

Department of Legislative Services
 Maryland General Assembly
 2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 1301

(The President)(By Request - Administration)

Budget and Taxation

Appropriations

Budget Reconciliation and Financing Act of 2012

This Administration bill executes actions to increase revenues and reduce future year general fund expenditures and adjusts the enacted fiscal 2013 State budget. Contingent reductions in the Fiscal Year 2013 Budget Bill (Chapter 148) are triggered through statutory changes in the bill, and additional reductions to fiscal 2012 and 2013 appropriations are specified in the bill. The bill also establishes a Budget Restoration Fund (BRF) and capitalizes the fund with redirected revenues and fund balance transfers. Budget items that were reduced as a result of the failure of SB 152 and SB 523 are restored with special funds from BRF.

The bill takes effect June 1, 2012, although two provisions have delayed effective dates.

Fiscal Summary

State Effect: General fund expenditures decrease by \$40.6 million in FY 2012 and by \$236.3 million in FY 2013 due to actions described below. Of the FY 2013 net general fund expenditure reduction, \$37.0 million is included in the FY 2013 State budget. General fund revenues decrease by \$250.5 million in FY 2013, mostly due to the diversion of \$259.7 million in revenues to BRF. FY 2013 BRF expenditures total \$430.3 million and are partially offset by a \$47.3 million reduction in other special fund spending. Future year estimates reflect the ongoing effects of the bill. **This bill establishes a new mandated appropriation and reduces existing mandates.**

| (\$ in millions) | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|------------------|----------|-----------|-----------|-----------|-----------|
| GF Revenue | \$0 | (\$250.5) | \$6.2 | (\$31.5) | (\$31.7) |
| SF Revenue | \$0 | \$327.1 | \$12.3 | \$12.7 | \$13.0 |
| FF Revenue | \$0 | (\$2.1) | (\$1.9) | (\$1.7) | (\$1.5) |
| Higher Ed Rev. | \$0 | (\$.4) | (\$.4) | (\$.4) | (\$.4) |
| GF Expenditure | (\$40.6) | (\$236.3) | \$236.8 | \$187.2 | \$130.9 |
| SF Expenditure | \$0 | \$383.0 | \$53.0 | \$52.5 | \$54.2 |
| FF Expenditure | (\$40.0) | (\$16.4) | \$31.1 | \$32.2 | \$33.5 |
| Bond Exp. | \$0 | (\$21.5) | (\$3.5) | (\$25.0) | (\$25.0) |
| Net Effect | \$80.6 | (\$34.7) | (\$301.1) | (\$267.9) | (\$214.1) |

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

Local Effect: Local school boards will pay \$136.6 million toward teacher pensions in FY 2013, and minimum county funding for local school boards increases by an equal amount. Counties receive additional State aid beginning in FY 2013, and a requirement that counties replenish the Local Income Tax Reserve Account is repealed. In addition, the bill restores \$184.7 million in anticipated FY 2013 local aid that was cut when SB 152 and SB 523 failed. In total, the net impact on local entities for FY 2013 is a positive \$96.9 million. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: The Administration has determined that some of the provisions in this bill may have meaningful positive or negative impacts on small businesses (attached as pages 26 to 31). Legislative Services generally concurs with this assessment.

Analysis

Bill Summary: A brief overview of the bill's provisions is provided below. In general, the bill's actions can be characterized as those that generate additional revenues, those that reduce general fund spending, those that redirect and transfer funds to BRF to restore funding that was cut due to the failure of SB 152 and SB 523 of 2012, and other policy measures.

Revenue Enhancements

- Authorizes the Department of Health and Mental Hygiene (DHMH) to adopt regulations to establish a claims processing charge not to exceed 6.0% of the amount of Medicaid claims paid to hospitals located in the District of Columbia. A portion of the increased revenues will be spent to support higher Medicaid rates for hospitals in the district.
- Maintains the existing commission paid to lottery agents at 5.0% of gross receipts from ticket sales for fiscal 2013, rather than increasing the commission to 5.5%.
- Increases the nursing facility quality assessment from 5.5% to 6.0% of nursing facility operating revenues and uses the special fund revenues to support Medicaid costs.
- Requires the Maryland Aviation Administration to levy a fee on ambulance transports conducted by the Baltimore/Washington International Thurgood Marshall Airport (BWI) Fire and Rescue Department.

General Fund Expenditure Reductions

The bill specifies reductions to fiscal 2012 and 2013 legislative appropriations and specifies that, if the contingency for a reduction provided in the fiscal 2013 budget bill is satisfied by this bill, the amount of the reduction is limited to the amount, if any, by which the reductions specified in this bill exceed the reductions specified in the budget bill. Some of the reductions recognize accrued savings in specific budget items or the availability of special funds to cover general fund costs and are unrelated to the statutory changes in the bill. The statutory changes that result in general fund reductions are discussed below.

Costs Shifted to Local Government Entities

- Requires local school boards to share in the costs of teachers' retirement by phasing in school board payments of the annual normal cost over four years; sets out the payment required from each school board for fiscal 2013 through 2016; specifies the additional local school board maintenance of effort (MOE) payments required by each county during each year of the phase-in; and requires the additional fiscal 2016 MOE payments to be incorporated in the annual MOE calculation beginning in fiscal 2017. In order to help offset the impact on county governments, the bill also:
 - establishes a mandatory general fund appropriation for teacher retirement supplemental grants to Baltimore City and Allegany, Baltimore, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico counties and authorizes the Governor to transfer funding from the Revenue Stabilization Account to fund a portion of the fiscal 2013 teacher retirement supplemental grants. The new grants include the amount of the miscellaneous Baltimore City grant, and the existing miscellaneous grant is repealed;
 - repeals the requirement that county governments repay \$36.7 million annually, from fiscal 2013 to 2022, to replenish the Local Income Tax Reserve Account; and
 - repeals the requirement that local school boards reimburse the State Retirement Agency for the employer share of retirement contributions for federally funded positions, effective July 1, 2014.
- Requires local boards of education to budget the costs necessary to satisfy any final court judgments; prohibits the county government from reducing funds in the school budget dedicated to satisfying a final court judgment; and specifies that, if it becomes necessary for the State to make the payment, the amount will be deducted from State education aid due to that school board in the following fiscal year.

Special Funds That Replace General Funds

- Uses a portion of the increase in the nursing facility quality assessment to offset general fund costs for Medicaid.
- Authorizes DHMH to use funds from CareFirst to provide mental health services to the uninsured.
- Directs a portion of the revenues from speed cameras to the Department of State Police for roadside enforcement activities.
- Authorizes the Governor to transfer additional funding from the Senior Prescription Drug Assistance Program to the Kidney Disease Program in fiscal 2013 and authorizes a separate fiscal 2013 transfer from the program to Medicaid.
- Authorizes the transfer of funding from the Small, Minority, and Women-Owned Business Account established with the revenues from the video lottery terminal (VLT) program to the Education Trust Fund in fiscal 2012 in order to reduce general fund costs for education aid.
- Requires the Governor to include \$2.0 million from the Fair Campaign Financing Fund in the fiscal 2014 allowance for the State Board of Elections to begin implementation of a voting system that provides a voter-verifiable paper record.
- Authorizes the Governor to transfer up to \$2.0 million from the Administrative Account of the Strategic Energy Investment Fund to the Office of Home Energy Programs for low-income energy assistance.

Cost Control Measures

- Authorizes the Health Services Cost Review Commission to establish an alternative method for financing the costs of disproportionate share hospital payments or to approve remittances of up to \$9.1 million to support the Medicaid program if less than \$9.1 million in savings is achieved through the alternative payment.
- Requires the Governor to abolish an aggregate 100 vacant positions as of January 2, 2013, inclusive of 64 vacant positions abolished under the fiscal 2013 budget bill.
- Limits the fiscal 2013 increase in rates paid to group homes and nonpublic placements to 1% over the rates in effect on January 18, 2012.
- Repeals the requirement that Medicaid pay a nursing facility for days when a program recipient is hospitalized for an acute condition.

Mandate Relief

- Sets fiscal 2013 funding under the Sellinger Formula for Aid to Nonpublic Institutions of Higher Education and the Baltimore City Community College formula and alters the phase-up to full funding levels for the formulas.
- Sets fiscal 2013 formula funding and allocations for local community colleges under the Senator John A. Cade formula and alters the phase-up to full funding for the formula.
- Modifies the mandatory general fund appropriation for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) for fiscal 2013 and 2014.
- Sets the mandated funding level for the Aging Schools Program at the fiscal 2011 level. Although the program may be funded with general funds or general obligation (GO) bonds, it is currently funded with GO bonds.

