
**Budget Reconciliation and Financing Act
of 2015
(HB 72/SB 57)**

**Budget Summary, Provisions, and
Recommendations**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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2015 Session BRFA "To Do" List (\$ in Millions)

Balance Before Proposals Requiring Legislative Approval: 2015 Session **-\$420.9**

Revenue Actions

DHMH – Early Medical Loss Ratio Payment	\$10.0	
Divert Chesapeake Bay 2010 Fund Revenue	8.6	
Sunny Day Fund Repayment Diversion	2.7	
Limit Refundable Earned Income Tax Credit to in-state	2.0	
Film Tax Credit	0.7	
Comptroller Unclaimed Property Advertising	0.6	
Health Benefit Exchange	1.5	
<i>Subtotal</i>		<i>\$26.1</i>

Transfers

Local Income Tax Reserve Account	\$100.0	
Transfer Tax	37.7	
Program Open Space Unencumbered Balance	10.5	
State Unemployment Compensation Fund	8.0	
Strategic Energy Investment Fund	6.0	
Baltimore City Community College	4.0	
Lawton Conservation Loan Fund	3.0	
Mortgage Lender Originator Fund	3.0	
Board of Nursing	2.5	
Waterway Improvement Fund	2.2	
Board of Physicians	1.8	
Board of Pharmacists	1.6	
Spinal Injury Trust Fund	1.0	
MHEC Health Personnel Shortage Incentive Fund	1.7	
MDA Bay Restoration Fund	1.4	
Helicopter Replacement Fund	0.3	
<i>Subtotal</i>		<i>\$184.6</i>

Contingent Reductions

Education Level Fund Per Pupil Foundation	\$63.9
Repeal Program Open Space Repayment	50.0

Delay Reducing Medicaid Deficit Assessment from Hospital Savings	14.5	
Reduce Funding to Community Colleges	13.0	
Delay Net Taxable Income for Education Formulas by One Year	12.1	
Reduce Developmental Disabilities Administration Provider Rate Increases	9.2	
Level Fund Local Health Grants	7.8	
Reduce Private Colleges Funding	6.5	
Level Fund Police Aid	3.7	
Eliminate Natural Resources Payment in Lieu of Taxes	2.5	
Modify Library Funding Enhancements	2.3	
DJS Provider Rates	0.8	
State Arts Council	1.4	
Cybersecurity Tax Credit	0.5	
School for the Deaf	0.3	
Library for the Blind and Physically Handicapped	1.9	
Deaf Culture Digital Library	0.2	
School for the Blind	0.2	
SEED School	0.1	
MARBIDCO	1.1	
Disparity Grant	2.1	
<i>Subtotal</i>		<i>\$194.2</i>
 Fund Swaps		
Medicaid (Use MD Health Insurance Plan and Cigarette Restitution Fund)	\$52.2	
Education (Use Video Lottery Terminal Local Impact Aid)	8.0	
Housing (Use Housing Counseling Fund)	2.4	
Use Waterway Improvement Fund for Administration	0.9	
<i>Subtotal</i>		<i>\$63.4</i>
Ending General Fund Balance		\$47.5

DHMH: Department of Health and Mental Hygiene

DJS: Department of Juvenile Services

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

MDA: Maryland Department of Agriculture

MHEC: Maryland Higher Education Commission

Summary of Provisions

Budget Reconciliation and Financing Act of 2015

(HB 72/SB 57)

Mandate Relief

- Maryland Agricultural and Resource-based Industry Development Corporation – Reduces the mandated funding level from \$4.0 million to \$2.875 million for fiscal 2016 through 2024 and extends the period for the corporation to receive a grant by three years (bill page 7)
 - The Department of Legislative Services (DLS) recommends further reducing the mandate to \$2.575 million in fiscal 2016 through 2024
- Education Aid – Freezes the target per pupil foundation amount for fiscal 2016 at the fiscal 2015 level and moderates the mandated growth rates for fiscal 2017 through 2020 and extends the phase-in of the Net Taxable Income grants by one year to fiscal 2019 (bill pages 7-9)
- Community College Funding Formula – Reduces the amount provided through the Cade formula by \$13.0 million to \$218.7 million for fiscal 2016 and caps the annual growth to not more than the projected growth in general fund revenues less 1.0% (bill pages 9-13)
 - DLS recommends providing hold harmless grants per the Cade formula, which reduces the fiscal 2016 reduction to \$11.0 million in fiscal 2016
- Seller Formula – Reduces the amount provided to private colleges and universities through the Seller formula by \$6.5 million to \$41.4 million for fiscal 2016 and caps the annual growth to not more than the projected growth in general fund revenues less 1.0% (bill pages 13-15)
 - DLS concurs with the reduction; however, the funding should be allocated based on the most recent enrollment numbers rather than by the prior year's per institution allocation
- Library Aid – Slows and extends the phase-in of mandated increases to the per resident amount for aid to regional and State library centers and local public libraries through fiscal 2025 and phases in State support for the Maryland Library for the Blind and Physically Handicapped through fiscal 2025 (bill pages 16-19)
- Local Health Grants – Freezes fiscal 2016 funding for local health grants at the fiscal 2014 level (bill page 19)

- Development Disabilities Administration Provider Rates – Reduces the mandated rate increase for community service providers from 3.5% to 1.75% for fiscal 2016 (bill page 19)
- Academic Health Centers – Reduces the mandated funding from the Cigarette Restitution Fund for academic health centers by \$7.2 million to \$5.8 million beginning in fiscal 2016, allowing for a contingent general fund reduction under Medicaid (bill pages 19-20)
- Maryland Health Benefit Exchange – Removes the mandated funding requirement for the Maryland Health Benefit Exchange, enabling a contingent reduction of \$1,498,276 in special funds in fiscal 2016, that results in additional premium tax revenue to the general fund (bill page 20)
- Disparity Grant – Freezes the total amount of the disparity grant at \$127,708,537 beginning in fiscal 2016, allowing for a contingent reduction of \$2,111,335 in general funds. Future allocations within the \$127.7 million will be prorated relative to the uncapped formula (bill pages 20-21)
 - DLS recommends rejecting the proposed cap and the subsequent year allocation language so that the committees can study and recommend comprehensive changes to the formula
- Watershed Implementation Plan – Transfers the mandated funding requirement for transportation projects necessary to comply with the Watershed Implementation Plan from the general fund or general obligation bonds to the Transportation Trust Fund (bill page 27)
 - DLS recommends limiting the authority to use Transportation Trust Fund to fiscal 2016 only.
- Local Police Aid – Alters the mandated funding level for State Aid for Police Protection grants to \$67,277,067 for fiscal 2015 and 2016, enabling a contingent reduction of \$3,720,710 in fiscal 2016 (bill pages 22-23)
 - DLS recommends further reducing the mandated funding level to the fiscal 2013 level of \$45,399,251 in a manner that is proportional to the formula in fiscal 2016, and thereafter
- State Arts Council – Sets fiscal 2016 general fund support for the Maryland State Arts Council at the fiscal 2014 level of \$15,418,942 allowing for a contingent reduction of \$1,361,571 (bill page 23)
- Cybersecurity Tax Credit – Reduces the mandated level of general funds from \$2.0 million to \$1.5 million in fiscal 2016 (bill page 25)

- Repayment to Program Open Space – Repeals the requirement that transfer tax funds diverted to the general fund and transfers from any future year be repaid by unappropriated general fund balance in excess of \$10.0 million. There is a contingent reduction of \$50.0 million related to this item (bill pages 25-26)
- Curb Mandate Growth – Caps the growth of any mandated appropriation to not more than the projected general fund revenue growth, less 1.0%, exempting specified mandates related to K-12 education funding and State pension contributions (bill pages 31-32)
 - DLS recommends striking the original provision to instead moderating the mandate growth of the four programs that account for the vast majority of the savings under the original provision: the Community College Funding Formula (Cade), the Seller funding formula, the Baltimore City Community College funding formula, and the Developmental Disabilities Administration provider rates

General and Special Fund Revenue Actions

- Park Payments to Counties in Lieu of Taxes – Reduces park revenue sharing payments to counties from the Department of Natural Resources in fiscal 2015 and 2016 (bill page 21)
 - DLS recommends further reducing park revenue sharing payments by excluding payments from nontimber earnings, concession operations, and Deep Creek Lake earnings and further recommends making this reduction permanent
- Short-term Vehicle Rentals – Revenue from the sales tax on vehicle rentals that is credited to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to be redirected to the general fund in fiscal 2016 by a total of \$8.6 million (bill pages 23-24)
- Transfer Tax – Increases the revenue from the transfer tax that is directed to the general fund in fiscal 2015 by \$37,712,700 (bill page 27)
- Abandoned Property Database – Alters the requirement that the Comptroller publish in newspapers of general circulation notices of abandoned property, authorizes the establishment of an electronic database with access via a website, and enables a contingent reduction of \$580,000 in special funds (bill pages 5-6)
- Sunny Day Fund – Requires any repayments received by the Department of Business and Economic Development related to loans under the Sunny Day Fund be deposited into the general fund in fiscal 2015 and 2016. The Administration assumes general fund revenue of \$828,500 in fiscal 2015 and \$1,842,750 in fiscal 2016 due to this provision (bill page 30)
- Medical Loss Ratios – Authorizes the early clawback of savings for calendar 2014 managed care organization payments to recognize failure of managed care organizations to meet certain medical loss ratios, which increases general fund revenues by \$10.0 million (bill page 32)

New or Expanded Uses of Existing Revenues

- Waterway Improvement Fund – Allows the use of the fund for fund-related administrative expenses under the Department of Natural Resources, allowing for a contingent reduction of \$875,000 in general funds in fiscal 2016 (bill pages 21-22)
 - DLS recommends that the fund may be used for fund-related administrative expenses on a permanent basis
- Housing Counseling and Foreclosure Mediation Fund – Allows the use of the fund for operational expenses under the Department of Housing and Community Development, allowing for a contingent reduction of \$2.4 million in general funds in fiscal 2016 (bill page 29)
- Maryland Health Insurance Plan fund balance – Allows fund balance under the Maryland Health Insurance Plan to be used by the Department of Health and Mental Hygiene to fund provider reimbursements in the Medicaid program (bill pages 29-30)
 - DLS recommends increasing the allowable fund balance usage from \$45.0 million to \$53.0 million to fund provider reimbursements
- Local Impact Aid – Redirects a portion of video lottery terminal revenues for local impact aid to the Education Trust Fund in fiscal 2015 and 2016, allowing for a contingent general fund reduction of \$4.1 million in fiscal 2015 and \$3.9 million in fiscal 2016 under Aid to Education (bill page 31)
 - DLS recommends extending the reduction to local impact aid to the other uses of video lottery terminal revenues, including racetrack redevelopment, purse enhancements, and small business assistance. Further, DLS recommends making these reductions permanent in order to benefit the Education Trust Fund

