsequent appendices. **Appendix 2** provides additional detail on each provision in the bill, including the State impact and the local impact, if any. An index to the provisions in Appendix 2 is included as the last two pages of this document. A summary of the fiscal 2006 through 2010 impact of each provision with an impact is included as **Appendix 3**.

Additional Information

Prior Introductions: None.

Cross File: HB 148 (The Speaker) (By Request – Administration) – Appropriations.

Information Source(s): Department of Budget and Management; State Department of Assessments and Taxation; Maryland State Treasurer's Office; Maryland Supplemental Retirement Plans; Maryland Insurance Administration; Department of Aging; Department of Human Resources; Department of Health and Mental Hygiene; Department of Juvenile Services; Department of Natural Resources; Maryland Department of Agriculture; Department of Business and Economic Development; Department of Labor, Licensing, and Regulation; Public School Construction Program; Maryland State Department of Education; Maryland Higher Education Commission; Baltimore City Community College; University of Maryland Medical System; Calvert County; Carroll County; Harford County; Montgomery County; Prince George's County; Queen Anne's County; St. Mary's County; Maryland Association of Counties; Maryland Independent College and University Association; Department of Legislative Services

Fiscal Note History: First Reader - February 28, 2005
mp/ljm

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Appendix 1. Acronyms Used in the Budget Reconciliation Act of 2005

ADP	Average Daily Population
BCCC	Baltimore City Community College
BPW	Board of Public Works
BRE	Board of Revenue Estimates
BRFA	Budget Reconciliation and Financing Act
CRF	Cigarette Restitution Fund
CY	Calendar Year
DBED	Department of Business and Economic Development
DBM	Department of Budget and Management
DDA	Developmental Disabilities Administration
DHCD	Department of Housing and Community Development
DHMH	Department of Health and Mental Hygiene
DHR	Department of Human Resources
DJS	Department of Juvenile Services
DLLR	Department of Labor, Licensing, and Regulation
DLS	Department of Legislative Services
DNR	Department of Natural Resources
EPS	Employees' Pension System
FF	Federal Funds
FTES	Full-time-equivalent Student
FY	Fiscal Year
GF	General Funds
GO	General Obligation
ICF-MR	Intermediate Care Facility for the Mentally Retarded
IPT	Innovative Partnerships for Technology Program
MALPP	Maryland Agricultural Land Preservation Program
MDA	Maryland Department of Agriculture
MDOT	Maryland Department of Transportation
MHA	Mental Hygiene Administration
MHEC	Maryland Higher Education Commission
MIA	Maryland Insurance Administration
MPAP	Maryland Pharmacy Assistance Program
MSAC	Maryland State Art Council
MSDE	Maryland State Department of Education
MTDB	Maryland Tourism Development Board
POS	Program Open Space
SF	Special Funds
SPDP	Senior Prescription Drug Program
UF	Unrestricted Funds (includes general funds appropriated to Higher Education)

Appendix 2. Additional Detail on Each Provision in the Bill

Electric Utility Generating Equipment Property Tax Grant

Provision in the Bill: Repeals the grant program and provides permanent relief from mandated funding.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($30.6)	($30.6)	($30.6)	($30.6)	($30.6)

State Effect: Effectuates a $30.6 million GF contingent reduction in the FY 2006 budget bill and reduces GF expenditures by an equivalent amount annually thereafter.

Local Effect: Permanently reduces grant funding for the 11 specified counties and the Town of Williamsport. The reliance on this grant varies by jurisdiction, with the greatest impact on Anne Arundel, Calvert, Charles, and Prince George's counties. For example, the $6.1 million grant in Calvert County is equivalent to the amount of revenue raised from a $0.094 property tax rate; however, the $2.8 million grant in Montgomery County is equivalent to the amount of revenue raised from a $0.003 property tax rate.

Program Description: Chapters 5 and 6 of 1999, the Electric and Gas Utility Tax Reform Act, restructured Maryland's electric utility tax system; that legislation phased in a personal property tax exemption for the machinery and equipment used to generate electricity or steam for sale (both utility and non-utility), beginning in FY 2001. Such property was provided a 25% exemption for FY 2001 and a 50% exemption for all subsequent years. To partially offset local revenue losses, a State grant was established and provided to the 11 counties impacted by the exemption; the Town of Williamsport receives 35% of Washington County's allocation. The grant amounts, totaling $30.6 million, are specified in statute as shown below.

County Grant	Current Law	Under the Bill
Anne Arundel	$7,820,202	$0
Baltimore City	453,421	0
Baltimore	1,794,835	0
Calvert	6,096,574	0
Charles	2,522,612	0
Dorchester	187,442	0
Garrett	11,907	0
Harford	860,767	0
Montgomery	2,765,553	0
Prince George's	7,744,806	0
Washington	357,082	0
Total	**$30,615,201**	**$0**

Recent History: In the 2002 session, the Administration proposed eliminating the FY 2003 grants to help balance the budget; the General Assembly fully funded them. In the 2003 session, the FY 2004 grants were fully funded; however, as part of cost containment, the Administration recommended reducing the appropriation by $4.4 million, or 14.4%, for an adjusted appropriation of $26.2 million. This action was approved by the Board of Public Works (BPW) on July 30, 2003. In the 2004 session, the Administration proposed repealing the grants; the General Assembly fully funded them.

Location of Provision in the Bill: Section 1 (Art. 24, §§ 9-1102, 9-1103), pp. 3 – 4.

Aging - Senior Citizen Activities Center Operating Fund

Provision in the Bill: Retains the program but repeals the mandated appropriation, providing permanent relief.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($500,000)	(--)	(--)	(--)	(--)

State Effect: Effectuates a $500,000 GF contingent reduction in the FY 2006 budget bill. As the mandate to appropriate $500,000 to the fund would no longer exist, expenditures in the out-years could be reduced as well.

Local Effect: Eliminates grant funding for FY 2006 to local jurisdictions with senior centers and potentially reduces the amount available in subsequent years.

Program Description: Chapter 635 of 2000 created the Senior Citizens Activities Center Operating Fund (later renamed the Senior Citizen Activities Center Operating Fund), a special non-lapsing fund within the Department of Aging, with a mandated appropriation of $500,000 in fiscal 2002 and annually thereafter in uncodified language. The fund supplements existing funding for such centers, and at least one-half is targeted to jurisdictions defined as economically distressed. Grants are used to fund health promotion, fitness, and computer programs, services, and equipment purchases at senior centers. Distribution is based on need, and awards are made through a competitive grant process.

All of the funding for FY 2005 has been encumbered; therefore, no monies would be available to fund grants to senior centers in FY 2006. A portion of the funds appropriated for FY 2003 and FY 2004 was not encumbered and carried over to the following year.

Recent History: Cost containment actions approved by BPW on January 8, 2003, reduced the FY 2003 appropriation for these grants by $24,500 as part of cost containment. The General Assembly appropriated $500,000 in FY 2004, but the amount was reduced by cost containment to $400,000. In the 2004 session, the Administration proposed permanently reducing the mandated funding level to $400,000 annually; the General Assembly rejected this proposal and instead codified the funding requirement.

Location of Provision in the Bill: Section 1 (Art. 70B, § 34), pp. 4 – 5;
Section 1 (Chapter 635 of the Acts of 2000, § 2), p. 14.

Aging – Hold-harmless Grants to Local Area Agencies on Aging

Provision in the Bill: Reduces the hold-harmless mandated appropriation for one year and specifies its distribution, setting the appropriation at $279,485.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($162,725)				

State Effect: Effectuates a $162,725 GF contingent reduction in the FY 2006 budget bill.

