

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE

House Bill 695
Appropriations

(Delegate McDonough)

Dedicated Funds - Prohibition of Transfer

This proposed constitutional amendment restricts the use of dedicated State funds to the specific purposes that are set forth in law and prohibits the transfer of dedicated State funds to the general fund. The bill creates exceptions to the prohibition on dedicated State fund transfers but only if (1) the Governor declares an emergency; (2) the General Assembly, by law, alters the purposes for which the funds may be used; or (3) the General Assembly, by law and in response to a realized savings, transfers the funds in an equal proportion among other State funds. The bill authorizes the General Assembly to repeal a dedicated State fund and transfer its funds to another fund or account.

The bill takes effect if a majority of voters approve the amendment at the November 2012 general election.

Fiscal Summary

State Effect: If adopted, the constitutional amendment could limit budget flexibility by reducing or eliminating special fund transfers to the general fund beginning in FY 2013. This may result in significant general fund expenditure reductions or revenue-raising measures in order to meet the constitutional requirement to enact a balanced State budget bill. However, the budgetary impact is moderated to the extent that the laws dedicating State revenues for specific purposes are changed to make the funds available to the general fund. Potentially significant increase in special fund revenues and expenditures to the extent that future transfers are not made to the general fund.

Local Effect: If adopted by the voters, local aid is impacted to the extent State revenues and expenditures are affected by the prevention of transfers of dedicated State funds.

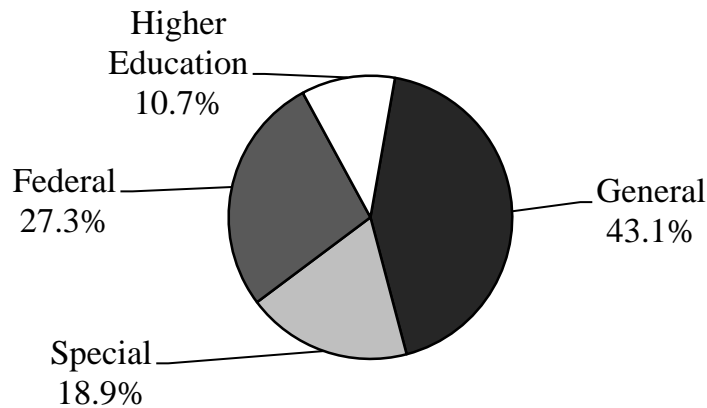
Small Business Effect: None.

Analysis

Bill Summary: “Dedicated State funds” are revenues collected by the State that are dedicated or continuously appropriated by law to a specific purpose. Dedicated State funds do not include funds received from the State Lottery or the federal government.

Current Law/Background: Section 52 of Article III of the Maryland Constitution requires the State budget bill to be balanced, meaning that total proposed appropriations cannot exceed total estimated revenues. The budget bill appropriates general, special, federal, and higher education funds in specific line items. The bill also authorizes the use of reimbursable funds, though not in specific line items. The total State budget is a composite of these fund types, most of which are appropriated each year in the budget bill. Some agencies may have only a single funding source, while others draw from a variety of sources. **Exhibit 1** presents the \$34.1 billion fiscal 2012 budget by fund source.

Exhibit 1
Fiscal 2012 State Budget by Fund Source



Source: Department of Legislative Services

Dedicated State Funds

Dedicated State funds, known as special funds, consist of revenues collected by the State, the use of which is statutorily limited to certain purposes. Approximately 19% of the State budget is special funds. Special funds may be derived from fees (*e.g.*, car and
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boat registration and child support applications), taxes levied for a specific purpose (e.g., State property taxes, motor fuel and vehicle taxes, and property transfer tax), local government payments for services, and gifts or donations. The largest special fund, by a significant margin, is the Transportation Trust Fund. State special fund appropriations in fiscal 2012 totaled \$6.4 billion, and the Governor’s proposed fiscal 2013 budget includes \$7.2 billion in special funds.

Dedicated State Fund Transfers

Special funds have been transferred to the general fund to help balance the budget on numerous occasions in the past. **Exhibit 2** illustrates some of the special funds transferred to the general fund in recent years.

Exhibit 2
Select Special Fund Transfers to the General Fund
Fiscal 2009-2012
(\$ in Millions)

| | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> | <u>FY 2012</u> |
|--|----------------|----------------|----------------|----------------|
| Pay-as-you-go Capital Funds | \$6.0 | \$167.5 | \$52.7 | \$93.6 |
| Land Preservation/Waterway Improvement | 137.1 | 205.4 | 27.5 | 95.6 |
| Other State Agency Funds* | 154.3 | 42.3 | 31.7 | 27.0 |

*“Other State Agency Funds” includes all other special funds except the Transportation Trust Fund, State Reserve Fund, and higher education funds.

Source: Department of Legislative Services

Budget Reconciliation and Financing Act (BRFA) of 2012

Among other things, the Governor’s BRFA of 2012 (SB 152/HB 87) proposes to redirect special fund revenues and transfer special fund balances to the general fund. The BRFA of 2012 transfers \$2.8 million in fiscal 2012 special funds and \$101.3 million in fiscal 2013 special funds to the general fund.

State Fiscal Effect: Assuming approval of the amendment in the November 2012 general election, this bill makes less likely any future transfers from special funds. Legislative Services advises that, in the absence of the availability of transfers from State special funds, any future shortfalls in the general fund could require additional and possibly significant expenditure reductions or new or increased revenues in order for the

State to maintain a balanced budget; however, this budgetary impact would be moderated to the extent that the laws dedicating State revenues for specific purposes are changed to make the revenues available to the general fund.

State costs of printing absentee and provisional ballots may increase to the extent inclusion of the proposed constitutional amendment on the ballot at the next general election would result in a need for a larger ballot card size or an additional ballot card for a given ballot (the content of ballots varies across the State, depending on the offices, candidates, and questions being voted on). Any increase in costs, however, is expected to be relatively minimal, and it is assumed that the potential for such increased costs will have been anticipated in the State Board of Elections' budget. Pursuant to Chapter 564 of 2001, the State Board of Elections shares the costs of printing paper ballots with the local boards of elections.

Local Fiscal Effect: To the extent State revenues and expenditures are affected by the prevention of transfers of dedicated State funds, local aid may be affected.

Local boards of elections' printing and mailing costs may increase to include information on the proposed constitutional amendment with specimen ballots mailed to voters prior to the next general election and to include the proposed amendment on absentee and provisional ballots. It is assumed, however, that the potential for such increased costs will have been anticipated in local boards of elections' budgets.

Additional Information

Prior Introductions: None.

Cross File: SB 619 (Senator Jennings) - Budget and Taxation.

Information Source(s): Department of Budget and Management, Department of Natural Resources, Maryland Department of Transportation, Department of Legislative Services

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