Transfers to the General Fund

	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Local Income Tax Reserve Account	\$100,000,000	
Program Open Space Unencumbered Balance	10,500,000	
Strategic Energy Investment Fund	6,000,000	
Baltimore City Community College	4,000,000	
State Unemployment Trust Fund	4,000,000	\$4,000,000
Jane E. Lawton Conservation Loan Fund	3,000,000	
Mortgage Lender – Originator Fund	3,000,000	
Board of Nursing	2,500,000	
Waterway Improvement Fund	2,180,000	
Board of Physicians	1,800,000	
Health Personnel Shortage Incentive Fund	1,700,000	

	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Board of Pharmacy	1,600,000	
Bay Restoration Fund	1,375,000	
Spinal Cord Injury Research Trust Fund	1,000,000	
State Police Helicopter Replacement Fund	269,741	

(bill pages 30-31)

- DLS recommends that transferred funds under the Strategic Energy Investment Fund be transferred from the non-energy assistance accounts under the fund

Cost Control and Miscellaneous Provisions

- Deaf Culture Digital Library – Delays the establishment of the Deaf Culture Digital Library until on or after October 2015 with a contingent reduction of \$232,672 (bill page 16)
- Earned Income Tax Credit – Provides that the refundable portion of the earned income tax credit is only applicable to Maryland residents. The Administration assumes \$2.0 million in general fund revenue in fiscal 2016 (bill page 24)
- Film Production Activity Tax Credit – Reduces the cap on the film production activity tax credit in fiscal 2016 from \$7.5 million to \$6,816,237. The Administration assumes \$683,763 in general fund revenue in fiscal 2016 (bill page 24)
- State Employee Salary Adjustment – Prohibits merit or cost-of-living increases for State employees in fiscal 2016 with specified exemptions (bill page 29)
- Provider Rates – Freeze fiscal 2016 rates for payments to providers of nonpublic placements or those set by the Interagency Rate Committee to the fiscal 2014 level (bill page 29)
- Transfer Tax Underattainment – Provides that transfer tax underattainment will not be applied in fiscal 2017 for Program Open Space since it is being applied to the fiscal 2015 budget (bill page 25)
- Health Services Cost Review Commission – Requires the commission to enact policies to save general funds in Medicaid in fiscal 2015 (\$8.0 million) and 2016 (\$16.7 million) to recognize savings from lower uncompensated care. If savings from those policies fail to materialize, the commission may seek savings by discounting Medicaid and Medicare hospital rates and, if still necessary, increasing the Medicaid deficit assessment (bill page 28)
 - DLS recommends rejecting the requirement that the Health Services Cost Review Commission finds \$8.0 million in savings in fiscal 2015

- Medicaid Deficit Assessment – Delays until fiscal 2017 the requirement that any savings that accrue to Medicaid through the implementation of the new Maryland All-Payer Model Contract are used to reduce the Medicaid deficit assessment, reducing general fund need by \$14.5 million (bill pages 27-28)
- State Police Helicopter Replacement Fund – Permanently repeals the fund (bill page 22)
 - DLS recommends altering the distribution of ticket surcharge revenue from citations that were issued prior to October 2010

Additional Recommendations to HB 72/SB 57

Mandate Relief

- Repeal the corridor funding method and the supplemental contribution for the State Retirement and Pension System
- Reduce the fiscal 2016 contribution to the Baltimore City School Revitalization Program from State lottery proceeds and from Baltimore City to reflect actual spending needs

General and Special Fund Revenue Actions

- Alter the distribution of table game revenues so that 75%, instead of 80%, of table game revenues are distributed to facility licensees and 25%, instead of 20%, of table game revenues are distributed to the Education Trust Fund

Transfers to the General Fund

- Transfer special funds under the E-Innovation Initiative program to the general fund in fiscal 2016

Cost Control and Miscellaneous Provisions

- Withdraw certain fiscal 2015 special and general fund appropriations under the Maryland Department of Planning and the Maryland State Department of Education based on the expected reversions that are assumed in the fiscal 2015 budget plan and transfer certain special funds to the general fund
- Cap the State's share of the fiscal 2016 convention centers' operating subsidies at the fiscal 2016 cost containment level
- Transfer authority from the Maryland Insurance Administration to the Comptroller to impose and collect the insurance premium tax
- Require any funds provided to the State as a result of the conditions of an approved merger between Exelon Corporation and Pepco Holdings, Inc. be appropriated through the State budget bill

- Freeze eligibility under the Quality Teacher Incentive program to fiscal 2014 recipients that continue to teach in a comprehensive needs school and sunset a portion of the program after fiscal 2016
- Eliminate the remaining Maryland Health Insurance Plan assessment to generate Medicaid savings
- Authorize the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to be used permanently for specified administrative expenses related to compliance
- Continue the authority to implement the holding of the Court of Appeals in *DeWolfe v. Richmond*
- Replace language establishing a mechanism for reducing the Medicaid Deficit Assessment based on the extent of Medicaid general fund savings generated under the new all-payer model contract with a set spend-down amount, \$20 million per year, beginning in fiscal 2017

Detail on Alternative and Additional Recommendations on HB 72/SB 57

Proposed Amendment to HB 72/SB 57 as Introduced

Maryland Agricultural and Resource-Based Industry Development Corporation

Provision in BRFA as Introduced: Reduce mandated rural business development and assistance funding for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) to \$2,875,000 in fiscal 2016 through 2021. Mandated funding is extended for three additional years (through fiscal 2024) at \$2,875,000 per fiscal year.

Provision as Recommended by DLS: Reduce mandated rural business development and assistance funding for MARBIDCO to \$2,575,000 in fiscal 2016 through 2024.

Agency: Maryland Department of Agriculture

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$1.4	-\$1.4	-\$1.4	-\$1.4	-\$1.4

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$0.3	-\$0.3	-\$0.3	-\$0.3	-\$0.3

Background/Recent History: MARBIDCO, established under Chapter 467 of 2004, is a public corporation and instrumentality of the State helping Maryland's farm, forestry, seafood, and related rural businesses to achieve profitability and sustainability.

Chapter 289 of 2006 mandated rural business development and assistance funding for MARBIDCO, ramping up from \$1.0 million in fiscal 2007 to \$4.0 million in fiscal 2010 through 2020. The mandated amounts were provided in fiscal 2007 and 2008, but in years since, multiple adjustments have been made to the mandated amounts through budget reconciliation legislation, and the amounts appropriated each year have been under \$3.0 million. In fiscal 2013 through 2015, \$2.875 million was provided.

State Effect: General fund expenditures decrease by \$1,425,000 per year relative to current law and by \$300,000 relative to the Budget Reconciliation and Financing Act (BRFA) of 2015 as introduced between fiscal 2016 and 2021. General fund expenditures increase by \$2,575,000 per

year relative to current law and decrease by \$300,000 per year relative to the BRFA as introduced between fiscal 2022 and 2024.

Local Effect: Local governments may be affected in fiscal 2016 through 2024 to the extent the reduction in mandated funding limits MARBIDCO's cost-share support to local government-funded rural business development projects. However, any impact is likely minimal.

Proposed Amendment to HB 72/SB 57 as Introduced

Senator John A. Cade Funding Formula for Local Community College Aid

Provision in BRFA as Introduced: Reduces funding by \$13,045,515 for local community colleges under the Senator John A. Cade formula in fiscal 2016 by setting a reduced funding level for fiscal 2016. This action does not provide hold harmless funding to local community colleges, so 10 of 15 institutions receive less State support in fiscal 2016 than in fiscal 2015.

Provision as Recommended by DLS: Reject the contingent reduction in the Budget Reconciliation and Financing Act (BRFA) of \$13.0 million and instead reduce the Cade formula by \$11,656,003. This provides \$214.7 million for direct grants and \$5.4 million in hold harmless grants so that all local community colleges receive at least as much State support in fiscal 2016 and in 2015.

Agency: Maryland Higher Education Commission

Type of Action: Other

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$11.7	-\$6.7	-\$0.3	\$0.0	\$0.0

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$1.4	\$2.1	\$0.1	\$0.0	\$0.0

Background/Recent History: Chapter 333 of 2006 began a phased enhancement of the Cade formula that has been adjusted frequently by budget reconciliation legislation. The most recent alteration was enacted in the BRFA of 2014 (Chapter 464), which increased funding percentages in statute from fiscal 2016 through 2019.

State Effect: Under the revised funding percentages, mandated general fund expenditures for the Cade formula decrease by a total of \$18.6 million from fiscal 2017 through 2020 versus current law.

Local Effect: Direct State aid for community colleges decreases by a total of \$18.6 million from fiscal 2017 through 2020.

Subcommittee Assignments: EED/EBA

Alt-5

Proposed Amendment to HB 72/SB 57 as Introduced

Joseph A. Sellinger Program for Independent Colleges and Universities

Provision in BRFA as Introduced: Reduces the fiscal 2016 funding level by \$6,461,915 for qualifying independent colleges and universities under the Joseph A. Sellinger formula. The funding formula is unchanged by this action in fiscal 2017 and beyond. The total fiscal 2016 Sellinger aid reduction is based on the amount each eligible institution was appropriated in fiscal 2015.

Provision as Recommended by DLS: The Department of Legislative Services concurs with the reduction to the Sellinger formula in fiscal 2016. However, in order to preserve the intent of the Sellinger formula, the funding should be allocated based upon the most recent audited enrollment numbers as reported by the Maryland Higher Education Commission rather than allocating Sellinger aid by the prior year's per institution allocations.

Agency: Maryland Higher Education Commission

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$6.5	\$0.0	\$0.0	\$0.0	\$0.0

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Background/Recent History: The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) created savings for the Sellinger formula by excluding enrollments from partnerships with for-profit institutions. The BRFA of 2012 (Chapter 1 of the first special session) froze per full-time equivalent student funding at the fiscal 2013 level from fiscal 2014 through 2017 and reduced formula funding levels for fiscal 2018 through 2020. In fiscal 2014, the National Labor College announced that it will cease operations at the conclusion of the 2013-2014 academic year, so it was removed from Sellinger formula calculations beginning in the fiscal 2015 appropriation. The BRFA of 2014 (Chapter 464) increased the statutory funding percentages in fiscal 2016 through 2019.

State Effect: None.

Local Effect: None.

Proposed Amendment to HB 72/SB 57 as Introduced

Local Income Tax Disparity Grants

Provision in BRFA as Introduced: Caps the amount provided for fiscal 2016 and each subsequent year thereafter at \$127,708,537. Further provides that in subsequent years, the allocation to each county under the cap will be in the same proportion as the allocation provided under in Subsection C of Section 16-501 of the Local Government Article.

Provision as Recommended by DLS: Reject the proposed cap and subsequent year allocation language and maintain current law.

Agency: Payments to Civil Divisions

Type of Action: Cost Control

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$2.1	\$3.7	\$5.4	\$7.2	\$9.1

Background/Recent History: The BRFA of 2009 (Chapter 487) capped the grants for each county at the fiscal 2010 level. The BRFA of 2013 (Chapter 425) allowed eligible counties to receive a proportion of the grant based on the local income tax rate in that county.

