HB 1407

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 1407 (Chair, Appropriations Committee)

Appropriations Budget and Taxation

Budget Reconciliation and Financing Act of 2019

This bill executes actions to increase revenues, provide mandate relief, contain costs, and reduce future year general fund expenditures. **The bill takes effect June 1, 2019.**

Fiscal Summary

State Effect: General fund revenues increase by $10.8 million in FY 2019 and by $51.0 million in FY 2020; general fund expenditures decrease by $38.9 million in FY 2019, by $36.0 million in FY 2020, and by $20.0 million to $24.0 million annually thereafter. The effects on the general fund are primarily due to mandate relief and cost control measures. Special fund revenues decrease by $20.2 million in FY 2020 and then increase by $67.0 million in FY 2021 and by about $31.0 million annually thereafter; special fund expenditures increase by $40.8 million in FY 2020 and by about $31.0 million annually thereafter. Federal funds are also affected. Future estimates reflect the ongoing effects of the bill. **The bill affects existing mandated appropriations.**

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
GF Revenue	$10.8	$51.0	$0	$0	$0
SF Revenue	$0	($20.2)	$67.0	$31.2	$31.3
FF Revenue	($2.9)	$0	$0	$0	$0
GF Expenditure	($38.9)	($36.0)	($24.0)	($24.0)	($20.0)
SF Expenditure	$0	$40.8	$31.0	$31.2	$31.3
FF Expenditure	($2.9)	$0	$0	$0	$0
Net Effect	$49.8	$26.0	$60.0	$24.0	$20.0

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

Local Effect: Local school system revenues and expenditures increase by up to $36.0 million in future fiscal years combined, as discussed below. Local revenues and expenditures are otherwise modestly affected, as discussed below.

Small Business Effect: Minimal.

Analysis

Bill Summary: A brief overview of the bill's provisions is provided below. In general, the bill's actions increase revenues, provide mandate relief, contain costs, swap funds, and reduce future year general fund expenditures, in addition to various administrative and other actions.

Revenue Enhancements for Education Funding

- Delays until fiscal 2022 the exemption from the State's annual filing fee for corporations and business entities who participate in the Maryland Small Business Retirement Savings Program and Trust. Dedicates any revenue from the filing fee in excess of $66.25 million to the Commission on Innovation and Excellence in Education Fund in fiscal 2021.
- Prohibits an increase in the casino share of video lottery terminal proceeds approved by the State Lottery Commission, and for fiscal 2020 only authorizes the Governor to process a budget amendment to appropriate the revenue contingent on enactment of Senate Bill 1030 or House Bill 1413 of 2019 (The Blueprint for Maryland's Future) to support special education grants.

Mandate Relief

- Reduces – from $3.0 million to $1.0 million in fiscal 2019 (by withdrawing $2.0 million included in the fiscal 2019 appropriation) and from $5.0 million to $1.0 million from fiscal 2020 through 2022 – the annual amount of funding that the Governor must provide for the Teacher Induction, Retention, and Advancement Pilot Program.
- Decreases the maximum amount of projected nonwithholding income tax revenue that, under certain circumstances, must be subtracted from projected general fund revenue estimates in fiscal 2020.
- Alters the mandated fiscal 2020 reduction in the level of funding from the Medicaid Deficit Assessment in the Medicaid program from $40.0 million to $25.0 million.

Fund Swaps, Cost Shifts, and Cost Control

- Authorizes the Uninsured Employers' Fund to use special funds to pay the hearing loss claims of certain Bethlehem Steel Corporation retirees.
- Requires the Maryland Department of Transportation to deposit revenues from resource sharing agreements into the Major Information Technology Development Project Fund (MITDPF) instead of retaining them in the Transportation Trust Fund

and authorizes revenues from these agreements in MITDPF to be used for general purposes.

- Authorizes, for fiscal 2020 only, the use of $10.0 million in funds retained after the repeal of the Maryland Health Insurance Plan for Medicaid provider reimbursements.
- Reduces funding for two contracts in the fiscal 2019 budget for the Developmental Disabilities Administration that will not be procured in fiscal 2019.
- Reduces the fiscal 2019 general fund appropriation for the Department of Juvenile Services per diems by $500,000.
- Reduces the fiscal 2019 general fund appropriation for correctional officers by $7.5 million based on high vacancy rates.
- Reduces the fiscal 2019 general fund appropriation for Medicaid by $25.0 million based on favorable enrollment and spending trends.
- Withdraws an intended fiscal 2019 grant of $10.0 million in the Economic Development Opportunities Account (commonly referred to as the Sunny Day Fund).
- Requires funds identified in the fiscal 2018 Statewide Closeout Audit as improperly retained by the Department of State Police to be credited to the general fund in fiscal 2019.

Administrative and Other Actions

- Requires the Governor to provide supporting data and the results of the calculations used to determine tax increment financing grants for local school systems in the annual budget books and supplemental budgets, as appropriate.
- Requires specified nonwithholding fiscal 2020 income tax revenues, if realized, to be used to provide a cost-of-living adjustment of up to 2.0% for certain employees in fiscal 2021.
- Requires that, beginning in fiscal 2020, the distributions of video lottery terminal revenues for local impact grants include $120,000 for the Town of Forest Heights.
- Requires that a government agency or political subdivision that requests that a transportation project be included in the *Consolidated Transportation Program* provide a certification that all members of the legislative delegation of the county in which the project is located have been notified of the project.
- Authorizes, for fiscal 2020 only, funds to be transferred by budget amendment from the Revenue Stabilization Account (Rainy Day Fund) and the Dedicated Purpose Account for purposes specified in the operating budget bill, and prohibits funds from being transferred by budget amendment from those accounts for other purposes.

Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add 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.

