

2010
VOLUME
III
LEGISLATIVE SERIES
HANDBOOK

MARYLAND'S REVENUE STRUCTURE

Maryland's Revenue Structure

**Legislative Handbook Series
Volume III
2010**

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Foreword

The consequences of State tax law affect a myriad of transactions ranging from typical consumer purchases to the financing of multimillion dollar bond issuances. Because legislators will be facing many important tax decisions, this handbook has been prepared to summarize the major features of Maryland's revenue structure. Sections are devoted to key aspects of State imposed taxes. In addition, descriptions of nontax-related sources are included to provide background and insight into the funds that compose over half of the total revenues collected by the State.

Of the estimated \$32 billion in revenues supporting Maryland government expenditures in fiscal 2011, approximately \$13 billion supports State general fund purposes. Two taxes – the individual income tax and the sales tax – constitute 76% of general fund revenues. The remaining general fund revenues are derived primarily from other taxes such as the corporate income tax and other business taxes, alcohol and tobacco taxes, death taxes, and from the State lottery.

Taxes and fees dedicated for specific purposes, known as special funds, will generate an estimated \$6.3 billion in revenues in fiscal 2011. The primary special fund tax sources are the various transportation taxes and fees, the percentage of sales and corporate income tax receipts dedicated for transportation purposes, and the State property tax which is dedicated for debt service on general obligation bonds. Other special fund revenues are derived from a variety of user fees and reimbursements to the State. Additionally, the State will receive over \$9 billion in federal funds designated for particular programs and approximately \$3.6 billion in tuition, fees, and revenues from the State's higher educational institutions.

This is one of nine volumes of the 2010 Legislative Handbook Series prepared prior to the beginning of the General Assembly term by the Office of Policy Analysis, Department of Legislative Services. This volume was a combined effort of the staff of the department's Office of Policy Analysis under the general direction and review of J. Ryan Bishop. Contributors include Flora Arabo, Sara Jean Baker, Matthew Bennett, Jennifer Botts, Chantelle Green, Monica Kearns, Matthew Klein, Jonathan Martin, Robert Rehrmann, Rebecca Ruff, Michael Sanelli, Rachel Silberman, David Smulski, Jody Sprinkle, Sarah Volker, Joshua Watters, and J. Michael Yarborough. Additional review was provided by Linda Stahr and Warren Deschenaux. Administrative assistance was provided by Cathy Kramer and Maureen Merzlak.

The Department of Legislative Services trusts that this volume will be of use to all persons interested in the Maryland State government. The department welcomes comments on ways future editions may be improved.

Karl S. Aro
Executive Director
Department of Legislative Services
Maryland General Assembly

Annapolis, Maryland
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Chapter 1. Overview of Revenue Structure

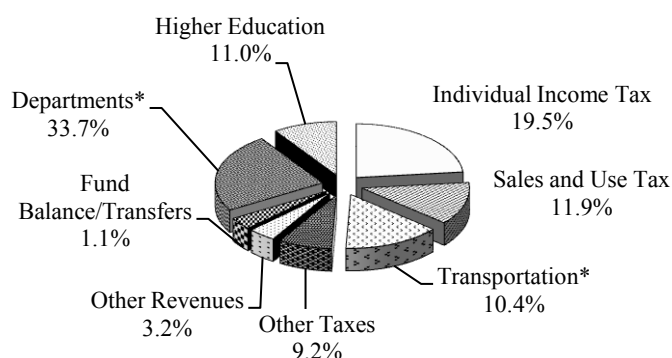
Maryland Revenue Sources

Revenues supporting Maryland government expenditures will total an estimated \$32 billion in fiscal 2011. Approximately 46% of the revenues come from State tax revenues, with the remaining revenues coming from nontax sources, including federal grants.

The three largest sources of revenue are the individual income tax and the sales tax, which together total over 31% of all revenues, and transportation revenues which represent 10.4% of revenues. Other sources of revenue include the lottery (including video lottery terminals), higher education tuition and fees, business taxes, licensing fees, and penalties.

Exhibits 1.1 and 1.2 provide detailed information on the various revenue sources for fiscal 2011.