State Effect: General fund expenditures increase by \$2.1 million in fiscal 2016 to align expenditures to the currently mandated amount.

Local Effect: Local revenues in the form of direct aid from the State for Prince George's, Wicomico, and Cecil counties would increase by \$1.4 million, \$0.7 million, and \$0.007 million, respectively, which would equal what each county expected to receive under current law in fiscal 2016.

Proposed Amendment to HB 72/SB 57 as Introduced

Maryland Park Service – Payment in Lieu of Taxes

Provision in BRFA as Introduced: Prohibits the Department of Natural Resources (DNR) from making revenue sharing payments to counties from park earnings in fiscal 2015 and 2016. The provision still allows payment of timber earnings.

Provision as Recommended by DLS: Prohibits DNR from making revenue sharing payments to counties from park earnings (Forest or Park Reserve Fund), concession operations (Forest and Park Concession Account), and Deep Creek Lake earnings (Deep Creek Lake Recreation Maintenance and Management Fund) permanently.

Agency: Department of Natural Resources

Type of Action: Revenue Sharing Relief; Fund Swap

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$2.5	-\$2.5	-\$2.5	-\$2.5	-\$2.5

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$0.3	-\$2.5	-\$2.5	-\$2.5	-\$2.5

Background/Recent History: DNR is required to administer the Forest or Park Reserve Fund, the stated purpose of which is to enable DNR to purchase and manage in the name of the State, lands suitable for forest culture, reserves, watershed protection, State parks, scenic preserves, historic monuments, parkways, and State recreational reserves. All revenues generated from State forests and parks are paid into the fund.

DNR is also required to administer the Forest and Park Concession Account; its stated purpose is to finance the maintenance and operation of concession operations and the functions of State forests and parks. All money derived from concession operations in State forests and parks is paid into the account.

Each county in which any State forest or park is located annually receives 15% of the net revenues derived from the forest or parks located in that county, including concession operations. If the forest or parks comprise 10% or more of its total land area, the county annually receives 25% of the net revenues derived from the forest or park. The original intent of the county payments

was to offset the loss in property taxes to counties in which the State owned a significant amount of acreage.

Furthermore, DNR is required to administer the Deep Creek Lake Recreation Maintenance and Management Fund for the maintenance and management of the land, recreational facilities, and services that are related to Deep Creek Lake in Garrett County. All fees collected for boat launching at Deep Creek Lake State Park; all funds collected from lake and buffer use permits, contracts, grants, and gifts as a result of the Deep Creek Lake management program; and any investment earnings of the fund are paid into the fund. One quarter of the revenues are shared with Garrett County.

State Effect: General fund expenditures decrease relative to current law by \$2.5 million between fiscal 2016 and 2020 to the extent that the elimination of revenue sharing payments to counties allows for the use of the funding for other purposes. This is attributable to \$2,213,953 from the Forest or Park Reserve Fund, \$50,000 from the Forest and Park Concession Account, and \$235,000 from the Deep Creek Lake Recreation Maintenance and Management Fund.

General fund expenditures decrease relative to the Budget Reconciliation and Financing Act of 2015 (BRFA) as introduced in fiscal 2016 by \$0.3 million – attributable to the addition of the \$50,000 from the Forest and Park Concession Account and \$235,000 from the Deep Creek Lake Recreation Maintenance and Management Fund to the prohibition on revenue sharing payments. General fund expenditures decrease relative to the BRFA as introduced in fiscal 2017 through 2020 by \$2.5 million – the full amount of revenue sharing payments to counties from park earnings (Forest or Park Reserve Fund), concession operations (Forest and Park Concession Account), and Deep Creek Lake earnings (Deep Creek Lake Recreation Maintenance and Management Fund).

Local Effect: Local revenues from payments currently made by DNR decrease by an estimated \$2.5 million in fiscal 2016 through 2020 due to the prohibition on revenue sharing payments from park earnings, concession operations, and Deep Creek Lake earnings.

Proposed Amendment to HB 72/SB 57 as Introduced

Waterway Improvement Fund

Provision in BRFA as Introduced: Authorize the transfer of \$2,180,000 from the Waterway Improvement Fund (WIF) to the general fund in fiscal 2015; authorize the Department of Natural Resources (DNR) to use up to \$1,625,000 in funds from the WIF for administrative expenses for fiscal 2016 only.

Provision as Recommended by DLS: Authorize DNR to use up to \$1,625,000 in funds from the WIF for administrative expenses permanently.

Agency: Department of Natural Resources

Type of Action: Fund Swap

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$0.9	-\$0.9	-\$0.9	-\$0.9	-\$0.9
SF Exp.	0.9	0.9	0.9	0.9	0.9

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	0.0	-\$0.9	-\$0.9	-\$0.9	-\$0.9
SF Exp.	0.0	0.9	0.9	0.9	0.9

Background/Recent History: The WIF finances projects to expand and improve public boating access throughout the State. Financial support for the fund is derived from the 5.0% excise tax on the sale of vessels in the State and 0.5% of the motor vehicle fuel tax.

The Budget Reconciliation and Financing Act (BRFA) of 2009 removed a prohibition on the use of the WIF revenue for administrative expenses and authorized the use of up to \$750,000 in the WIF special funds annually for program administration.

State Effect: General fund expenditures decrease and special fund expenditures increase by \$0.9 million between fiscal 2016 and 2020 relative to current law and by \$0.9 million between fiscal 2017 and 2020 relative to the BRFA as introduced. The reduction in general fund expenditures is due to the ability to use the WIF special funds to backfill for general funds; there is a commensurate increase in special fund expenditures.

The future 2017 through 2020 WIF closing balances depend on whether operating and pay-as-you-go funding priorities are realigned and future vessel excise tax and motor vehicle fuel tax revenues.

Local Effect: Local governments are eligible for grants from WIF. Less program funding will be available for public boating access projects such as marinas, boat ramps, and volunteer fire department water rescue equipment purchases.

Proposed Amendment to HB 72/SB 57 as Introduced

State Police Helicopter Replacement Fund Repeal and Redirect Citation Revenue

Provision in BRFA as Introduced: Repeal the State Police Helicopter Replacement Fund (SPHRF) and transfer the remaining balance to the general fund.

Provision as Recommended by DLS: Add uncodified language that requires revenue from the \$7.50 surcharge on certain moving violation citations issued prior to October 1, 2010, to be credited to the general fund. Currently, this revenue is credited 50% to the SPHRF and 50% to the Maryland Emergency Medical System Operations Fund (MEMSOF).

Agency: Department of State Police; Judiciary (Administrative Office of the Courts)

Type of Action: General Fund Revenue Enhancement

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Dollars)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Rev.	\$9,646	\$4,822	\$2,408	\$1,208	\$600

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Dollars)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Rev.	\$9,646	\$4,822	\$2,408	\$1,208	\$600

Background/Recent History: Chapter 416 of 2006 established the SPHRF and dictated that 50% of revenue collected from a \$7.50 surcharge on moving violation citations would be credited to the SPHRF, and the remaining 50% would be credited to the Volunteer Company Assistance Fund (VCAF), until the VCAF received \$20 million from the fund source; once the VCAF received \$20 million, 100% of revenue would be credited to the SPHRF. Chapter 397 of 2011, (the Budget Reconciliation and Financing Act (BRFA) of 2011) altered the distribution so that 100% of the revenue would be credited to the VCAF; however, the SPHRF has continued to receive 50% of revenue from citations issued prior to October 1, 2010, since this change. From fiscal 2011 to 2014, the SPHRF has received \$962,000 in revenue from citations issued prior to October 1, 2010; in fiscal 2014, \$19,279 was received from these citations.

State Effect: The BRFA of 2015 provision to repeal the SPHRF and transfer the remaining balance of the fund increases general fund revenues by \$269,741 in fiscal 2015. The uncodified language would redirect revenue from citations issued prior to October 1, 2010, to the general fund. Currently, 50% of revenue from citations issued prior to October 1, 2010, is credited to the

SPHRF. The remaining 50% of revenue from these citations is directed to the VCAF. Since the VCAF received a total of \$20 million from this fund source in fiscal 2014, this portion of the revenue is redirected to MEMSOF based on current law.

Proposed Amendment to HB 72/SB 57 as Introduced

State Aid for Police Protection Funding Mandate

Provision in BRFA as Introduced: Reduce mandated State Aid for Police Protection (SAPP) formula for the Governor's Office of Crime Control and Prevention (GOCCP) to \$67,277,067 in fiscal 2015 and 2016. Police aid funding would be level funded at the fiscal 2014 level for the two fiscal years. Mandated annual funding continues after fiscal 2016.

Provision as Recommended by DLS: Reduce mandated SAPP formula for GOCCP to \$45,399,251 in fiscal 2016 and in the future. Total police aid funding is permanently mandated at the fiscal 2013 level, but local government shares should be reduced proportional to the fully funded formula amounts.

Agency: Governor's Office of Crime Control and Prevention

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$25.6	-\$26.3	-\$27.0	-\$27.7	-\$28.5

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$21.88	-\$26.3	-\$27.0	-\$27.7	-\$28.5

Background/Recent History: As a cost containment measure, police aid was capped at \$45.4 million from fiscal 2010 to 2013. The formula was fully funded in fiscal 2014 at \$67.3 million. The current Budget Reconciliation and Financing Act (BRFA) provisions seek to reduce the SAPP grant in fiscal 2015 and 2016 back to the fiscal 2014 level.

State Effect: Mandated general fund expenditures decrease by \$25.6 million in fiscal 2016 based on the amount that the Governor otherwise would have been required to fund (\$70.0 million). Funding is constrained at the \$45.4 million level permanently thereafter.

Local Effect: Local governments would be affected in fiscal 2016 and beyond if the funding level is constrained. If the reduction is taken proportionally in fiscal 2016, all jurisdictions would be reduced by about 36% of funding according to current law. The local jurisdictions would then be constrained at the \$45.4 million level of SAPP funding in the future.

Proposed Amendment to HB 72/SB 57 as Introduced

Hospital Uncompensated Care Savings

Provision in BRFA as Introduced: Requires the Health Services Cost Review Commission (HSCRC) to enact policies to recognize savings from lower levels of hospital uncompensated care that generate general fund savings to Medicaid of \$8.0 million in fiscal 2015 and \$16.7 million in fiscal 2016.

Provision as Recommended by DLS: Remove fiscal 2015 requirement for savings.

Agency: Department of Health and Mental Hygiene

Type of Action: Policy

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	-\$16.7	-\$16.7	-\$16.7	-\$16.7	-\$16.7
SF Exp.	0.0	-20.8	-20.8	-20.8	-20.8	-20.8

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$8.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Exp.	10.0	0.0	0.0	0.0	0.0	0.0

Background: In recent years, various Budget Reconciliation and Financing Acts have directed HSCRC to generate savings to Medicaid through the hospital rate-setting process, for example, through implementing tiered rates for outpatient services. To generate the \$8 million in general fund savings to Medicaid in fiscal 2015, HSCRC would have to adjust rates by over \$100 million.