Background: In December 2018, the Spending Affordability Committee recommended that the fiscal 2020 budget eliminate 100% of the structural deficit forecast for fiscal 2020 and leave a closing general fund balance of at least $100 million. The committee also recommended maintaining a Rainy Day Fund balance of at least 6.0% of estimated general fund revenues. The Governor's proposed fiscal 2020 budget, as introduced, fell short of structural balance by $62 million and left a $105 million closing fund balance.

In March 2019, the Board of Revenue Estimates reduced its general fund revenue projection for fiscal 2019 by $138.0 million and for fiscal 2020 by $130.5 million. Based on lower than expected attainment from estimated payments, the entire revision came from income tax revenue. A write-down of this magnitude requires about $200 million of legislative actions to attain the Spending Affordability Committee goals.

State Effect: Estimates of the fiscal 2019 and 2020 impact of the bill on the State general fund, totaling $136.8 million, are shown in **Exhibit 1**.

A discussion of each provision in the bill is provided in **Appendix A** (beginning on page 7). The fiscal 2019 through 2024 State effects for each provision, including the general fund impacts, the effects on any other fund types, and other related information are included with the discussions. **Appendix B** (beginning on page 30) identifies the fiscal impact of separate provisions by fund type.

Exhibit 1
General Fund Impact of the Budget Reconciliation and Financing Act of 2019
Fiscal 2019 and 2020
($ in Millions)

	FY 2019	FY 2020
Revenues		
Enhancements	$0.0	$51.0
Cost Containment/Control	10.8	0.0
Revenue Subtotal	*10.8*	*51.0*
Expenditures		
Mandate Relief	($2.0)	($19.0)
Fund Swaps and Cost Shifts	(36.9)	(17.0)
Expenditure Subtotal	*(38.9)*	*(36.0)*
Total Impact	**$49.8**	**$87.0**

Note: Numbers may not sum to total due to rounding.
Source: Department of Legislative Services

Additional Information

Prior Introductions: None.

Cross File: SB 1040 (Chair, Budget and Taxation Committee, *et al.*) - Budget and Taxation.

Information Source(s): Department of Information Technology; Department of Commerce; Comptroller’s Office; Maryland State Treasurer’s Office; Maryland State Department of Education; Department of Budget and Management; Maryland Department of Health; Department of Juvenile Services; Department of Public Safety and Correctional Services; Maryland Department of Transportation; Department of Legislative Services

Fiscal Note History: First Reader - March 4, 2019
mag/ljm Enrolled - May 14, 2019
Revised - Amendment(s) - May 14, 2019
Revised - Budget Information - May 14, 2019

Analysis by: Stephen M. Ross

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Appendix A – Contents

Delay Exemption from Corporate and Business Entity Filing Fee

Provisions in the Bill: Delay from fiscal 2021 to 2022 the exemption from the State's annual filing fee for corporations and business entities who participate in the Maryland Small Business Retirement Savings Program and Trust. Dedicate any revenue from the filing fee in excess of $66.25 million to the Commission on Innovation and Excellence in Education Fund in fiscal 2021.

Agency: State Department of Assessments and Taxation (SDAT); Maryland State Department of Education

Type of Action: Revenue Enhancement

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
SF Rev	$0	$0	$36.0	$0	$0	$0
SF Exp	$0	$0	-	-	-	-

State Effect: Special fund revenues for the Commission on Innovation and Excellence in Education Fund increase by $36.0 million in fiscal 2021 only. Special fund expenditures increase by an indeterminate amount beginning as early as fiscal 2021 to assist in funding the recommendations of the Commission on Innovation and Excellence in Education.

Local Effect: Local school system revenues and expenditures increase by up to $36.0 million in future fiscal years, as determined by funding formulas established to implement the commission's recommendations.

Program Description: Chapters 323 and 324 of 2016 established the Maryland Small Business Retirement Savings Program and Trust and require specified private-sector employers to make the program available to their employees. Employers who participate in the program or otherwise offer a retirement savings arrangement to their employees as specified in statute are exempt from the State's annual filing fee for corporations and business entities but only after the program becomes operational. The earliest the program is expected to become operational is fiscal 2021.

The annual filing fee collected by SDAT is generally $300. Revenues from the fee accrue to the general fund. The Board of Revenue Estimates anticipated in its December 2018 forecast that the program would become operational in fiscal 2020, decreasing State revenue from the filing fee by about $36.0 million, with $66.25 million collected from nonexempt entities in that year. The Governor's fiscal 2020 budget proposal recognized that the program would not become operational until fiscal 2021 and assumed $35.0 million of general fund revenues in fiscal 2020 as a result of the delay in launching the program.

Recent History: Chapters 10 and 361 of 2018 established the Commission on Innovation and Excellence in Education Fund and required the Comptroller to distribute $200 million in individual income tax revenue to the fund by June 30, 2019. The fund may only be used to assist in providing adequate funding for early childhood education and primary and secondary education through revised funding formulas based on the recommendations of the Commission on Innovation and Excellence in Education.

Location of Provisions in the Bill: Section 1 (pp. 4-5) and Section 13 (pp. 19-20)

Analysis prepared by: David C. Romans

Prohibit of Increase in Casino Revenue Share and Redirect Funds

Provisions in the Bill: Prohibit an increase in the casino share of video lottery terminal (VLT) proceeds approved by the State Lottery and Gaming Control Commission and, for fiscal 2020 only, authorize the Governor to process a budget amendment to appropriate the revenue contingent on the enactment of Senate Bill 1030 or House Bill 1413 of 2019 (The Blueprint for Maryland's Future) to support special education grants.

