HB 308

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 308 (The Speaker)(By Request - Administration)
Appropriations and Ways and Means

Higher Education - Higher Education Investment Fund - Funding

This Administration bill makes permanent the 6% distribution of the total funds generated through the corporate income tax to the Higher Education Investment Fund (HEIF) and 9.15% to the general fund rather than distributing the entire 15.15% to the general fund beginning in fiscal 2010.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: General fund revenues and expenditures decrease by an estimated $46.5 million in FY 2010 with corresponding increases in HEIF revenues and expenditures. Future year estimates reflect projected corporate income tax revenues and planned increases in State support for higher education. To the extent corporate income tax revenues grow faster or slower than projected, HEIF revenues and expenditures may increase or decrease.

($ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
GF Revenue	($46.5)	($50.5)	($56.7)	($59.7)	($61.5)
SF Revenue	$46.5	$50.5	$56.7	$59.7	$61.5
GF Expenditure	($46.5)	($49.0)	($50.9)	($52.9)	($55.1)
SF Expenditure	$46.5	$50.5	$56.7	$59.7	$61.5
Net Effect	$.0	($1.5)	($5.8)	($6.8)	($6.4)

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

Local Effect: None.

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

Current Law: A portion of the funds generated through the corporate income tax is 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; for workforce development initiatives administered by the Maryland Higher Education Commission (MHEC); and higher education needs related to the Base Realignment and Closure (BRAC) process. 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 received 6.0% of the total funds generated through the corporate income tax, estimated to be $54.3 million.

The fiscal 2009 State budget included $69.9 million in HEIF expenditures: $66.9 million for operating expenses at public four-year institutions and $3.0 million to address higher education needs related to BRAC. Cost containment actions taken by the Board of Public Works reduced the appropriation for BRAC by $1.0 million and instead used HEIF for the Workforce Shortage Student Assistance Program. MHEC advises that the remaining $2.0 million was awarded to institutions of higher education through a competitive grant process.

However, due to the weakening economy, corporate income taxes have been lower than expected in fiscal 2009. Fiscal 2009 revenue is now estimated to be $47.4 million, a difference of $6.9 million from the original estimate. The Department of Budget and Management (DBM) has informed the University System of Maryland (USM), Morgan State University (MSU), and MHEC not to spend a portion of the money they were expecting.

The Governor's proposed fiscal 2010 budget does not include HEIF expenditures because HEIF was not scheduled to receive any revenues. However, the budget does include language authorizing a special fund budget amendment of $46.5 million, contingent upon reauthorization of HEIF and corresponding contingent reductions of general funds. The $46.5 million is based on estimates of corporate income tax revenues by the Board of Revenue Estimates in December 2008. Of the $46.5 million, $45.0 million is to replace general fund appropriations to USM and MSU and the remaining $1.5 million replaces general funds for MHEC's BRAC and workforce investment grants.

State Fiscal Effect: General fund revenues decline by an estimated $46.5 million in fiscal 2010 and HEIF revenues increase by a corresponding amount in fiscal 2010. Likewise, general fund expenditures decrease and special fund expenditures increase by $46.5 million in fiscal 2010. DBM advises that general fund expenditures for USM and MSU would decrease approximately 4% each year compared to the Administration's out-year forecast due to availability of HEIF revenues, and that HEIF expenditures would equal HEIF revenues each year. Out-year estimates reflect these assumptions and projections for corporate income tax revenues. The additional expenditures result from estimated corporate income tax receipts growing faster than the 4% planned increase in general fund support for higher education from fiscal 2011 through 2014. To the extent that growth in corporate tax revenues is higher (lower), special fund expenditures may be higher (lower) than projected.

Additional Information

Prior Introductions: None.

Cross File: SB 275 (The President)(By Request - Administration) - Budget and Taxation.

Information Source(s): Department of Budget and Management, Maryland Higher Education Commission, Comptroller's Office, Department of Legislative Services

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