Local Effect: Reduces revenues in FY 2006 for specified counties.

Program Description: BRFA of 2004 used $442,210 from the Spinal Cord Injury Research Trust Fund to supplement federal grants to local area agencies on aging under Titles IIIB, IIIC1, IIIC2, and IIIE of the Older Americans Act. BRFA also mandated an equivalent GF appropriation for FY 2006 and specified the distribution as shown below. These grants were to hold rural jurisdictions harmless from reductions that would occur from allocating funds based on new census data. Further, BRFA required the Governor to submit legislation at the 2005 legislative session specifying a formula for distribution of federal funds to local jurisdictions under the Older Americans Act beginning in FY 2007. The bill would reduce the allocation of the FY 2006 hold harmless grants to rural jurisdictions by $162,725, as shown below.

Distribution of Hold-harmless Grants in FY 2006

Local Area Agency on Aging	Current Law	Under the Bill	Proposed Reduction
Allegany County	$97,747	$81,092	$16,655
Carroll County	1,035	0	1,035
Cecil County	6,436	0	6,436
Frederick County	3,659	0	3,659
MAC, Inc. – serving Dorchester, Somerset, Wicomico, and Worcester counties	219,573	159,134	60,439
Queen Anne's County	15,784	6,684	9,100
St. Mary's County	519	0	519
Upper Shore Aging, Inc. – serving Caroline, Kent, and Talbot counties	50,898	14,874	36,024
Washington County	46,559	17,701	28,858
Total	**$442,210**	**$279,485**	**$162,725**

Location of Provision in the Bill: Section 13, p. 16.

Education - Nonpublic Special Education Placement Funding

Provision in the Bill: Permanently reduces the State's share of expenditures for nonpublic special education placements by increasing the local share. Specifically, the bill shifts more of the costs above the base local share to local school systems by increasing the local share to 25%.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($5.8)	($6.2)	($6.6)	($6.9)	($7.3)

State Effect: Effectuates a $5,799,866 GF contingent reduction in the FY 2006 budget bill and provides for permanent relief, increasing to $7.3 million GF savings in FY 2010.

Local Effect: Increases local expenditures for nonpublic special education placements by a corresponding amount.

Program Description: 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. Under current law for FY 2006, 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.

Recent History: During the 2004 session, the Administration proposed permanently shifting more of the costs above the base local share to local school systems by increasing the local share to 25% in FY 2005 and phasing it upward until it reached 50% in FY 2008 and thereafter. The General Assembly modified this proposal to have a one-time impact in FY 2005 only, increasing the local share from 20% to 25% for one year.

Location of Provision in the Bill: Section 1 (ED, § 8-415), p. 5.

Higher Education - Scholarships

Provision in the Bill: Repeals the Senatorial ($6,486,000) and Delegate ($4,813,000) Scholarship programs and mandates an appropriation equivalent to the amount previously provided for those scholarships (at least $11,299,000) for need-based scholarships.

Fiscal Impact:

State Effect: Total funding for scholarships in FY 2006 would not change; however, the provision effectuates a contingent transfer of $11.3 million for legislative scholarships to Educational Excellence Awards in the FY 2006 budget bill. The Maryland Higher Education Commission (MHEC) advises that $9.8 million would be directed to the Educational Assistance Grant, increasing that allowance from $53.5 million to $63.4 million, and $1.5 million would be directed to the Guaranteed Access Grant, increasing that allowance from $8.2 million to $9.7 million. The funding level for Educational Excellence Awards is currently discretionary. Mandating a minimum a funding level, however, is not expected to affect support for the program because current funding significantly exceeds the proposed mandated level of funding.

Program Descriptions: The Senatorial Scholarship Program authorizes each senator to award $138,000 annually in scholarship funding to students in the senator's district. To qualify for an award, a student must show a definite financial need. Senatorial scholarships are usually awarded for four-year periods, so repealing the program would affect a portion of the 7,800 student receiving the awards this year. MHEC projects that a phase-out of the program that continues awards already made would cost $4.3 million in FY 2006, $2.9 million in FY 2007, and $1.4 million in FY 2008. If the program is repealed without offering current recipients an opportunity to renew their awards, an estimated 4,500 students would be affected.

The Delegate Scholarship Program authorizes each delegate to award the equivalent of four four-year full-time scholarships during a term of office. The cost of the program increases each year with increases in the cost of tuition and fees. As a result, the proposed FY 2006 appropriation for the scholarships is more than 50% higher than FY 2004 program expenditures. Delegates choose scholarship recipients from their districts on any basis they consider appropriate. Although recipients must reapply for awards annually, to the extent they would have received multiple-year awards, repealing the Delegate Scholarship Program would also directly impact some current recipients.

Senators and delegates may choose to have MHEC distribute their awards to students in their districts.

The Educational Excellence Award Program is the State's primary need-based student financial assistance program. The program comprises two types of grants. Guaranteed Access Grants are awarded to the neediest students to ensure that 100% of their educational costs are paid. Educational Assistance Grants are awarded to low- and moderate-income students to assist in paying educational costs. Both of the grants are awarded by MHEC.

The structure of the State's student financial assistance programs began to shift in FY 2005, when the proposed budget included an increase of $10.7 million for Educational Excellence Awards and began a phase-out of the HOPE Scholarship Program. That phase-out continues in the proposed FY 2006 budget, along with the proposal to move funding for the legislative scholarship programs into the Educational Excellence Award Program.

Location of Provision in the Bill: Section 1 (ED, § 18-310), p. 6; Section 2, p. 14.

Higher Education - Innovative Partnerships for Technology

Provision in the Bill: Defers a portion of payments to community colleges for one year.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($1.8)	$1.8			

State Effect: Defers $1.8 million of the State's obligations to provide matching technology grants for one year, reducing GF expenditures in FY 2006 and increasing GF expenditures by an equivalent amount in FY 2007. The proposed FY 2006 budget includes the $1.6 million deferred in FY 2005 but does not include the $1.8 million for eligible donations made in FY 2003. The State already owes $1.1 million in FY 2007 for eligible donations made in FY 2004.

Local Effect: A portion of matching grant funding for community colleges would be delayed by a year.

Program Description: Chapters 600 and 601 of 1998 established the Innovative Partnerships for Technology Program (IPT). IPT provides State matching technology grants of up to $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. FY 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 made in FY 2003 and FY 2004, up to $150,000. Similarly, the State must match each dollar received in technology donations in FY 2005 and 2006, again up to $150,000.

Recent History: BRFA of 2003 deferred the payment due of $3,264,764 to FY 2005. No payments were made in FY 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. FY 2006 will be the first year in which donations up to $150,000 must be matched, and FY 2009 will be the final year for paying out the matching grants mandated by Chapter 413. BRFA of 2004 allowed the portion of payments not funded in FY 2005 to be deferred to FY 2006; hence, the FY 2005 budget funded just one-half the amount due. The other half of the obligation ($1.6 million) was shifted to FY 2006, along with the first installment for the second phase of matching grants.

Location of Provision in the Bill: Section 5, pp.14 - 15.

Higher Education - Baltimore City Community College

Provision in the Bill: Reduces mandated appropriation for one year, setting the GF appropriation for FY 2006 at $32,000,271.

Fiscal Impact: ($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($1.6)				

State Effect: Effectuates a $1,628,829 GF (UF) contingent reduction in the FY 2006 budget bill. The reductions bring the increase in State aid for BCCC to the same rate of increase as all other community colleges under the Cade formula.

