

**Department of Legislative Services**  
 Maryland General Assembly  
 2008 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 527

(Chair, Budget and Taxation Committee)

Budget and Taxation

Appropriations

**Spending Mandate and Revenue Dedication Relief Act**

This bill reduces and eliminates general fund spending mandates and redirects revenues from special funds to the general fund.

The bill takes effect June 1, 2008.

**Fiscal Summary**

**State Effect:** General fund revenues would increase by \$60.0 million in FY 2008 and by \$25.0 million in FY 2009 due to reductions in revenues dedicated to special funds. General fund expenditures would decrease by an estimated \$12.6 million in FY 2009 due to adjustments to spending mandates. Future year general fund expenditure reductions reflect ongoing mandate modifications. Dedicated revenues for the Chesapeake Bay 2010 Fund are also reduced in FY 2009, resulting in a special fund expenditure decrease.

(\$ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	\$60.0	\$25.0	\$0	\$0	\$0
SF Revenue	(60.0)	(25.0)	0	0	0
GF Expenditure	0	(12.6)	(16.8)	(13.4)	(13.4)
SF Expenditure	0	(25.0)	0	0	0
Net Effect	\$0	\$37.6	\$16.8	\$13.4	\$13.4

*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:** Minimal.

## Analysis

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

- Limiting Circuit Court Rent Payments
- Deferring Library Enhancements for One Year
- Eliminating the Rehab Option Mandate for the Children's Cabinet Fund
- Reducing Distributions to the Chesapeake Bay 2010 Trust Fund
- Paying for State Police Med-Evac Helicopters

The fiscal 2008 and 2009 general fund impact of bill is summarized in **Exhibit 1**.

---

### Exhibit 1 General Fund Impact Spending Mandate and Revenue Dedication Relief Act

	<u>FY 2008</u>	<u>FY 2009</u>
Revenues		
Reduce Dedicated Revenues for Helicopter Fund	\$60,000,000	
Redirect Motor Fuel Tax Revenues	0	\$6,500,000
Redirect Short-term Vehicle Rental Tax	0	18,500,000
Expenditures		
Limit Circuit Court Rent Payments	\$0	(\$500,000)
Defer Enhancements to Library Aid Formula	0	(2,479,730)
Defer Enhancements to Regional Resource Centers	0	(907,673)
Eliminate Rehab Option Mandate	0	(8,691,450)
<b>Net General Fund Impact</b>	<b>\$60,000,000</b>	<b>\$37,578,853</b>

---

**Background:** A September 2007 report by the Department of Legislative Services indicated that spending for mandates and entitlements consumes more than two-thirds of the State's general fund budget in fiscal 2008, a proportion that has grown in recent years. **Exhibit 2** shows that total general fund spending has grown by approximately \$4.0 billion from fiscal 2004 to 2008, with spending for mandates and entitlements accounting for more than three-quarters of the growth.

---

**Exhibit 2**  
**General Fund Spending**  
**Fiscal 2004 and 2008**  
**(\$ in Millions)**

	<u>FY 2004</u>	<u>FY 2008</u>	<u>FY 04 to 08</u> <u>\$ Increase</u>	<u>Percent of</u> <u>\$ Increase</u>
Mandates and Entitlements	\$6,724	\$9,783	\$3,059	76.4%
Nonmandated Spending	<u>3,834</u>	<u>4,778</u>	<u>944</u>	23.6%
<b>Total</b>	<b>\$10,558</b>	<b>\$14,561</b>	<b>\$4,003</b>	

---

**Additional Comments:** Along with the fiscal 2009 budget bill (SB 90), this bill – as well as SB 182, SB 540, SB 545, and SB 983 – represents part of the budget plan adopted by the General Assembly.

---

**Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 1194 (Chair, Appropriations Committee) – Appropriations.

**Information Source(s):** Montgomery County, Prince George’s County, Caroline County, Howard County, Baltimore City, Judiciary (Administrative Office of the Courts), Maryland Higher Education Commission, Maryland State Department of Education, Department of Legislative Services

**Fiscal Note History:** First Reader - February 26, 2008  
ncs/rhh Revised - Senate Third Reader - March 18, 2008  
Revised - Clarification - March 28, 2008  
Revised - Enrolled Bill - May 16, 2008

---

Analysis by: Mark W. Collins

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

## 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 reduction reflects the proposed \$1.0 million appropriation for the payments included in the proposed fiscal 2009 State budget; however, the \$1.0 million proposal 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.

## 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 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)
<b>Total</b>	<b>(\$2,480)</b>	<b>(\$2,490)</b>

---

## Eliminating the Rehab Option Mandate for the Children’s Cabinet Fund

The bill eliminates the requirement that the Governor provide funding in the State budget for the Children’s Cabinet Fund equal to the level of federal funding for specified rehabilitation services provided to disabled youth in State care.

\$ 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	(8.7)	(8.7)	(8.7)	(8.7)	(8.7)

**Current Law:** The Governor must include funding for the Rehab Option Program in the budget for the Children’s Cabinet Fund in an amount equal to the amount of federal funds received for the program during the most recent completed fiscal year.

**Background:** Chapter 428 of 2003 created the Rehab Option Program. The legislation effectively allowed the State to receive federal funding for part of the nonroom and board costs of residential care that are related to the rehabilitative components of care provided to individuals under age 21 by State and local agencies through public or private providers. Chapter 428 also required the Governor to include general funds in the Children’s Cabinet Interagency Fund in an amount equal to the federal funds received in the most recently completed year to be used to provide community-based services to children with disabilities who were not in the custody of the State. The program was expected to result in approximately \$10.0 million annually in general fund expenditures.