During the most recent rate-setting calculation, HSCRC considered savings from lower levels of uncompensated care as a result of higher levels of coverage resulting from the most recent Medicaid expansion, effective January 1, 2014. Specifically, HSCRC calculated savings that resulted from individuals formerly enrolled in the Primary Adult Care Program (PAC), a limited Medicaid benefits program, now having full Medicaid benefits. However, former PAC enrollees constitute at most only 38% of the newly eligible adults in Medicaid due to expansion (233,174 as of January). It was anticipated that HSCRC would take the additional Medicaid enrollment into consideration during future rate setting.

State Effect: Assumed general funds savings to the Medicaid program (\$8 million) would not be received during fiscal 2015.

Proposed Amendment to HB 72/SB 57 as Introduced

Maryland Health Insurance Plan Fund Transfer

Provision in BRFA as Introduced: Authorizes the transfer of the greater of \$45 million or the nonfederal share of the Medicare or Medicaid programs from the Maryland Health Insurance Plan (MHIP) Fund to Medicaid in fiscal 2015. If authorized, there is a contingent cut of \$45 million to a fiscal 2015 Medicaid deficiency appropriation in the fiscal 2016 budget.

Provision as Recommended by DLS: Increase transfer from the MHIP Fund to Medicaid to \$53 million.

Agency: Department of Health and Mental Hygiene

Type of Action: Expanded Use of a Special Fund for Cost Containment

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Exp.	-53.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Exp.	53.0	0.0	0.0	0.0	0.0

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
GF Exp.	-8.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Exp.	8.0	0.0	0.0	0.0	0.0

Background/Recent History: The MHIP Fund was established to provide premium support for enrollees in the MHIP, the State's high-risk pool. The fund is supported by an assessment on hospitals and is paid by all payers. Chapter 469 of 2014, (the Budget Reconciliation and Financing Act (BRFA)) reduced the assessment support to the MHIP Fund to 0.3% of hospital revenue. At that time, the assessment was 1.0%.

With the opening of the Maryland Health Benefit Exchange (Exchange), the MHIP program is being phased out. As of January 1, 2015, there were no MHIP enrollees. Under current law, in addition to supporting the MHIP program, the fund can be used for reinsurance and premium support in the Exchange. Although no formal reinsurance program has formally been adopted, it is estimated that a reinsurance program could cost between \$30 million and \$40 million annually.

Based on the most recent estimates, the MHIP Fund is anticipated to have a year-end fund balance of \$178 million. After the proposed \$53 million transfer, the fund balance would be \$125 million. Though not articulated in the BRFA, the intent is to only use that portion of the MHIP balance, which was not derived from Medicaid and Medicare.

Proposed Amendment to HB 72/SB 57 as Introduced

Strategic Energy Investment Fund Balance

Provision in BRFA as Introduced: Authorize the transfer of \$6,000,000 from the Strategic Energy Investment Fund (SEIF) in fiscal 2015.

Provision as Recommended by DLS: Add language to the authorization of the transfer to require the transferred funds be from the non-energy assistance accounts within the SEIF (energy efficiency, renewable and clean energy, and administration)

Agency: Department of Human Resources, Maryland Energy Administration, Department of Housing and Community Development, Maryland Department of the Environment, Department of General Services, and Department of Health and Mental Hygiene

Type of Action: Fund Balance Transfer

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Rev.	\$6.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced: None.

Background/Recent History: The language in the Budget Reconciliation and Financing Act (BRFA) of 2015 does not specify the area from which the fund balance transfer would occur.

State Effect: Neither increases nor decreases the total amount of the transfer but merely adds direction to the account that the transfer would occur. **Exhibit 1** provides information on the fiscal 2014 actual fund balance, fiscal 2015 projected balance, and fiscal 2016 projected balance. Although the energy assistance account contains the largest share of the fund balance, it remains an important safety net program. As shown in Exhibit 1, if the transfer were to occur from the non-energy assistance accounts, the projected fiscal 2015 closing fund balance for those accounts would be \$8.8 million, and the projected fiscal 2016 closing fund balance would be \$2.0 million.

Exhibit 1
Strategic Energy Investment Fund Balance
Fiscal 2014-2016 Est.
(\$ in Millions)

	<u>2014 Closing Fund Balance</u>	<u>2015 Estimated Closing Fund Balance</u>	<u>2016 Estimated Closing Fund Balance</u>
Energy Efficiency and Conservation Programs, Low- and Moderate-income Sector	\$7.1	\$3.1	-\$0.3
Energy Efficiency and Conservation Programs, All Other Sectors	5.5	2.3	3.6
Renewable Energy, Clean Energy, Climate Change, Education, and Resiliency	16.5	4.9	2.2
Administration	4.3	2.9	2.5
<i>Subtotal of SEIF for Non-energy Assistance/ Rate Relief Activities without Transfer Proposed</i>	<i>\$33.4</i>	<i>\$13.3</i>	<i>\$8.0</i>
Cancellation for Restricted Funds Not Expected to Be Used (Energy Efficiency and Conservation Programs, All Other Sectors)		1.5	
Proposed Transfer		-6.0	
<i>Subtotal of SEIF for Non-energy Assistance/ Rate Relief Activities with Proposed Transfer</i>	<i>\$33.4</i>	<i>\$8.8</i>	<i>\$2.0</i>
Rate Relief	0.1	0.1	0.1
Energy Assistance	28.2	24.3	29.2
Total	\$61.6	\$33.1	\$31.3

SEIF: Strategic Energy Investment Fund

Note: Based on revenue including actual auction results in September and December 2014 and projected results for the remainder of fiscal 2015 and 2016 based on 2015 session estimates. Includes a proposed deficiency appropriation for the Maryland Department of the Environment (MDE). The closing fund balance for fiscal 2015 does not match Appendix T of the Governor's Budget Books to account for the actual appropriation levels or levels of new spending for certain State agencies from Regional Greenhouse Gas Initiative (RGGI) revenue. Does not include Renewable Portfolio Standard balance and Offshore Wind balance, which are only available for specific purposes. Excludes from expenditure, RGGI dues which are paid out of MDE's appropriation, but are excluded from the revenue allocation.

Source: Maryland Energy Administration; Governor's Budget Books; Department of Legislative Services

Local Effect: To the extent that the transferred funds might have been used for grants to local governments, a lower fund balance might impact future grant funding.

Proposed Amendment to HB 72/SB 57 as Introduced

Distribution and Transfer of VLT Revenue

Provision in BRFA as Introduced: Authorizes the transfer of \$4,073,964 in fiscal 2015 and \$3,887,697 in fiscal 2016 from the video lottery terminal (VLT) local impact grants to the Education Trust Fund (ETF).

Provision as Recommended by DLS: Extend the transfer of VLT revenue that is contained in the original provision to other uses of the VLT proceeds, specifically the Racetrack Facility Renewal Account; horse racing purse enhancements; and the Small, Minority, and Women-Owned Business Account. Additionally, the Department of Legislative Services (DLS) recommends altering the distribution of VLT revenues in order to make these reductions ongoing.

Agency: Department of Labor, Licensing, and Regulation; Department of Business and Economic Development; and the State Lottery and Gaming Control Agency

Type of Action: Cost Containment; Fund Swap; and Fund Balance Transfer

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$10.6	-\$15.0	-\$15.8	-\$16.0	-\$16.3
SF Rev.	-10.6	-15.0	-15.8	-16.0	-16.3
SF Exp.	10.6	15.0	15.8	16.0	16.3

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$6.7	-\$15.0	-\$15.8	-\$16.0	-\$16.3
SF Rev.	-6.7	-15.0	-15.8	-16.0	-16.3
SF Exp.	6.7	15.0	15.8	16.0	16.3

Background/Recent History: Chapter 4 of the 2007 special session and Chapter 1 of the 2012 special session established the distribution of VLT proceeds. In fiscal 2016 and thereafter, the distribution is as follows:

- Local impact aid – 5.5%;
- Purse Dedication Account – 7.0% (6.0% in 2017 and thereafter);

- Racetrack Facility Renewal Account – 1.0%;
- Small, Minority, and Women-Owned Business Account – 1.5%; and
- State Lottery and Gaming Control Agency – 1.0%.

State Effect: This action would permanently alter the distribution of VLT proceeds to the benefit of the ETF; effectively adding 1.5% of total VLT revenues to the ETF. The provision would alter the distribution as follows:

- Local impact aid – 4.95%;
- Purse Dedication Account – 6.3% (5.4% in 2017 and thereafter);
- Racetrack Facility Renewal Account – 0.9%;
- Small, Minority, and Women-Owned Business Account – 1.35%; and
- State Lottery and Gaming Control Agency – 1.0%.

Special fund expenditures for local impact aid, horse racing purse enhancements, and business assistance for Small, Minority, and Women-Owned Businesses would decline by \$10.6 million in fiscal 2016. Conversely, special funds under the ETF would increase by an equal amount, enabling a commensurate decrease in general fund expenditures for education. Out-years reflect the projected growth in total VLT revenue. The allocation related to the revenues from the Allegany County facility would also be reduced by 10%.

Local Effect: Local impact grants generally go to communities surrounding a video lottery facility to be used for infrastructure improvements, facilities, public safety, sanitation, economic and community development, and other public service improvements. Local impact grants are primarily distributed as follows:

- 82% of the allocation for local impact grants goes to local jurisdictions with VLT facilities, based on each jurisdiction's percentage of overall gross revenues from VLTs; and
- 18% of which would go, for 20 years (starting in fiscal 2012 and ending in fiscal 2032), to Baltimore City through the Pimlico Community Development Authority, to Prince George's County for the community surrounding Rosecroft (\$1 million annually), and to communities within three miles of the Laurel Race Course (\$500,000 annually for fiscal 2015 through 2019). However, the 18% dedication does not apply to Allegany, Cecil, and Worcester counties facilities since the Baltimore City license has been issued.

This action would make the fiscal 2016 reduction to local impact aid permanent. This would lower the total local impact aid in the out-years by 10% as shown below.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Local Impact Aid Reduction	-\$3.9*	-\$5.9	-\$6.2	-\$6.3	-\$6.4

* Reflects the BRFA of 2015 as introduced.

Proposed Amendment to HB 72/SB 57 as Introduced

Mandated Appropriation Growth Limits

Provision in BRFA as Introduced: Limit growth in mandated appropriations to no more than 1 percentage point less than growth in general fund revenues, with specified exemptions.

Provision as Recommended by DLS: Strike the provision and make changes to the four statutes that generate the majority of general fund savings under the provision as introduced.

Agencies: Department of Health and Mental Hygiene, Maryland Higher Education Commission, and Baltimore City Community College

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	-\$26.9	-\$32.5	-\$57.8	-\$76.9
FF Exp.	-0.0	-10.0	-14.7	-23.1	-24.9

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$4.6	\$11.5	\$22.5	\$30.6
SF Exp.	0.0	111.1	67.9	142.3	154.5

Background: The provision, as introduced, proposes to limit all mandated spending growth to no more than 1 percentage point less than projected growth in general fund revenues with the exception of certain education and retirement appropriations. The Department of Legislative Services (DLS) estimates that the majority of savings occurs within the formulas for transportation debt service (special funds), the transfer tax (special funds), developmental disabilities provider rates (general and federal funds), independent institutions of higher education (general funds), local community colleges (general funds), and Baltimore City Community College (general funds). To realize significant general fund savings and address policy concerns regarding the provision, DLS recommends striking this language and modifying the four formulas with the most general fund savings.