**Exhibit 1.1
State Revenue Sources
Fiscal 2011**



Total \$32 Billion

* Includes federal funds

Note: Detail may not add to total due to rounding.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2011*, Department of Budget and Management; Department of Legislative Services

Exhibit 1.2
State Revenue Sources
Fiscal 2011
(\$ in Millions)

Revenue Source	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds²</u>	<u>Total</u>	<u>Percent of Total</u>
Major Taxes, Licenses, and Fees					
Personal Income Tax	\$6,292.0			\$6,292.0	19.5%
Corporate Income Tax	498.7	183.7		682.4	2.1%
Sales and Use Tax	3,650.4	204.2		3,854.6	11.9%
Property Taxes		790.4		790.4	2.5%
Property Transfer Taxes		149.9		149.9	0.5%
Insurance Taxes, Licenses, and Fees	273.8	103.2		377.0	1.2%
Tobacco Taxes	387.9			387.9	1.2%
Death Taxes	157.1			157.1	0.5%
Alcoholic Beverages Taxes and Licenses	30.0			30.0	0.1%
Franchise Taxes and Fees	225.1			225.1	0.7%
Boat Excise Tax		16.5		16.5	0.0%
Horse Racing		5.4		5.4	0.0%
Miscellaneous Taxes and Fees	172.4			172.4	0.5%
Subtotal	\$11,687.4	\$1,453.3		\$13,140.7	40.7%
Transportation ¹					
Motor Vehicle Fuel Tax/Road Tax		\$751.4		\$ 751.4	2.3%
Motor Vehicle Titling Tax		552.0		552.0	1.7%
Motor Vehicle Registration, Licenses, and Fees		374.1		374.1	1.2%
Maryland Department of Transportation		862.0	\$811.0	1,673.0	5.2%
Subtotal	\$0	\$2,539.5	\$811.0	\$3,350.5	10.4%
Other Revenues and Fees					
Lottery	\$527.6	\$ 206.2 ³		\$733.8	2.3%
District Court Fees and Costs	92.6			92.6	0.3%
Interest on Investments	54.0			54.0	0.2%
Hospital Patient Recoveries	67.4			67.4	0.2%
Retirement Contribution Reimbursement		27.2		27.2	0.1%
Annuity Bond Fund		46.4	7.7	54.1	0.2%
Subtotal	\$741.6	\$279.8	\$7.7	\$1,029.1	3.2%

Exhibit 1.2 (continued)

Revenue Source	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds²</u>	<u>Total</u>	<u>Percent of Total</u>
Legislative	\$0.3			\$0.3	0.0%
Judicial Review and Legal	151.4	\$ 78.8	\$9.5	239.7	0.8%
Executive and Administrative Control	4.5	268.3	148.4	421.2	1.3%
Financial and Revenue Administration	124.3	20.2		144.5	0.5%
Retirement Programs		27.2		27.2	0.1%
General Services			1.0	1.0	0.0%
Natural Resources		96.0	48.6	144.6	0.5%
Agriculture		48.2	6.5	54.7	0.2%
Health and Mental Hygiene	93.8	734.6	4,806.3	5,634.7	17.4%
Human Resources		117.6	1,443.7	1,561.3	4.8%
Labor, Licensing, and Regulation	8.8	33.5	147.6	189.9	0.6%
Public Safety and Correctional Services	9.6	157.0	73.5	240.1	0.7%
Public Education		107.8	1,384.8	1,492.6	4.6%
Housing and Community Development		64.1	259.9	324.0	1.0%
Business and Economic Development		24.3	0.8	25.1	0.1%
Environment		200.3	55.2	255.4	0.8%
Juvenile Services		0.2	16.0	16.2	0.0%
State Police	3.2	81.9	23.0	108.1	0.3%
Subtotal	\$395.9	\$2,060.0	\$8,424.8	\$10,880.7	33.7%
Higher Education Funds		3,564.4		3,564.4	11.0%
Fund Balance	344.0			344.0	1.1%
Grand Total	\$13,168.9	\$9,897.0	\$9,243.5	\$32,309.4	100.0%

¹ Special funds include Transportation Trust Fund revenues from these sources and revenues transferred to other special funds and the general fund.

² Generally includes revenues from the American Recovery and Reinvestment Act of 2009.

