

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 101 (The Speaker) (By Request – Administration)
 Appropriations

Budget Reconciliation and Financing Act of 2008

This Administration bill transfers special funds into the general fund and reduces general fund spending by altering mandates and replacing general funds with special funds.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: General fund revenues would increase by \$25.0 million in FY 2009 due to the transfer of central collection funds, and special fund revenues would increase by an estimated \$1.4 million due to an increase in the Drinking Driver Monitor Program fees. General fund expenditures would decrease by an estimated \$32.2 million in FY 2009 due to the adjustment of mandates and the use of special funds. The proposed FY 2009 budget includes \$32.2 million in reductions contingent on the enactment of legislation making these adjustments. Special fund expenditures would increase by \$22.7 million in FY 2009 to replace general funds. Future year estimates reflect the need for additional general fund expenditures in FY 2010 due to the use of special funds in FY 2009 and ongoing changes to State revenues and expenditures.

| (\$ in millions) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|------------------|---------|---------|---------|---------|---------|
| GF Revenue | \$25.0 | \$0 | \$0 | \$0 | \$0 |
| SF Revenue | 1.4 | 1.4 | 7.7 | 7.7 | 7.7 |
| GF Expenditure | (32.2) | 8.6 | (12.4) | (12.4) | (12.4) |
| SF Expenditure | 22.7 | (19.9) | 7.7 | 7.7 | 7.7 |
| Net Effect | \$35.9 | \$12.7 | \$12.4 | \$12.4 | \$12.4 |

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

Local Effect: State aid to local libraries would decrease by \$2.5 million in FY 2009 and 2010. Local revenues from the State's contribution to circuit court rent payments would decrease by \$500,000 in FY 2009 due to the limit on State payments for this purpose.

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 submitted when the Administration's assessment becomes available.

Analysis

Components of the bill are analyzed individually in the following sections:

- Transferring Central Collection Funds to the General Fund
- Increasing the Drinking Driver Monitor Program Fee
- Limiting Circuit Court Rent Payments
- Reducing Mandated State Funding of Independent Colleges and Universities for Two Years
- Deferring Library Enhancements for One Year
- Using the Fund Balance from the Rate Stabilization Account to Fund Health Care Programs

The fiscal 2009 general fund impact of the bill is summarized in **Exhibit 1**.

Exhibit 1
Budget Reconciliation and Financing Act
Fiscal 2009 General Fund Impact

| | |
|--|---------------------|
| General Fund Revenues | |
| Transfer Central Collection Funds | \$25,000,000 |
| General Fund Expenditures | |
| Drinking Driver Monitoring Fee Increase | (\$1,400,000) |
| Limit Circuit Court Rent Payments | (500,000) |
| Reduce Funding for Sellinger Formula | (5,624,749) |
| Defer Enhancements to | |
| Library Aid Formula | (2,479,730) |
| Regional (Library) Resource Centers | (907,673) |
| Use Rate Stabilization Fund Balance to Support | |
| Dental Provider Rates | (7,000,000) |
| Health Care Coverage Fund | <u>(14,275,000)</u> |
| Total GF Expenditure Impact | (\$32,187,152) |
| Net General Fund Impact | \$57,187,152 |

Additional Information

Prior Introductions: None.

Cross File: SB 91 (The President) (By Request – Administration) – Budget and Taxation.

Information Source(s): Department of Budget and Management, Comptroller’s Office, Maryland State Department of Education, Judiciary, Maryland Department of Transportation, Department of Health and Mental Hygiene, Department of Public Safety and Correctional Services, Maryland Higher Education Commission, Montgomery County, Prince George’s County, Caroline County, Howard County, Baltimore City, Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2008
mll/rhh

Analysis by: Mark W. Collins

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Transferring Central Collection Funds to the General Fund

The bill authorizes the transfer of \$25.0 million from the Central Collection Fund (CCF) to the general fund by June 30, 2009.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| GF Rev | \$25.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| Expenditures | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