DLS is concerned with the transparency of an uncoded section of the Budget Reconciliation and Financing Act (BRFA) affecting appropriations across the budget. Future Governors, legislators, and citizens who wish to understand how much is required to be budgeted in the allowance will be unable to ascertain this information by consulting the relevant statutes.

All parties would need to be directed to this uncodified provision of the BRFA of 2015 to understand its impact on mandated spending.

In addition, to calculate the total savings under the provision, DLS was required to judge whether each statute that requires an appropriation would be subject to the growth limit. DLS based its review on a 1980 Attorney General's opinion that mandated spending is that which clearly prescribes a dollar amount or contains an objective basis, from which a level of funding can easily be computed. Using that guidance, it was decided that spending on entitlements and other statutes where the actual amount required is unknown before the beginning of the fiscal year (like the operating deficits of the convention centers in Baltimore and Ocean City) should be excluded. For other statutes, it was not as clear.

Property Tax Credits, for example, are provided to property owners, which represents a loss of revenue to local governments. The State reimburses the local governments for the value of credits claimed in each jurisdiction, but since the property owner's benefit is not paid directly by the State, it is unknown whether the Governor will count this as an entitlement like Medicaid or a mandate under this provision.

In addition, the provision, as introduced, would eliminate funding for a market analysis required by statute for the Department of Business and Economic Development. It requires \$125,000 every other year after fiscal 2010, but a funding increase from \$0 cannot be calculated.

Several mandates that could be limited by this provision require the appropriation of special funds, including the transfer tax program in the Maryland Department of Agriculture and the Department of Natural Resources, which contributes the largest amount of savings under the BRFA as introduced, 54%. Because the State is faced with a general fund structural deficit, there does not appear to be any benefit to be gained by limiting the handful of special fund mandates that exist. Any such appropriation limited by Section 13 can be circumvented through the budget amendment process during the fiscal year.

Finally, appropriations to pay the principal and interest on Consolidated Transportation Bonds is required by statute, and the amount can be calculated in advance. Thus, it is the estimate of DLS that transportation debt service is subject to the provisions of Section 13 of the BRFA. Failure to pay full debt service could negatively impact the State's credit rating.

With the exception of transportation debt service and the transfer tax, the savings under the proposed limits in the appropriations described above represent less than 7% of total savings. As such, DLS recommends modifying the statutory formulas for developmental disabilities provider rates, independent higher education institutions, local community colleges, and Baltimore City Community College rather than adopt the proposed provision. Under the DLS recommendation, the majority of general fund saving would still be realized while addressing the concerns of the department.

State Effect: Under the DLS recommendation, general and federal fund appropriations decline by a combined \$266.9 million compared to current law between fiscal 2017 and 2020. Because DLS' recommendation is focused on the statutes that generate the greatest amount of savings in general funds, general fund spending is somewhat higher than under the BRFA as introduced. Excluding the transfer tax and transportation debt service from the recommendation results in significantly higher special fund appropriations under the DLS recommendation compared to the BRFA as introduced.

Exhibit 1 shows, from fiscal 2016 to 2020, the four formulas DLS recommends modifying, with the current statutory appropriation, the appropriations under the proposed growth limits, and DLS's recommended appropriation level. The figures assume contingent reductions proposed by the Governor are approved. An individual write-up with additional information for each mandate is included in this document.

Exhibit 1
Effect of DLS Formula Recommendations on Governor's Growth Limit
Proposal
Fiscal 2016-2020
(\$ in Millions)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Growth Limits Proposed by Governor		3.0%	2.7%	2.1%	2.8%
Developmental Disabilities					
Appropriations Under Current Law					
General Fund (GF) Appropriation	\$569.8	\$618.2	\$670.7	\$727.8	\$784.5
Federal Fund (FF) Appropriation	447.7	485.7	527.0	571.8	616.4
% Growth		9%	9%	9%	8%
Appropriations Under Growth Limits Proposed by Governor					
GF Appropriation	560.6	605.4	652.0	698.3	752.8
FF Appropriation	440.4	475.7	512.3	548.7	591.5
% Growth		8%	8%	7%	8%
Appropriations Under DLS Formula Recommendation					
GF Appropriation	560.6	605.4	652.0	698.3	752.8
FF Appropriation	440.4	475.7	512.3	548.7	591.5
% Growth		8%	8%	7%	8%
Difference Between DLS and Governor					
GF Difference	0.0	0.0	0.0	0.0	0.0
FF Difference	0.0	0.0	0.0	0.0	0.0

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cade Formula for Local Community Colleges					
Appropriations Under Current Law					
GF Appropriation	\$231.8	\$231.9	\$241.2	\$266.6	\$292.5
% Growth		0.0%	4.0%	10.5%	9.7%
Appropriations Under Growth Limits Proposed by Governor					
GF Appropriation ¹	218.7	223.1	229.1	233.9	240.5
% Growth		2.0%	2.7%	2.1%	2.8%
Appropriations Under DLS Formula Recommendation					
GF Appropriation	218.7	223.1	235.0	248.5	260.7
% Growth		2.0%	5.4%	5.7%	4.9%
Difference Between DLS and Governor					
GF Difference	0.0	0.0	5.9	14.5	20.2
Sellinger Formula for Independent Institutions					
Appropriations Under Current Law					
GF Appropriation	\$47.9	\$48.8	\$53.3	\$57.2	\$61.3
% Growth		2.0%	9.1%	7.3%	7.2%
Appropriations Under Growth Limits Proposed by Governor					
GF Appropriation	41.4	42.7	43.8	44.7	46.0
% Growth		3.0%	2.7%	2.1%	2.8%
Appropriations Under DLS Formula Recommendation					
GF Appropriation	41.4	43.5	45.7	47.6	49.7
% Growth		5.1%	4.9%	4.3%	4.3%
Difference Between DLS and Governor					
GF Difference	0.0	0.9	1.8	2.9	3.7
Baltimore City Community College					
Appropriations Under Current Law	\$40.8	\$40.8	\$40.8	\$42.6	\$45.7
GF Appropriation		0.0%	0.0%	4.3%	7.3%
% Growth					
Appropriations Under Growth Limits Proposed by Governor					
GF Appropriation ²	40.8	40.8	40.8	41.7	42.9
% Growth		0.0%	0.0%	2.1%	2.8%

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Appropriations Under DLS Formula Recommendation					
GF Appropriation	40.8	40.8	40.8	41.9	43.9
% Growth		0.0%	0.0%	2.5%	4.7%
Difference Between DLS and Governor					
GF Difference	0.0	0.0	0.0	0.2	1.0

DLS: Department of Legislative Services

¹ Growth under the current statutory formula percentage for fiscal 2017 is lower than the limit proposed by the Governor, resulting in a 2% increase over fiscal 2016, rather than the growth limit rate of 3%.

² The appropriation in fiscal 2017 and 2018 includes hold harmless funding, resulting in 0% increase in both of those years.

Source: Budget Reconciliation and Financing Act of 2015; Department of Legislative Services

Local Effect: None.

Baltimore City Community College Funding Formula

Provision in BRFA as Introduced: A new mandate relief provision allows growth in the Baltimore City Community College (BCCC) funding formula to be no more than 1 percentage point less than the growth in revenue in the general fund.

Provision as Recommended by DLS: Changes the statutory percentages used in the BCCC formula for local community colleges in fiscal 2017 through 2020. The funding formula's statutory percentages are frozen in fiscal 2017 through 2020 to moderate State support to the community college. The formula then grows 1 percentage point in each fiscal year beyond fiscal 2020 and reaches its full funding level in fiscal 2029.

Agency: Maryland Higher Education Commission

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$0.0	\$0.0	-\$0.7	-\$1.8

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$0.0	\$0.0	\$0.2	\$1.0

Background/Recent History: Chapter 333 of 2006 began a phased enhancement of the BCCC formula.

State Effect: Under the revised funding percentages, mandated general fund expenditures for the BCCC formula decrease by a total of \$2.5 million from fiscal 2017 through 2020 versus current law. Future year general fund expenditures may also be affected based on community college enrollments beyond fiscal 2020. The percentage changes are shown in **Exhibit 1**.

Local Effect: None.

Exhibit 1
Statutory Percentages of Current Law vs. BRFA Amendment
Fiscal 2017-2020

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current Law	58.0%	60.0%	61.0%	62.5%
Amendment	60.0%	60.0%	60.0%	60.0%

BRFA: Budget Reconciliation and Financing Act of 2015

Source: Department of Budget and Management; Department of Legislative Services

Developmental Disabilities Administration Provider Rates

Provision in BRFA as Introduced: Proposes to limit the increases of certain mandated appropriations to no more than 1 percentage point less than estimated growth in general fund revenues. For example, if general fund revenues are estimated to grow 3.7% in fiscal 2018, mandated appropriations may not increase more than 2.7%. Specified K-12 education and retirement spending is exempted. The provision would, however, affect the growth of Developmental Disabilities Administration (DDA) community service provider rates.

Provision as Recommended by DLS: Reduce rate increases for the DDA community service providers from 3.5% in fiscal 2017 through 2019 to 3.0% in fiscal 2017, 2.7% in fiscal 2018, and 2.1% in fiscal 2019.

Agency: Department of Health and Mental Hygiene

Type of Action: Mandate Relief.

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$9.2	-\$12.8	-\$18.7	-\$29.4	-\$31.7
FF Exp.	-7.2	-10.0	-14.7	-23.1	-24.9

Background/Recent History: Chapter 262 of 2014 mandated 3.5% annual provider rate increases for DDA community providers in fiscal 2016 through 2019. DDA community providers received a 4.0% rate increase for fiscal 2015 that was halved to 2.0% in a January 2015 Board of Public Works action. Previous provider rate increases equaled 2.46% in fiscal 2014, 2.0% in fiscal 2013, and 1.38% in fiscal 2012.

State Effect: Mandated expenditures are not affected in fiscal 2016 but decrease by \$2.8 million in general funds and \$2.2 million in general funds in fiscal 2017. Mandated expenditures continue to decrease in fiscal 2018 and 2019 to reflect lower percentage rate increases and beyond fiscal 2019 to reflect that future rate increases are applied to a lower base. Decreases in special fund expenditures round to zero.

Amounts assume annualization and expansion of services as well as a 2.8% rate increase in fiscal 2020 (which represents the maximum allowable percentage rate increase for that year under the Budget Reconciliation and Financing Act as introduced). Furthermore, the fiscal impact above includes the impact of the contingent reduction to provider rates in the fiscal 2016 budget as introduced.