Program Description: BCCC is a State-sponsored two-year degree-granting college on two campuses with more than 80 off-site programs. Chapters 568 and 569, Acts of 1998 established a funding formula for BCCC to compensate for the lack of local funding. Under the formula, State support per full-time-equivalent student (FTES) for BCCC was set at 60.0% of the prior-year State appropriation per FTES at selected public four-year colleges for FY 1999, 63.0% for FY 2000, and 66.0% for every year thereafter. However, under BRFA of 2002, the General Assembly lowered the spending requirement by reducing the percentage from 66.0% to 60.9% for FY 2003 and FY 2004, and phasing the percentage up to 63.4% in FY 2005, and 66.0% in FY 2006 and every year thereafter. Local support for BCCC amounts to approximately $800,000 annually.

Recent History: The General Assembly reduced the FY 2003 GF appropriation by $4.7 million, consistent with the BRFA of 2002. Cost containment actions further reduced the FY 2003 appropriation by $1.2 million. This reduction was consistent with the 4% cost containment taken by other community colleges. BRFA of 2003 reduced FY 2004 GF by $2.5 million. BPW further reduced the appropriation by $1.8 million as part of cost containment measures. In FY 2005, the Administration proposed a $3.5 million reduction through reconciliation legislation. The General Assembly used its authority to take the $3.5 million reduction in the budget bill, reducing funding to 60.1% per FTES at the selected public four-year colleges. The proposed FY 2006 allowance includes a $1.6 million reduction in BCCC's funding, contingent on this bill. The reduction has the effect of reducing the per FTES funding from 66% to 62.8%. Recent funding for BCCC is as follows:

FY 2003	$29,903,818
FY 2004	$29,460,360
FY 2005	$30,425,029

Location of Provision in the Bill: Section 6, p.15.

Higher Education – Sellinger Formula Aid for Nonpublic Institutions

Provision in the Bill: Reduces the mandated appropriation for the Joseph A. Sellinger Formula Aid for Nonpublic Institutions of Higher Education for one year, setting the appropriation for FY 2006 at $36,235,663 and specifying its distribution.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($10.1)				

State Effect: Effectuates a $10,094,601 GF contingent reduction in the FY 2006 budget bill. With the reduction, independent institutions would receive 12.51% of the State's GF per FTES to the four-year public institutions, rather than the mandated 16%. Additionally, under the mandated appropriation, the aid per FTES would be $1,219. With the reduction, the funding per FTES is reduced to $953. The effect of the proposed reduction is shown below by institution.

Eligible Institution	Current Law	Under the Bill	Unfunded Amount
Baltimore Hebrew University	$76,712	$59,997	$16,715
Baltimore International College	673,778	526,973	146,805
Capitol College	493,207	385,746	107,461
College of Notre Dame	1,752,349	1,370,541	381,808
Columbia Union College	1,011,928	791,446	220,482
George Meany Center – NCL	623,640	487,759	135,881
Goucher College	2,048,286	1,601,998	446,288
Hood College	1,430,984	1,119,196	311,788
Johns Hopkins University	19,061,101	14,908,001	4,153,100
Loyola College	5,593,406	4,374,695	1,218,711
Maryland Institute College of Art	2,056,246	1,608,224	448,022
McDaniel College	2,769,410	2,166,001	603,409
Mount St. Mary's College	1,982,911	1,550,867	432,044
St. John's College	774,394	605,666	168,728
Sojourner-Douglass College	1,207,541	944,438	263,103
Villa Julie College	2,966,680	2,320,290	646,390
Washington College	1,807,692	1,413,825	393,867
Total	**$46,330,265**	**$36,235,663**	**$10,094,602**

Program Description: The law governing aid for independent colleges and universities, the Joseph A. Sellinger Program, was introduced in 1977 and adopted for FY 1978. Under this program, qualified independent colleges and universities receive 16% of the prior-year State appropriation per FTES at the four-year public institutions of higher education in Maryland. Seventeen institutions are currently eligible for funding.

Recent History: For FY 2003, the Administration proposed, as part of BRFA of 2002, that the Sellinger Program be reduced by $3.2 million. The General Assembly instead used its authority to reduce the budget and made a $6 million GF reduction. In addition, the General Assembly amended the BRFA of 2002 to reduce mandated funding for the program from 16% to 14.3% per FTES in FY 2003 and FY 2004, increased the funding level to 15.2% in FY 2005, and restored it to 16% in FY 2006 and annually thereafter. Cost containment actions approved by BPW on January 8, 2003, further reduced aid to nonpublic institutions by 4.9%, or $2.3 million.

In FY 2004, the General Assembly reduced the GF appropriation to the Sellinger Program by $11 million. Cost containment actions by BPW on July 30, 2003 further reduced aid to nonpublic institutions by 4%. This represented an additional $1.3 million reduction.

In FY 2005, the Administration proposed reducing the GF appropriation by $11.7 million, contingent on budget reconciliation legislation. The reduction would have resulted in funding the Sellinger Program at the FY 2004 working appropriation level. Instead, the General Assembly used its authority to reduce the appropriation by $7.7 million, funding the program at 12.61% per FTES.

Recent funding for the Sellinger Program is as follows:

FY 2003	$42,598,822
FY 2004	$31,475,395
FY 2005	$35,514,076

Location of Provision in the Bill: Section 7, p.15.

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 payments of from $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 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.

CRF – Tobacco Study

Provision in the Bill: Postpones the next Tobacco Study required under the Tobacco Use Prevention and Cessation Program by one year to FY 2007 and makes corresponding changes to required reports.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($2.0)	$2.0	($2.0)	$2.0	($2.0)

State Effect: This deferral shifts the estimated $2.0 million cost of this study, thereby reducing SF expenditures in FY 2006 and future even-numbered years and increasing them by an equivalent amount in FY 2007 and future odd-numbered years.

Recent History: The last Tobacco Study was undertaken in FY 2003. These studies were required annually until BRFA of 2003 changed the requirement to a biennial study, making the next study due in FY 2005. BRFA of 2004 postponed the study by one year to FY 2006.

Location of Provision in the Bill: Section 1 (HG, § 13-1004), p. 6.

CRF – Comprehensive Evaluation

Provision in the Bill: Postpones the comprehensive evaluation of the Tobacco Use Prevention and Cessation Program and the Cancer Prevention, Education, Screening, and Treatment Program by one year to the end of FY 2006.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($1.0)	$1.0			

State Effect: This deferral shifts the estimated $1.0 million cost of this study, thereby reducing SF expenditures in FY 2006 and increasing them by an equivalent amount in FY 2007.

Recent History: BRFA of 2004 postponed the evaluation by one year to the end of FY 2005.

Location of Provision in the Bill: Section 14, p. 16.

CRF – Tobacco Cessation

Provision in the Bill: Permanently reduces mandated funding for activities aimed at reducing tobacco use from $21.0 million to $10.0 million.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($9.7)	($11.0)	($11.0)	($11.0)	($11.0)

State Effect: Should this provision fail, contingency language in the FY 2006 budget bill requires $10.0 million SF intended for cancer prevention, screening, or treatment programs to be expended for activities aimed at reducing tobacco use (the Governor's proposed budget includes $11.3 million for tobacco use). In subsequent years, SF expenditures for this purpose could be reduced by $11.0 million annually.

Recent History: BRFA of 2003 reduced the required amount to $18.0 million for FY 2004 only. BRFA of 2004 reduced the required amount to $12.0 million for FY 2005 only.