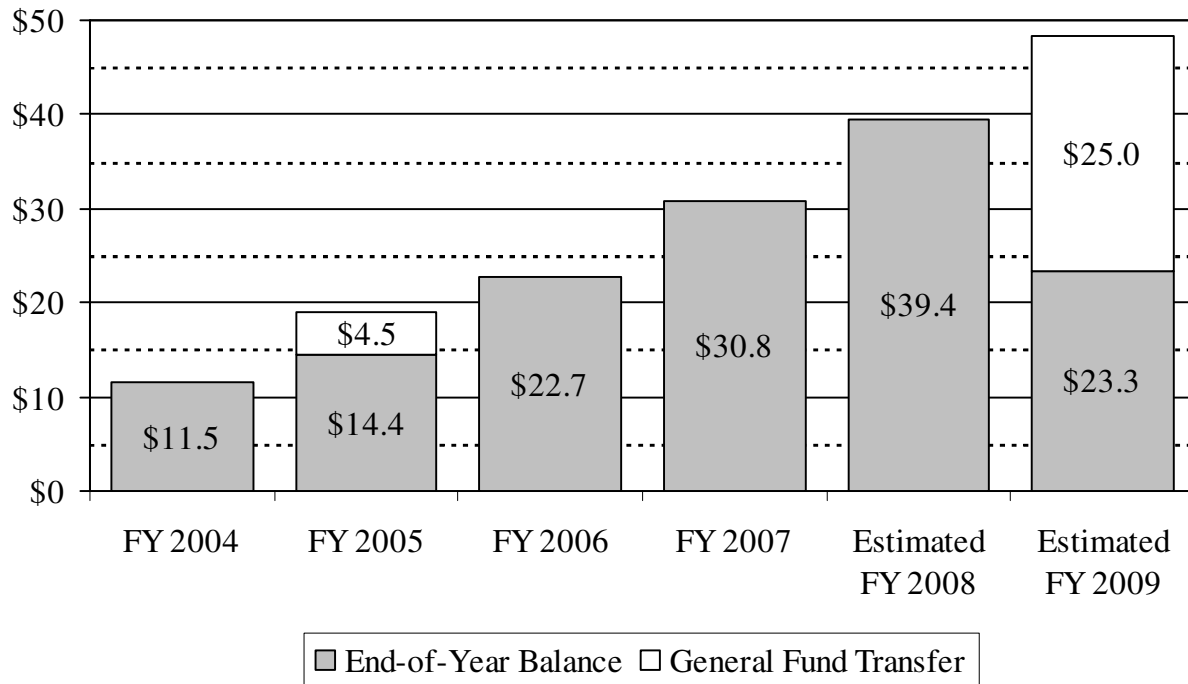
Current Law: CCF consists of funds accumulated by the Central Collection Unit (CCU) in the Department of Budget and Management, which is responsible for the collection of all delinquent accounts and debts owed to the State other than taxes, child support, unemployment insurance contributions, and overpayments. Monies in CCF support CCU operations and do not revert to the general fund.

Background: Typical debts collected by CCU are student tuition and fees, restitution for damage to State property, reimbursement for institutional care, local health department fees, Workers' Compensation premiums, Home Improvement Commission awards, and State grant overpayments. In recent years, CCF income from debts collected has exceeded CCU expenditures by approximately \$8 million annually.

The Budget Reconciliation and Financing Act of 2004 (Chapter 430) transferred \$4.5 million of the CCF fund balance to the general fund in fiscal 2005, but no funds have been transferred since then. The CCF fund balance was \$30.8 million at the end of fiscal 2007 and is expected to total approximately \$39.4 million by the end of fiscal 2008. As shown in **Exhibit 2**, a \$25.0 million transfer to the general fund in fiscal 2009 would still leave an estimated \$23.3 million in CCF at the start of fiscal 2010.

State Effect: General fund revenues would increase by \$25.0 million due to the transfer from CCF. There would be no fiscal impact in future years.

Exhibit 2
Central Collection Fund End-of-year Balance and General Fund Transfers
Fiscal 2004 to 2009
(\$ in Millions)



Increasing the Drinking Driver Monitor Program Fee

The bill increases the monthly fee for the Drinking Driving Monitor Program (DDMP) from \$45 to \$55 and removes the termination date on the fees to allow them to be collected after fiscal 2010.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| SF Rev | \$1.4 | \$1.4 | \$7.7 | \$7.7 | \$7.7 |
| SF Exp | 1.4 | 1.4 | 7.7 | 7.7 | 7.7 |
| GF Exp | (1.4) | (1.4) | (7.7) | (7.7) | (7.7) |

Current Law: DDMP participants are charged a monthly \$45 fee in addition to the \$40 monthly supervision fee assessed to all individuals supervised by the Division of Parole and Probation. The additional DDMP fee is scheduled to terminate after June 30, 2010. In certain situations, the DDMP fee may be waived. All DDMP fees are paid into the DDMP Fund.