Reflecting the federal funds received for qualifying rehabilitation services in fiscal 2005 and 2006, the fiscal 2008 allowance included \$20.5 million for the Rehab Option Program. The General Assembly reduced the proposed amount to \$16.5 million, and the Board of Public Works reduced the legislative appropriation to \$12.5 million as part of its July 2007 cost containment actions. The fiscal 2009 budget assumes that an additional \$6.0 million of the fiscal 2008 funds will revert to the general fund, leaving \$6.5 million to be expended on the program in fiscal 2008. In compliance with the legislative mandate, the Governor’s proposed budget for fiscal 2009 included \$18.7 million in Rehab Option funding, which is equivalent to the federal funds collected for qualifying rehabilitation services in fiscal 2007. The fiscal 2009 budget adopted by the General Assembly provides approximately \$10.0 million for the Rehab Option Program.

**State Effect:** The bill eliminates the mandated funding level for the Rehab Option Program. It is assumed that the State would continue to fund the program but that the annual funding level would be capped at \$10.0 million, the original estimate of program costs. This would save \$8.7 million in general funds in fiscal 2009. Assuming the federal funding for qualifying rehabilitation services continues at roughly the same level in future years, ongoing general fund savings of \$8.7 million annually would be realized.



## Reducing Distributions to the Chesapeake Bay 2010 Trust Fund

The bill diverts \$6.5 million in motor fuel tax revenues and \$18.5 million in short-term vehicle rental tax revenues from the Chesapeake Bay 2010 Trust Fund to the general fund in fiscal 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
SF Rev	(25.0)	(0.0)	0.0	0.0	0.0
SF Exp	(25.0)	(0.0)	0.0	0.0	0.0

**Current Law:** After making specific distributions of the revenues collected from the motor fuel tax, the Comptroller must disburse 2.3% of any remaining revenues to the Chesapeake Bay 2010 Trust Fund each year. Similarly, after making specific distributions of revenues collected from the tax on short-term vehicle rentals, the Comptroller must distribute remaining funds to the trust fund.

**Background:** The Chesapeake Bay 2010 Trust Fund was established by Chapter 6 of the 2007 special session to provide financial assistance towards meeting, by 2010, the goals established in the Chesapeake 2000 Agreement. The fund is intended to be supplemental to funding that otherwise would be appropriated for bay restoration and may only be used to implement the State tributary strategy developed in accordance with the Chesapeake 2000 Agreement. As established in Chapter 6, the trust fund was to be supported with existing tax revenues that were redirected from the general fund to the trust fund. Total revenues for the trust fund were estimated at just over \$50 million annually.

**State Effect:** General fund revenues would increase by \$25.0 million in fiscal 2009 due to the redirection of revenues that would otherwise be dedicated to the Chesapeake Bay 2010 Trust Fund. Trust fund revenues and expenditures would decrease by an equal amount. There would be no effect after fiscal 2009.

## Paying for State Police Med-Evac Helicopters

The bill reduces from \$110.0 million to \$50.0 million the amount of fiscal 2008 sales tax revenues that must be dedicated to the State Police Helicopter Replacement Fund. Instead, the Governor must include a total of \$70.0 million for the purchase of Med-Evac helicopters in the fiscal 2010, 2011, and 2012 State budgets. The \$70.0 million must be from sales tax revenues but may be made from any funds that receive revenues from the sales and use tax. Any capital debt that is authorized for the purchase of Med-Evac helicopters and any contributions, transfers, or other financing acquired from the Maryland Automobile Insurance Fund for the procurement of the helicopters may be used to reduce on a dollar-for-dollar basis the \$70.0 million that must be provided through sales tax revenues.

\$ in Millions	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Rev	\$60.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Rev	(60.0)	0.0	0.0	0.0	0.0

**Current Law:** The Comptroller must distribute \$110.0 million from the sales and use tax revenues collected between January 1, 2008 and June 30, 2008 to the State Police Helicopter Replacement Fund. Most of the sales tax revenues are credited to the general fund, but beginning in fiscal 2009, 6.5% of the revenues must be dedicated to the Transportation Trust Fund.

**Background:** Chapter 6 of the 2007 special session increased the State's sales and use tax from 5% to 6%, effective January 3, 2008. From the fiscal 2008 revenues collected under the increased sales tax, the General Assembly required \$110.0 million to be placed in the State Police Helicopter Replacement Fund. Chapter 6 also expressed the intent of the General Assembly that the Governor include sufficient expenditures from the fund to purchase three helicopters per year from fiscal 2009 to 2012.

**State Effect:** General fund revenues would increase by \$60.0 million in fiscal 2008 due to the reduction in the required dedication of sales tax revenues to the helicopter replacement fund. Revenues for the helicopter fund would decrease by \$60.0 million in fiscal 2008.

The bill mandates a total of \$70.0 million in spending from general funds, the Transportation Trust Fund, bond funds, or the Maryland Automobile Insurance Fund between fiscal 2010 and 2012. However, even without this legislation, the General Assembly had stated its intent to purchase three new Med-Evac helicopters per year during this time period using money from the State Police Helicopter Replacement Fund (each helicopter costs an estimated \$10.0 million). This bill does not increase the number of helicopters to be purchased. Therefore, although the helicopter purchases may be supported with different funds, total expenditures would not be affected.