Location of Provision in the Bill: Section 1 (HG, § 13-1015), pp. 6 - 7 .

CRF – Mandated Appropriation for Medicaid

Provision in the Bill: Makes permanent the requirement that CRF monies be appropriated for Medicaid and increases the amount to 30%.

Fiscal Impact: ($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		($43.5)	($51.9)	($52.4)	($52.9)
SF Expends		$43.5	$51.9	$52.4	$52.9

State Effect: In FY 2006, the percentage of SF expenditures for Medicaid would be mandated to increase from 25% to 30%. Although this equates to $6.1 million, Legislative Services notes that a higher percentage of CRF monies than required has been dedicated to the Medicaid program in recent years and that the budget assumes funding at a much higher level ($66.8 million) than would be required ($36.8 million). Consequently, it is assumed that this provision would not have an impact on expenditures in FY 2006. In FY 2007 and subsequent years, however, SF expenditures for Medicaid would increase significantly due to making this funding requirement permanent, with offsetting GF savings.

Recent History: BRFA of 2003 required that 25% of CRF appropriations in FY 2003 through FY 2006 be made for Medicaid.

Location of Provision in the Bill: Section 1 (SF, § 7-317), p. 11.

CRF – Statewide Academic Health Center Public Health Grant

Provision in the Bill: Reduces the mandated appropriation of $2.0 million for each academic health center for one year.

Fiscal Impact: ($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
SF Expends	($1.6)				

State Effect: Under current law, the two statewide academic health centers may each apply for a grant of $2.0 million to implement the local public health program in Baltimore City under the Cancer Prevention, Education, Screening, and Treatment Program. Accordingly, this provision reduces SF expenditures by $1.6 million, setting the grant amount for each health center at $1.218 million each, which is the same funding provided in FY 2005. From the inception of the program, funding of $2.0 million per institution has not been achieved. The proposed FY 2006 budget assumes this reduction.

Local Effect: The public health grant funding for cancer services in Baltimore City would be funded at the same level as in FY 2005. The Johns Hopkins Institutions and the University of Maryland Medical Group would each receive $782,000 less than they otherwise might, which is the same funding provided in FY 2005. From the inception of the program, funding of $2.0 million per institution has not been achieved.

Recent History: BRFA of 2004 reduced funding for these grants to $1.2 million for each academic health center for FY 2005 only.

Location of Provision in the Bill: Section 8, p. 15.

Health Insurance - Senior Prescription Drug Program and the Maryland Pharmacy Assistance Program

Provision in the Bill: Extends the termination date of the Senior Prescription Drug Program (SPDP) by six months to January 1, 2006, and on its termination, redirects the nonprofit health service plan subsidy for SPDP to the Maryland Pharmacy Assistance Program (MPAP). The subsidy to MPAP is limited to $11.75 million in FY 2006 and $23 million in FY 2007 and annually thereafter.

Fiscal Impact: **($ in millions)**

	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
SF Revs	$26.65	$23.00	$23.00	$23.00	$23.00
GF Expends	($11.75)	($23.00)	($23.00)	($23.00)	($23.00)
SF Expends	$26.65	$23.00	$23.00	$23.00	$23.00

State Effect: Effectuates an $11.75 million GF contingent reduction in the FY 2006 budget bill for MPAP. Another $11.75 million in SF would be reduced from SPDP in the MIA budget but would be redirected to MPAP in the DHMH budget. In addition, SF revenues and corresponding expenditures for SPDP would be continued for another six months at a cost of $14.9 million.

Program Description: SPDP subsidizes the cost of prescription drugs for Medicare beneficiaries with incomes up to 300% of the federal poverty level; participants are charged a $10 monthly premium and receive a maximum annual benefit of $1,100 under the plan. There is no deductible, but co-payments of $10, $20, or $25, based on whether the drug is generic, preferred, or non-preferred, respectively, are required. SPDP is funded by premiums, co-payments and a subsidy from a nonprofit health plan, CareFirst BlueCross/BlueShield, which is required to dedicate the value of its premium tax exemption to SPDP. CareFirst administers the program by processing applications, claims, and providing customer service under the direction of the Maryland Health Insurance Plan.

MPAP purchases drugs for income-eligible individuals (up to 116% of the federal poverty level) who do not qualify for Medicaid. Co-payments of $7.50 (for brand-name drugs that are not on the preferred drug list) and $2.50 (for generic and preferred drugs) are required for each eligible original prescription and refill. Matching FF for this previously State funded program became available effective October 1, 2002.

SPDP is scheduled to terminate at the end of FY 2005. This bill would extend the program and the corresponding subsidy until the new federal Medicare prescription drug benefit takes effect (January 2006). Thereafter, the subsidy would be continued and directed to MPAP, to be used in conjunction with GF to draw down matching FF.

Even if the SPDP termination date is not extended and CareFirst is not required to subsidize MPAP, CareFirst would still be required to use funds equal to the value of its premium tax exemption in a manner that serves the public interest. The funds would have to be used in a manner approved by the Insurance Commissioner in CareFirst's premium annual tax exemption report; however, the State would have no other authority over their use as long as CareFirst complied with current public service requirements.

Location of Provision in the Bill: Section 1 (IN, § 14-106), pp. 7 – 8;
Section 1 (Chapter 153 of the Acts of 2002), pp. 13 - 14.

Transfer Tax

The State transfer tax of 0.5% of the consideration paid for the transfer of real property from one owner to another has been used to fund several programs in DNR and MDA. However, before any program-specific allocations are made, 3% of the transfer tax revenue is distributed to the agencies involved in POS for their administration of the program. Approximately 75% of the remaining transfer tax revenue has historically been allocated to POS, which has two main components: a State share and a local share, generally funded at 50% each. In addition, the first $1.0 million from the total POS allocation passes through to DHCD's Heritage Areas Authority.

Recent History: While the State's land preservation programs enjoyed healthy funding through 2002, in recent years, the General Assembly has used transfer tax revenues as a means to balance the State's operating budget. As shown below, budget reconciliation legislation enacted in each of the previous three sessions, has diverted approximately $390 million of transfer tax revenues to the State GF. To compensate, other funding sources, primarily bond funds, have played an important role in funding POS.

Transfer Tax Revenues
Fiscal 2002 – 2005
($ in Millions)

Fiscal Year	Budgeted Transfer Tax Revenues[1]	Amount to Programs	Amount to General Fund	Replacement GO Funds
2002	$117.4	$114.4	$0.0	$0.0
2003	108.7	47.3	58.5	0.0
2004	136.8	9.9	141.5 [2]	58.3
2005	176.2	6.8	189.3 [3]	23.6
Total	**$495.7**	**$178.4**	**$389.3**	**$81.9**

Note: Amount to programs does not include 3% for administrative costs. Amount to GF does not include unencumbered balances transferred by budget reconciliation legislation ($39.8 million).

[1]Reflects estimated revenues plus revenue over attainment from the second prior year.

[2]Includes $18 million in FY 2003 revenue over attainment that would have been budgeted in FY 2005.

[3]Includes $42 million in FY 2004 revenue over attainment that would have been budgeted in FY 2006.

Source: Department of Natural Resources

Overall State Fiscal Impact: Three provisions in the bill affect the distribution noted above. Each provision is discussed separately below; however, the combined impact of these provisions in FY 2006 is a reduction in SF expenditures of $163.3 million, with a corresponding increase in GF revenues. In addition, another $3.8 million in SF are earmarked for another purpose, with a corresponding $3 million GF contingent reduction. The effect on the capital programs that rely on transfer tax funding, however, is even greater with combined SF contingent reductions of $167.1 million: $77.9 million for the State share of POS, $61.3 million for the local share of POS, and $27.8 million for MALPP in MDA.