Agency: State Lottery and Gaming Control Agency

Type of Action: Revenue Enhancement

Fiscal	*($ in millions)*					
Impact:	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
SF Rev	$0	$15.8	$16.0	$16.2	$16.3	$16.5
SF Exp	$0	$15.8	$16.0	$16.2	$16.3	$16.5

State Effect: Special fund revenues and expenditures for the Education Trust Fund (ETF) increase by $15.8 million in fiscal 2020 and by similar amounts annually thereafter, based on forecasted revenues.

Local Effect: None.

Program Description: VLT revenues are distributed to ETF for K-12 education, for horse racing purposes, as local impact grants for jurisdictions in which casinos are located, to the Small, Minority and Women-Owned Business Account (with the exception of fiscal years 2018 through 2020), and to the State Lottery and Gaming Control Agency for administrative costs, with the remainder going to the casino.

The Blueprint for Maryland's Future (Senate Bill 1030 or House Bill 1413) establishes certain grants to begin implementing the recommendations of the Commission for Innovation and Excellence in Education, including funds for special education, among other initiatives.

Recent History: In December 2018, the State Lottery and Gaming Control Commission increased the share of VLT revenue going to the casino at facilities in Baltimore City and Anne Arundel and Cecil counties, as authorized under current law. By repealing that authority, a larger share of VLT revenues will be distributed to ETF.

Location of Provisions in the Bill: Section 1 (pp. 14-15) and Section 9 (p. 19)

Analysis prepared by: Jason A. Kramer

Teacher Induction, Retention, and Advancement Pilot Program

Provisions in the Bill: Reduce from $3.0 million to $1.0 million in fiscal 2019, by withdrawing $2.0 million included in the fiscal 2019 appropriation for the program, and from $5.0 million to $1.0 million from fiscal 2020 through 2022 the annual amount of funding that the Governor must provide for the Teacher Induction, Retention, and Advancement (TIRA) Pilot Program.

Agency: Maryland State Department of Education (MSDE)

Type of Action: Mandate relief

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	($2.0)	($4.0)	($4.0)	($4.0)	$0	$0

State Effect: General fund expenditures decrease by $2.0 million in fiscal 2019 and by $4.0 million annually from fiscal 2020 through 2022. However, the fiscal 2020 budget restricts the use of the $4.0 million available as a result of the change in the mandate for the TIRA Pilot Program to instead be used for special education grants to local boards of education, contingent on the enactment of Senate Bill 1030 or House Bill 1413 (The Blueprint for Maryland's Future) and the provision reducing the mandate for the program.

Local Effect: Local school system revenues and expenditures are likely not materially affected, due to limited participation in the pilot program.

Program Description: Chapter 740 of 2016 established the TIRA Pilot Program for first-year teachers, which remains in effect through fiscal 2022. Under the pilot program, first-year teachers and experienced mentor teachers selected by their local school systems are afforded more time on specified professional development activities. Any costs incurred must be borne 80% by the State, up to $5.0 million annually, and 20% by the local boards of education that choose to participate in the pilot program.

Recent History: The Budget Reconciliation and Financing Acts of 2017 and 2018 lowered the mandated funding amounts to $2.1 million and $3.0 million for fiscal 2018 and 2019, respectively. Even with these reductions, the full appropriation for the pilot program has not been necessary to support all applying local school systems. In fiscal 2018, three local school systems applied for the program (Montgomery, Prince George's, and Washington counties) and received a total of $1.1 million. For fiscal 2019, only the Montgomery County school system applied for, and is receiving, funding of $500,183.

Location of Provisions in the Bill: Section 1 (p. 5); Section 8 (p. 19)

Analysis prepared by: Kyle D. Siefering

Decrease Cap on Nonwithholding Income Tax Revenues

Provision in the Bill: Decreases the maximum amount of projected nonwithholding income tax revenue that must, under certain circumstances, be subtracted from projected general fund revenue estimates in fiscal 2020 only. Specifically, the maximum amount is reduced from 0.5% to 0.225% of general fund revenues.

Agency: State Reserve Fund – Revenue Stabilization Account (Rainy Day Fund) and the Fiscal Responsibility Fund

Type of Action: Mandate relief

Fiscal	*($ in millions)*					
Impact:	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Rev	$0	$51.0	$0	$0	$0	$0
SF Rev	$0	($51.0)	$0	$0	$0	$0

State Effect: General fund revenues available to support the budget increase by $51.0 million in fiscal 2020. Special fund revenues for the Rainy Day Fund and Fiscal Stabilization Fund decrease correspondingly.

Local Effect: None.

Recent History: Chapters 4 and 550 of 2017 established a cap on income tax nonwithholding revenues. The cap applies when the share of estimated general fund revenues attributable to income tax nonwithholding exceeds the 10-year average. If nonwithholding revenues, as a percentage of general fund revenues, are less than the 10-year average percentage, there is no effect. The cap requires reducing the estimate of nonwithholding income tax revenues so that nonwithholding income tax revenues do not exceed the 10-year average. In some years, actual income tax nonwithholding revenues will exceed the capped estimate. In those years, the Acts specify how the excess revenues are to be allocated. Chapters 4 and 550 originally set the cap at 2.0% of general fund revenues beginning in fiscal 2020. Chapter 10 of 2018 phased in the cap over three years, with no more than 0.5% of projected general fund revenues subject to the cap in fiscal 2020.

Location of Provision in the Bill: Section 1 (pp. 8-9)

Analysis prepared by: Simon G. Powell

Medicaid Deficit Assessment

Provision in the Bill: Alters the mandated fiscal 2020 reduction in the level of funding from the Medicaid Deficit Assessment in the Medicaid program from $40.0 million to $25.0 million. Accordingly, the required Medicaid Deficit Assessment for fiscal 2020 is increased from $294,825,000 to $309,825,000.