Payment Deferrals

- Delays until September 2016 the requirement that the Geographic Cost of Education Index be updated.
- Delays the final GO bond repayment to the Maryland Transportation Authority for the InterCounty Connector from fiscal 2013 to 2014.

The Budget Restoration Fund

- Authorizes the Governor to transfer fund balances from specified special and other funds to BRF (instead of the general fund as would have occurred under SB 152) in fiscal 2012 and 2013. Among other things, the bill authorizes the Governor to transfer \$96.9 million in transfer tax revenues and \$50.0 million from the Injured Workers' Insurance Fund (IWIF) in fiscal 2013.
- Diverts \$259.7 million in general fund tax revenues, \$8.8 million in lottery revenues, and \$8.0 million in motor fuel tax revenues to BRF in fiscal 2013.
- Authorizes the use of BRF to restore fiscal 2013 reductions that are set to occur as a result of the failure of SB 152 and SB 523 of 2012.
- Terminates the fund at the end of June 30, 2013, and transfers any unspent fund balance to the general fund.

Other Measures

The bill makes several other changes to existing laws, most of which have no direct impact on the general fund.

Budget Policy

- Requires that funds received by the State as a result of a settlement, judgment, or consent decree be held in the State treasury; that funds other than restitution be appropriated in the budget; and that an official negotiating a State payment request that funds be allowed to be used for any public purpose.
- Establishes a Mortgage Loan Servicing Practices Settlement Fund to receive and provide for the uses of the proceeds of the national mortgage settlement.
- Requires that settlement funds received by the State as a result of the Exelon-Constellation merger be appropriated through the annual budget bill or, for fiscal 2013, by budget amendment subject to review by the Legislative Policy Committee and the budget committees.
- For fiscal 2012 only, authorizes DHMH to transfer up to \$5.0 million in unexpended funds to a dedicated account for specified uses in fiscal 2013 within the Community Services Program of the Developmental Disabilities Administration and the Office of Health Care Quality.
- Specifies that regulations related to Medicaid managed care organizations adopted by DHMH:
 - may not change requirements for medical loss ratios in a prior calendar year; and
 - may make changes to the methodology for penalties, rewards, disincentives, or incentives during the calendar year in 2012 only.
- Authorizes the Mental Hygiene Administration to use proceeds and investment earnings of the Mental Hygiene Administration account of the Community Services Trust Fund, instead of just the investment earnings.
- Modifies the authorized uses of the Community Right-to-Know Fund within the Maryland Department of the Environment (MDE) to include emergency response activities of the department.
- Modifies the authorized uses of the State Recycling Trust Fund within MDE to include activities of the Land Management Administration within MDE.
- Modifies the specific requirements for the Governor contained in the fiscal 2013 budget bill relating to the elimination of positions and the employee share of health insurance costs, and authorizes the Governor to implement the statewide general fund reductions in the fiscal 2013 budget bill without the review or approval of the Board of Public Works.

Other Needs

- Authorizes the transfer of funding from the Problem Gambling Fund to the Education Trust Fund in fiscal 2012 and 2013 in order to support a fiscal 2013

grant that limits fiscal 2012 to 2013 decreases in education aid for a local school board to 5%.

- Adds St. Mary's College of Maryland to the institutions that can receive funds from the Higher Education Investment Fund (HEIF) and authorizes the Governor to process a special fund budget amendment to appropriate funding from HEIF to St. Mary's College of Maryland to offset a 2.0% increase in the in-state undergraduate tuition rate for fiscal 2013.
- Authorizes merit increases for operationally critical personnel in fiscal 2013 and requires reports from higher education and the Department of Budget and Management on the definition of "operationally critical" and the increases awarded under this provision.
- States the intent of the General Assembly that, beginning in fiscal 2015, each county pay its share of one-half of any further cost of acquiring and operating the Optical Scan Voting System as required under Chapter 564 of 2001.

Local Maintenance of Effort Provisions

- Specifies that the MOE calculation for Baltimore City excludes fiscal 2013 reductions in the cost of health insurance benefits for retired school system employees and fiscal 2013 reductions due to changes in the cost allocation methodology.
- Allows a county that did not meet MOE in fiscal 2012 and that approves a county income tax rate of 3.2% *and* the maximum allowable property tax rate before July 1, 2012, to calculate its required fiscal 2013 MOE payment based on the actual fiscal 2012 appropriation. The 3.2% local income tax rate and the maximum property tax rate must be approved again the following year to maintain the lower MOE base for fiscal 2014.
- Authorizes a local school board to spend funds received directly from the State Comptroller when the county fails to provide the local school board with the minimum funding amount; and requires the county to approve the amount of the additional funds but not the manner in which the funds are spent.

Clarifications

- Clarifies that the transfer from IWIF resolves any claim that the State has to the property or assets of IWIF; if legislation is enacted requiring a valuation study, the fund or its successor is liable for any additional payment, subject to a determination by the Insurance Commissioner that the fund will not be impaired.
- Clarifies the requirements for the distribution of revenue from moving violation surcharges to the Volunteer Company Assistance Fund and adds a distribution to support the Maryland State Firemen's Association.

- Clarifies that the award of a video lottery operation license for Allegany County and the execution of a ground lease between the Department of Natural Resources and the awardee are not subject to statutory provisions restricting the disposition of the proceeds under the ground lease.
- Sets the salary of the State Superintendent of Schools at the level set by the State Board of Education on April 24, 2012.

Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add general fund spending to the budget introduced by the Governor, nor can general funds be used to restore reductions made by the General Assembly after adoption of the budget except through an approved deficiency appropriation in the following year's budget. Special and federal funds can be added to an adopted budget through the budget amendment process.

Background: In December 2010, the Spending Affordability Committee recommended that the fiscal 2012 State budget reduce the State's \$2.0 billion structural deficit by one-third, beginning what was expected to be a three-year process for resolving the State's imbalance between ongoing general fund revenues and expenditures. In its December 2011 report, the committee acknowledged the State's progress toward closing the structural deficit in fiscal 2012 but recognized that Maryland continues to face considerable fiscal challenges, noting that the "budgetary outlook continues to reflect the national recession that began in December 2007" and that federal deficit reduction efforts represent a potential threat to the State's recovery. As expected, the committee recommended that the State continue the three-year plan begun in fiscal 2012 by reducing the projected \$1.1 billion fiscal 2013 imbalance by half.

The legislature entered the 2012 session with the goal of implementing the committee's recommendation and, as introduced, the Budget Reconciliation and Financing Act of 2012 (SB 152) combined revenue increases, fund transfers, and spending decreases that, in conjunction with the fiscal 2013 budget bill (SB 150), would have accomplished the structural deficit reduction goal. The General Assembly deleted most of the general fund revenue measures in the bill, opting to instead increase tax revenues through SB 523. The single most significant provision in SB 152, as agreed to by the Conference Committee for the bill, would have been the implementation of a State and local cost-sharing plan for teachers' retirement costs. Among the fund transfers to the general fund in the Budget Reconciliation and Financing Act, the largest would have been \$96.9 million from the transfer tax funding for Program Open Space and related programs and \$50.0 million from IWIF. SB 152 also would have moderated the growth in certain higher education formulas, adjusted nursing home and hospital assessments to generate general fund savings for Medicaid, directed additional motor fuel tax revenue to

the general fund, and maintained the current commission percentage paid to lottery agents.

SB 523, the State and Local Revenue Financing Act of 2012, would have raised \$261.6 million in new general fund revenue and, in conjunction with the Budget Reconciliation and Financing Act and the budget bill, would have balanced the fiscal 2013 State budget. The 2013 budget bill passed on the last day of the 2012 regular session; however, SB 152 and SB 523 failed to pass. The failure of the two bills triggered more than \$430.0 million in general fund reductions specified in the fiscal 2013 budget bill. This bill includes most of the provisions that were in SB 152, as agreed to by the Conference Committee for that bill, and restores the funding that was cut from the budget when SB 152 and SB 523 were not passed.

State Fiscal Effect: General fund revenues decrease by \$250.5 million in fiscal 2013, and general fund expenditures decrease by \$40.6 million in fiscal 2012 and by \$236.3 million in fiscal 2013. Of the fiscal 2013 expenditure decreases, \$8.7 million has already been assumed in the fiscal 2013 State budget, and another \$28.3 million in contingent budget bill reductions is triggered by provisions in this bill. Over the two years, the bill has a positive net impact on the general fund of \$26.4 million. In future years, general fund spending is expected to increase beyond the spending that would be expected under the reduced fiscal 2013 budget due to the assumption that the budget restorations in the bill will be maintained in future years, offsetting general fund savings generated by the bill. The impact of individual provisions on general fund revenues and spending is detailed in **Appendix A**, along with revenue and expenditure estimates for other fund types.

