

Department of Legislative Services
 Maryland General Assembly
 2008 Session

FISCAL AND POLICY NOTE

House Bill 704 (Chair, Appropriations Committee) (By Request –
 Departmental – Higher Education Commission)
 Appropriations Education, Health, and Environmental
 Affairs

Higher Education Investment Fund - Expenditures - Base Realignment and
 Closure Process

This departmental bill expands the allowable uses of the Higher Education Investment Fund (HEIF) to include initiatives that address higher education needs related to the Base Realignment and Closure process.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: The proposed FY 2009 State budget includes \$3.0 million from HEIF to fund higher education BRAC initiatives. Federal fund expenditures would increase by an estimated \$44,300 in FY 2009 to monitor BRAC grants. Future year expenditure estimates reflect annualization, salary increases, and inflation in the operating costs through FY 2011. Revenues would not be affected.

| (in dollars) | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|----------------|------------|------------|------------|---------|---------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| FF Expenditure | 44,300 | 51,900 | 54,100 | 0 | 0 |
| Net Effect | (\$44,300) | (\$51,900) | (\$54,100) | \$0 | \$0 |

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

Local Effect: None.

Small Business Effect: The Maryland Higher Education Commission has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment.

Analysis

Current Law: A portion of the funds generated through the corporate income tax are deposited in HEIF. HEIF funds may only be expended • to supplement general fund appropriations to four-year public institutions of higher education; • for capital projects at four-year public institutions of higher education; and • for workforce development initiatives administered by MHEC. In addition, HEIF expenditures may only be made in accordance with an approved appropriation in the annual State budget. HEIF is scheduled to terminate after fiscal 2009, but Chapter 3 of the 2007 special session expressed the intent of the General Assembly to continue funding HEIF after fiscal 2009 if, in the 2009 session, it is determined to be fiscally prudent.

Background: Chapter 3 of the 2007 special session, which increased the corporate income tax rate from 7.0% to 8.25%, established HEIF and directed \$16.0 million in proceeds from the tax to HEIF in fiscal 2008. In fiscal 2009, HEIF will receive 6.0% of the total funds generated through the corporate income tax. The proposed fiscal 2009 State budget includes \$54.9 million in HEIF expenditures: \$35.8 million for operating expenses at public four-year institutions, \$16.1 million for capital at public four-year institutions, and \$3.0 million to address higher education needs related to BRAC. MHEC advises that the \$3.0 million will be awarded to institutions of higher education through a competitive grant process. The types of initiatives MHEC expects to fund include the expansion of campus capacity through the design and use of multimedia instruction and Internet-based course offerings; the enhancement of science-technology-engineering-math programs; expansion of adult learning initiatives; and the development of curricula and programs directly related to BRAC educational needs.

BRAC is expected to impact many of the federal military installations in the State, resulting in an estimated 19,536 to 20,836 direct new jobs and placing Maryland among the largest beneficiaries nationally. Most of these jobs are projected to be medical professionals, engineers, and managers. The bulk of the gains are expected at Aberdeen Proving Ground, Andrews Air Force Base, Fort Meade, and the National Naval Medical Center.

State Expenditures: The proposed fiscal 2009 State budget includes \$3.0 million from HEIF to fund BRAC-related higher education initiatives. Assuming HEIF is extended beyond fiscal 2009, MHEC advises that it is planning to request another \$3.0 million from HEIF in fiscal 2010 and \$4.0 million from HEIF in fiscal 2011 for the initiatives. Although using HEIF to support BRAC initiatives would be an expansion of the current allowable uses, the expansion is not expected to impact total HEIF expenditures.

Federal fund expenditures could increase by an estimated \$44,264 in fiscal 2009, which accounts for a 90-day start-up delay following the bill's July 1, 2008 effective date. This estimate reflects the cost of hiring a contractual staff specialist to review BRAC proposals and to monitor grants made with HEIF funds. The full-time contractual salary, fringe benefits, one-time start-up costs, and ongoing operating expenses will be paid from a \$4.0 million federal grant that is related to BRAC and has been awarded to the Department of Labor, Licensing, and Regulation. DLLR will use a portion of the funds to reimburse MHEC for the position. The federal funds are not included in the proposed fiscal 2009 budget but are expected to be brought in through budget amendment in fiscal 2009. It is assumed that the position would continue in fiscal 2010 and 2011, concurrent with MHEC's plans for HEIF requests.

| | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> |
|---------------------------------|-----------------------|-----------------------|-----------------------|
| Salaries and Fringe Benefits | \$38,167 | \$49,515 | \$51,964 |
| Operating Expenses | <u>6,097</u> | <u>2,356</u> | <u>2,403</u> |
| Total State Expenditures | \$44,264 | \$51,871 | \$54,097 |

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Department of Planning, Maryland Higher Education Commission, Department of Business and Economic Development, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2008
ncs/rhh

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