Background: Special program fees for DDMP were established by the Budget Reconciliation and Financing Act of 2005 (Chapter 444). The fees were set at \$45 per month, a level expected to generate \$7.6 million per year and allow DDMP to be self-supporting. However, the fees have only generated approximately \$6.5 million per year, resulting in general fund deficiency appropriations of \$1.0 in fiscal 2006 and \$1.5 million in fiscal 2007 that were used to cover the full operating costs of the program. Similarly, the proposed fiscal 2009 State budget includes a \$1.5 million general fund deficiency appropriation for fiscal 2008 to again cover the difference between DDMP expenditures and the program's fee revenues.

State Effect: DDMP fee revenues and expenditures would increase by an estimated \$1.4 million in fiscal 2009 due to the \$10 increase in the fee. This represents increased payments from approximately 11,700 DDMP supervisees each month, or a 73% collection rate. The proposed fiscal 2009 State budget includes a \$1.4 million general fund reduction that is contingent on the enactment of legislation increasing the DDMP fee. The \$1.4 million increase in special fund revenues and expenditures and the commensurate \$1.4 million decrease in general fund expenditures would continue in fiscal 2010.

Currently, DDMP fees are scheduled to terminate after fiscal 2010. The bill eliminates the termination date, meaning fee revenues would continue to fund DDMP after fiscal 2010. Thus, DDMP fee revenues and expenditures would increase by an estimated \$7.7 million annually beginning in fiscal 2011, reducing general fund expenditures by an equivalent amount.

Limiting Circuit Court Rent Payments

The bill limits the State's annual contribution for circuit court rent payments to \$500,000. Each year, the Chief Judge of the Court of Appeals must certify to the Governor an appropriation not to exceed this limit for inclusion in the annual State budget.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| Revenues | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| GF Exp | (0.5) | (4.7) | (4.7) | (4.7) | (4.7) |

Current Law: For fiscal 2009 and each fiscal year thereafter, to the extent provided in the annual State budget, \$10 must be provided per net usable square foot to the counties for space occupied in county facilities by clerks of circuit courts.

Background: Chapter 453 of 2002 required the State to pay rent directly to the counties for space occupied in county facilities by clerks of the circuit courts, with payments per net usable square foot phasing up from \$2.50 in fiscal 2004 to \$10.00 in fiscal 2006. The counties and Baltimore City were then required to use the savings generated from Chapter 453 to increase local expenditures for the circuit courts or other public safety purposes. The Budget Reconciliation and Financing Act of 2003 (Chapter 203) moved the start of the phase-in of circuit court rent payments to fiscal 2007, and the State provided \$250,000 for the payments in fiscal 2007 and \$500,000 in fiscal 2008.

State Effect: General fund expenditures would decrease by \$500,000 in fiscal 2009 due to the limitation on circuit court rent payments. The proposed fiscal 2009 State budget for the Judiciary includes \$1.0 million for the payments and a reduction of \$500,000 contingent on the enactment of legislation limiting the State's support.

The \$1.0 million for circuit court rent payments that was requested and is included in the fiscal 2009 budget does not represent the full cost of the \$10 per square foot formula. Assuming the full formula amount (an estimated \$5.2 million) would be requested by the Judiciary beginning in fiscal 2010, general fund expenditures would decrease by \$4.7 million annually beginning in fiscal 2010.

Local Effect: Local revenues from State payments for circuit court rent payments would decrease by \$500,000 in fiscal 2009 due to the limitation on the State payments. The payments were initially established to enable local governments to increase spending for circuit courts and public safety. Reductions in State payments in fiscal 2009 and thereafter could, therefore, reduce local spending for these purposes.