As shown in **Exhibit 1**, fiscal 2013 BRF redirected revenues total \$276.5 million, and an additional \$157.0 million is transferred from IWIF and several special and other funds in fiscal 2012 and 2013. BRF expenditures specified in the bill total \$430.3 million and include \$134.0 million in education aid, \$122.8 million in State agency costs, \$74.0 million in higher education appropriations, \$52.3 million in county and municipal aid, \$25.4 million for economic development tax credits and research grants, and \$21.7 million in spending for health and human services programs. BRF terminates at the end of fiscal 2013 and will transfer an estimated \$3.2 million to the general fund at that time. A detailed list of transfers into BRF, revenues deposited in BRF, and expenditures from BRF is provided in **Appendix B**.

Exhibit 1
Budget Restoration Fund
(\$ in Millions)

Revenues

| | | |
|---|--------------|----------------|
| Fund Balance Transfers (fiscal 2012 and 2013) | \$157.0 | |
| Redirected Revenues (fiscal 2013) | <u>276.5</u> | |
| Revenue Total | | \$433.5 |

Expenditures (fiscal 2013)

| | | |
|---------------------------|-------------|----------------|
| Education Aid | \$134.0 | |
| State Agencies | 122.8 | |
| Higher Education | 74.0 | |
| County/Municipal Aid | 52.3 | |
| Economic Development | 25.4 | |
| Health and Human Services | <u>21.7</u> | |
| Expenditure Total | | \$430.3 |

| | | |
|--|--|-------|
| June 30, 2013 Fund Balance to General Fund | | \$3.2 |
|--|--|-------|

Note: Numbers may not sum to total due to rounding.

Excluding BRF, special fund revenues increase by a net of \$3.8 million, and special fund expenditures decrease by \$47.3 million in the aggregate in fiscal 2013. The adopted fiscal 2013 State budget includes special fund expenditure decreases totaling \$75.6 million, leaving \$28.4 million in special fund expenditures to be brought in by budget amendment during the fiscal year. The special funds authorized but not budgeted are shown in **Exhibit 2** with their expected uses and amounts. Fiscal 2013 special fund expenditure reductions executed in the bill do not carry forward, resulting in projected increases in special fund spending in future years. More detail on special fund revenues and expenditures is shown in **Appendix A**.

Exhibit 2
Fiscal 2013 Special Fund Spending Authorized But Not Included in Budget
(\$ in Millions)

| <u>Special Funds Authorized</u> | <u>Use</u> | <u>Amount</u> |
|---|---|---------------|
| Nursing Facility Quality Assessment Revenues | Nursing home rate increases and Medicaid | \$11.5 |
| Revenue Stabilization Account | Teacher retirement supplemental grants | 5.0 |
| Senior Prescription Drug Assistance Program | Medicaid | 4.5 |
| Senior Prescription Drug Assistance Program | Kidney Disease Program | 2.0 |
| Strategic Energy Investment Fund | Low-income energy assistance | 2.0 |
| Small, Minority, and Women-owned Business Account | Education aid | 1.9 |
| Problem Gambling Fund | To limit fiscal 2012 to 2013 decreases in education aid to 5.0% | 1.2 |
| Higher Education Investment Fund | To offset a 2.0% increase in resident undergraduate tuition rates at St. Mary's College of Maryland | 0.4 |
| Total Amount | | \$28.4 |

Note: Numbers may not sum to total due to rounding.

Local Fiscal Effect: As shown in **Exhibit 3**, \$184.7 million in anticipated fiscal 2013 local aid is restored by the bill, but \$136.6 million in pension costs are shifted to local school boards and are effectively paid by counties through increases in their local MOE amounts. Counties receive an additional \$24.6 million in teacher retirement supplemental grants to help pay for pension cost-sharing and will not be required to replenish the Local Income Tax Reserve Account, an action that will save the counties \$36.7 million.

Exhibit 3
Fiscal 2013 Impact on Local Government Entities
(\$ in Millions)

| | <u>County</u> | <u>School Boards</u> | <u>Comm. Colleges</u> | <u>Total</u> |
|--|-----------------|--------------------------|---------------------------|-----------------|
| Local Aid Restored | | | | |
| Disparity Grants | \$12.0 | | | \$12.0 |
| Crime Control Grants | 18.8 | | | 18.8 |
| Geographic Cost of Education Index | | \$128.8 | | 128.8 |
| Teacher Development Grants | | 5.2 | | 5.2 |
| Cade Formula | | | \$19.9 | 19.9 |
| Subtotal – Aid Restorations | \$30.8 | \$134.0 | \$19.9 | \$184.7 |
| Other Local Impacts | | | | |
| Teacher Pension Payments | | (136.6) | | (136.6) |
| Additional County MOE Amounts | (136.6) | 136.6 | | 0.0 |
| Supplemental Retirement Grants* | 24.6 | | | 24.6 |
| Eliminate Income Tax Reserve Repayment | 36.7 | | | 36.7 |
| Local Share of Program Open Space** | (13.6) | | | (13.6) |
| Cap on Annual Education Aid Decreases | | 1.2 | | 1.2 |
| Subtotal – Other Local Impacts | (\$89.0) | \$1.2 | \$0.0 | (\$87.8) |
| Total Impact on Local Entities | (\$58.2) | \$135.1 | \$19.9 | \$96.9 |

*Reflects the net impact of moving the existing miscellaneous grant into the supplemental grants.

**The *Capital Improvement Program* includes a plan to replace the funds with general obligation bonds in fiscal 2014 and 2015.

Note: Numbers may not sum to total due to rounding.

The local share of Program Open Space is reduced by \$13.6 million due to a reduction in special fund spending of transfer tax revenues, although the reduction is expected to be replaced with GO bonds over the next several years. The bill also establishes a grant for school boards that experience a decrease of more than 5.0% in State formula aid from fiscal 2012 to 2013, a threshold exceeded by Garrett County. The \$1.2 million grant limits the decrease to 5.0% and is funded with transfers from the Problem Gambling Fund to the Education Trust Fund. In total, a negative net impact of \$58.2 million for county and municipal governments is offset by a \$135.1 million increase for local school boards and the restoration of a \$19.9 million reduction to State aid for community colleges. The fiscal 2013 local effects of the bill are displayed by county in **Appendix C1, Appendix C2, and Appendix C3.**

In future years, local school board payments for teacher pensions will increase, as will county MOE payments. The fiscal 2013 through 2016 payments for each school board and each county are specified in the bill and are aggregated in **Exhibit 4**. The exhibit shows the pension offsets established in this bill, including the fiscal 2015 repeal of the requirement that local school boards reimburse the State for retirement expenses incurred for positions supported with federal funds. The repeal of that requirement will reduce local school board costs and is used as an offset to the required county MOE increases beginning in fiscal 2015.

Exhibit 4
Fiscal 2013 through 2016 Impact of the Pension Shift in BRFA*
(\$ in Millions)

| | <u>FY2013</u> | <u>FY2014</u> | <u>FY2015</u> | <u>FY2016</u> |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|
| Counties | | | | |
| New Revenues | | | | |
| Teacher Retirement Grants | \$24.6 | \$24.6 | \$24.6 | \$24.6 |
| Repeal Local Reserve Account | | | | |
| Repayment | 36.7 | 36.7 | 36.7 | 36.7 |
| Payments | | | | |
| MOE Increase | 136.6 | 173.2 | 183.7 | 216.5 |
| Net Impact | (\$75.4) | (\$111.9) | (\$122.5) | (\$155.3) |
| School Boards | | | | |
| Revenues | | | | |
| Additional County MOE | \$136.6 | \$173.2 | \$183.7 | \$216.5 |
| Guaranteed Tax Base Aid | 0.0 | 6.4 | 8.8 | 8.8 |
| Payments | | | | |
| Pension Costs | 136.6 | 173.2 | 221.6 | 254.8 |
| Repeal federally funded staff | | | | |
| reimbursement | 0.0 | 0.0 | (37.8) | (38.2) |
| Net Impact | \$0.0 | \$6.4 | \$8.8 | \$8.8 |

*Additional local tax revenues from provisions in SB 1302/HB 1802 that offset the impact of the pension shift on the counties are not shown.