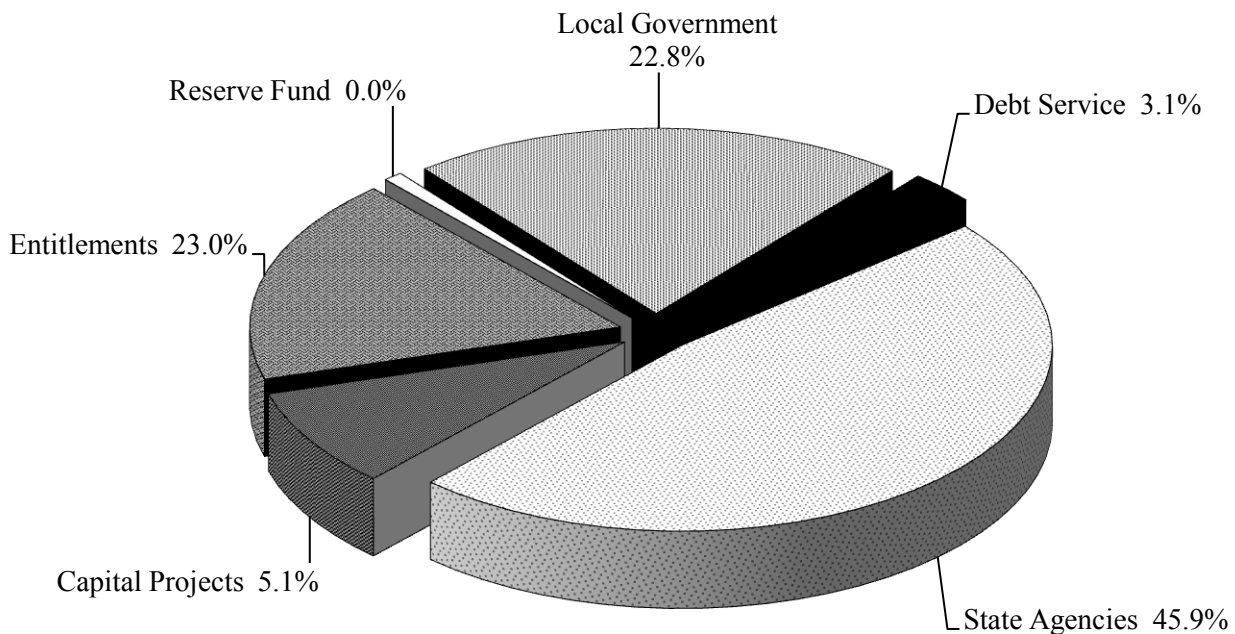
³ Includes revenues from video lottery terminals.

Note: Detail may not add to total due to rounding.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2011*, Department of Budget and Management; Department of Legislative Services

Of the \$32 billion total State operating budget, 45.9% will support State agencies, 23.0% will support State entitlement programs, 22.8% will be allocated for local governments, 5.1% will be used for various capital projects (primarily transportation), and 3.1% will support the State's debt service on general obligation bonds. Exhibits 1.3 and 1.4 illustrate the use of fiscal 2011 revenues.

Exhibit 1.3
State Expenditures
Fiscal 2011



Source: *Effect of the 2010 Legislative Program on the Financial Condition of the State*, Department of Legislative Services

Exhibit 1.4
State Expenditures – All Funds
Fiscal 2011
(\$ in Millions)