Reducing Mandated State Funding of Independent Colleges and Universities for Two Years

The bill level funds State support for independent institutions of higher education at \$56,051,065 in fiscal 2009. The Joseph A. Sellinger Formula, which determines the amount of State support for the institutions, phases back up to its full funding level by fiscal 2011.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| Revenues | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| GF Exp | (5.6) | (3.2) | 0.0 | 0.0 | 0.0 |

Current Law: The Joseph A. Sellinger Formula determines annual State funding for independent institutions of higher education in Maryland. For each full-time equivalent (FTE) student at a qualifying institution, the formula provides 16% of the State's per pupil support for public four-year institutions of higher education in the prior fiscal year.

To qualify for funding from the Sellinger formula, a nonpublic institution of higher education must • be nonprofit; • be approved by the Maryland Higher Education Commission (MHEC); • be accredited by the Commission on Higher Education of the Middle States Association of Colleges and Schools; • have awarded degrees to at least one class; • maintain one or more earned degree programs; and • submit each new program and each major modification of an existing program to MHEC.

Background: In an effort to constrain fiscal 2008 spending, the Board of Public Works reduced the Sellinger formula appropriation by \$2.5 million on July 11, 2007. The reduction effectively brought the fiscal 2008 percentage used for the formula down from the mandated 16% level to 15.32%. Funding the Sellinger formula at the same amount in fiscal 2009 would reduce the percentage to 14.54% of the fiscal 2008 per pupil State support for public four-year institutions.

State Effect: Mandated general fund expenditures for the Joseph A. Sellinger formula would decrease by \$5.6 million in fiscal 2009. The proposed fiscal 2009 State budget includes a \$5.6 million reduction for the formula that is contingent on the enactment of legislation authorizing the decrease in the mandated spending level.

General fund expenditures would decrease by an estimated \$3.2 million in fiscal 2010, when the formula would calculate the funding level using 15.25% of the State's fiscal 2009 per student funding at public four-year institutions. The formula would return to the full 16% level in fiscal 2011, so there would be no fiscal impact after fiscal 2010.

Deferring Library Enhancements for One Year

The bill defers scheduled enhancements to the library formulas for one year. The per capita funding level used to calculate the library aid formula remains at \$14 for fiscal 2009 before resuming \$1 annual increases in fiscal 2010 and 2011. State funding for regional resource centers remains at \$6.50 per resident of each region in fiscal 2009 before resuming \$1 annual increases in per capita funding in fiscal 2010 and 2011.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| Revenues | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| GF Exp | (3.4) | (3.4) | 0.0 | 0.0 | 0.0 |

Current Law: The State and local governments share in the cost of funding local public library systems, with the library aid formula calculating minimum State and local contributions. In calculating the mandated amounts for fiscal 2009, a figure of \$15 per resident of each county is scheduled for use in the formula, up from \$14 per resident in fiscal 2008. This amount is set to increase to \$16 per resident for fiscal 2010 and thereafter.

The State also provides funding for regional resource centers serving Western Maryland, Southern Maryland, and the Eastern Shore. The State is scheduled to provide \$7.50 per resident of each region in fiscal 2009, up from \$6.50 per resident in fiscal 2008. For fiscal 2010 and thereafter, the amount is scheduled to increase to \$8.50 per resident of each region.

Background: The library aid formula was established in 1962, and the General Assembly has periodically passed legislation since then to increase the per capita funding level for the formula. Most recently, Chapter 481 of 2005 began a four-year phase-up of the per capita amount, with the amount increasing by \$1 per year from \$12 in fiscal 2006 to \$16 by fiscal 2010.

The mandatory aid formula for regional resource centers was established in 1998 with State funding equal to \$1.70 per resident of each region going to the three regional centers. As with the library aid formula, the per resident funding levels have been increased periodically with the most recent increase implemented through Chapter 481 of 2005. That legislation began a four-year phase-in of increases from \$4.50 per resident to \$8.50 per resident from fiscal 2006 to 2010.

State Effect: Mandated general fund expenditures would decrease by \$3.4 million in fiscal 2009 due to the deferral of scheduled enhancements for the local library aid formula (\$2.5 million) and the regional resource centers (\$908,000). The proposed fiscal

2009 State budget includes reductions in the library formulas that are contingent on the enactment of authorizing legislation.