Note: Numbers may not sum to total due to rounding.

The negative net impact of the pension shift on counties increases from \$75.4 million in fiscal 2013 to \$155.3 million in fiscal 2016, when the pension cost-sharing phase-in is complete. This does not include local tax revenues resulting from provisions in SB 1301/ Page 13

SB 1302/HB 1802 (the State and Local Revenue Financing Act) that provide additional offsets to the increased MOE payments made by the counties to cover the pension costs. Most local school boards are held harmless throughout the implementation period, but school boards in low-wealth counties will actually benefit from the pension shift through increases in State aid under the guaranteed tax base (GTB) program. The program provides additional State aid to school boards in low-wealth counties based in part on the local school appropriation from the prior fiscal year. For example, the higher appropriations required for fiscal 2013 will result in additional aid in fiscal 2014.

Beginning in fiscal 2017, local school boards will be responsible for the actual normal cost of pensions for qualifying personnel, and the calculation of a per pupil MOE amount that counties will be required to fund in fiscal 2017 and successive years will include the additional fiscal 2016 MOE payment specified in the bill. Over time, pension payments by school boards will likely exceed the increased MOE payments by counties for most, if not all, school boards.

Finally, the bill allows certain counties to reduce required fiscal 2013 MOE appropriations to local school boards. The bill specifically authorizes an MOE decrease for Baltimore City that could reduce the city's school appropriation by an estimated \$12.0 million due to lower ongoing costs for retiree health. The bill also decreases the required fiscal 2013 MOE appropriation for a county that failed to meet MOE in fiscal 2012 if the county maximizes its income and property tax rates prior to July 1, 2012. Seven counties missed MOE in fiscal 2012, but two – Montgomery and Queen Anne's counties – have already had their required MOE amounts reduced by provisions in Chapter 6 of 2012 (SB 848). The other five counties that did not fully fund MOE in fiscal 2012 – Anne Arundel, Dorchester, Kent, Talbot, and Wicomico – could reduce their required 2013 MOE amounts under this provision; however, only Wicomico County is likely to increase its local income and property tax rates to qualify for the reduction. If it does, its minimum required MOE amount for fiscal 2013 will decrease by an estimated \$14.0 million.

If, as expected, Baltimore City and Wicomico County reduce their fiscal 2013 local school appropriations as a result of the bill, State aid from the GTB program will decrease for the Baltimore City and Wicomico County school boards in fiscal 2014. Fiscal 2014 GTB aid decreases are estimated at \$4.1 million for Baltimore City and \$4.6 million for Wicomico County. Assuming the two jurisdictions continue to provide lower funding levels in future years due to the reductions in base MOE amounts, lower GTB aid calculations for the two school boards will continue in future years.

Additional Information

Prior Introductions: None.

Cross File: HB 1801 (The Speaker)(By Request - Administration) - Appropriations.

Information Source(s): Maryland Department of Agriculture; Baltimore City Community College; Department of Business and Economic Development; Board of Public Works; Governor's Office of Crime Control and Prevention; Department of Budget and Management; Department of Natural Resources; Maryland Department of Planning; Maryland State Department of Education; Maryland State Board of Elections; Maryland Department of the Environment; Department of Housing and Community Development; Maryland Higher Education Commission; Maryland Health Insurance Plan; Department of Health and Mental Hygiene; Maryland Insurance Administration; Injured Workers' Insurance Fund; Maryland Independent College and University Association; Comptroller's Office; Judiciary (Administrative Office of the Courts); Maryland State Lottery Agency; Department of Labor, Licensing, and Regulation; Maryland Association of Counties; Department of State Police; Office of Administrative Hearings; Maryland State Retirement Agency; Public Service Commission; Public School Construction Program; Secretary of State; Maryland Department of Transportation; Maryland State Treasurer's Office; Department of Human Resources; Department of Juvenile Services; Maryland Energy Administration; Department of Legislative Services

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Appendix A – Revenue and Expenditure Changes by Fund Type

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|--|----------------|----------------------|-------------------|---------------------|---------------------|---------------------|
| <u>General Fund Revenues</u> | | | | | | |
| General Fund Revenue Enhancements | | | | | | |
| DC Hospitals Claim Servicing Charge | | 6,000,000 | 6,180,000 | 6,365,400 | 6,556,362 | 6,753,053 |
| Transfer of Unexpended Budget Restoration Fund | | 3,205,036 | | | | |
| Subtotal – Revenue Enhancements | 0 | 9,205,036 | 6,180,000 | 6,365,400 | 6,556,362 | 6,753,053 |
| Foregone General Fund Revenues for Local Relief | | | | | | |
| Reimbursement for Federally Funded School Employees | | | | (37,845,709) | (38,224,166) | (38,606,408) |
| Subtotal – Redirected General Funds | 0 | 0 | 0 | (37,845,709) | (38,224,166) | (38,606,408) |
| General Fund Tax Revenues Diverted to Budget Restoration Fund | | | | | | |
| Tobacco Tax | | (5,000,000) | | | | |
| Corporate Income Tax | | (7,428,400) | | | | |
| Personal Income Tax | | (247,300,000) | | | | |
| Subtotal – Revenue Enhancements | 0 | (259,728,400) | 0 | 0 | 0 | 0 |
| Total General Fund Revenues | 0 | (250,523,364) | 6,180,000 | (31,480,309) | (31,667,804) | (31,853,355) |
| <u>Special Fund Revenues</u> | | | | | | |
| Budget Restoration Fund Revenues* | | | | | | |
| Personal Income Tax Revenues | | 247,300,000 | | | | |
| Injured Workers’ Insurance Fund (IWIF) Transfer | | 50,000,000 | | | | |
| Lottery Revenues – Maintain 5% Commission in FY 2013 | | 8,800,000 | | | | |
| Motor Fuel Tax | | 8,000,000 | | | | |
| Corporate Income Tax | | 7,428,400 | | | | |
| Tobacco Tax | | 5,000,000 | | | | |
| Estimated General Fund Reversion | | (3,205,036) | | | | |
| Subtotal – Budget Restoration Fund Revenues | 0 | 323,323,364 | 0 | 0 | 0 | 0 |
| Other Special Fund Revenues | | | | | | |
| Nursing Facilities Quality Assessment Increase | | 11,457,406 | 11,801,128 | 12,155,162 | 12,519,817 | 12,895,412 |
| BWI Airport Fire and Rescue Ambulance Fees | | 300,000 | 500,000 | 500,000 | 500,000 | 500,000 |
| Chesapeake and Atlantic Coastal Bays 2010 Trust Fund | | (8,000,000) | | | | |
| Subtotal – Other Special Fund Revenues | 0 | 3,757,406 | 12,301,128 | 12,655,162 | 13,019,817 | 13,395,412 |
| Total Special Fund Revenues | 0 | 327,080,770 | 12,301,128 | 12,655,162 | 13,019,817 | 13,395,412 |

*BRF revenues do not reflect fund balance transfers in fiscal 2012 and 2013 except IWIF. A complete list of transfers is shown in Appendix B.