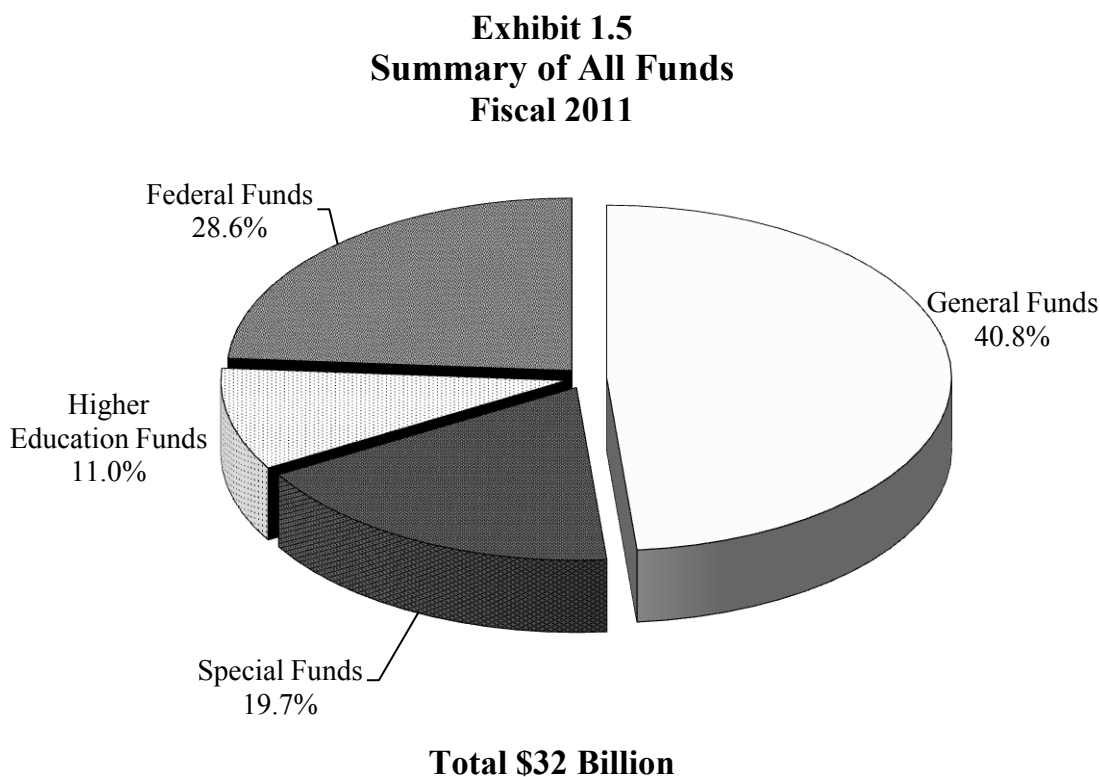
<u>Category</u>	<u>Legislative Appropriation</u>	<u>Percent of Total</u>
Debt Service	\$1,006.0	3.1%
Aid to Local Governments		
County/Municipal	465.4	
Community Colleges	256.1	
Education/Libraries	6,526.4	
Health	41.8	
	\$7,289.7	22.8%
Entitlements		
Foster Care Payments	\$ 351.9	
Assistance Payments	885.9	
Medical Assistance	6,027.8	
Property Tax Credits	73.5	
	\$7,339.1	23.0%
State Agencies		
Health	\$2,633.3	
Human Resources	888.1	
Systems Reform Initiative	28.4	
Juvenile Justice	273.2	
Public Safety/Police	1,510.9	
Higher Education	4,735.5	
Other Education	622.9	
Transportation	1,503.6	
Agriculture/Natural Resources/Environment	390.6	
Other Executive Agencies	1,673.1	
Judicial/Legislative	498.7	
Across-the-board Cuts	-48.2	
	\$14,710.1	45.9%
Subtotal	\$30,344.9	
Capital/Heritage Reserve Fund	\$1,645.3	5.1%
Reserve Funds	15.0	0.0%
Appropriations	\$32,005.2	
Reversions	-30.6	
Total	\$31,974.6	

Note: Detail may not add to total due to rounding.

Source: *Effect of the 2010 Legislative Program on the Financial Condition of the State*, Department of Legislative Services

State Revenues – The Classification System

All revenues are classified according to fund type. Exhibit 1.5 summarizes the fund classification of the \$32 billion in State revenues for fiscal 2011.



Note: Detail may not add to total due to rounding.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2011*, Department of Budget and Management; Department of Legislative Services

General Funds

Approximately \$13.0 billion, or 40.8%, of total fiscal 2011 revenues are generated by general fund sources. These revenues are used to support the operating budget of the State government and contribute to other funds and various public service enterprises run by the State. The primary sources of general fund revenues are individual income taxes (\$6.3 billion), sales taxes (\$3.6 billion), corporate income taxes (\$499 million), and the State lottery (\$528 million).

Special Funds

Special fund revenues are State source revenues that are dedicated by law to support specific projects or functions. Special funds will provide an estimated \$6.3 billion, or approximately 19.7% of all funds, in fiscal 2011. Major components of special fund revenues include:

- Transportation Trust Fund revenues (\$2.9 billion, excluding federal funds), which consist of motor vehicle fuel taxes, titling taxes, registration and licensing fees, a portion of sales and corporate income taxes, and other miscellaneous transportation-related revenues;
- State property tax revenues (\$790 million), which support debt service on State general obligation bonds;
- property transfer tax revenues (\$150 million, used primarily for land preservation programs); and
- other revenues that support programs in the Department of Health and Mental Hygiene, the Department of Human Resources, the Department of Natural Resources, the Maryland Department of the Environment, the Department of Public Safety and Correctional Services, the Department of Housing and Community Development, and other agencies.

Federal Funds

Federal funds are monies provided by various agencies of the federal government to fund a variety of purposes. In fiscal 2011, the State expects to receive over \$9 billion (28.6% of all funds) in federal assistance. Major categories of federal funds include health (\$4.8 billion), human resources (\$1.4 billion), public education (\$1.4 billion), and transportation (\$811 million).