Increases in the per capita amounts used for the library formulas would resume in fiscal 2010, but the per capita amounts would still be \$1 below the current law levels. Therefore, similar reductions (\$2.5 million for the local library aid formula and \$921,000 for regional resource centers) are projected for fiscal 2010. By fiscal 2011 the formulas would reach full funding of the enhanced per capita levels, so there would be no impact after fiscal 2010.

Local Effect: State aid for local library systems would decrease by \$2.5 million in fiscal 2009 and 2010. The fiscal 2009 and projected fiscal 2010 reductions for each local library system are shown in **Exhibit 3**.

Exhibit 3
Reductions in State Aid for Local Library Systems
Fiscal 2009 and 2010
(\$ in Thousands)

| <u>Library System</u> | <u>FY 2009</u> | <u>FY 2010</u> |
|-----------------------|------------------|------------------|
| Allegany | (\$55) | (\$55) |
| Anne Arundel | (145) | (139) |
| Baltimore City | (471) | (471) |
| Baltimore | (390) | (393) |
| Calvert | (32) | (33) |
| Caroline | (20) | (20) |
| Carroll | (75) | (75) |
| Cecil | (53) | (54) |
| Charles | (61) | (63) |
| Dorchester | (18) | (18) |
| Frederick | (82) | (82) |
| Garrett | (12) | (11) |
| Harford | (117) | (118) |
| Howard | (54) | (55) |
| Kent | (7) | (7) |
| Montgomery | (186) | (188) |
| Prince George's | (468) | (473) |
| Queen Anne's | (10) | (9) |
| St. Mary's | (47) | (48) |
| Somerset | (19) | (19) |
| Talbot | (7) | (7) |
| Washington | (81) | (82) |
| Wicomico | (58) | (59) |
| Worcester | (10) | (10) |
| Total | (\$2,480) | (\$2,490) |

Using the Fund Balance from the Rate Stabilization Account to Fund Health Care Programs

The bill requires \$83.3 million of the balance remaining in the Rate Stabilization Account at the end of fiscal 2008 to be transferred in fiscal 2009 as follows: • \$7.0 million to the Medical Assistance Program Account to increase fee-for-service dental rates in fiscal 2009; • \$14.3 million to the Health Care Coverage Fund for expenses in fiscal 2009; and • \$62.0 million to the Health Care Coverage Fund for expenses in fiscal 2010.

| \$ in Millions | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|---------|---------|---------|---------|---------|
| Revenues | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| GF Exp | (21.3) | 21.3 | 0.0 | 0.0 | 0.0 |
| SF Exp | 21.3 | (21.3) | 0.0 | 0.0 | 0.0 |

Current Law: The Maryland Health Care Provider Rate Stabilization Fund receives money from a 2% premium tax imposed on health maintenance organizations and managed care organizations. The fund was established to retain health care providers in the State by increasing Medicaid payment rates and allowing insurers to charge lower premium rates for medical professional liability insurance. Money in the fund is transferred to one of two accounts: the Rate Stabilization Account, which is used to pay insurers for subsidies to health care providers, and the Medical Assistance Program Account, which is used to increase Medicaid payments to health care providers. After fiscal 2009, all monies in the fund are to be allocated to the Medical Assistance Program Account to continue increased payments to health care providers and to support the Medicaid program. The required distribution of funds among the two accounts is shown in the table below.

| <u>Fiscal Year</u> | <u>Rate Stabilization Account</u> | <u>Medical Assistance Program Account</u> |
|--------------------|-----------------------------------|---|
| 2005 | \$0 | \$3.5 million |
| 2006 | 52.0 million | 30.0 million |
| 2007 | 45.0 million | 45.0 million |
| 2008 | 35.0 million | 65.0 million |
| 2009 | 25.0 million | Remaining revenue |
| 2010 | 0 | 100% of revenue |

Background:

Rate Stabilization Account Fund Balance

Funds from RSA are paid primarily to the Medical Mutual Liability Insurance Society of Maryland, which insures 70% to 75% of private practice physicians in the State. However, after realizing surpluses of \$43.7 million in 2005 and \$45.9 million in 2006, Medical Mutual announced in September 2007 its intent to declare a dividend of \$68.6 million (later increased to \$97.9 million) and withdraw from the subsidy program in 2008. Following Maryland Insurance Administration proceedings in December 2007, the Insurance Commissioner and Medical Mutual announced that the insurer would return \$84.0 million to the State. This figure represents the amount that Medical Mutual received in the prior three years and would have received in 2008 in premium subsidies.