Property Transfer Tax Allocation in FY 2006

	Current Law	Under the Bill
Transfer Tax Revenue Estimate	**$194,492,000**	**$194,492,000**
Administrative Expenses (3%)	(5,834,760)	(5,834,760)
Attainment Adjustment	65,162,868	-
Transfer to General Fund	(43,386,000)	-
Transfer to General Fund 75% of Revenue		(141,492,930)
Total Available for Allocation	**$210,434,108**	**$47,164,310**
Program Open Space Allocation (75.15%)	**$158,141,232**	**$35,443,979**
Heritage Areas Authority	1,000,000	1,000,000
POS Local	78,570,616	17,221,989
POS State	78,570,616	17,221,989
State Land Acquisition	49,349,706	990
Rural Legacy	8,000,000	7,562,000
State Park Operating Expenses	-	5,000,000
POS Capital Development Eligible	21,220,910	4,659,000
POS Capital Development	20,020,910	4,659,000
State Park Operating Expenses	1,200,000	-
Additional State Land Acquisition Allocation (1%)	**$2,104,341**	**$471,643**
Agricultural Land Preservation (17.05%)	**$35,879,015**	**$8,041,515**
Rural Legacy (5%)	**$10,521,705**	**$2,358,216**
Heritage Conservation Fund (1.8%)	**$3,787,814**	**$848,958**
Total State Land Acquisition	**$51,454,047**	**$472,633**
Total Rural Legacy Program	**$18,521,705**	**$9,920,216**

Overall Local Fiscal Impact: In FY 2006, local government revenues for land acquisition would be reduced due to the contingent reduction in the local share of POS. In addition, as MALPP has a 60-40 matching program with local governments, the reduction in MALPP funding would also affect local government awards.

Transfer Tax – Earmark for Operation of State Forests and Parks

Provision in the Bill: Allows DNR to allocate up to $5.0 million of the State's share of POS funds toward operation of State forests and parks, and maintains a requirement that the only wages paid with these funds are for employees in the State forests and parks.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($3.0)	($3.1)	($3.2)	($3.3)	($3.4)

State Effect: Effectuates a $3.0 million GF contingent reduction in the FY 2006 budget bill and provides permanent relief. Future year savings reflect 3.0% growth in the GF amount of support which would otherwise be required for this purpose. This provision redirects up to $3.8 million annually of the State's share of POS funds from land conservation to operation of the State forests and parks; consequently, total SF expenditures within DNR would not increase but there would be programmatic impacts. The contingent reduction to the State share of POS in the capital program includes this $3.8 million; that $3.8 million would be available for operating purposes instead.

Program Description: DNR has had statutory authority since FY 1999 to use up to $1.2 million of the State's share of POS funds for State forest and park operations. This provision increases the ceiling from $1.2 million to $5.0 million.

Location of Provision in the Bill: Section 1 (NR, § 5-903), pp. 9 – 11.

Transfer Tax – Temporary Allocation to the General Fund

Provision in the Bill: Allocates a percentage of the estimated transfer tax revenues to the GF for four years in accordance with the following schedule: 75% in FY 2006, 66.67% in FY 2007, 50% in FY 2008, and 25% in FY 2009.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$141.5	$125.8	$98.0	$52.0	
SF Expends	($141.5)	($125.8)	($98.0)	($52.0)	

State Effect: Reduces the amount of transfer tax SF revenue in FY 2006 through FY 2009 that is allocated via statutory formula to several State land conservation programs.

Local Effect: Local jurisdictions receive 50% of the transfer tax revenue allocated to POS; accordingly, this provision would reduce their total POS funding allocation.

Location of Provision in the Bill: Section 1 (TP, § 13-209), pp.11 - 13.

Transfer Tax – Permanent Allocation of Revenue Attained Over the Amount Estimated in the Budget to the General Fund

Provision in the Bill: Allocates transfer tax funds attained over the budgeted revenue estimate to the GF permanently.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	$21.8	$82.5	--	--	--
SF Expends	($21.8)	($82.5)	(--)	(--)	(--)

State Effect: Reduces transfer tax funding for State land conservation programs by $21.8 million in FY 2006. Based on the revised transfer tax estimate for FY 2005, the estimated revenue over attainment for FY 2005 will be $82.5 million and would be transferred to the GF in FY 2007. The amount of any over attainment revenues in future years cannot be reliably estimated at this time.

Local Effect: Local jurisdictions receive 50% of the transfer tax revenue allocated to POS; accordingly, this provision would reduce their total POS funding allocation.

Program Description: Under current law, when actual transfer tax revenue collections are greater than the original revenue estimate used as the basis for program appropriations, the amount of the excess is allocated back to the transfer tax distribution formula in the second subsequent fiscal year.

Location of Provision in the Bill: Section 1 (TP, § 13-209), pp.11 - 13.

Labor and Industry - Prevailing Wage Law

Provision in the Bill: Repeals the Prevailing Wage Law.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($396,223)	($408,109)	($420,352)	($432,963)	($445,952)

State Effect: The Governor's proposed FY 2006 budget does not include funding to enforce the Prevailing Wage Law. In FY 2005, this program has a GF budget of $384,682 to cover the seven positions and operating expenses of the unit. Savings from not funding the unit in FY 2006 and subsequent years assume 3% inflation.

The Interagency Committee on Public School Construction advises that side-by-side bids on projects in three counties in 2004 determined that the requirement for prevailing wage rates increases project costs by 4% to 7%. A recent study by Dr. Yale Stenzler, former director of the Maryland Interagency Committee on Public School Construction, found that significant savings could be realized by applying prevailing wage rates to fewer public school construction projects. In FY 2001 through FY 2003, 52 public school construction projects were subject to the State prevailing wage rate law. The study determined that removing the requirement for prevailing wages would reduce contract costs by 5% to 10%.

Accordingly, significant savings could be achieved in the State's capital program, particularly for public school construction and construction of State facilities – the impact would depend on the prevailing wage in the area, the labor costs as a share of total costs, the type of project, and various other factors unique to each project. Much of the savings would be realized in future years as capital projects approved at the 2005 session would be completed over several years. Savings would also be realized in MDOT projects, however, many of these projects would be subject to prevailing wages under the federal Davis-Bacon Act. Nevertheless, based on the proposed FY 2006 budget for the Public School Construction Program, repeal of the Prevailing Wage Law could result in savings of $8 to $16 million. Legislative Services advises, however, that rather than effectuating savings through lower spending at the State level, the number of projects funded would likely be increased instead.

Local Effect: The impact on local government expenditures would depend on the extent to which the jurisdiction had a project valued at $500,000 or more with 50% of the construction costs provided by the State. In all jurisdictions, the State share of eligible costs for school construction is at least 50%; however, since not all construction costs are eligible costs for the purposes of computing State funding, most school construction projects with a share of 50% of eligible costs would not be required to pay prevailing wages. Nevertheless, in most jurisdictions, construction costs could be decreased in direct proportion to the jurisdiction's share of costs. Legislative Services advises that, as both Allegany County and Baltimore City have local prevailing wage laws, they would not be affected by the repeal of this provision.