Agency: Maryland Department of Health

Type of Action: Mandate relief

Fiscal Impact:	($ in millions) **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
SF Rev	$0	$15.0	$15.0	$15.0	$15.0	$15.0
GF Exp	$0	($15.0)	($15.0)	($15.0)	($15.0)	($15.0)
SF Exp	$0	$15.0	$15.0	$15.0	$15.0	$15.0

State Effect: General fund expenditures decrease by $15.0 million annually beginning in fiscal 2020, as the reduction in fiscal 2021 and subsequent years is based on the prior year assessment level. Special fund revenues and expenditures increase correspondingly. The fiscal 2020 budget includes a general fund reduction of $15.0 million, contingent upon the increase in the Medicaid Deficit Assessment.

Local Effect: None.

Recent History: During the most recent recession, a Medicaid Deficit Assessment was imposed on Maryland hospitals to support the Medicaid program. The assessment consists of (1) an amount included in hospital rates (and paid by hospital users) and (2) a remittance from hospitals. The Budget Reconciliation and Financing Act (BRFA) of 2014 (Chapter 464) required the Health Services Cost Review Commission (HSCRC) to calculate the general fund savings to Medicaid resulting from implementation of the all-payer model contract. Any savings were to be used to reduce the assessment. The BRFA of 2015 (Chapter 489) delayed the reduction in the assessment based on the methodology developed by HSCRC by one year and also replaced the savings methodology with a simple reduction of $25.0 million over the prior year appropriation. The fiscal 2017 budget was the first to contain a reduction in the assessment, from $389.8 million to $364.8 million. The BRFA of 2017 (Chapter 23) included a one-year delay in the assessment reduction but amended the reduction required in fiscal 2019 and 2020 to be $35.0 million in each year and specified the deficit assessment level. The BRFA of 2018 (Chapter 10) decreased the reduction in fiscal 2019 to $30.0 million, and required a $40.0 million reduction in fiscal 2020.

Location of Provision in the Bill: Section 1 (pp. 16-17)

Analysis prepared by: Simon G. Powell

Authorize the Uninsured Employers' Fund to Pay Bethlehem Steel Retirees' Hearing Loss Claims

Provision in the Bill: Authorizes the Uninsured Employers' Fund (UEF) to use special funds to pay the hearing loss claims of certain Bethlehem Steel Corporation (BSC) retirees.

Agency: Uninsured Employers' Fund

Type of Action: Fund swap; Expanded use of special fund

Fiscal Impact:	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
	($ in millions)					
GF Exp		($2.0)				
SF Exp		-	-	-	-	-

State Effect: General fund expenditures decrease by $2.0 million in fiscal 2020. Special fund expenditures for UEF increase beginning in fiscal 2020 due to the authorization of payment of BSC hearing loss claims from UEF. However, the timing and amount of the increase are unknown and depend on BSC hearing loss claims. The fiscal 2020 budget includes a $2.0 million general fund reduction, contingent upon a provision authorizing payment from UEF for this purpose.

Local Effect: None.

Program Description: The mission of UEF is to protect workers whose employers are not insured under the Maryland Workers' Compensation Law. If an employer fails to properly compensate a claimant, UEF will directly pay the claimant's compensation benefits and medical expenses.

Recent History: In 2001, BSC filed for Chapter 11 protection under federal bankruptcy laws. As a result, UEF became the insurer for the workers' compensation claims for these workers. Recently, UEF discovered payments issued for medical expenses related to hearing loss for BSC retirees' claims that should not have been made because the claims lacked a workers' compensation order. The Administration agreed to provide $2.0 million in general funds in fiscal 2020 for UEF to continue to pay these claims. According to UEF, the general fund appropriation was necessary because the claims did not qualify for payment from its special fund (also known as UEF) based on current statute. This provision authorizes the payment of these claims from the fund, thus eliminating the need for the general funds.

Location of Provision in the Bill: Section 1 (pp. 5-6)

Analysis prepared by: Laura M. Vykol

Maryland Department of Transportation Resource Sharing Agreements

Provisions in the Bill: Require the Maryland Department of Transportation (MDOT) to deposit revenues from resource sharing agreements (RSAs) into the Major Information Technology Development Project Fund (MITDPF) instead of retaining them in the Transportation Trust Fund (TTF). Clarify that revenues from RSAs are available for other purposes of MITDPF.

Agency: Maryland Department of Transportation; Department of Information Technology

Type of Action: Fund swap

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	$0	($5.0)	($5.0)	($5.0)	($5.0)	($5.0)

State Effect: General fund expenditures decrease by $5.0 million annually beginning in fiscal 2020 due to additional available funds in MITDPF for information technology projects. TTF revenues and expenditures decrease by $5.0 million annually beginning in fiscal 2020; MITDPF special fund revenues and expenditures increase correspondingly. This analysis assumes no effect in fiscal 2019, despite the bill's June 1, 2019 effective date. The fiscal 2020 budget includes a general fund reduction of $5.0 million, contingent upon the availability of revenue from MDOT RSAs being available to MITDPF.

Local Effect: None.

Program Description: RSAs permit private companies to install, operate, and maintain communications systems on State resources. In exchange, the private companies provide the State with monetary compensation, equipment, or services. Generally, funds collected from RSAs must be deposited into MITDPF. These funds, along with certain other MITDPF revenues, must be used to support State telecommunication and computer networks. Under current law, funds collected from RSAs by MDOT, the Maryland Transportation Authority, Maryland Public Television, and agencies within the Judicial and Legislative branches of State government are retained by those agencies and not deposited into MITDPF. The Maryland Port Administration, the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and the Maryland Stadium Authority are exempt from Department of Information Technology oversight and also are not required to deposit RSA funds into MITDPF. Excluding MDOT, the other entities remain exempt from the requirement to deposit RSA funds into MITDPF.

