

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 493 (Senator Hogan, *et al.*)
Budget and Taxation

Land Preservation - Repayment of Transfers to General Fund

This bill accelerates, from fiscal 2012 to 2008, the provisions established by Chapter 473 of 2005 regarding the repayment of State transfer tax revenues transferred to the general fund after fiscal 2005.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Potential acceleration (from FY 2012 to 2008) of the repayment from the unappropriated general fund surplus of up to \$50 million annually until a specified amount has been repaid. Special fund revenues would increase correspondingly. The bill would not require additional special fund expenditures.

Local Effect: Any acceleration of the repayment of State transfer tax revenues would result in an increase in State aid to local governments under Program Open Space (POS) in those years.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Provisions relating to the Revenue Stabilization Account (Rainy Day Fund) provide that, when there is a surplus of unappropriated funds in the general fund at the close of a fiscal year, there must be an appropriation to the account in the second subsequent fiscal year equal to the amount by which the unappropriated surplus exceeds

\$10 million. Beginning in fiscal 2012, an amount equal to any unappropriated surplus between \$11 million and \$60 million must be appropriated to the transfer tax special fund until such time as a specified amount has been repaid to the transfer tax special fund.

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

Exhibit 1
Distribution of State Transfer Tax Revenues

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

Of the transfer tax revenues distributed to POS, \$3 million may be transferred by an appropriation in the State budget or by budget amendment to the Maryland Heritage Areas Authority Financing Fund within MDP. Of the remaining funds, half is allocated for State acquisition and half is allocated to local governments for acquisition and development of land for recreation and open space purposes. A portion of the State's share of POS funds must be used to make grants to Baltimore City for projects that meet park purposes. Baltimore City also receives an allocation from the local share of funds under POS.

Background: 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. Budget reconciliation legislation enacted in the 2002 through 2005 sessions diverted approximately \$480 million of transfer tax revenues to the general fund. To compensate, other funding sources, primarily bond funds, played an important role in funding land preservation activities.

Chapter 473 of 2005 provides for, beginning in fiscal 2012, the repayment of State transfer tax revenues transferred to the general fund *after fiscal 2005* by including the transfer tax special fund in the provisions relating to the disposition of any unappropriated general fund surplus. Chapter 473 states that the repayment provisions will only take effect once the Transportation Trust Fund (TTF) has been fully repaid in accordance with the statutory requirements governing the disposition of any unappropriated general fund surplus. However, Chapters 471 and 472 of 2005 repealed the provisions requiring repayment to the TTF from the unappropriated general fund surplus.

The Budget Reconciliation and Financing Act of 2005 (Chapter 444) transferred \$90 million of State transfer tax revenues to the general fund for fiscal 2006. The Governor's proposed fiscal 2007 budget does not assume the transfer of any State transfer tax revenues to the general fund. The extent to which future budget reconciliation legislation will provide for future transfers is unknown.

State Fiscal Effect: Based on transfers for fiscal 2006, the current amount to be repaid totals \$90 million. Under the bill, the repayment provisions relating to the transfer tax special fund would become applicable beginning in fiscal 2008 rather than fiscal 2012. Accordingly, if the unappropriated general fund surplus as of June 30 of the second preceding fiscal year is sufficient, up to \$50 million annually beginning in fiscal 2008 would be directed to the transfer tax special fund until a specified amount has been repaid.

Based on the general fund forecast for fiscal 2005 through 2011 as shown in the Governor's proposed fiscal 2007 budget, the fiscal 2006 closing balance is estimated at \$1.2 billion; however, all but \$32.5 million of that balance is designated for use in the Governor's proposed fiscal 2007 budget. Although any unappropriated general fund surplus cannot be reliably estimated at this time, based on the current forecast, an estimated \$22.5 million could be repaid to the transfer tax special fund in fiscal 2008. Based on the current general fund forecast for future years, however, the bill's repayment provision would not be triggered from fiscal 2009 to 2011. Nevertheless, if revenue attainment improves and/or if spending is less than anticipated, some repayment could occur in those years. Special fund revenues would increase correspondingly. **Exhibit 2** shows the distribution of funds for each \$50 million repaid.

Exhibit 2
Distribution of Transfer Tax Revenue per \$50 Million Repayment

<u>Amounts Distributed to Special Funds</u>	<u>Percentage</u>	<u>Amount</u>
POS	75.15%	\$37,575,000
POS Land Acquisition	1.00	500,000
MALPF	17.05	8,525,000
Rural Legacy	5.00	2,500,000
Heritage Conservation Fund	1.80	<u>900,000</u>
Total		\$50,000,000

Local Fiscal Effect: Because local governments receive funding from POS, any acceleration of the repayment to the transfer tax special fund would result in an increase in State aid in those years. For every \$50 million repaid, State aid to local governments under POS would increase by an estimated \$18.8 million.

Small Business Effect: Any acceleration of the repayment to the transfer tax special fund would benefit farmers, most of which are small businesses. For every \$50 million repaid, funding for MALPF would increase by approximately \$8.5 million. This additional funding could leverage the purchase of easements on an additional 2,428 acres (based on an average purchase price of \$3,500 per acre anticipated for fiscal 2007). In addition, the acceleration of the repayment of POS funds could benefit small businesses to the extent that additional recreation and conservation areas increase tourism.

Additional Comments: Because property values generally increase over time, any acceleration of the repayment to the transfer tax special fund would likely result in an overall increase in the amount of land that could be protected with the same investment of funds.

Additional Information

Prior Introductions: None.

Cross File: HB 815 (Delegate James, *et al.*) – Appropriations.

Information Source(s): Department of Budget and Management, Department of Natural Resources, Maryland Department of Agriculture (Maryland Agricultural Land Preservation Foundation), Department of Legislative Services

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