

Department of Legislative Services
 Maryland General Assembly
 2026 Session

FISCAL AND POLICY NOTE
 Third Reader

House Bill 706
 Appropriations

(Delegate Moon, *et al.*)

Rules

State Finance - Delinquent Federal Funds (Federal Obligations Enforcement Act)

This bill authorizes the Central Collection Unit (CCU) of the Department of Budget and Management (DBM), in consultation with the Attorney General, to (1) collect federal funds owed to the State; (2) place liens on federal property in the State; and (3) direct the Comptroller to withhold payments to the federal government if the Board of Public Works (BPW) determines 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. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by as much as \$660,880 in FY 2027 for the Comptroller’s Office and the Office of the Attorney General (OAG), with ongoing OAG costs. CCU special fund expenditures for DBM may increase beginning in FY 2027. State expenditures (all funds) may decrease, potentially significantly, from withholding State payments to the federal government, and federal revenues and expenditures may decrease in response to withheld payments beginning in FY 2027.

(in dollars)	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
FF Revenue	(-)	(-)	(-)	(-)	(-)
GF Expenditure	\$660,800	\$565,900	\$591,900	\$618,300	\$644,900
SF Expenditure	-	-	-	-	-
GF/SF/FF Exp.	(-)	(-)	(-)	(-)	(-)
Bond/PAYGO Exp.	(-)	(-)	(-)	(-)	(-)
Net Effect	(\$660,800)	(\$565,900)	(\$591,900)	(\$618,300)	(\$644,900)

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

Local Effect: The bill may increase cases heard, and liens recorded, in circuit courts, but the circuit courts can likely handle an increase in filings and records with existing resources. Otherwise, the bill likely does not directly affect local governments.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill enables the State to reserve jurisdiction with respect to land leased or otherwise held in the State by the United States, or any unit thereof, when the federal government is found not in compliance with court decisions upholding congressionally approved spending. BPW may determine (by majority vote) 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 and must refer the delinquent federal funds to CCU. CCU may collect these delinquent federal funds owed to the State. The Comptroller may withhold State payments to the federal government for delinquent federal funds referred by CCU.

Current Law:

Jurisdiction

With respect to land that the United States or any unit of the United States leases or otherwise holds in the State, the State reserves jurisdiction and authority over the land, and persons, property, and transactions on the land, to the fullest extent that is allowed by the U.S. Constitution and not inconsistent with the governmental purpose for which the land is held. This does not affect the jurisdiction and authority of the State over land, or persons, property, and transactions on the land, that the United States or a unit of the United States acquired on or before May 31, 1943, to the extent that the State ceded jurisdiction, as specified. However, for the purpose of enforcing State civil or criminal laws, the Governor may enter into an agreement with the United States to establish full or partial concurrent jurisdiction of the State and the United States over any land in the State held by the United States.

The State has ceded exclusive jurisdiction to the United States over land situated in Anne Arundel County that is part of the Fort George G. Meade Military Reservation. However, the State retains the right to (1) serve all civil and criminal process of the courts of the State and (2) enforce and ensure compliance with all applicable environmental and Public Service Commission laws and regulations.

Central Collection Unit

CCU within 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](#).

Maryland Defense Act

Under Chapter 26 of 2017 (the Maryland Defense Act), the Attorney General may investigate, commence, and prosecute or defend any civil or criminal suit or action that is based on the federal government's action or inaction that threatens the public interest and welfare of the residents of the State with respect to (1) protecting the health of the residents of the State and ensuring the availability of affordable health care; (2) safeguarding public safety and security; (3) protecting civil liberties; (4) preserving and enhancing the economic security of workers and retirees; (5) protecting financial security of the residents of the State, as specified; (6) protecting the residents of the State against fraud and other deceptive and predatory practices; (7) protecting the natural resources and environment of the State; (8) protecting the residents of the State against illegal and unconstitutional federal immigration and travel restrictions; or (9) otherwise protecting as *parens patriae*, the State's interest in the general health and well-being of its residents.

Chapter 97 of 2025 expanded the Maryland Defense Act by authorizing the Attorney General to investigate, commence, and prosecute or defend any civil or criminal suit or action that is based on the federal government's action or inaction that threatens the public interest and welfare of the residents of the State with respect to protecting State residents who:

- are federal government employees who are not being paid because of a full or partial federal government shutdown due to a lapse in appropriations;
- were federal employees who, on or after January 1, 2025, either were terminated from federal employment due to the closure, relocation, or mass layoff of a unit of the federal government, or other similar circumstances beyond the employees'

- control or separated from employment by the federal government as a result of a voluntary separation incentive payment;
- are inappropriately denied federal benefits that they have earned, including Social Security benefits, Medicare, and Veterans Affairs benefits; or
 - are inappropriately denied federal entitlements, including Medicaid.

Before commencing a suit or action, the Attorney General must provide the Governor with written notice and an opportunity for review and comment, unless the Attorney General determines that emergency circumstances require immediate action. If the Governor objects to the intended suit or action, then the Governor must provide in writing to the Attorney General the reasons for the objection within 10 days after receiving the notice. Unless there are emergency circumstances that require the immediate commencement of the suit or action, the Attorney General must consider the Governor's objection before proceeding. If the Attorney General determines that emergency circumstances require the immediate commencement of a suit or action to protect the public interest and welfare of the residents of the State, as specified, the Attorney General must provide the Governor notice of the suit or action as soon as reasonably practicable. The Governor must include an appropriation of at least \$2.5 million in the annual budget for the authorized activities and to employ attorneys.

Under Chapter 26, the General Assembly finds (1) the federal government's action or failure to take action may pose a threat to the health and welfare of the residents of the State and (2) the State should investigate and obtain relief from any arbitrary, unlawful, or unconstitutional federal action or inaction and prevent such action or inaction from harming the residents of the State.

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, OAG advises that it needs additional resources to implement the bill as OAG anticipates the federal government to contest all actions taken by the State. Thus, general fund expenditures increase by as much as \$485,8271 in fiscal 2027, which accounts for a 90-day start-up delay from the bill’s July 1, 2026 effective date. This estimate reflects the cost of hiring two assistant Attorneys General, two paralegals, and two administrative aides to assist with litigation stemming from the bill. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	6.0
Salaries and Fringe Benefits	\$420,982
Operating Expenses	<u>64,845</u>
Total FY 2027 OAG Expenditures	\$485,827

However, if existing staff can assist with litigation due to this bill, a portion of these OAG expenditures may be mitigated. Otherwise, future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses.

CCU special fund expenditures for DBM may increase beginning in fiscal 2027, but the impact is unknown without actual experience under the bill. This analysis assumes that CCU special fund revenues are not materially affected as CCU expects a limited chance of success in recovering delinquent federal funds.

The Comptroller’s Office reports general fund expenditures increase by \$175,000 in fiscal 2027 for vendor programming changes to allow for manual intervention of State offset payments to the federal government, which are otherwise remitted automatically to the federal government.

State expenditures (all funds) may decrease, potentially significantly, beginning in fiscal 2027 due to withholding any applicable State payments to the federal government related to delinquent federal funds. 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 2027 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 2027, the *Capital Improvement Plan* has MDOT’s capital program totaling \$3.8 billion, of which \$1.5 billion is funded through federal funds. If federal funds are not received, MDOT may need to significantly reduce its capital program. Additionally, federal grants typically 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 2027.

Additional Information

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

Designated Cross File: SB 828 (Senator Hester, *et al.*) - Budget and Taxation.

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

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