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|--|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| <u>Federal Fund Revenues</u> | | | | | | |
| Medicaid Funds for DC Hospital Rate Increase | | 4,500,000 | 4,635,000 | 4,774,050 | 4,917,272 | 5,064,790 |
| Medicaid Funds for Nursing Home Rate Increase | | 3,747,752 | 3,860,185 | 3,975,991 | 4,095,271 | 4,218,129 |
| Medicaid Savings from Hold on Nursing Home Beds | | (1,250,000) | (1,287,500) | (1,326,125) | (1,365,909) | (1,406,886) |
| Medicaid Savings from Disproportionate Share Hospitals | | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) |
| Total Federal Fund Revenues | 0 | (2,102,248) | (1,892,315) | (1,676,084) | (1,453,366) | (1,223,967) |
| <u>Higher Education Revenues</u> | | | | | | |
| St. Mary's College Tuition Revenues Replaced w/HEIF | | (383,840) | (395,355) | (407,216) | (419,432) | (432,015) |
| Total Higher Education Revenues | 0 | (383,840) | (395,355) | (407,216) | (419,432) | (432,015) |
| <u>General Fund Expenditures</u> | | | | | | |
| <i>Overbudgeted Expenditures</i> | | | | | | |
| Medicaid | (40,000,000) | (40,000,000) | | | | |
| DBED Office of Administration and Technology | (578,000) | (578,000) | | | | |
| Major Information Technology Projects | | (5,000,000) | 700,000 | | | |
| Subtotal – Overbudgeted Expenditures | (40,578,000) | (45,578,000) | 700,000 | 0 | 0 | 0 |
| <i>Fund Swaps and Cost Shifts</i> | | | | | | |
| School System Payments for Teachers' Retirement Costs | | (136,644,952) | (173,201,321) | (221,578,201) | (254,754,588) | (249,299,915) |
| Additional Cigarette Restitution Funds for Medicaid | | (10,000,000) | | | | |
| Nursing Facility Assessments for Medicaid | | (6,909,654) | (7,116,944) | (7,330,452) | (7,550,366) | (7,776,877) |
| CareFirst Subsidy for Mental Health Services | | (6,247,276) | | | | |
| Additional VLT Revenues for Education Aid | | (6,100,000) | | | | |
| Senior Prescription Drug Program for Medicaid | | (4,500,000) | | | | |
| Speed Monitoring System Revenues for State Police | | (4,173,658) | (7,327,176) | (6,687,985) | (9,071,182) | (8,466,361) |
| Senior Prescription Drug Program for Kidney Disease | | (2,000,000) | | | | |
| Small, Minority, Women-owned Business Acct for Ed Aid | | (1,867,000) | | | | |
| Higher Education Investment Funds for Higher Education | | (246,160) | | | | |
| Fair Campaign Financing Fund for New Voting Machines | | | (2,000,000) | | | |
| Subtotal – Fund Swaps and Cost Shifts | 0 | (178,688,700) | (189,645,441) | (235,596,638) | (271,376,136) | (265,543,153) |
| <i>Cost Control/Deferral Measures</i> | | | | | | |
| Disproportionate Share Hospital Medicaid Payments | | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) |
| Cap Increases in Nonpublic Special Ed Placement Rates | | (2,102,749) | (2,152,860) | (2,215,647) | (2,277,908) | (2,343,052) |
| Cap Increases in Residential Child Care Rates | | (1,823,461) | | | | |

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|---|---------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| Eliminate Hold on Nursing Home Beds | | (1,250,000) | (1,287,500) | (1,326,125) | (1,365,909) | (1,406,886) |
| Reduce Facility Payments for Bayview Mental Health | | (750,000) | | | | |
| Defer Recalculation of the Cost of Education Index | | (50,000) | | | (50,000) | 100,000 |
| Subtotal – Cost Control Measures | 0 | (15,076,210) | (12,540,360) | (12,641,772) | (12,793,817) | (12,749,938) |
| Mandate Relief | | | | | | |
| Sellinger Formula for Independent Colleges and Universities | | (1,344,148) | (2,541,257) | (5,277,702) | (9,601,414) | (14,258,667) |
| MARBIDCO | | (125,000) | (1,125,000) | | | |
| Baltimore City Community College Formula | | | (2,043,027) | (2,481,492) | (4,972,506) | (5,555,414) |
| Cade Formula for Community Colleges | | | 7,684,300 | 3,076,421 | (22,127,485) | (36,540,435) |
| Subtotal – General Fund Mandate Relief | 0 | (1,469,148) | 1,975,016 | (4,682,773) | (36,701,405) | (56,354,516) |
| Local Aid | | | | | | |
| Guaranteed Tax Base (due to MOE Adjustments) | | | (2,250,864) | (586,086) | (1,226,012) | 452,958 |
| Teacher Retirement Supplemental Grants | | | 24,583,661 | 24,583,661 | 24,583,661 | 24,583,661 |
| Subtotal – Local Aid | 0 | 0 | 22,332,797 | 23,997,575 | 23,357,649 | 25,036,619 |
| Ongoing Funding Restorations and Other Needs | | | | | | |
| National Board Certification Fees | | | 1,040,000 | 1,040,000 | 1,040,000 | 1,040,000 |
| Regional Institutes for Children and Adolescents | | | 6,662,500 | 6,895,688 | 7,033,602 | 7,174,274 |
| Sustainable Communities Tax Credit | | | 7,000,000 | | | |
| Biotechnology Tax Credit | | | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 |
| Stem Cell Fund | | | 10,400,000 | 10,400,000 | 10,400,000 | 10,400,000 |
| Community-based Provider Rates | | | 15,573,998 | 16,102,160 | 16,439,313 | 16,785,306 |
| State Employee Health Insurance Costs | | | 15,975,000 | 17,013,375 | 18,119,244 | 19,296,995 |
| Crime Control Grants | | | 20,768,000 | 20,768,000 | 20,768,000 | 20,768,000 |
| Executive Branch Positions | | | 24,744,000 | 26,500,824 | 27,666,860 | 28,884,202 |
| Institutions of Higher Education | | | 48,705,462 | 49,523,303 | 51,877,578 | 54,271,248 |
| State Agency Operating Expenses | | | 50,500,000 | 51,005,000 | 51,515,050 | 52,030,201 |
| State Employee Cost-of-living Adjustments | | | 69,695,600 | 72,399,600 | 75,585,182 | 78,910,930 |
| Geographic Cost of Education Index | | | 130,252,260 | 131,748,815 | 135,067,702 | 138,620,190 |
| Increase in Rates for DC Hospitals | | 4,500,000 | 4,635,000 | 4,774,050 | 4,917,272 | 5,064,790 |
| Subtotal – Funding Restorations and Other Needs | 0 | 4,500,000 | 413,951,820 | 416,170,815 | 428,429,803 | 441,246,136 |
| Total General Fund Expenditures | (40,578,000) | (236,312,058) | 236,773,832 | 187,247,207 | 130,916,094 | 131,635,148 |

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|--|----------------|--------------------|----------------|----------------|----------------|----------------|
| <u>Special Fund Expenditures</u> | | | | | | |
| <i>Budget Restoration Fund Restorations</i> | | | | | | |
| Sellinger Formula for Independent Colleges and Universities | | 3,844,596 | | | | |
| Teacher Development Grants | | 5,232,000 | | | | |
| Regional Institutes for Children and Adolescents | | 6,500,000 | | | | |
| Sustainable Communities Tax Credit | | 7,000,000 | | | | |
| Biotechnology Tax Credit | | 8,000,000 | | | | |
| Stem Cell Fund | | 10,400,000 | | | | |
| Legislative Scholarships | | 11,786,486 | | | | |
| Disparity Grants | | 11,992,672 | | | | |
| State Employee Health Insurance Costs | | 15,000,000 | | | | |
| Community-based Provider Rates | | 15,200,000 | | | | |
| Teacher Retirement Supplemental Grants | | 19,583,662 | | | | |
| Cade Formula for Local Community Colleges | | 19,917,611 | | | | |
| Crime Control Grants | | 20,768,000 | | | | |
| Executive Branch Positions | | 24,000,000 | | | | |
| State Employee Cost-of-living Adjustments | | 33,800,000 | | | | |
| Public Institutions of Higher Education | | 38,499,856 | | | | |
| State Agency Operating Expenses | | 50,000,000 | | | | |
| Geographic Cost of Education Index | | 128,752,660 | | | | |
| <i>Subtotal -- Budget Restoration Fund Restorations</i> | 0 | 430,277,543 | 0 | 0 | 0 | 0 |
| <i>Other Special Fund Expenditures</i> | | | | | | |
| Transfer Tax Projects | | (96,870,649) | | | | |
| Chesapeake and Atlantic Coastal Bays 2010 Trust Fund | | (8,000,000) | | | | |
| Spinal Cord Injury Research Trust Fund | | (500,000) | | | | |
| Fair Campaign Financing Fund for | | | 2,000,000 | | | |
| Higher Education Investment Fund to St. Mary's College | | 383,840 | 395,355 | 407,216 | 419,432 | 432,015 |
| Problem Gambling Fund to Limit Education Aid Decreases | | 1,159,000 | | | | |
| Small, Minority, Women-Owned Business Acct for Ed Aid | | 1,867,000 | | | | |
| Senior Prescription Drug Program for Kidney Disease | | 2,000,000 | | | | |
| Strategic Energy Investment Fund for Low-income Energy | | 2,000,000 | | | | |
| Senior Prescription Drug Program for Kidney Disease | | 4,500,000 | | | | |
| Revenue Stabilization Acct for Teacher Retirement Grants | | 5,000,000 | | | | |
| Restore Funding for Employee Health Insurance | | 5,000,000 | 5,325,000 | 5,671,125 | 6,039,748 | 6,432,332 |