Program Description: The Prevailing Wage Law regulates hours of labor, rates of pay, conditions of employment, obligations of employers, and the powers and duties of certain public officials under contracts and subcontracts for public works projects in Maryland. Coverage of the Prevailing Wage Law extends to any public works contract funded 50% or more by the State and valued at or above $500,000. By definition, prevailing wages are the hourly wage rates paid in the locality in which the construction work is to be performed. If 50% or more of all workers in a trade are paid exactly the same rate, that rate is considered the prevailing wage. If not, then 40% or more of the employees for each work classification must be paid the same rate in order for the rate to qualify as prevailing. If less than 40% receive the same rate, a weighted average is calculated and used as the prevailing wage. Prevailing wages are based on hourly wage rates as well as employer benefit contributions.

The Prevailing Wage Unit within the Division of Labor and Industry in DLLR issues a wage determination for a project that specifies the wage and fringe benefit rates for each worker classification, determined to be prevailing in that locality for that type of construction. The unit also conducts investigations; as shown below, wage recovery through investigations over the last four fiscal years has ranged from $265,000 in FY 2001 to $778,000 in FY 2003.

	FY 2001	**FY 2002**	**FY 2003**	**FY 2004**
Wages Recovered	$265,000	$575,000	$778,000	$375,000

The federal Davis-Bacon Act of 1931, as amended, requires that federal or District of Columbia public works construction contracts over $2,000 contain a prevailing wage clause. Under the provisions of the Act, contractors or their subcontractors are to pay workers employed directly upon the site of the work no less than the locally prevailing wages and fringe benefits paid on similar projects. In addition to the Davis-Bacon Act itself, Congress has added prevailing wage provisions to approximately 60 statutes which assist construction projects through grants, loans, loan guarantees, and insurance. These involve construction in such areas as transportation, housing, air and water pollution reduction, and health. If a construction project is funded or assisted under more than one federal statute, the Davis-Bacon prevailing wage provisions may apply to the project if any of the applicable statutes requires payment of Davis-Bacon wage rates.

Maryland adopted a Prevailing Wage Law in 1945 (Chapter 999), but it only applied to road projects in Allegany, Garrett, and Washington counties. In 1969, this law was repealed (Chapter 558) and the foundation for the current law was added. The 1969 statute made public works projects of the State costing $500,000 or more subject to the prevailing wage. There have been periodic changes to the law and the definition of prevailing wage. In 1983, the law was broadened to include public works projects in which the State funds 50% or more of the total project costs, and 75% or more in the case of public schools. In 2000, the law was again broadened to apply the same 50% of funding requirement to public school construction projects.

Location of Provision in the Bill: Section 3, p.14.

Economic Development - Maryland Tourism Development Board Fund

Provision in the Bill: Reduces mandated appropriation for one year, setting the GF appropriation for FY 2006 at $5 million.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($1.0)				

State Effect: Effectuates a $1.0 million GF contingent reduction in the FY 2006 budget bill.

Program Description: The Maryland Tourism Development Board Fund is a special, non-lapsing fund within DBED's Division of Tourism, Film, and the Arts. The fund is used by the Maryland Tourism Development Board to fund programs relating to the planning, advertising, promotion, assistance, and development of the tourism industry in Maryland. The Governor is required to submit a budget which includes at least $6 million in GF for the board.

Recent History: Chapters 612 and 613 of 2001 increased the funding level for MTDB to $8.5 million annually. In the 2002 session, however, due to the fiscal condition of the State, the Administration proposed reducing the board's appropriation by $2.5 million. The General Assembly adopted the recommendation, and the BRFA of 2002 re-based the funding to $6.0 million for FY 2003 and FY 2004, $7.0 million for FY 2005 and 2006, and $8.5 million in FY 2007 and beyond. In the 2004 session, the Administration proposed a $1.5 million reduction to FY 2005 MTDB funding through reconciliation legislation. The General Assembly used its authority to make the reduction through the budget instead. In addition, BRFA of 2004 re-based mandated funding at $6 million annually, with no escalation in future years.

Location of Provision in the Bill: Section 4, p.14.

Economic Development – Maryland State Arts Council

Provision in the Bill: Reduces mandated appropriation for one year, setting the GF appropriation for FY 2006 at $11,100,137.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($180,000)				

State Effect: Effectuates a $180,000 GF contingent reduction in the FY 2006 budget bill.

Program Description: MSAC is under the authority of DBED's Division of Tourism, Film, and the Arts. MSAC awards grants to individuals, not-for-profits, and tax-exempt organizations for arts projects and programming. The council also provides technical and advisory assistance to individuals and groups. The Governor is required to submit a budget in which the GF allowance for MSAC reflects the amount approved by the General Assembly for the prior year, plus an increase tied to the Board of Revenue Estimates estimates of total GF revenues.

Recent History: GF appropriations for the last three fiscal years have been reduced through budget actions by $1.5 million, $3.5 million, and $438,268 in FY 2003, FY 2004, and FY 2005, respectively. In FY 2004 and FY 2005, contingent reductions were proposed by the Administration; instead, the General Assembly used its authority to reduce the Governor's budget. In addition, the formula that calculates the allowance for MSAC has been revised in each of the last two sessions through the BRFAs for 2003 and 2004.

Location of Provision in the Bill: Section 11, p.16.

Health – Use of Community Services Trust Fund for DDA Community-based Services

Provision in the Bill: Authorizes use of the Community Services Trust Fund by the Developmental Disabilities Administration in DHMH for purchase of community-based services for 40 individuals leaving Rosewood and 40 individuals on the waiting list for community-based services.

Fiscal Impact: **($ in millions)**

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Revs	($0.7)	($1.4)	($1.4)	($1.4)	($1.4)
SF Revs	$2.6				
GF Expends	($1.2)	$3.0	$3.0	$3.0	$3.0
SF Expends	$2.6				
FF Expends	$2.3	$4.9	$4.9	$4.9	$4.9

State Effect: Effectuates a $1,227,038 GF contingent reduction in the FY 2006 budget bill. The estimated FY 2006 cost for the community placements is $4.9 million: $2.6 million SF from the Community Services Trust Fund and $2.3 million in matching FF. The principal in the DDA account of the Community Services Trust Fund would be reduced from $10.1 million to $7.5 million. The total costs of the placements, made throughout the course of the fiscal year, would not be fully realized until FY 2007, when total costs would be paid with a combination of GF and FF. A GF revenue loss of $687,141 in FY 2006 and $1.4 million in subsequent years is anticipated due to lower collections from the 6% quarterly assessment on all ICF-MR income and lower recoveries from the federal government.

Program Description: Rosewood Center, an intermediate care facility for the mentally retarded located in Owings Mills, currently has a patient census of 200 residents. The bill would move 40 of these residents from Rosewood Center to the community in FY 2006. In addition, the language would allow for 40 residential placements from the waiting list for community services. The number of individuals waiting for community services is 4,041 as of January 1, 2005. FY 2006 placements would be supported with a one-time use of monies from the Community Services Trust Fund, which consists of proceeds from the sale or long-term lease of property at the State residential centers. The Community Services Trust Fund has two accounts, one for proceeds from DDA facilities and one for MHA facilities. Under current law, interest on the DDA account may be transferred into the Waiting List Equity Fund and used to provide community-based services to individuals eligible for but not receiving them.

The waiting list initiative, which ended in FY 2003, was a five-year initiative to provide at least one State service to each person on the waiting list for community services. At the end of FY 2003, the initiative had provided at least one requested service to each of the 5,977 individuals on the waiting list as of January 1, 1998. Expansion of community-based services has continued since the conclusion of the waiting list initiative. DDA estimates that it will serve 3,152 more individuals in FY 2006 than in FY 2003, bringing the total number served to 21,925.