Location of Provisions in the Bill: Section 1 (pp. 6-8 and 16)

Analysis prepared by: Patrick S. Frank

Divert Funding Retained from the Maryland Health Insurance Plan to Medicaid

Provision in the Bill: Authorizes, for fiscal 2020 only, the use of $10.0 million in funds retained after the repeal of the Maryland Health Insurance Plan (MHIP) for Medicaid.

Agency: Maryland Department of Health

Type of Action: Fund swap

Fiscal	*($ in millions)*					
Impact:	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	$0	($10.0)	$0	$0	$0	$0
SF Exp	$0	$10.0	$0	$0	$0	$0

State Effect: General fund expenditures for Medicaid decrease by $10.0 million in fiscal 2020 due to the availability of special funds. Special fund expenditures increase correspondingly. The fiscal 2020 budget includes a general fund reduction of $10.0 million, contingent upon the authorization to use these funds.

Local Effect: None.

Recent History: MHIP was the State's high-risk health insurance pool for people with medical conditions that prevented them from accessing affordable health insurance. MHIP plans were subsidized through an assessment on Maryland's hospitals. With the passage of the federal Patient Protection and Affordable Care Act and its prohibition against denying coverage for pre-existing conditions, MHIP was repealed. However, funding that supported MHIP remained in the MHIP Fund. The Budget Reconciliation and Financing Act of 2015 (Chapter 489) authorized $55.0 million of the fund balance to be transferred to Medicaid, with the remainder to be used in fiscal 2016 through 2019 for integrated care networks. The fiscal 2020 budget proposed spending most of the remaining balance of the integrated care network funding (estimated at $12.0 million), although no legislation was introduced to authorize the use of the funds. These funds were deleted from the fiscal 2020 budget of the Maryland Health Care Commission.

Location of Provision in the Bill: Section 1 (pp. 17-18)

Analysis prepared by: Simon G. Powell

Developmental Disabilities Administration Fiscal 2019 Contracts

Provisions in the Bill: Reduce funding for two contracts in the fiscal 2019 budget for the Developmental Disabilities Administration (DDA) in the Maryland Department of Health that will not be procured in fiscal 2019.

Agency: Maryland Department of Health

Type of Action: Cost containment

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	($3.9)	$0	$0	$0	$0	$0
FF Rev	(2.9)	$0	$0	$0	$0	$0
FF Exp	(2.9)	$0	$0	$0	$0	$0

State Effect: General fund expenditures decrease by $3.9 million in fiscal 2019. Federal fund revenues and expenditures decrease by $2.9 million in fiscal 2019.

Local Effect: None.

Program Description: The fiscal 2019 budget includes (1) $3.1 million in general funds and $2.3 million in federal funds for the execution of a contract to conduct utilization review audits and (2) $815,496 in general funds and $602,758 in federal funds for execution of a financial management services contract for self-directed services. DDA expects to procure the utilization review audit contract in July 2019 and the financial management services contract in January 2020. As a result, the fiscal 2019 funding is not needed.

Recent History: The Budget Reconciliation and Financing Act of 2018 (Chapter 10) reduced fiscal 2018 funding for utilization review audits ($3.2 million in general funds and $2.4 million in federal funds) as the contract to conduct those audits was not going to be procured in fiscal 2018.

Location of Provisions in the Bill: Section 2 (p. 18); Section 3 (p. 18)

Analysis prepared by: Anne P. Wagner

Department of Juvenile Services Per Diem Savings

Provision in the Bill: Reduces fiscal 2019 funding for the Department of Juvenile Services (DJS) per diems by $0.5 million.

Agency: Department of Juvenile Services

Type of Action: Cost containment

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	($0.5)	$0	$0	$0	$0	$0

State Effect: DJS general fund expenditures decrease by $0.5 million in fiscal 2019.

Local Effect: None.

Program Description/Recent History: The residential per diem population has fallen by nearly 60% in the past five years, and fiscal 2019 year-to-date population data shows the average daily population (ADP) on par with the fiscal 2018 ADP. Similarly, nonresidential caseloads have been falling since fiscal 2009, declining 62% over the past decade. Data through the first half of the fiscal year suggests that the downward trend for nonresidential per diem programming will continue in fiscal 2019.

The fiscal 2019 appropriation for contractual programming is approximately $7.0 million more than fiscal 2018 actual expenditures. In recent years, sizeable year-end reversions have been generated from the department as population declines have exceeded expectations.

Location of Provision in the Bill: Section 4 (p. 18)

Analysis prepared by: Rebecca J. Ruff

Public Safety Correctional Officer Funding

Provision in the Bill: Reduces the fiscal 2019 general fund appropriation for correctional officers by $7.5 million.

Agency: Department of Public Safety and Correctional Services (DPSCS)

Type of Action: Cost containment

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	($7.5)	$0.0	$0.0	$0.0	$0.0	$0.0

State Effect: General fund expenditures for DPSCS decrease by $7.5 million in fiscal 2019. The number of authorized positions is unaffected by this provision.

Local Effect: None.

Program Description/Recent History: At DPSCS, correctional officer vacancies have been very high for several fiscal years. In fiscal 2019, the Division of Correction (DOC) and the Division of Pretrial Detention (DPD) have 1,161 vacancies that represent an estimated $62.9 million in unused salary funding ($44.2 million for DOC and $18.7 million for DPD).

Location of Provision in the Bill: Section 5 (p. 18)

Analysis prepared by: Kenneth Weaver

Fiscal 2019 Medicaid Surplus

Provision in the Bill: Reduces the fiscal 2019 general fund appropriation for Medicaid by $25.0 million based on favorable enrollment and spending trends.

Agency: Maryland Department of Health

Type of Action: Cost containment

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Exp	($25.0)	$0	$0	$0	$0	$0

State Effect: General fund expenditures decrease by $25.0 million in fiscal 2019.

Local Effect: None.