Due to reduced payouts and funds returned from Medical Mutual, RSA is projected to have a cash balance of \$106.9 million at the end of fiscal 2008. Approximately \$9.0 million in subsidies may be requested by carriers remaining in the program for subsidy year 2007; therefore, the available RSA balance at the end of fiscal 2008 will be approximately \$97.9 million.

Dental Provider Rate Increases

During the 2007 interim, the Department of Health and Mental Hygiene formed a Dental Action Committee. The committee identified low provider participation as the main barrier to comprehensive oral health services for Medicaid enrollees. A main driver of low provider participation is low reimbursement rates. All Maryland Medicaid dental reimbursement rates are below the twenty-fifth percentile of the American Dental Association's South Atlantic charges, and many are below the tenth percentile. The committee recommended that Medicaid increase dental reimbursement rates to the fiftieth percentile of the ADA's South Atlantic charges for all dental codes and index the reimbursement rates to inflation. DHMH plans to increase rates as such over the next three fiscal years.

Health Care Coverage Expansion

Chapter 7 of the 2007 special session established the Health Care Coverage Fund to expand Medicaid eligibility for parents, caretaker relatives, and childless adults up to 116% of federal poverty guidelines; establish a Small Employer Health Benefit Plan Premium Subsidy Program; and support health care services in Prince George's County. The fund consists of • \$75 million from the Maryland Health Insurance Plan Fund, to be transferred on July 1, 2008; • monies collected from any Health Services Cost Review

Commission hospital assessment of uncompensated care savings achieved under Chapter 7; • investment earnings; and • any other monies from any other source accepted for the benefit of the fund. In fiscal 2011 through 2013, up to \$10.0 million per year may be transferred from the fund to support health care services in Prince George's County.

State Effect: The proposed fiscal 2009 State budget includes \$7.0 million in general funds and \$7.0 million in special funds from the Rate Stabilization Fund to increase dental provider rates. Contingent on the enactment of legislation authorizing the use of additional funding from the Rate Stabilization Fund, the fiscal 2009 general fund appropriation would not be needed and general fund expenditures would decrease by \$7.0 million in fiscal 2009. If authorizing legislation is not enacted, the \$7.0 million special fund appropriation would not be needed.

As with the funds budgeted for dental reimbursement rates, \$14.3 million in both special and general funds are budgeted for the Health Care Coverage Fund to be used for the expansion of Medicaid to parents and caretaker relatives and the Small Employer Health Benefit Plan Premium Subsidy Program. Contingent on the enactment of legislation authorizing the use of additional funding from the Rate Stabilization Fund to support the initiatives, the fiscal 2009 general fund appropriation would not be needed and general fund expenditures would decrease by \$14.3 million. If authorizing legislation is not enacted, the general funds would be used for the programs and the \$14.3 million special fund appropriation would not be needed.

The use of \$21.3 million from the Rate Stabilization Fund in fiscal 2009 would reduce the fund balance that would otherwise be used for Medicaid expenses in fiscal 2010. Thus, \$21.3 million in special funds would not be available for this purpose in fiscal 2010, and general fund expenditures would increase by \$21.3 million to fund Medicaid.

Total expenditures for the Medicaid expansion and Small Employer Health Benefit Plan Premium Subsidy Program are projected to be \$269.2 million in fiscal 2010, and general funds are expected to support \$109.7 million of the total costs. The transfer of \$62.0 million in special funds from RSA to the Health Care Coverage Fund for fiscal 2010 expenses could reduce the amount of general funds required. However, under current law, all funds within the Maryland Health Care Provider Rate Stabilization Fund are dedicated to Medicaid in fiscal 2010, so transferring \$62.0 million from the Rate Stabilization Fund would increase general fund expenditures for Medicaid by an equivalent amount. Therefore, the \$62.0 million transfer swaps one special fund Medicaid expenditure for another, resulting in no net impact on special or general fund expenditures in fiscal 2010.