Higher Education Funds

In fiscal 2011, the State will receive almost \$3.6 billion in higher education revenues (11.0% of all funds) from grants and contracts, contributions, tuition, fees and charges from room and board, and educational and auxiliary enterprises. Some higher education funds are dedicated for specific purposes (“restricted”), while others are used to support the general operation of State universities and colleges (“unrestricted”).

Revenue Projections and Economic Outlook

Growth in revenues, particularly general fund revenues, is directly related to the economic performance of the State. The largest sources of revenue, the personal income tax and the sales tax, are driven by growth in personal income and employment. For a further discussion of the State's economic outlook and climate, see *Volume VII – Business Regulation in Maryland* of this handbook series.

Organization of the Handbook

This handbook is organized in four parts:

- Chapters 2 through 9 describe in detail the tax sources of the State's revenues. Each chapter pertains to a particular tax source (*e.g.*, individual income tax) or category of taxes (*e.g.*, business taxes) and discusses important characteristics of each tax. Such characteristics include the taxpayer, the tax base, exemptions and modifications, historical and projected revenues, and a summary of major changes;
- Chapter 10 reviews the structure of transportation revenues – these revenues are derived from both tax and nontax sources, so this section combines a discussion of both;
- Chapter 11 describes the Maryland lottery and the various games used to generate revenues for the State, including video lottery terminals; and
- Chapters 12 through 19 provide a general overview of the nontax sources of State revenues.

Chapter 2. Overview of Tax Revenue Sources

Taxes are the primary source of revenues in Maryland. Individual income taxes are the single largest source of revenue, followed by the sales and use tax and transportation taxes (motor fuel tax, motor carrier tax, and motor vehicle excise tax). The balance of State tax revenues is derived from the corporate income tax and other business taxes, property and property transfer taxes, tobacco and alcoholic beverage taxes, estate and inheritance taxes, and other miscellaneous taxes.

Maryland's Tax Mix

Maryland's tax mix is diverse but weighted toward the income tax. The main sources of State and local tax revenue in Maryland are the income tax, the sales and use tax, and property taxes. This tax structure is well diversified because the State uses all three of the major tax sources, as some states only use two of these taxes. Because of the complementary nature of these taxes, using all three enhances the fairness and stability of the tax structure. In addition, like most states, Maryland has a gasoline tax that is a dedicated revenue source used to fund transportation construction and maintenance expenditures. Maryland does not impose taxes on the personal property of individuals, as is done in some states such as Virginia.

Individual Income Tax

Discussed in greater detail in Chapter 3 of this handbook, the individual income tax has long been the State's primary source of revenue, and its importance as a source of revenue has grown over the years. In fiscal 2011, the State will receive an estimated \$6.3 billion in individual income tax revenues, constituting 48% of general fund revenues.

The individual income tax makes up a larger share of total taxes in Maryland than in most other states. In Maryland, about 23.0% of all State and local revenues (including tax and nontax revenues) come from the income tax, compared to a national average of 11.6%. Conversely, sales and property taxes in Maryland make up a smaller share of total revenues compared to most other states.

Maryland's income tax base is relatively narrow, which puts upward pressure on income tax rates. Taxes with broad bases are more conducive to low rates than those with narrow bases. For example, Pennsylvania has a broadly defined income tax base and a relatively low state income tax rate of 3.07%. Maryland's base is narrow because of the many deductions, exemptions, and credits that are allowed. In addition to allowing

most federal itemized deductions, there are several State-only deductions that further reduce the base.

The county income tax is a significant revenue source for local governments in Maryland. While local income taxes are imposed in a limited way in several other states, they are widespread in only three other states (Indiana, Iowa, and Pennsylvania). Local governments expect to collect income tax revenues of \$4.1 billion in fiscal 2011. While the county income tax relieves pressure on local property tax rates, it is the primary reason for the State's relatively high State and local income tax burden.

While Maryland's overall tax burden is close to average when compared to other states, the State's high reliance on the income tax in its mix of taxes, together with the local income tax, puts Maryland at the top in rankings of states based on income taxes.

Sales and Use Tax

Discussed in greater detail in Chapter 4 of this handbook, the sales and use tax is the State's second largest source of revenue. Compared to other states, Maryland's sales tax rate is not high, and the tax base is relatively narrow. Maryland's sales tax base is narrow because it excludes most services and exempts grocery food, residential utilities, and medicine from the sales tax base. In fiscal 2011, the State will receive almost \$3.9 billion in sales tax revenues, with over \$3.6 billion of that amount going to the general fund (about 28% of total general fund revenues).