Joseph A. Sellinger Funding Formula for Independent Institutions

Provision in BRFA as Introduced: A new mandate relief provision allows growth in the Sellinger funding formula to be no more than 1 percentage point less than the growth in revenue in the general fund.

Provision as Recommended by DLS: Changes the statutory percentages used in the Joseph A. Sellinger formula for independent institutions in fiscal 2017 through 2020. The funding formula's statutory percentages are frozen in fiscal 2017 through 2020 to moderate State support to qualifying independent institutions. The formula then grows 1 percentage point in each fiscal year beyond fiscal 2020 fiscal 2021 and reaches its full funding level in fiscal 2027.

Agency: Maryland Higher Education Commission

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	-\$5.3	-\$7.6	-\$9.5	-\$11.6

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$0.9	\$1.8	\$2.9	\$3.7

Background/Recent History: Chapter 333 of 2006 began a phased enhancement of the Sellinger formula that has been adjusted frequently by budget reconciliation legislation. The most recent alteration was enacted in the Budget Reconciliation and Financing Act of 2014 (Chapter 464), which increased funding percentages in statute from fiscal 2016 through 2019.

State Effect: Under the revised funding percentages, mandated general fund expenditures for the Sellinger formula decrease by a total of \$34.0 million from fiscal 2017 through 2020 versus current law. Future year general fund expenditures may also be affected based on college enrollments beyond fiscal 2020. The percentage changes are shown in **Exhibit 1**.

Local Effect: None.

Exhibit 1
Statutory Percentages of Current Law vs. BRFA Amendment
Fiscal 2017-2020

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current Law	10.1%	10.5%	10.8%	11.1%
Amendment	9.0%	9.0%	9.0%	9.0%

BRFA: Budget Reconciliation and Financing Act of 2015

Source: Department of Budget and Management; Department of Legislative Services

Senator John A. Cade Funding Formula for Local Community College Aid

Provision in BRFA as Introduced: A new mandate relief provision allows growth in the Cade funding formula to be no more than 1 percentage point less than the growth in revenue in the general fund.

Provision as Recommended by DLS: Changes the statutory percentages used in the Senator John A. Cade formula for local community colleges in fiscal 2017 through 2020. The funding formula's statutory percentages are frozen in fiscal 2017 through 2020 to moderate State support to the community college. The formula then grows 1 percentage points in each fiscal year beyond fiscal 2020 and reaches its full funding level in fiscal 2029.

Agency: Maryland Higher Education Commission

Type of Action: Mandate Relief

Fiscal Impact of DLS Recommendation vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	-\$0.0	-\$5.7	-\$18.2	-\$31.8

Fiscal Impact of DLS Recommendation vs. BRFA as Introduced:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	\$0.0	\$0.0	\$5.9	\$14.5	\$20.2

Background/Recent History: Chapter 333 of 2006 began a phased enhancement of the Cade formula that has been adjusted frequently by budget reconciliation legislation. The most recent alteration was enacted in the Budget Reconciliation and Financing Act of 2014 (Chapter 464), which increased funding percentages in statute from fiscal 2016 through 2019.

State Effect: Under the revised funding percentages, mandated general fund expenditures for the Cade formula decrease by a total of \$55.7 million from fiscal 2017 through 2020 versus current law. Future year general fund expenditures may also be affected based on community college enrollments beyond fiscal 2020. The percentage changes are shown in **Exhibit 1**.

Local Effect: Direct State aid for community colleges decreases by a total of \$105.7 from fiscal 2017 through 2020. The Cade formula will phase up to full funding by fiscal 2029.

Exhibit 1
Statutory Percentages of Current Law vs. BRFA Amendment
Fiscal 2017-2020

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Current Law	20.5%	21.0%	22.0%	23.0%
Amendment	20.5%	20.5%	20.5%	20.5%

BRFA: Budget Reconciliation and Financing Act of 2015

Source: Department of Budget and Management; Department of Legislative Services

Proposed Amendment to HB 72/SB 57

Convention Center Operating Deficit Subsidy Cap

Provision as Recommended by DLS: Cap the State's share of the fiscal 2016 convention centers' operating deficits at the fiscal 2016 cost containment level.

Agency: Maryland Stadium Authority (MSA)

Type of Action: Cost Containment

Fiscal Impact vs. Current Law: This action would ensure that the 2% cost containment savings (\$252,000) for fiscal 2016 is implemented and does not result as a deficiency appropriation in the fiscal 2017 budget bill.

Background/Recent History: The general funds in the budget of the Maryland Stadium Authority is limited to debt service for statutorily authorized projects (Ocean City Convention Center (OCCC), Hippodrome Performing Arts Center, and Montgomery County Conference Center) and to the State's share of the operating deficits of the convention centers. Section 10-640 of the Economic Development Article requires MSA to contribute two-thirds of the annual operating deficit of the Baltimore City Convention Center (BCCC) through December 31, 2019. MSA is also required under Section 10-643 of the Economic Development Article to contribute one-half of the annual operating deficits of OCCC. The operating deficit has historically been underfunded in MSA's budgets. In fact, there has been a deficiency for the BCCC subsidy in 9 of the last 11 years. The Department of Legislative Services has consistently encouraged the Department of Budget and Management and MSA to adjust the annual appropriation to better reflect the actual cost of the operating subsidy for the convention center. The fiscal 2016 allowance does attempt to make that adjustment. However, due to the limited use of general funds in the MSA budget, this is one of the primary options for MSA to implement the fiscal 2016 cost containment actions. To the extent that the operating subsidies are used for cost containment, deficiencies in the following year are again likely.

Proposed Amendment to HB 72/SB 57

Funding for the Baltimore City School Revitalization Program

Provision as Recommended by DLS: Reduce the fiscal 2016 contribution to the Baltimore City School Revitalization Program from the State lottery proceeds and from Baltimore City.

Agency: Maryland Stadium Authority

Type of Action: Revenue Enhancement

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Rev.	\$10.0	\$0.0	\$0.0	\$0.0	\$0.0

Background/Recent History: Chapter 647 of 2013 (HB 860 – Baltimore City School Construction and Revitalization Act) established a new partnership among the State, Baltimore City, and Baltimore City Public Schools (BCPS) to fund up to \$1.1 billion in public school facility improvements through revenue bonds issued by MSA. The law requires the four parties – MSA, the Interagency Committee on School Construction, Baltimore City, and BCPS – to enter into a memorandum of understanding to set out the roles and responsibilities of each party to implement the construction plan. The original project to complete between 30-35 schools has been revised downward to between 23-28 schools.

The revenue sources for the project and for the debt service on the revenue bonds include:

- all revenues generated by the Baltimore City beverage container tax;
- all of the city's proceeds from table games at the video lottery facility located in Baltimore City that are dedicated to school construction and 10% of the participation rent paid by the video lottery facility operator to Baltimore City;
- \$10 million in State education aid due to the Baltimore City Board of School Commissioners (BCBSC) from recurring retiree health care costs shifted from Baltimore City to BCBSC;
- \$20 million in annual proceeds from the State lottery;
- \$10 million diverted from State education aid to BCBSC in fiscal 2016 and \$20 million in each fiscal year thereafter;

Any funds not needed for debt service and related costs will primarily be used to pay design and construction costs relating to BCPS facilities; any start-up costs, administration, overhead, and operations related to management of improvements to BCPS facilities; and all reasonable charges and expenses related to MSA's oversight and project management responsibilities.

State Effect: The fiscal 2016 allowance marks the first year in which all three partners are participating financially: Baltimore City – \$18 million; BCPS – \$10 million; and the State of Maryland (through lottery proceeds) – \$20 million. The city school board will increase its contribution to \$20 million beginning in fiscal 2017.

Expenditures related to construction begin in fiscal 2016. MSA expects to spend \$50.0 million of the \$250.0 million bond proceeds on construction-related costs. The first two schools are scheduled to be completed by summer 2017. Based on the timing of the first bond issuance, only a partial debt service payment of \$8.5 million is expected in fiscal 2016. As shown in the exhibit, MSA is expected to finish fiscal 2016 with a fund balance of over \$252.0 million, thereby reducing the need for revenues.

This action would result in each participant in the financing of the program contributing \$10 million in fiscal 2016 only. Full contributions would resume in fiscal 2017 as long as there is debt outstanding. This action will result in an increase of \$10 million in general fund revenues in fiscal 2016.

Local Effect: This action would result in savings to Baltimore City of \$8 million including all the revenues generated by the Baltimore City beverage container tax and all of the city's proceeds from table games at the video lottery facility located in Baltimore City that are dedicated to school construction and 10% of the participation rent paid by the video lottery facility operator to Baltimore City.

Proposed Amendment to HB 72/SB 57

Delay E-Nnovation Funding

Provision as Recommended by DLS: Transfer the special funds dedicated to the Maryland E-Nnovation Initiative Program to the general fund in fiscal 2016 only.

Agency: Department of Business and Economic Development

Type of Action: Fund Balance Transfer

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Rev.	\$8.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Exp.	-8.0	0.0	0.0	0.0	0.0

Background/Recent History: Chapters 532 and 533 of 2014 established the E-Nnovation Initiative Program under the department to provide funds to nonprofit institutions of higher education to create research endowments. Funding is provided to the program through a portion of the admissions and amusement tax on electronic bingo and electronic tip jars and through general funds. Fiscal 2016 marks the first year of funding for the program. The allowance includes a total of \$8.5 million for the program – \$8.0 million in special funds and \$500,000 in general funds. The department began its initial work on the new program in summer 2014 by convening regular meetings of the newly appointed authority. The E-Nnovation authority solicited input from the stakeholders of the program at nine meetings between August 2014 and February 2015. Additionally, the department has drafted initial regulations to govern the program. According to the department's timeline, it will complete disbursement of endowment funds in the last month of fiscal 2016.

State Effect: General fund revenue would increase by \$8 million in fiscal 2016. This action would delay the first year of E-Nnovation funding until fiscal 2017. However, based on the implementation schedule, it would only delay the distribution of the first round of endowment funds from the program for a few months.

Proposed Amendment to HB 72/SB 57

State Retirement and Pension System Funding

Provision as Recommended by DLS: Repeal the corridor funding method and the supplemental contribution for the State Retirement and Pension System (SRPS).

Agency: Statewide

Type of Action: Mandate Relief

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$59.9	-\$150.7	-\$196.1	-\$240.6	-\$216.9
SF Exp.	-5.7	-14.4	-18.7	-22.9	-20.7
FF Exp.	-5.7	-14.4	-18.7	-22.9	-20.7

Background/Recent History: The corridor funding method for SRPS was enacted during the 2002 legislative session. It specifies that employer contribution rates for the Teachers' Combined Systems (TCS) and the Employees' Combined Systems (ECS) are frozen at fiscal 2002 levels as long as each system's funding level is between 90% and 110%. When a system's funding level falls out of that "corridor," the contribution rate increases by 20% of the difference between the previous year's rate and the "full actuarial rate" necessary to fully fund future payments. The ECS fell out of the corridor in fiscal 2005, and the TCS followed in fiscal 2006. Chapters 475 and 476 of 2013 phased out the corridor funding method over 10 years; by fiscal 2025, both systems will be restored to full actuarial funding.