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|---|---------------------|---------------------|--------------------|---------------------|---------------------|---------------------|
| Restore Funding for Employee Cost-of-living Adjustments | | 8,079,570 | 16,660,073 | 17,306,439 | 18,067,922 | 18,862,911 |
| Nursing Facility Assessments for Medicaid | | 11,457,406 | 11,801,128 | 12,155,162 | 12,519,817 | 12,895,412 |
| Restore Funding for Agency Operating Budgets | | 16,666,667 | 16,833,334 | 17,001,667 | 17,171,684 | 17,343,401 |
| Subtotal – Other Special Fund Expenditures | 0 | (47,257,166) | 53,014,890 | 52,541,609 | 54,218,603 | 55,966,071 |
| Total Special Fund Expenditures | 0 | 383,020,377 | 53,014,890 | 52,541,609 | 54,218,603 | 55,966,071 |
| <u>Federal Fund Expenditures</u> | | | | | | |
| Medicaid Overbudgeted Amounts | (40,000,000) | (40,000,000) | | | | |
| Disproportionate Share Hospital Medicaid Payments | | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) | (9,100,000) |
| Eliminate Hold on Nursing Home Beds | | (1,250,000) | (1,287,500) | (1,326,125) | (1,365,909) | (1,406,886) |
| Reduce Facility Payments for Bayview Mental Health | | (750,000) | | | | |
| Cap Increases in Residential Child Care Rates | | (447,795) | | | | |
| Higher Medicaid Rates for Nursing Facilities | | 3,747,752 | 3,860,185 | 3,975,991 | 4,095,271 | 4,218,129 |
| Increase in Medicaid Rates for DC Hospitals | | 4,500,000 | 4,635,000 | 4,774,050 | 4,917,272 | 5,064,790 |
| Restore Funding for Employee Health Insurance | | 5,000,000 | 5,325,000 | 5,671,125 | 6,039,748 | 6,432,332 |
| Restore Funding for Employee Cost-of-living Adjustments | | 5,230,885 | 10,786,085 | 11,204,556 | 11,697,556 | 12,212,248 |
| Restore Funding for Agency Operating Budgets | | 16,666,667 | 16,833,334 | 17,001,667 | 17,171,684 | 17,343,401 |
| Total Federal Fund Expenditures | (40,000,000) | (16,402,491) | 31,052,104 | 32,201,264 | 33,455,622 | 34,764,014 |
| <u>Bond Expenditures</u> | | | | | | |
| Defer InterCounty Connector Payments | | (21,500,000) | 21,500,000 | | | |
| Aging Schools Program | | | (25,000,000) | (25,000,000) | (25,000,000) | (25,000,000) |
| Total Bond Expenditures | 0 | (21,500,000) | (3,500,000) | (25,000,000) | (25,000,000) | (25,000,000) |

Appendix B – Budget Restoration Fund Revenues and Expenditures

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|----------------------|
| <u>Budget Restoration Fund Revenues</u> | | | |
| Fund Balance Transfers into Budget Restoration Fund | | | |
| Baltimore City Community College Fund Balance | \$1,800,000 | | |
| Helicopter Replacement Fund | 1,000,000 | | |
| Transfer Tax Revenues | | \$96,870,649 | |
| Injured Workers' Insurance Fund | | 50,000,000 | |
| University System of Maryland | | 5,000,000 | |
| MD Correctional Enterprises Revolving Fund | | 500,000 | |
| Spinal Cord Injury Research Trust Fund | | 500,000 | |
| Horse Racing Special Fund | | 351,000 | |
| State Board of Physicians Fund | | 320,392 | |
| Morgan State University | | 250,000 | |
| State Insurance Trust Fund | | 206,000 | |
| State Board of Examiners of Audiologists, etc. | | 96,350 | |
| Division of State Documents | | 50,000 | |
| Board of Morticians and Funeral Directors | | 9,788 | |
| <i>Subtotal – Fund Balance Transfers</i> | <i>\$2,800,000</i> | <i>\$154,154,179</i> | |
| Dedicated Revenues | | | |
| Personal Income Tax Revenues | | \$247,300,000 | |
| State Lottery Revenues | | 8,800,000 | |
| Motor Fuel Tax | | 8,000,000 | |
| Corporate Income Tax | | 7,428,400 | |
| Tobacco Tax | | 5,000,000 | |
| <i>Subtotal – Budget Restoration Fund Revenues</i> | <i>\$0</i> | <i>\$276,528,400</i> | |
| Total Budget Restoration Fund Revenues | \$2,800,000 | \$430,682,579 | \$433,482,579 |

| | <u>FY 2012</u> | <u>FY 2013</u> | <u>Total</u> |
|---|----------------|-----------------------------|----------------------|
| <u>Budget Restoration Fund Expenditures</u> | | | |
| Education Aid | | | |
| Restore Geographic Cost of Education Index | | \$128,752,660 | |
| Restore Teacher Development Grants | | 5,232,000 | |
| <i>Subtotal – Education Aid</i> | | <i>\$133,984,660</i> | |
| State Agencies | | | |
| Restore State Agency Operating Expenses | | \$50,000,000 | |
| Restore State Employee Cost of Living Adjustments | | 33,800,000 | |
| Restore 400 of the 500 Executive Branch Positions Set to Be Cut | | 24,000,000 | |
| Restore State Share of Employee Health Insurance Costs | | 15,000,000 | |
| <i>Subtotal – State Agencies</i> | | <i>\$122,800,000</i> | |
| Higher Education | | | |
| Restore Funding for Public Institutions of Higher Education | | \$38,499,856 | |
| Restore Cade Formula for Local Community Colleges | | 19,917,611 | |
| Restore Legislative Scholarships | | 11,786,486 | |
| Restore Sellinger Formula for Independent Colleges and Universities | | 3,844,596 | |
| <i>Subtotal – Higher Education</i> | | <i>\$74,048,549</i> | |
| County and Municipal Aid | | | |
| Restore Disparity Grants | | \$11,992,672 | |
| Provide Teacher Retirement Supplemental Grants | | 19,583,662 | |
| Restore Crime Control Grants | | 20,768,000 | |
| <i>Subtotal – County and Municipal Aid</i> | | <i>\$52,344,334</i> | |
| Economic Development | | | |
| Restore Funding to Stem Cell Fund | | \$10,400,000 | |
| Restore Biotechnology Tax Credit | | 8,000,000 | |
| Restore Sustainable Communities Tax Credit | | 7,000,000 | |
| <i>Subtotal – Economic Development</i> | | <i>\$25,400,000</i> | |
| Health and Human Services | | | |
| Allow Increases in Community-based Provider Rates | | \$15,200,000 | |
| Maintain Capacity in Regional Institutes for Children and Adolescents | | 6,500,000 | |
| <i>Subtotal – Health and Human Services</i> | | <i>\$21,700,000</i> | |
| Total Budget Restoration Fund Expenditures | | \$430,277,543 | \$430,277,543 |
| Fund Balance (reverts to general fund) | | | \$3,205,036 |

Appendix C1
Fiscal 2013 Local Aid Restored by SB 1301/HB 1801
(\$ in Thousands)

| County | Cost of Education Index | Teacher Development Grants | Crime Control Grants | Disparity Grants | Community College Code Formula | Total Restored |
|-----------------|--------------------------------|-----------------------------------|-----------------------------|-------------------------|---------------------------------------|-----------------------|
| Allegany | \$0 | \$0 | \$0 | \$730 | \$803 | \$1,533 |
| Anne Arundel | 9,043 | 0 | 296 | 0 | 3,297 | 12,636 |
| Baltimore City | 22,396 | 0 | 10,368 | 7,754 | 0 | 40,518 |
| Baltimore | 5,478 | 0 | 0 | 0 | 2,339 | 7,818 |
| Calvert | 2,291 | 0 | 0 | 0 | 202 | 2,493 |
| Caroline | 0 | 0 | 0 | 213 | 144 | 357 |
| Carroll | 2,535 | 0 | 0 | 0 | 696 | 3,231 |
| Cecil | 0 | 0 | 0 | 0 | 476 | 476 |
| Charles | 3,498 | 0 | 0 | 0 | 669 | 4,167 |
| Dorchester | 0 | 0 | 0 | 202 | 124 | 327 |
| Frederick | 6,380 | 0 | 0 | 0 | 795 | 7,175 |
| Garrett | 0 | 0 | 0 | 213 | 230 | 444 |
| Harford | 0 | 0 | 0 | 0 | 1,203 | 1,203 |
| Howard | 5,120 | 0 | 0 | 0 | 877 | 5,996 |
| Kent | 138 | 0 | 0 | 0 | 57 | 195 |
| Montgomery | 32,796 | 0 | 0 | 0 | 4,656 | 37,452 |
| Prince George's | 38,293 | 0 | 3,761 | 2,169 | 1,328 | 45,551 |
| Queen Anne's | 558 | 0 | 0 | 0 | 159 | 717 |
| St. Mary's | 226 | 0 | 0 | 0 | 227 | 453 |
| Somerset | 0 | 0 | 0 | 491 | 62 | 552 |
| Talbot | 0 | 0 | 0 | 0 | 138 | 138 |
| Washington | 0 | 0 | 0 | 0 | 857 | 857 |
| Wicomico | 0 | 0 | 327 | 220 | 413 | 960 |
| Worcester | 0 | 0 | 0 | 0 | 165 | 165 |
| | 0 | 5,232 | 4,034 | 0 | 0 | 9,266 |
| Total | \$128,753 | \$5,232 | \$18,786 | \$11,993 | \$19,918 | \$184,681 |