Location of Provision in the Bill: Section 9, p. 15.

Human Resources – Use of State Board of Social Work Examiners Fund for a Social Worker Training Academy

Provision in the Bill: Authorizes use of the State Board of Social Work Examiners Fund in DHMH to be used for the costs of the social worker training academy in DHR for one year.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends		$425,000	$425,000	$425,000	$425,000
SF Expends	$425,000				
FF Expends	$1,275,000	$1,275,000	$1,275,000	$1,275,000	$1,275,000

State Effect: Uses SF from the State Board of Social Work Examiners Fund to match $1.275 million in FF for this initiative. The federal Title IVE funds being used require a 25% match. The projected FY 2006 ending fund balance of the State Board of Social Work Examiners Fund would be reduced by $425,000, from $1.3 million to approximately $860,000. If a proposed 30% fee reduction is implemented in FY 2006, the board's fund balance would drop to about $440,000. In the out-years, it is assumed that funding for the initiative would continue at the same level, using GF to match FF. It is possible that training monies within the DHR budget would be redirected to this purpose.

Program Description: The social work profession in Maryland is regulated by the State Board of Social Work Examiners within DHMH, whereas DHR is the largest single employer of social workers in the public sector in Maryland. The board is self-supporting with a non-lapsing special fund from license fee revenue. The board's fund balance is higher than necessary; the balance at year-end FY 2005 is projected to be $759,421.

Funds would be used to support a new training academy for child welfare caseworkers within the Department of Human Resources, the goal of which is to improve professional skills. Training would also be provided to foster and adoptive parents to ensure that they have the basic knowledge and skills necessary to support the development of children placed in their care.

Location of Provision in the Bill: Section 10, pp. 15 -16.

Personnel – Deferred Compensation Match

Provision in the Bill: Eliminates the requirement for the State to make the employer contributions to the applicable State supplemental plan for one year.

Fiscal Impact:

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
GF Expends	($8,932,779)				
UF Expends	($3,142,605)				
SF Expends	($3,713,898)				
FF Expends	($3,046,456)				

State Effect: Reduces GF, UF, SF, and FF expenditures in FY 2006 as shown above for Executive Branch (including higher education), Legislative Branch, and Judiciary employees. Although the match is not in the proposed budget for the Legislative Branch, it is included in the amount shown above as it would otherwise be required. Also effectuates contingent reductions in the FY 2006 budget bill for contributions on behalf of Executive Branch employees (excluding higher education) in the following amounts: $7,601,505 GF, $3,713,898 SF, and $3,029,667 FF.

Program Description: 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 matching amount of up to $600 for each participant.

Recent History: For FY 2003, budget bill language reduced the State's maximum contribution to $500 per participant. The FY 2004 budget eliminated funding for the match for one year. The FY 2005 budget again eliminated funding for the match for one year. (The General Assembly reduced the budget rather than adopt the BRFA actions proposed by Governor each year, which were to eliminate the match on a one-year basis.) This would be the third year of suspended employer matching contributions.

Location of Provision in the Bill: Section 12, p. 16.

Personnel – Employee and Retiree Health Insurance Benefits

Provision in the Bill: Requires use of proceeds and accumulated interest for the demutualization of the MetLife Insurance Company to be used to pay expenses in connection with the State Employee and Retiree Health and Welfare Benefits Program in the FY 2006 budget bill.

Fiscal Impact: **($ in millions)**

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
SF Revs	$13.7				
SF Expends	$13.7				

State Effect: Authorizes $13.7 million in SF available from demutualization of MetLife to pay for the estimated costs of health insurance for the health enrollment period covering January through June 2005 as part of a deficiency appropriation for FY 2005.

Program Description: Employee and retiree health insurance benefits are provided through the Division of Employee Benefits in DBM's Office of Personnel Services and Benefits. When new health insurance contracts were awarded in CY 2005, a number of changes were made. The most significant of these were increased co-payments for a variety of services. The Administration also intended implement other non-contractual, "cost-sharing" arrangements that would have resulted in a larger share of the monthly cost of insurance being borne by employees and retirees. However, those cost-sharing changes were not made, with the understanding that any such revisions would be discussed with the budget committees before being implemented. As a result, a deficiency appropriation is needed to cover the higher costs for the second half of FY 2005. The enrollment for FY 2006 will occur after the 2005 session.

For more than 15 years Maryland has contracted with MetLife to provide group term life insurance coverage for State employees and covered individuals. The State is the policyholder. On September 28, 1999, MetLife's Board of Directors adopted a plan of reorganization and demutualization for conversion from a mutual insurance company to a stock company. On April 4, 2000, the New York Superintendent of Insurance approved the plan, which provided for policyholders to receive, at their election, stock or cash in exchange for surrender of the policyholders' membership rights in MetLife as a mutual insurer. The State did not elect to receive cash and instead received shares of MetLife stock in exchange for its ownership interest related to its position as policyholder. On June 26, 2001, the State converted that stock to cash and invested the proceeds in an interest-bearing account, where the funds remain.

The State as the group policyholder has legal title to the demutualization proceeds received from MetLife. This provision would specifically retain the proceeds for State use and clarify that no fiduciary relationship has been created, providing protection from a legal challenge on the use of the funds.

Location of Provision in the Bill: Section 16, pp. 16 - 17.

Juvenile Services - Charles H. Hickey, Jr. School

Provision in the Bill: Authorizes use of appropriations for the Charles H. Hickey, Jr. School for the State operation of the facility and the transfer of such appropriations to other programs in DJS as necessary.

Fiscal Impact:

State Effect: Allows funds already appropriated but currently restricted in the FY 2005 budget to be used for another purpose rather than revert to the GF at the end of the year.

Program Description: The Charles H. Hickey, Jr. School in Baltimore County incorporates a variety of programs for youth in DJS custody including:

- a detention center serving male youth primarily from Baltimore, Harford, Carroll, and Howard counties; youth served include those not yet adjudicated by a court (detained youth) and adjudicated youth who have not yet been referred to permanent committed placement (youth pending placement);

- a secure program for boys who have been ruled delinquent by a court and committed to the custody of DJS (committed youth) and who require a higher level of security and a longer length of stay; and

- an impact program for committed youth who require a shorter length of stay or who are temporarily referred to Hickey as a consequence of unsatisfactory behavior in another residential or community program.

DJS-operated programs at Hickey are estimated to serve an average daily population (ADP) of 153 in FY 2006. In FY 2005 to date, Hickey is serving an ADP of 174.

Since the early 1990s through FY 2004, Hickey has been operated by a vendor under a multi-year contract through FY 2004. The FY 2005 budget restricted more than $17.1 million GF in the DJS budget to support a contract for programming at Hickey and provided that the funds may not be transferred by budget amendment or otherwise to any other subobjects or program for any other purpose. At the time the FY 2005 budget was enacted, DJS was soliciting bids for a new vendor to operate the program at Hickey and the contract amount was unknown. However, none of the bids was accepted and DJS decided to operate Hickey as a State facility. Consequently, most of the funding for the program cannot be expended given the current restriction.

DJS advises that it needs a total of $14.6 million to operate Hickey as a State facility in FY 2005, which is less than the $17.1 million in the budget. Of that total, only the $3.4 million for contractual services (principally for health, mental health, and substance abuse treatment services) is available to the department.