Pension reform provisions of Chapter 397 of 2011 established a goal that SRPS would achieve an actuarial funding level of 80% within 10 years, in part by reinvesting savings generated by the pension reforms into the pension trust fund in the form of a "supplemental contribution." The original intent of the supplemental contribution was to narrow the gap between the amount contributed under the corridor method and the much higher amount that would have been contributed under full actuarial funding. In fiscal 2012 and 2013, the supplemental contribution equaled all but \$120 million of the savings generated, or roughly \$190 million each year. The supplemental contribution was supposed to increase permanently to \$300 million beginning in fiscal 2014, but Chapter 464 of 2014 altered the amounts. For each of fiscal 2014 and 2015, the supplemental contribution was set at \$100 million. Beginning in fiscal 2016, Chapter 464 increased the supplemental contribution by \$50 million each year until it reaches the original amount of \$300 million in fiscal 2019. It will then remain at that level until the corridor funding method is fully phased out and the pension fund reaches an actuarial funding level of 85%.

A combination of factors, including higher than assumed investment returns, the effects of the 2011 pension reforms, and the corridor phase-out have substantially narrowed the gap between the amount that the State contributes under the corridor method and the amount that it would contribute under full actuarial funding. In fact, the \$150 million supplemental contribution in fiscal 2016 exceeds the gap by about \$70 million. As a result, it is no longer necessary to narrow that gap because that goal has already been achieved.

State Effect: General fund expenditures decrease by \$59.9 million in fiscal 2016 because the amount of the supplemental contribution exceeds the corridor funding gap by \$71.3 million, of which 84% is estimated to be general funds. Special and federal funds each decrease by an estimated \$5.7 million. Out-year savings reflect the automatic increases to the supplemental contribution as well as the continued narrowing of the corridor actuarial funding gap.

Proposed Amendment to HB 72/SB 57

Table Games – Operator Share

Provision as Recommended by DLS: Alter the distribution of table game proceeds such that 75%, instead of 80%, of table game revenues are distributed to video operation licensees and 25%, instead of 20%, of table game revenues are distributed to the Education Trust Fund (ETF). Upon issuance of a Prince George’s County license, licensees continue to receive 75% of table game revenues, 20% is distributed to the ETF, and 5% is distributed to local jurisdictions where a video lottery terminal (VLT) facility is located.

Agency: State Lottery and Gaming Control Agency

Type of Action: Revenue Enhancement

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Rev.	\$19.5	\$26.1	\$27.2	\$27.5	\$28.0

Background/Recent History: Chapter 1 of the second special session of 2012 authorized the use of table games at the State’s gaming facilities. Under current law, prior to the issuance of a Prince George’s County video lottery operation license, 80% of table game revenues are distributed to licensees, and 20% of table game revenues are distributed to the ETF. Upon issuance of a Prince George’s County license, licensees continue to receive 80% of table game revenues, 15% is distributed to the ETF, and 5% is distributed to local jurisdictions where a VLT facility is located. Proceeds distributed to Baltimore City must be used equally to fund school construction projects and to fund the maintenance, operation, and construction of recreational facilities.

The State Lottery and Gaming Control Commission (SLGCC) granted approval in December 2014 for Hollywood Casino at Perryville to remove up to 308 VLTs on its floor. In January 2014, SLGCC granted approval for Horseshoe Casino and Maryland Live! Casino to add 30 and 13 table games, respectively, and for each to remove 300 VLTs from their floors.

State Effect: This action would increase special fund revenue to the ETF by an estimated \$19.5 million in fiscal 2016. Out-year estimates reflect the increase in total table game revenues that result from the opening of the Prince George’s County facility.

Local Effect: None. This action would not affect the existing local impact share of table game revenues.

Proposed Amendment to HB 72/SB 57

Quality Teacher Incentives

Provision as Recommended by DLS: Freeze eligibility in fiscal 2015 and 2016 for educators who receive stipends through the Quality Teacher Incentive program as a result of holding an Advanced Professional Certificate (APC) and teaching in a school identified as having comprehensive needs. Eligibility should be defined as only those educators who received APC stipends in fiscal 2014 and continue to teach in a comprehensive needs school. In addition, the portion of the existing Quality Teacher Incentive program that awards APC stipends should sunset at the conclusion of fiscal 2016 while the Maryland State Department of Education (MSDE) reviews and proposes alternative fiscal incentive programs for educators.

Agency: Maryland State Department of Education

Type of Action: Cost Control

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$10.6	-\$13.4	-	-	-	-

Background/Recent History: Stipends and bonuses for eligible classroom teachers were established in 1999 to attract and retain quality teachers in Maryland public schools. Stipends are provided to teachers achieving National Board Certification (NBC) and teachers holding an APC that teach in comprehensive needs schools. Chapter 487 of 2009 scaled the program back by limiting the number of qualifying teachers, reducing stipends, and eliminating signing bonuses for teachers who graduated with college grade point averages of 3.5 or better. Under the current program, teachers and other nonadministrative school-based employees in schools identified as having comprehensive needs and who hold an NBC, receive a stipend from the State equal to the county grant up to \$2,000, while those in noncomprehensive needs schools receive stipends equal to the county grant up to \$1,000. In addition, teachers in comprehensive needs schools holding an APC are entitled to \$1,500 stipends. APC payments are based on school performance status from the prior year, which is based on assessment data from the second prior year. Classroom teachers who receive the stipend must have taught for the entire school year.

The number of teachers receiving funds through the APC program has risen dramatically in recent years, as the number of schools identified as having comprehensive needs under No Child Left Behind increased. Most recently, funding for the stipends increases by \$10.6 million in fiscal 2015 and 2016 because the number of comprehensive needs schools increases from 165 for the fiscal 2014 eligibility to 497 for fiscal 2015 eligibility. With the transition to a new State curriculum, there has been a misalignment in recent years between what is taught in the classroom and what is tested as part of the State assessments. The assessment data is what drives the school

performance rating. This has resulted in an artificial increase in the number of stipend-eligible schools and teachers.

In addition, the current administration of the program appears to be creating a disincentive for achieving improvement in school performance status. As it currently stands, teachers receive stipends for teaching while a school is identified as in need of improvement, not if a school actually improves. If the school improves to the point of losing its comprehensive needs status, the educator loses the stipend. Finally, initial data from the new teacher and principal evaluations indicate that the lowest performing schools continue to have the highest concentrations of ineffective teachers, despite the incentive program being in place for more than a decade.

State Effect: Under current law, the number of APC stipend-eligible teachers is expected to increase from 4,737 in fiscal 2014 to 13,566 in fiscal 2015, as a result of the number of comprehensive needs schools increasing from 165 to 497. The proposed Budget Reconciliation and Financing Act (BRFA) provision would eliminate the need for the \$10.6 million general fund deficiency appropriation in fiscal 2015 and would allow for the fiscal 2016 appropriation to be reduced to the fiscal 2014 funding level, for a savings of \$13.4 million. Potential savings beyond fiscal 2016 are indeterminable, as the proposed BRFA provision recommends the existing APC stipend program sunset at the conclusion of fiscal 2016 and that MSDE report to the General Assembly with a proposed restructuring of programs that provide fiscal incentives to teachers.

Proposed Amendment to HB 72/SB 57 as Introduced

Transfer Insurance Premium Tax Authority to the Comptroller

Provision as Recommended by DLS: Transfer authority from the Maryland Insurance Administration (MIA) to the Comptroller to impose and collect the insurance premium tax.

Agency: Maryland Insurance Administration, Comptroller

Type of Action: Transfer Authority

Background/Recent History: The Office of Legislative Audits made a number of findings regarding MIA's premium tax system. As a result of the actions noted in the findings, MIA deactivated its entire electronic system and is processing all premium tax functions manually. MIA has been working with the National Association of Insurance Commissioners (NAIC) to determine the feasibility of implementing the premium tax system used by 21 other states. There would be no cost to the agency for the system, but insurance companies would face a \$10 filing charge.

State Effect: MIA is wholly specially funded and imposes and implements the premium tax on insurers who do business in the State. In fiscal 2014, premium tax revenue totaled \$458 million with \$335 million to the general fund and \$123 million to the Insurance Rate Stabilization Fund. MIA's fiscal 2016 allowance includes \$163,638 for two premium tax auditor PINs dedicated primarily to auditing premium tax returns. One auditor spends 20% of his/her time auditing other unrelated applications. Those duties would be shifted to another position within MIA. One financial specialist position took on additional premium tax duties in October 2014 and that position would revert back to its original duties.

The Comptroller collects most of the taxes implemented in the State. The Comptroller's fiscal 2016 allowance includes \$1.1 million in special funds for a new information technology (IT) system. The Department of Information Technology's budget includes an additional \$1.5 million in general funds for the project. If those funds are approved, the Comptroller would incorporate a premium tax element to the system. If those funds are not approved, the Comptroller would have to create a new IT system and process for premium tax collection.

Local Effect: None.

Proposed Amendment to HB 72/SB 57

Maryland Health Insurance Plan Assessment

Provision as Recommended by DLS: Delete the assessment on hospital rates dedicated to the Maryland Health Insurance Plan (MHIP) and other authorized activities effective July 1, 2015. Current law establishes a ceiling on the assessment of 0.3% of net patient revenue.

Agencies: Maryland Health Insurance Plan; Maryland Health Benefit Exchange (MHBE); and Department of Health and Mental Hygiene

Type of Action: Cost Containment

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
SF Rev.	-\$39.4	-\$40.2	-\$41.0	-\$41.8	-\$42.7
FF Rev.	-4.7	-4.8	-4.7	-4.8	-4.8
GF Exp.	-3.2	-3.3	-3.5	-3.6	-3.7
FF Exp.	-4.7	-4.8	-4.7	-4.8	-4.8

Background: Chapter 464 of 2014 (Budget Reconciliation and Financing Act (BRFA) of 2014) reduced the assessment on hospital rates dedicated to the MHIP and other authorized activities to a maximum of 0.3% of hospital net patient revenue, effective October 1, 2014. Prior to Chapter 464, the assessment was established at a minimum of 0.8128%. The actual rate was 1.0%.

Chapter 159 of 2013 required that enrollment in the MHIP, including reenrollment of former enrollees, be closed as of December 31, 2013, as MHIP members will have guaranteed access to insurance through the individual market or the MHBE. Chapter 159 also established a State Reinsurance Program to mitigate the impact of high-risk individuals on rates in the individual market inside and outside the MHBE. Funding for the program is authorized to come from the MHIP assessment. To the extent that this provision reduces revenue to the MHIP Fund, it also reduces funding available for a reinsurance program.

Based on the most recent estimates, the MHIP Fund is anticipated to have a year-end fund balance of \$178 million. After transfers proposed by the Administration and the Department of Legislative Services in the BRFA of 2015, the fund balance would be \$125 million. Although no formal reinsurance program has formally been adopted, it is estimated that a reinsurance program could cost between \$30 million and \$40 million annually.