Appendix C2
Fiscal 2013 Impact on Local Aid of SB 1301/HB 1801
(\$ in Thousands)

| County | Teachers' Retirement¹ | Program Open Space² | Miscellaneous Grant³ | Supplemental Retirement Grants | Cap on Annual Education Aid Decreases | Total |
|-----------------|---|---------------------------------------|--|---------------------------------------|--|--------------------|
| Allegany | (\$1,488) | (\$151) | \$0 | \$1,632 | \$0 | (\$7) |
| Anne Arundel | (11,494) | (1,634) | 0 | 0 | 0 | (13,128) |
| Baltimore City | (12,923) | (1,081) | (3,075) | 10,048 | 0 | (7,031) |
| Baltimore | (15,756) | (1,838) | 0 | 3,000 | 0 | (14,594) |
| Calvert | (2,836) | (163) | 0 | 0 | 0 | (2,999) |
| Caroline | (794) | (71) | 0 | 685 | 0 | (180) |
| Carroll | (4,006) | (365) | 0 | 0 | 0 | (4,371) |
| Cecil | (2,460) | (189) | 0 | 0 | 0 | (2,649) |
| Charles | (3,937) | (334) | 0 | 0 | 0 | (4,271) |
| Dorchester | (657) | (62) | 0 | 309 | 0 | (410) |
| Frederick | (5,893) | (386) | 0 | 0 | 0 | (6,279) |
| Garrett | (665) | (76) | 0 | 406 | 1,161 | 827 |
| Harford | (5,530) | (546) | 0 | 0 | 0 | (6,076) |
| Howard | (9,821) | (971) | 0 | 0 | 0 | (10,792) |
| Kent | (366) | (46) | 0 | 0 | 0 | (412) |
| Montgomery | (27,228) | (2,460) | 0 | 0 | 0 | (29,688) |
| Prince George's | (19,555) | (2,092) | 0 | 9,629 | 0 | (12,018) |
| Queen Anne's | (1,106) | (99) | 0 | 0 | 0 | (1,205) |
| St. Mary's | (2,486) | (185) | 0 | 0 | 0 | (2,671) |
| Somerset | (480) | (44) | 0 | 382 | 0 | (142) |
| Talbot | (628) | (105) | 0 | 0 | 0 | (733) |
| Washington | (3,094) | (287) | 0 | 0 | 0 | (3,381) |
| Wicomico | (2,174) | (191) | 0 | 1,568 | 0 | (797) |
| Worcester | (1,272) | (188) | 0 | 0 | 0 | (1,460) |
| Total | (\$136,645) | (\$13,564) | (\$3,075) | \$27,659 | \$1,161 | (\$124,464) |

¹School boards will be responsible for these costs and will receive additional county funding through maintenance of effort to cover the added costs.

²The *Capital Improvement Program* includes a plan to replace the funds with GO bonds in FY 2014 and 2015.

³The miscellaneous Baltimore City grant is moved into the supplemental teacher retirement grant.

Appendix C3
Fiscal 2013 Net Impact of SB 1301/HB 1801 on Local Entities
(\$ in Thousands)

| County | Local Aid Restored | Additional Local Aid Impact | Total Impact on Local Aid | Forgive Income Tax Reserve Repayment | Total Net Impact on Local Entities |
|-----------------|---------------------------|------------------------------------|----------------------------------|---|---|
| Allegany | \$1,533 | (\$7) | \$1,527 | \$245 | \$1,772 |
| Anne Arundel | 12,636 | (13,128) | (492) | 3,356 | 2,864 |
| Baltimore City | 40,518 | (7,031) | 33,487 | 2,105 | 35,592 |
| Baltimore | 7,818 | (14,594) | (6,776) | 4,840 | (1,936) |
| Calvert | 2,493 | (2,999) | (506) | 554 | 48 |
| Caroline | 357 | (180) | 178 | 100 | 278 |
| Carroll | 3,231 | (4,371) | (1,139) | 1,087 | (53) |
| Cecil | 476 | (2,649) | (2,173) | 441 | (1,732) |
| Charles | 4,167 | (4,271) | (104) | 823 | 719 |
| Dorchester | 327 | (410) | (83) | 97 | 14 |
| Frederick | 7,175 | (6,279) | 895 | 1,531 | 2,426 |
| Garrett | 444 | 827 | 1,270 | 96 | 1,366 |
| Harford | 1,203 | (6,076) | (4,873) | 1,531 | (3,342) |
| Howard | 5,996 | (10,792) | (4,796) | 2,918 | (1,878) |
| Kent | 195 | (412) | (217) | 91 | (126) |
| Montgomery | 37,452 | (29,688) | 7,764 | 10,503 | 18,267 |
| Prince George's | 45,551 | (12,018) | 33,533 | 4,097 | 37,630 |
| Queen Anne's | 717 | (1,205) | (487) | 293 | (194) |
| St. Mary's | 453 | (2,671) | (2,217) | 636 | (1,582) |
| Somerset | 552 | (142) | 410 | 58 | 468 |
| Talbot | 138 | (733) | (595) | 209 | (386) |
| Washington | 857 | (3,381) | (2,524) | 585 | (1,939) |
| Wicomico | 960 | (797) | 163 | 376 | 539 |
| Worcester | 165 | (1,460) | (1,295) | 107 | (1,188) |
| Unallocated | 9,266 | 0 | 9,266 | 0 | 9,266 |
| Total | \$184,681 | (\$124,464) | \$60,217 | \$36,678 | \$96,894 |

SENATE BILL 1301/ HOUSE BILL 1801

BUDGET RECONCILIATION AND FINANCING ACT OF 2012

SMALL BUSINESS ECONOMIC IMPACT RATING

This agency estimates that the following provisions of the proposed legislation will have minimal or no economic impact on Maryland small business:

- ◆ Miscellaneous Grant to Baltimore City - Permanently repeals \$3.1 million grant.
- ◆ Teacher Retirement Supplemental Grants - Allocates \$27.7 million in grants to specified counties to offset impact of teacher retirement cost sharing; includes \$3.1 million to Baltimore City to offset repeal of miscellaneous grant; authorizes transfer of \$5 million from the Rainy Day Fund to fund these grants.
- ◆ Moving Violation Surcharge Revenue - Allocates \$200,000 to the Maryland State Fireman's Association and clarifies that once the balance in Volunteer Company Assistance Fund reaches \$20 million, the remainder of surcharge revenues will be allocated to the Emergency Medical Services Operations Fund.
- ◆ Education Aid - Ensures that direct education aid in FY 2013 does not decrease more than 5% compared to FY 2012.
 - ◆ Aging Schools - Sets the allocation among jurisdictions at the FY 2011 level.
 - ◆ Higher Education Investment Fund - Expands eligible uses to include St. Mary's College of Maryland; authorizes an appropriation of \$383,840 from the Fund to St. Mary's College to offset a 2% increase in tuition.
- ◆ Community Colleges – Sets FY 2013 funding at \$199.2 million and allocates by college; for FY 2014 through FY 2017, provides that funding will be the greater of \$1,839.47 per student or specified percentages of per student funding at the public four-year institutions; current mandate of 29% of public four year per student funding reached in FY 2023.
- ◆ Baltimore City Community College - Sets FY 2013 funding at \$39.9 million; for FY 2014 through FY 2017, provides that funding will be the greater of \$5,695.63 per student or specified percentages of per student funding at the public four-year institutions; current mandate of 29% of public four year per student funding reached in FY 2023.
- ◆ Sellinger Program for Non Public Higher Education Institutions - Sets FY 2013 funding at \$38.1 million; for FY 2014 through FY 2017, provides that funding will be the greater of \$875.53 per student or specified percentages of per student funding at the public four-year institutions; current mandate of 15.5% of public four year per student funding reached in FY 2021.