Program Description: Based on current enrollment and spending trends, the Department of Legislative Services estimates that Medicaid will underspend the fiscal 2019 budget. Even after accounting for the need to cover deficits in fiscal 2018 that have been rolled into fiscal 2019, and moving proposed fiscal 2020 one-time spending into fiscal 2019, at least $25.0 million in general funds will not be needed for Medicaid expenses.

Location of Provision in the Bill: Section 6 (p. 18)

Analysis prepared by: Simon G. Powell

Fiscal 2019 Amazon Grant

Provision in the Bill: Withdraws the fiscal 2019 grant of $10.0 million in the Economic Development Opportunities Account (commonly referred to as the Sunny Day Fund) intended for Amazon because Maryland was not the chosen location for the second headquarters.

Agency: State Reserve Fund – Sunny Day Fund

Type of Action: Cost Containment

Fiscal Impact:	*($ in millions)* FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GF Rev	$10.0	$0.0	$0.0	$0.0	$0.0	$0.0

State Effect: General fund revenues increase by $10.0 million in fiscal 2019, reflecting the reversion of funds from the State Reserve Fund – Sunny Day Fund.

Local Effect: None.

Program Description: The Sunny Day Fund provides conditional loans and investments to take advantage of extraordinary development opportunities defined, in part, as those situations that create or retain substantial numbers of jobs and where considerable private investment is leveraged. The fiscal 2019 budget for the Sunny Day Fund includes $10.0 million as part of what was intended to be a $150.0 million grant to Amazon as part of an incentive package to encourage the company to build a second headquarters in Montgomery County.

Recent History: Montgomery County was not chosen as the location for Amazon's second headquarters and, therefore, the funds are not needed for this purpose.

Location of Provision in the Bill: Section 7 (p. 18)

Analysis prepared by: Jason A. Kramer

State Police Improperly Retained Funds

Provision in the Bill: Requires funds identified in the fiscal 2018 Statewide Closeout Audit as improperly retained by the Department of State Police (DSP) to be credited to the general fund in fiscal 2019.

Agency: Department of State Police

Type of Action: Cost Control

Fiscal Impact:	*($ in millions)* **FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**
GF Rev	$0.8	$0.0	$0.0	$0.0	$0.0	$0.0

State Effect: General fund revenues increase by $820,750 in fiscal 2019.

Local Effect: None.

Recent History: In January 2019, the Office of Legislative Audits released its closeout audit report for fiscal 2018, in which it identified that DSP had improperly retained $994,000 in funds that should have otherwise reverted to the general fund at the close of the fiscal year. This included:

- $173,000 in surplus revenues collected for a salvage vehicle inspection program retained without legal authority in an effort to offset a special fund deficit; and

- $821,000 in nonbudgeted funds held in a clearing account with an unidentified purpose.

Additional information provided by DSP indicated that the actual amount of funds available for reversion was $820,750.

Location of Provision in the Bill: Section 12 (p. 19)

Analysis prepared by: Rebecca J. Ruff

Provide Supporting Data and Calculations for Tax Increment Financing Grants

Provisions in the Bill: Require the Governor to provide supporting data and the results of the calculations used to determine tax increment financing (TIF) grants for local school systems in the annual budget books and supplemental budgets, as appropriate.

Agency: Department of Budget and Management (DBM)

Type of Action: Administrative

State Effect: None.

Local Effect: None.

Program Description: TIF grants are provided to counties that create a TIF development district after May 1, 2016, and qualify for State Disparity Grant program funding. State aid must be calculated once using the assessed valuation of real property as defined by current law and again using that same valuation as reduced by the calculated tax increment due to the TIF district for each eligible county. Property valuations for the calculations must be certified by the State Department of Assessments and Taxation (SDAT). If the amount of State aid calculated as reduced by the tax increment is greater than the amount of State aid calculated without excluding the tax increment, the difference is provided as a grant to the local board of education.

Recent History: Chapter 258 of 2016 established TIF grants for fiscal 2018 and 2019 only. Chapter 387 of 2018 repealed the termination date for providing TIF grants. Supplemental Budget No. 1 for fiscal 2020 included adjustments to the funding for TIF grants. However, due to concerns that these grants may have been based on a calculation that utilized a valuation of real property for TIF districts that was too large for certain jurisdictions, the General Assembly added language to the appropriation restricting these funds until SDAT, DBM, and the Maryland State Department of Education submit a report on how TIF grants were calculated for fiscal 2020.

Location of Provisions in the Bill: Section 1 (p. 9)

Analysis prepared by: Kyle D. Siefering

Use Nonwithholding Income Tax Revenue for Cost-of-Living Adjustment

Provision in the Bill: Requires that fiscal 2020 nonwithholding income tax revenues that exceed the capped estimate and are not needed to close a shortfall in general fund revenues be used to provide a cost-of-living adjustment (COLA) of up to 2.0% for certain employees in fiscal 2021. The COLA is effective July 1, 2020, and the funds must be appropriated in the 2021 session for fiscal 2021. The provision applies to State employees with membership in the following collective bargaining units: (1) the American Federation of State, County, and Municipal Employees (AFSCME), AFL-CIO, excluding a unit represented by AFSCME, AFL-CIO Local 1859; (2) AFT Healthcare-Maryland, AFL-CIO Local 5197; and (3) the Maryland Professional Employees Council (MPEC)/AFT-AFL-CIO Local 6197.

Agency: Statewide

Type of Action: Administrative

State Effect: Special fund expenditures potentially increase, by as much as $41.0 million, in fiscal 2021 to provide a COLA for State employees with membership in the collective bargaining units specified above. If general fund revenues are less than what is required to provide a 2.0% COLA, the provision allows flexibility for a lesser COLA. Also, if a COLA is provided in fiscal 2021, State expenditures increase in subsequent years to maintain employee salaries at their new levels. Assuming a 2.0% COLA is provided, State expenditures (all funds) increase by $42.4 million in fiscal 2022, $43.8 million in fiscal 2023, and $45.3 million in fiscal 2024, comprising approximately 60% general funds, 20% special funds, and 20% federal funds.