State Effect: Special fund revenues to the MHIP Fund decline by an estimated \$39.4 million in fiscal 2015 from eliminating the MHIP assessment. Special fund revenue losses increase in future years based on the assumption of a moderate growth in hospital net patient revenues.

Medicaid expenditures decline by a total of \$7.9 million in fiscal 2015 (\$3.2 million in general funds and \$4.7 million in federal funds) due to the reduction in hospital rates associated with eliminating the MHIP assessment. This savings is based on the assumption that Medicaid expenditures account for 20% of total hospital revenues annually; that traditional Medicaid expenditures account for 80% of total Medicaid expenditures; and that the new Affordable Care Act (ACA) expansion population (currently 100% federally funded) account for 20% of total Medicaid expenditures. In the out-years, savings increase based on the assumption of higher hospital net patient revenues and the change in the Federal Medical Assistance Percentage for the ACA expansion population.

Proposed Amendment to HB 72/SB 57

Exelon Corporation and PHI Holdings, Inc. Merger Approval Conditions

Provision as Recommended by DLS: Require any funds provided to the State as a result of conditions of an approved merger between Exelon Corporation (Exelon) and Potomac Electric Power Company (Pepco) Holdings, Inc. (PHI) be appropriated through the State budget bill.

Agency: Public Service Commission (PSC)

Type of Action: Administrative

Fiscal Impact vs. Current Law: None, to the extent that these funds would otherwise be spent by State agencies.

Background/Recent History: On April 30, 2014, Exelon and PHI announced a merger agreement, under which Exelon would acquire PHI for approximately \$6.8 billion. PHI would become a wholly owned subsidiary of Exelon. Pepco would maintain headquarters in Washington, DC and Delmarva Power & Light (DPL) would maintain regional headquarters in Newark, Delaware. On August 19, 2014, Exelon, PHI, Pepco, and DPL filed a joint application with PSC requesting authorization for Exelon to acquire the power to exercise substantial influence over the policies and actions of Pepco and DPL, as required in Section 6-105 of the Public Utilities Article. Exelon has made a number of commitments in this review, including to establish \$100.0 million to the Customer Investment Fund (CIF), of which \$29.0 million would be available to Pepco's Maryland service territory and \$11.0 million would be available to DPL's Maryland service territory. PSC is expected to make its determination in the review in April 2015. Due to the ongoing review, the exact nature of funds available to the State as a result of an approved merger are unknown nor is it known if the merger will be approved.

Section 17 of Chapter 1 of the first special session of 2012 (the Budget Reconciliation and Financing Act (BRFA)), required that any money received by the State as a result of conditions of an approved merger between Exelon and Constellation Energy Group (CEG) be expended only as authorized through an act of the General Assembly or specifically authorized in the State budget bill as enacted and is not subject to transfer by budget amendment, although an exception was made for fiscal 2013. The Exelon and CEG merger included multiple conditions which led to funds being provided to the State. The largest impacts were a CIF (\$113.5 million), a portion of which was available to the Maryland Energy Administration (MEA), Department of Housing and Community Development, and non-State entities, and an offshore wind development fund (\$20.0 million) used primarily by MEA.

State Effect: The provision does not impact overall State agency spending that would occur as a result of the conditions placed on the merger approval, if approved, by PSC, but requires these funds be appropriated through the State budget (rather than, potentially, by budget amendment) to provide the General Assembly the opportunity to review and approve the use of funds as a part of the budget for State agencies.

Local Effect: Funds provided to non-State entities through the CIF from the Exelon and CEG merger were also appropriated through the State budget bill as a result of Chapter 1 of the first special session of 2012, to the extent the local governments might receive funds from a condition of an approved merger, this could require the funds to be appropriated through the State budget bill, but would not impact the availability of funds to these entities.

Proposed Amendment to HB 72/SB 57

Chesapeake and Atlantic Coastal Bays 2010 Trust Fund

Provision as Recommended by DLS: Authorize the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to be used permanently for salaries associated with statewide inspection, enforcement, compliance assistance, and permit issuance in the Maryland Department of the Environment's (MDE) Water Management Administration – Compliance subprogram, including, but not limited, to the following regulatory areas: industrial and municipal wastewater discharges, construction activities involving sediment control, stormwater management, wetlands, and waterways. This action would allow for a general fund reduction for salaries and wages in the Water Management Administration – Compliance subprogram. In addition, this would allow the administration to increase inspectors in order to meet the requirement to inspect every active construction site for compliance with erosion and sediment control plans an average of once every two weeks in accordance with State regulations and thus address a repeat audit finding in the January 2015 audit performed by the Office of Legislative Audits.

Agency: Maryland Department of the Environment

Type of Action: Expanded Use of a Special Fund

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$3.2	-\$3.3	-\$3.4	-\$3.6	-\$3.7

Background/Recent History: The Chesapeake Bay 2010 Trust Fund was established by Chapter 6 of the 2007 special session to provide financial assistance toward meeting, by 2010, the goals established in the Chesapeake 2000 Agreement. The fund is intended to supplement funding that otherwise would be appropriated for bay restoration and may only be used to implement the State tributary strategy developed in accordance with the Chesapeake 2000 Agreement. Financing for the trust fund comes from a portion of existing revenues from the motor fuel tax and the sales and use tax on short-term vehicle rentals. The trust fund was expanded and renamed by Chapters 120 and 121 of 2008, which, among other things, required that the trust fund be used for nonpoint source pollution control projects. The BayStat Subcabinet administers the trust fund.

Chapter 397 of 2011 (the Budget Reconciliation and Financing Act (BRFA)), redirects \$4.6 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to the general fund in fiscal 2016. The BRFA of 2015 includes a provision that would redirect an additional \$8.6 million to the general fund in fiscal 2016 for a proposed fiscal 2016 total redirection of \$13.2 million.

State Effect: General fund expenditures would decrease by \$3.2 million in fiscal 2016 with a 4% inflator per year through fiscal 2020 assuming that salaries and wages in MDE's Water Management Administration – Compliance subprogram are paid from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund. In addition, MDE would be authorized to use funding from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to pay for additional inspectors in order to comply with the requirement to inspect every active construction site for compliance with erosion and sediment control plans an average of once every two weeks in accordance with State regulations.

Local Effect: As the trust fund is used in part to fund local projects such as stormwater and watershed restoration projects, local government revenues from the trust fund may decrease by as much as \$3.2 million in fiscal 2016 and subsequent years. Although the amount provided to local governments varies each year depending on which projects are funded, from fiscal 2009 through 2015, local governments received approximately 19.6% of the total amount spent from the trust fund (not including local stormwater restoration funding that was funded through general obligation bonds). Accounting for the \$8.6 million contingent reduction already included in the fiscal 2016 budget as introduced by the Governor, the fiscal 2016 budget allocates \$9.86 million from the trust fund for local governments. In the absence of the provision proposed by the Department of Legislative Services, it is likely that nearly all of the funds authorized for the purposes and assumed to be used for general fund reductions, would have been provided to local governments and nonprofits.

Proposed Amendment to HB 72/SB 57

Withdraw Expected 2015 Reversions

Provision as Recommended by DLS: Reduce the fiscal 2015 general fund appropriation by \$4,800,000 and the special fund appropriation by \$259,000 for various programs based on the expected reversions assumed in the fiscal 2015 budget plan. Additionally, add a provision that transfers the special funds to the general fund in fiscal 2015.

Agency: Maryland Department of Planning; Maryland State Department of Education

Type of Action: Budget Reduction

Fiscal Impact vs. Current Law:

(\$ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
GF Exp.	-\$4.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
SF Exp.	-0.3	0.0	0.0	0.0	0.0	0.0

State Effect: This action will ensure these additional funds are included in the general fund balance in fiscal 2015. The allocation of the reductions is as follows:

- Maryland Department of Planning, Sustainable Communities – \$50,000 (special funds);
- Maryland Department of Planning, Heritage Areas – \$209,000 (special funds);
- Maryland State Department of Education, Montgomery County Library Retirement – \$500,000 (general funds);
- Maryland State Department of Education, Out-of-County Foster Placements – \$1,500,000 (general funds); and
- Maryland State Department of Education, Autism Waiver – \$2,800,000 (general funds).

Subcommittee Assignments: APP/B&T

DLS-11
DLS-12

Proposed Amendment to HB 72/SB 57

Continued Implementation of *Richmond* Decision

Provision as Recommended by DLS: Continues the authority to implement the holding of the Court of Appeals in *DeWolfe v. Richmond*, 434 Md. 403 (2012) and 434 Md. 444 (2013) and provides that if the costs of compensating attorneys that provide legal representation at initial appearances before a District Court commissioner extend beyond the amount restricted for that purpose, the costs shall be billed to the county in which the representation is provided.

Agency: Judiciary

Type of Action: Cost Control

Fiscal Impact vs. Current Law: None.

Background/Recent History: There was \$10 million in the Judiciary's budget restricted in fiscal 2015 to provide legal representation for indigent defendants at initial appearances before District Court commissioners. Chapter 464 of 2014 (the Budget Reconciliation and Financing Act) required that in fiscal 2015, the cost of compensating attorneys beyond the amount restricted for that purpose in the budget would be billed by the appointing authority to the county in which the representation was provided. Currently, expenditures for fiscal 2015 project that the program will be below the total appropriated amount. The fiscal 2016 Judiciary budget includes \$10 million to continue to provide legal representation at initial appearances in accordance with *Richmond*.

State Effect: The \$10 million in funding for legal representation is currently in the fiscal 2016 budget for the Judiciary.

Local Effect: If the costs for providing legal representation at initial appearances extend beyond the county's prorated share of the \$10 million appropriation, the county would be responsible for the cost of representations.

Proposed Amendment to HB 72/SB 57

Medicaid Deficit Assessment

Provision as Recommended by DLS: Replace language establishing a mechanism for reducing the Medicaid Deficit Assessment based on the extent of Medicaid general fund savings generated under the new all-payer model contract with a set spend-down amount, \$20 million per year, beginning in fiscal 2017.

Agency: Department of Health and Mental Hygiene

Type of Action: Cost Control

Fiscal Impact vs. Current Law: By replacing the current methodology for paying down the Medicaid Deficit Assessment with a fixed dollar amount, it potentially limits the extent of special fund revenue loss to the Medicaid program and establishes budget certainty in the out-years.

Recent History: In Chapter 464 of 2014 (the Budget Reconciliation and Financing Act (BRFA)), a provision was added requiring the Health Services Cost Review Commission (HSCRC) to calculate the general fund savings to the Medicaid program that have resulted from the implementation of the new Medicare all-payer model contract. Any savings were to be used to reduce the level of the Medicaid Deficit Assessment. This assessment is used to support the Medicaid program. Based on data from the first six months of calendar 2014, HSCRC calculated that the new all-payer model contract (which among other things is designed to limit growth in hospital inpatient and outpatient costs) had lowered Medicaid general fund costs by \$14.5 million. The BRFA of 2015 delays the impact of those savings until fiscal 2017.