- Economic Impact Analysis: Although there is no direct impact, State funding for higher education provides an indeterminate benefit to small business in that these businesses will have access to better educated workforce due to programs in the State's higher education institutions. In addition, there is an indeterminate but positive economic impact for small businesses that are able to compete for more business from higher educational institutions.
- ♦ Community Right-to-Know Fund - Expands uses to include emergency response activities of the Maryland Department of Environment (MDE).
- ♦ State Recycling Fund – Expands uses to include all activities of the MDE Land Management Administration, which includes the Office of Recycling.
- ♦ D.C. Hospitals – Establishes new 6% claims processing charge which is offset by a rate increase.
 - ♦ Uncompensated Care - Authorizes the Health Services Cost Review Commission to increase the pooling of hospital uncompensated care costs.
 - ♦ Community Services Trust Fund – Authorizes transfer of the proceeds and investment earnings from the Fund to the Mental Hygiene Community-Based Services Fund.
- ♦ Settlement, Judgment, or Consent Decree Funds – Requires that such funds be appropriated in the budget and that the official negotiating the payment request the funds be used for any public purpose.
 - ♦ Teacher Pension Cost Sharing - Shifts the normal costs of teacher pensions to the local school boards over a four year period – 50%/65%/85%/100%. The State will be responsible for the remainder of teacher pension costs.
- ♦ Repeals Repayment to Local Income Tax Reserve account - Repeals requirement that counties repay \$367 million to the Reserve account over a ten year period, beginning in FY 2013.
 - ♦ Chesapeake Bay 2010 Trust Fund – Redirects \$8 million to the Budget Restoration Fund in FY 2013; leaves \$25 million for the 2010 Trust Fund in FY 2013.
 - ♦ Intercounty Connector Repayment – Delays remaining repayment to the Maryland Transportation Authority until FY 2014.
 - ♦ BWI Ambulance Transport Fee – Requires BWI Fire and Rescue Service to charge a fee for ambulance transport services.

- ◆ Speed Camera Revenue – Permanently dedicates revenue (after program costs) to the Maryland State Police to support roadside enforcement activities.
 - ◆ Medical Loss Ratio – Prohibits retrospective changes to medical loss ratio payments.
 - ◆ Medicaid Value-Based Purchasing – Permits an increase in the MCO cap on disincentive payments in CY 2012.
 - ◆ Geographic Cost of Education Index Report – Alters requirement so that a single report is due in September 2016 rather than every three years.
- ◆ Transfer to the Kidney Disease Program – Increases allowable transfer from the Senior Prescription Drug Assistance Program (SPDAP) to \$5 million in FY 2013.
 - ◆ Merit Increases for Operationally Critical Staff – Permits such increases in FY 2013.
- ◆ Local School Board Budget – Permits a local board to spend funds received from the State Comptroller in the event the county fails to meet maintenance of effort requirements.
- ◆ Retirement Payments for Federally Funded Positions - Repeals requirement that local school boards reimburse the State for these costs, effective FY 2015.
- ◆ Injured Worker’s Insurance Fund – Authorizes a transfer of at least \$50 million from IWIF to the Budget Restoration Fund; requires a valuation study and authorizes the transfer of an additional amount to the General Fund to reflect the appropriate value of the benefits IWIF has realized from its association with the State; renounces any future State interest in IWIF.
- ◆ Problem Gambling Fund – Authorizes the transfer of \$950,000 in FY 2012 and \$209,000 in FY 2013 from the Problem Gambling Fund to the Education Trust Fund.
- ◆ Senior Prescription Drug Assistance Program – Authorizes transfer of \$4.5 million to Medicaid in FY 2013.
- ◆ Exelon-Constellation Merger Settlement – Requires settlement funds to be appropriated through the budget bill or, for FY 2013 only, by budget amendment.
- ◆ Maintenance of Effort (MOE) – Sets MOE amounts for each local jurisdiction during phase in of teacher pension cost sharing; clarifies MOE calculation for FY 2017 and beyond; clarifies FY 2013 MOE calculation for Baltimore City.
- ◆ Maryland Institute for Emergency Medical Services Systems (MIEMSS) – Expresses legislative intent that funds be provided in the annual budget to upgrade the MIEMSS communications system.
- ◆ Video Lottery Operation License – Clarifies that certain statutory provisions do not apply to a ground lease agreement between the State and the Allegany County video lottery licensee.

- ◆ Budget Restoration Fund – Establishes special fund as a mechanism to undo the “Doomsday” budget reductions; specifies revenues to the fund and authorizes appropriations from the fund.
- ◆ Position Eliminations – Requires the abolition of 100 vacant positions as of January 2, 2013, inclusive of the 64 position eliminations included in the budget bill.
- ◆ State Superintendent of Schools – Technical item to reflect correct salary in budget bill.
- ◆ Restoration of funding for stem cell research.

This agency estimates that the following provisions of the proposed legislation will have meaningful economic impact on Maryland Small Business:

- ◆ MARBIDCO - Sets funding at \$2.875 million in FY 2013 and FY 2014, returning to mandated level of \$4 million beginning in FY 2015.
 - Economic Impact Analysis – Reduced funding will have an indeterminate, but negative impact on the agricultural industry.
- ◆ Local Boards of Education - Clarifies board responsibility to pay court judgments related to its own contracts and precludes a local government from reducing the amount requested by a school board to pay these judgments. Also clarifies that, should a court order the State to pay a judgment on behalf of a local board of education, the State can deduct that amount from the local board’s State aid payments.
 - Economic Impact Analysis – Indeterminate, but positive in that this provision will ensure the payment of court ordered judgments by Boards of Education awarded to contractors as a result of contract disputes.
- ◆ Nursing Home Bed-Hold – Eliminates requirement for Medicaid to reimburse a nursing home for a patient’s absent days due to hospitalization.
 - Economic Impact Analysis – Indeterminate, but costly for a nursing facility with a high rate of absenteeism.
- ◆ Nursing Facility Quality Assessment - Increases assessment from 5.5% to 6%.
 - Economic Impact Analysis – Indeterminate, but will increase costs for nursing facilities.
- ◆ Premium Tax Exemption Funds – Expands uses of funds to include support for mental health services for the uninsured.

- ◆ Maryland Health Insurance Plan Fund – Expands uses to include support for mental health services for the uninsured.
 - Economic Impact Analysis – Indeterminate, but these provisions would result in increased business opportunities for mental health providers.
- ◆ Mortgage Loan Servicing Practices Settlement Fund – Establishes fund to hold proceeds of national mortgage settlement and requires fund to be used for housing and foreclosure-relief and related purposes; sunsets required annual report after five years.
 - Economic Impact Analysis – Indeterminate, but will result in additional payments to small banks or mortgage holders that otherwise might not have received.
- ◆ Sets Lottery Agent Sales Commission at 5% in FY 2013.
 - Economic Impact Analysis – Indeterminate, but will have a negative economic impact on small businesses that are Lottery Agents.
- ◆ Fair Campaign Finance Fund – Requires a transfer of \$2 million in FY 2014 to the Major Information Technology Development Project Fund for the purchase of a new optical scan voting system.
 - Economic Impact Analysis – Indeterminate, but potentially positive for any small business involved in the implementation of this project.
- ◆ Group Home and Non-Public Placement Providers – Authorizes rate increases of up to 1% for these providers in FY 2013.
 - Economic Impact Analysis – Indeterminate, but positive for any of these providers that are small businesses.
- ◆ Developmental Disabilities Administration – Authorizes the carry forward of up to \$5 million in unspent FY 2012 General Funds to be used in FY 2013 for DDA community services and provider activities.
 - Economic Impact Analysis – Indeterminate, but positive for any of these providers that are small businesses.
- ◆ Strategic Energy Investment Fund – Authorizes the transfer of up to \$2 million to the Department of Human Services to provide low-income energy assistance.
 - Economic Impact Analysis – Indeterminate, but positive for any small businesses that are fuel suppliers, fuel deliverers or small contractors.

- ◆ Small, Minority, and Women-Owned Business Investment Account – Authorizes transfer of \$1.9 million from the Account to the Education Trust Fund in FY 2012.
 - Economic Impact Analysis – Indeterminate, but will have a negative economic impact on small businesses.

Other BRFA Provisions that provide a positive economic impact to Small Business

- ◆ Restoration of Biotechnology tax credit.
- ◆ Restoration of Sustainable Communities tax credit