Local Effect: None.

Program Description: The Fiscal Responsibility Fund was established to hold the amount of nonwithholding income tax revenues that exceed a capped estimate. The funds are to be used only to provide pay-as-you-go capital funds for (1) public school construction and public school capital improvement projects; (2) capital projects at public community colleges; and (3) capital projects at four-year public institutions of higher education. The funds are required to be appropriated in the second following fiscal year.

The unions included in this provision represent approximately 33,400 members within the Executive Branch (including higher education): (1) AFSCME – approximately 27,000 members; (2) MPEC – approximately 5,100 members; and (3) AFT-Healthcare – approximately 1,300 members.

Recent History: Chapters 4 and 550 of 2017 established a cap on income tax nonwithholding revenues. The cap applies when the share of estimated general fund revenues attributable to income tax nonwithholding sources exceeds the 10-year average. If nonwithholding revenues, as a percentage of general fund revenues, are less than the 10-year average percentage, there is no effect. The cap requires reducing the estimate of nonwithholding income tax revenues so that nonwithholding income tax revenues do not exceed the 10-year average. In some years, actual income tax nonwithholding revenues will exceed the capped estimate. In those years, the Acts specify how the excess revenues are to be allocated. Chapters 4 and 550 originally set the cap at 2.0% of general fund revenues beginning in fiscal 2020. Chapter 10 of 2018 phased in the cap over three years, with no more than 0.5% of projected general fund revenues subject to the cap in fiscal 2020. A separate provision in this bill scales back the cap in fiscal 2020 to 0.225% of projected general fund revenues.

Location of Provision in the Bill: Section 1 (pp. 9-13)

Analysis prepared by: Laura Vykol; Tonya Zimmerman

Change Distribution of Local Impact Grants from Video Lottery Terminal Revenue

Provision in the Bill: Requires that, beginning in fiscal 2020 and each year thereafter, the distributions of video lottery terminal (VLT) revenues for local impact grants specifically include a $120,000 distribution to the Town of Forest Heights.

Agency: Department of Labor, Licensing and Regulation

Type of Action: Administrative

State Effect: None.

Local Effect: There is no change to the overall level of local impact grants provided. However, there is a redistribution of grants between jurisdictions. The local impact grants distributed to Baltimore City and Anne Arundel and Prince George's counties decrease by a combined $120,000 annually beginning in fiscal 2020. The Town of Forest Heights, which is located within Prince George's County, receives a new annual grant of $120,000.

Program Description: Statue requires that 5.5% from the proceeds of VLTs be used as local impact grants. The local impact grant distribution is first provided as listed below:

- Allegany County: $200,000;
- Cecil County: $130,000;
- Town of Perryville: $70,000; and
- Worcester County: $200,000.

After those distributions are made, 100% of the local impact grants from proceeds of facilities located in Allegany, Cecil, and Worcester counties must be distributed to local jurisdictions in which the facility is located. The remaining local impact grants are provided to the local jurisdictions with video lottery facilities and communities impacted by the Laurel Race Course.

Location of Provision in the Bill: Section 1 (pp. 13-14)

Analysis prepared by: Sierra Boney

Notify Legislative Delegation of Request to Include a Transportation Project in the *Consolidated Transportation Program*

Provision in the Bill: Requires that a government agency or political subdivision that requests that a transportation project be included in the *Consolidated Transportation Program* (CTP) provide a certification that all members of the legislative delegation of the county in which the project is located have been notified of the project being proposed for inclusion in the CTP.

Agency: Statewide

Type of Action: Administrative

State Effect: None.

Local Effect: None.

Program Description: Government agencies or political subdivisions that request that a transportation project be included in the CTP must provide certain project-related information to the Maryland Department of Transportation. Prior to this provision, no notification to legislative delegations has been required.

Location of Provision in the Bill: Section 1 (pp. 15-16)

Analysis prepared by: Steve McCulloch

Authorize Budget Amendments from the State Reserve Fund

Provision in the Bill: Authorizes, for fiscal 2020 only, funds to be transferred by budget amendment from the Revenue Stabilization Account (Rainy Day Fund) and the Dedicated Purpose Account (DPA) for purposes specified in the operating budget bill.

Agency: State Reserve Fund

Type of Action: Miscellaneous

State Effect: The General Assembly authorized the use of $90 million of the Rainy Day Fund appropriation in the fiscal 2020 budget for public school construction projects. This provision authorizes the transfer of these funds to support public school construction. If transferred, special fund expenditures for public school construction increase by $90 million and the fiscal 2020 Rainy Day Fund balance is reduced to 6% of revenues.

The fiscal 2020 budget also authorizes $50 million proposed for retirement reinvestment contributions to be used for school construction ($37 million) and Department of Housing and Community Development neighborhood revitalization ($13 million). Funds not utilized for the authorized purposes may not be spent. The budget also redirects $43.9 million proposed for Program Open Space (POS) to other POS purposes. This provision authorizes the transfer of these funds by budget amendment for the purposes identified in the operating budget bill, which redirects rather than increases spending.

Local Effect: No direct impact.

Program Description: The Rainy Day Fund was established to retain State revenues to meet future short-term funding needs and to reduce the need for future tax increases by moderating revenue growth. Statute limits transfers from the fund and prohibits transferring funds by budget amendment. DPA was established to retain appropriations for major, multi-year expenditures in which the magnitude and timing of cash needs are uncertain and to meet expenditure requirements that may be affected by changes in federal law or fiscal policies or other contingencies.

