

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1545
Appropriations

(Delegate Moon, *et al.*)

Board of Public Works - Comptroller - Delinquent Federal Funds

This emergency bill authorizes the Comptroller, in consultation with the Board of Public Works (BPW), to withhold State payments to the federal government – up to the amount of the total of delinquent federal funds – when the federal government is found not in compliance with court decisions upholding congressionally approved spending. As such, BPW may determine the federal government to be delinquent in federal funds owed to the State in the event of federal noncompliance with court decisions upholding congressionally approved spending. Provisions of the bill are severable.

Fiscal Summary

State Effect: State expenditures (all funds) may decrease, potentially significantly, beginning in FY 2025 from withholding any applicable State payments to the federal government. To the extent that withheld payments jeopardize federal grants, federal fund revenues and expenditures decrease, potentially significantly, as early as FY 2025. The Office of the Comptroller may need additional resources beginning in FY 2025 to withhold State payments to the federal government.

Local Effect: The decision of BPW to withhold State payments to the federal government is appealable to circuit courts, which can likely handle an increase in filings with existing resources. Otherwise, the bill likely does not *directly* affect local governments.

Small Business Effect: Minimal.

Analysis

Current Law:

Central Collection Unit

The Central Collection Unit (CCU) within the Department of Budget and Management (DBM) is responsible for collecting any delinquent accounts or debts owed to the State. CCU is authorized to use any actions available to it under State law to collect debts or claims. CCU is authorized to charge an administrative fee of up to 20% of the outstanding principal and interest on the debt referred to it for collection; the current fee is 17%. Debt payments are credited to the agency that refers the debt. The administrative fees are credited to the Central Collection Fund, which is the special fund used to pay for CCU's operating expenses.

CCU uses a variety of methods and resources to facilitate the collection of delinquent accounts, including automated and manual efforts, as well as a private collection agency. Under certain conditions, CCU also allows a person to pay their debt over an extended period of time by entering into a [Payment Plan Agreement](#).

Debts Owed to the Federal Government

When states owe debts to the federal government, in most cases, federal agencies can send a valid and legally enforceable debt to the Treasury Offset Program (TOP). Before referring the debt to TOP, the federal agency that is owed the debt or that is servicing the debt must send a due process notice to the state at least 60 days before sending the debt to TOP, and the state is expected to pay the debt before the due date specified in the due process notice. Federal agencies must send debts to TOP when debts are 120 days overdue.

The federal Bureau of the Fiscal Service (Fiscal Service), which administers TOP, makes federal payments on behalf of most federal agencies. Before the Fiscal Service or other disbursing official sends a payment, the disbursing official uses the TOP database to determine whether a payment should be reduced in whole or in part to satisfy an overdue debt, to the extent allowable by law. If money remains after the payment is offset by the overdue debt, the reduced payment goes to the payee. If the payment is offset, TOP sends a letter explaining how the payment was offset to satisfy the overdue debt.

State Fiscal Effect: To the extent that the federal government complies with court decisions upholding congressionally approved spending, the bill likely has no fiscal effect. Otherwise, State expenditures (all funds) may decrease, potentially significantly, beginning in fiscal 2025 due to withholding any applicable State payments to the federal government

related to delinquent federal funds. DBM notes that the bill may impact State finances but has no basis on which to provide an estimate of the potential impact.

When State payments are 120 days past due, the State's overdue debt will be entered into the TOP database, and the federal government will reduce federal payments to the State to satisfy the debt. Thus, federal fund revenues decrease beginning in fiscal 2026 by the amount that is overdue to the State.

The Maryland Department of Transportation (MDOT) notes that its capital program relies heavily on federal funding. In fiscal 2025, MDOT's capital program totals \$3.7 billion, of which \$1.3 billion is funded through federal funds. If federal funds are not received, MDOT anticipates having to significantly reduce its capital program. Additionally, MDOT notes that federal grants require the State to be in compliance with federal laws and regulations; thus, the bill may jeopardize these federal grants beginning as early as fiscal 2025. The U.S. Congress authorized full federal funding for rebuilding the Francis Scott Key Bridge, less insurance proceeds and moneys recovered from the ship owner. The estimated cost of replacing the bridge is more than \$1.7 billion, and MDOT notes that the bill may place these federal funds at risk.

The Office of the Comptroller notes that it may not have the staff and technology necessary to scrutinize the large volume of invoices it receives to withhold payment for specific invoices and, thus, may need additional resources.

The Office of the Attorney General and BPW can implement the bill with existing resources.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Office of the Attorney General; Comptroller's Office; Maryland State Treasurer's Office; Judiciary (Administrative Office of the Courts); Department of Budget and Management; Board of Public Works; Bureau of the Fiscal Service; Department of Legislative Services

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