This provision would allow DJS to fund other services at Hickey (another $11.2 million) and use the remainder ($2.5 million) for other purposes in the department. According to DJS and DBM, if this provision fails, DJS would incur a FY 2005 GF deficit of approximately $13.7 million and most of the restricted funds would revert. Legislative Services advises that only $11.2 million is needed to fully fund Hickey. However, Legislative Services also notes that DJS reported GF payables of $1.6 million that were not provided for during FY 2004 close-out. No deficiency appropriation was included in the FY 2006 budget to cover this deficit.

Location of Provision in the Bill: Section 15, p. 16.

Appendix 3. Summary of Fiscal Impacts in the Budget Reconciliation Act of 2005

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
General Fund Revenues					
Redirect Estimated Transfer Tax Revenue for 4 Years	141,492,930	125,824,344	98,000,000	52,000,000	--
Redirect Transfer Tax Overattainment Permanently	21,776,868	82,462,000	--	--	--
Fewer Residential DDA Placements	-687,141	-1,393,883	-1,393,883	-1,393,883	-1,393,883
Total	***162,582,657***	***206,892,461***	***96,606,117***	***50,606,117***	***-1,393,883***
Special Fund Revenues					
Redirect Estimated Transfer Tax Revenue for 4 Years	-141,492,930	-125,824,344	-98,000,000	-52,000,000	(--)
Redirect Transfer Tax Overattainment Permanently	-21,776,868	-82,462,000	(--)	(--)	(--)
Extend Termination Date for SPDP	14,900,000				
Use Nonprofit Health Plan Subsidy for MPAP	11,750,000	23,000,000	23,000,000	23,000,000	23,000,000
Total	***-136,619,798***	***-185,286,344***	***-75,000,000***	***-29,000,000***	***23,000,000***
General Fund Expenditures					
Ongoing Reductions in Funding					
Electric Utility Generating Equipment Property Tax Grant	-30,615,201	-30,615,201	-30,615,201	-30,615,201	-30,615,201
Senior Citizen Activities Center Operating Fund	-500,000	(--)	(--)	(--)	(--)
Nonpublic Special Education Placements*	-5,799,866	-6,187,226	-6,556,457	-6,948,119	-7,306,939
Repeal of Prevailing Wage Law	-396,223	-408,110	-420,353	-432,964	-445,952
Subtotal	*-37,311,290*	*-37,210,537*	*-37,592,011*	*-37,996,284*	*-38,368,092*
One-Time Reduction in Mandated Funding					
Maryland Tourism Development Board Fund	-1,000,000				
Maryland State Arts Council	-180,000				
Baltimore City Community College	-1,628,829				
Sellinger Aid to Nonpublic Institutions	-10,094,601				
Hold-harmless Grant to Local Area Agencies on Aging	-162,725				
Eliminate Deferred Compensation Match*	-12,075,384				
Subtotal	*-25,141,539*				

Deferred Expenditures					
Innovative Partnerships for Technology Matching Grants	-1,816,301	1,816,301			
Subtotal	*-1,816,301*	*1,816,301*			
Other					
Maryland Pharmacy Assistance Plan -- Use SF Subsidy	-11,750,000	-23,000,000	-23,000,000	-23,000,000	-23,000,000
Social Worker Academy		425,000	425,000	425,000	425,000
Additional DDA Community Placements	-1,227,038	3,004,905	3,004,905	3,004,905	3,004,905
Forest and Park Operations -- Increase Transfer Tax Share	-3,000,000	-3,090,000	-3,182,700	-3,278,181	-3,376,526
Medicaid -- Direct 30% of CRF		-43,500,000	-51,900,000	-52,400,000	-52,900,000
Subtotal	*-15,977,038*	*-66,160,095*	*-74,652,795*	*-75,248,276*	*-75,846,621*
Total	***-80,246,168***	***-101,554,331***	***-112,244,806***	***-113,244,560***	***-114,214,713***
Special Fund Expenditures					
Transfer Tax Redirected					
POS -- State Share for Capital Program	-77,883,671				
POS -- State Share for Forest and Park Operations	3,800,000				
POS -- Local Share	-61,348,627				
MALPP	-27,837,501				
*Subtotal**	*-163,269,799*	*-208,286,344*	*-98,000,000*	*-52,000,000*	*(--)*
Deferred Expenditures					
CRF -- Biennial Tobacco Study	-2,000,000	2,000,000	-2,000,000	2,000,000	2,000,000
CRF -- Comprehensive Evaluation	-1,000,000	1,000,000			
Subtotal	*-3,000,000*	*3,000,000*	*-2,000,000*	*2,000,000*	*2,000,000*
Authorizing Use of SF for Other Purposes					
Maryland Pharmacy Assistance Plan -- Use SF Subsidy	11,750,000	23,000,000	23,000,000	23,000,000	23,000,000
Bd of Social Work Examiners Fund for Social Worker Academy	425,000				
Community Services Trust Fund for DDA Community Placements	2,602,512				
Medicaid -- Direct 30% of CRF		43,500,000	51,900,000	52,400,000	52,900,000
Subtotal	*14,777,512*	*66,500,000*	*74,900,000*	*75,400,000*	*75,900,000*

Other					
Eliminate Deferred Compensation Match	-3,713,898				
CRF -- Reduce funding for Smoking Cessation	-9,700,000	-11,000,000	-11,000,000	-11,000,000	-11,000,000
CRF -- Reduce Statewide Academic Health Center Grants	-1,564,000				
Extend Termination Date for SPDP	14,900,000				
Subtotal	*-77,898*	*-11,000,000*	*-11,000,000*	*-11,000,000*	*-11,000,000*
Total	***-151,570,185***	***-149,786,344***	***-36,100,000***	***14,400,000***	***66,900,000***
Declines in Special Fund Balances					
Board of Social Work Examiners Fund	-425,000				
Community Services Trust Fund	-2,600,000				
Total	***-3,025,000***				
Federal Fund Expenditures					
Social Worker Academy	1,275,000	1,275,000	1,275,000	1,275,000	1,275,000
DDA Community Placements	2,307,888	4,872,020	4,872,020	4,872,020	4,872,020
Eliminate Deferred Compensation Match	-3,046,456				
Total	***536,432***	***6,147,020***	***6,147,020***	***6,147,020***	***6,147,020***
Net Impact on General Funds	**242,828,825**	**308,446,792**	**208,850,923**	**163,850,677**	**112,820,830**
Net Impact on Special Funds	**14,950,387**	**-35,500,000**	**-38,900,000**	**-43,400,000**	**-43,900,000**
Net Impact on State Funds	**257,779,212**	**272,946,792**	**169,950,923**	**120,450,677**	**68,920,830**
Net Impact on All Funds	**257,242,780**	**266,799,772**	**163,803,903**	**114,303,657**	**62,773,810**

Notes: FY 2006 GF savings for nonpublic special education placements = amount of contingent reduction, rather than $5,838,817 savings estimated by MSDE. FY 2006 GF savings for elimination of the deferred compensation match includes UF for higher education. The effect of certain provisions is not shown as the total spending or revenues do not change: repealing the legislative scholarships and transferring an equivalent amount to need-based scholarships; and SF spending from the State share of POS for operation of State parks and forests. In addition, the effect of authorizing the restricted FY 2005 restricted funds for a State contract at Hickey is not shown; nor is the FY 2005 effect of using MetLife proceeds for health insurance benefits. For FY 2007 through 2010, the aggregate effect of the transfer tax being redirected to other purposes on SF spending is shown rather than the program-by-program effect.

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