Recent History: As introduced, the Governor's budget included a projected fiscal 2020 Rainy Day Fund ending balance of $1.2 billion, which is 6.5% of estimated fiscal 2020 general fund revenues. The Spending Affordability Committee recommended that the end-of-year fund balance be at least 6% of revenues.

Location of Provision in the Bill: Section 10 (p. 19)

Analysis prepared by: Patrick S. Frank

Prohibit Transfer of Funds by Budget Amendments from the State Reserve Fund Except for Specified Uses and Only in Accordance with Section 10

Provision in the Bill: Requires that, for fiscal 2020 only, funds may only be transferred by budget amendment from the Revenue Stabilization Account (Rainy Day Fund) and the Dedicated Purpose Account (DPA) for purposes specified in Section 10 of this bill.

Agency: State Reserve Fund

Type of Action: Miscellaneous

State Effect: None.

Local Effect: None.

Program Description: The Rainy Day Fund was established to retain State revenues to meet future short-term funding needs and to reduce the need for future tax increases by moderating revenue growth. Statute limits transfers from the fund and prohibits transferring funds by budget amendment. DPA was established to retain appropriations for major, multi-year expenditures in which the magnitude and timing of cash needs are uncertain and to meet expenditure requirements that may be affected by changes in federal law or fiscal policies or other contingencies.

Recent History: Section 10 of this bill authorizes the transfer of funds from the Rainy Day Fund and DPA for purposes specified in the fiscal 2020 budget.

Location of Provision in the Bill: Section 11 (p. 19)

Analysis prepared by: Patrick S. Frank

Appendix B
($ in Dollars)

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
GENERAL FUND REVENUES						
Decrease Cap on Nonwithholding Income Tax Revenues	$0	$51,000,000	$0	$0	$0	$0
Fiscal 2019 Amazon Grant	10,000,000	0	0	0	0	0
State Police Improperly Retained Funds	820,750	0	0	0	0	0
TOTAL GENERAL FUND REVENUES	**$10,820,750**	**$51,000,000**	**$0**	**$0**	**$0**	**$0**
GENERAL FUND EXPENDITURES						
Mandate Relief						
Teacher Induction, Retention, and Advancement Pilot Program	($2,000,000)	($4,000,000)	($4,000,000)	($4,000,000)	$0	$0
Medicaid Deficit Assessment	0	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)	(15,000,000)
Subtotal – Mandate Relief	***($2,000,000)***	***($19,000,000)***	***($19,000,000)***	***($19,000,000)***	***($15,000,000)***	***($15,000,000)***
Fund Swaps, Cost Shifts, and Cost Control						
Authorize the Uninsured Employers' Fund to Pay Certain Hearing Loss Claims	$0	($2,000,000)	$0	$0	$0	$0
Maryland Department of Transportation Resource Sharing Agreements	0	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)	(5,000,000)
Divert Funding Retained from the Maryland Health Insurance Plan to Medicaid	0	(10,000,000)	0	0	0	0
Developmental Disabilities Administration Fiscal 2019 Contracts	(3,939,918)	0	0	0	0	0
Department of Juvenile Services Per Diem Savings	(500,000)	0	0	0	0	0
Public Safety Correctional Officer Funding	(7,500,000)	0	0	0	0	0
Fiscal 2019 Medicaid Surplus	(25,000,000)	0	0	0	0	0
Subtotal – Fund Swaps and Cost Shifts	***($36,939,918)***	***($17,000,000)***	***($5,000,000)***	***($5,000,000)***	***($5,000,000)***	***($5,000,000)***
TOTAL GENERAL FUND EXPENDITURES	**($38,939,918)**	**($36,000,000)**	**($24,000,000)**	**($24,000,000)**	**($20,000,000)**	**($20,000,000)**
SPECIAL FUND REVENUES						
Delay Exemption from Corporate and Business Entity Filing Fee	$0	$0	$36,000,000	$0	$0	$0
Decrease Cap on Nonwithholding Income Tax Revenues	0	(51,000,000)	0	0	0	0
Prohibit Increase in Casino Revenue Share and Redirect Funds	0	15,800,000	16,000,000	16,200,000	16,300,000	16,500,000
Medicaid Deficit Assessment	0	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
TOTAL SPECIAL FUND REVENUES	**$0**	**($20,200,000)**	**$67,000,000**	**$31,200,000**	**$31,300,000**	**$31,500,000**

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
SPECIAL FUND EXPENDITURES						
Delay Exemption from Corporate and Business Entity Filing Fee	$0	$0	-	-	-	-
Authorize the Uninsured Employers' Fund to Pay Certain Hearing Loss Claims	0	-	-	-	-	-
Prohibit Increase in Casino Revenue Share and Redirect Funds	0	15,800,000	$16,000,000	$16,200,000	$16,300,000	$16,500,000
Medicaid Deficit Assessment	0	15,000,000	15,000,000	15,000,000	15,000,000	15,000,000
Divert Funding Retained from the Maryland Health Insurance Plan to Medicaid	0	10,000,000	0	0	0	0
TOTAL SPECIAL FUND EXPENDITURES	**$0**	**40,800,000**	**$31,000,000**	**$31,200,000**	**$31,300,000**	**$31,500,000**
FEDERAL FUND REVENUES						
Developmental Disabilities Administration Fiscal 2019 Contracts	($2,912,113)	$0	$0	$0	$0	$0
TOTAL FEDERAL FUND REVENUES	**($2,912,113)**	**$0**	**$0**	**$0**	**$0**	**$0**
FEDERAL FUND EXPENDITURES						
Developmental Disabilities Administration Fiscal 2019 Contracts	($2,912,113)	$0	$0	$0	$0	$0
TOTAL FEDERAL FUND EXPENDITURES	**($2,912,113)**	**$0**	**$0**	**$0**	**$0**	**$0**

Source: Department of Legislative Services