Property Tax

Discussed in greater detail in Chapter 6 of this handbook, property taxes are primarily a local revenue source in Maryland. For fiscal 2009, the counties and municipalities collectively received almost \$7.1 billion in real and personal property tax revenues. The counties impose real property tax rates that range from \$0.432 to \$2.268 per \$100 of property value, while the State real property tax rate is currently \$0.112 per \$100 of property value. State property tax revenues are dedicated to debt service on State general obligation bonds. In fiscal 2011, the State will receive an estimated \$790 million in real property taxes.

Transportation Taxes

Discussed in greater detail in Chapter 10 of this handbook, transportation taxes are the third largest source of tax revenue for the State. Transportation taxes generally are credited to the Transportation Trust Fund, a portion of which is shared with local

governments. In fiscal 2011, the State will receive over \$1.3 billion in transportation tax revenues.

Comparison to Taxes in Other States

Exhibits 2.1 through 2.3 compare Maryland's State and local tax structure to other states in the region and to the United States as a whole. Exhibit 2.1 compares the relative reliance of each state on the various taxes, showing the percentage of total state and local tax revenues generated by each of the major tax types. Exhibit 2.2 shows revenues on a per capita basis. Comparing taxes across states on a per capita basis alone ignores the relative revenue-raising capacity of each state. For example, a wealthier state with the same income, property, and sales tax rates as a less wealthy state would raise more tax revenue per person than the less wealthy state simply because residents of the wealthier state have more income and more valuable property and they spend more. Consequently, measuring tax burden on a per capita basis alone provides an incomplete picture. To account for the relative revenue raising capacity of each state, Exhibit 2.3 provides another common basis for comparison, the amount of taxes paid in each state relative to personal income in the state.

Maryland ranks thirty-seventh among all states in overall taxes as a percentage of personal income and eleventh in overall taxes on a per capita basis. Maryland's reliance on the income tax is high compared to other states, while the State generally ranks near the middle with respect to property taxes and corporate income taxes and near the bottom with respect to sales taxes.

Exhibit 2.1 demonstrates that compared to other states, Maryland's tax mix is heavily weighted towards the income tax. Just over 40% of Maryland's total State and local tax revenues comes from the personal income tax, ranking Maryland first among all states in its reliance on the income tax. Maryland ranked second among all states in personal income tax liability on a percentage of personal income basis and fourth on a per capita basis – these high rankings are due at least in part to the local income tax imposed by the counties.

Maryland ranks low in its reliance on sales taxes. Exemptions under the State sales and use tax for grocery food, residential utilities, and medicine, the exclusion of most services from the sales tax base, and the absence of local general sales taxes all contribute to the State's low ranking for sales taxes.

In considering these rankings, it should be noted that they are based on fiscal 2007-2008 data, which are the latest comparative information available. Since that time, Maryland and other states have made changes to their tax structures which could

affect these comparisons. In addition, although this data provides a useful basis for general comparisons of the tax structures of various states, it should be noted that varying demographics among the states and nuances of the revenue structures of the states limit the utility of these types of comparisons.

Exhibit 2.1
Maryland State and Local Tax Revenues – Comparison to Selected States
2007-2008 Relative Dependence on Various Taxes (Percentage of Total Tax Revenues)

	Property Tax	Personal Income Tax	Corporate Income Tax	Sales and Selective Taxes ⁽¹⁾	License Fees	Other Taxes ⁽²⁾	All Taxes	Per Capita Personal Income
Maryland								
Percent	23.9%	40.4%	2.7%	24.6%	3.0%	5.4%	100.0%	\$48,164
Rank	37	1	40	43	44	10		7
Delaware								
Percent	16.3%	28.7%	8.3%	13.2%	28.5%	5.0%	100.0%	\$40,375
Rank	47	13	4	49	1	11		19
District of Columbia								
Percent	32.0%	25.1%	7.8%	25.7%	2.6%	6.8%	100.0%	\$66,316
Rank	21	23	6	41	48	7		1
New Jersey								
Percent	42.2%	23.4%	5.2%	23.5%	3.2%	2.4%	100.0%	\$51,473
Rank	3	28	11	45	42	24		3
North Carolina								
Percent	23.7%	33.1%	3.6%	33.6%	5.2%	0.8%	100.0%	\$35,249
Rank	39	5	28	26	22	45		36
Pennsylvania								
Percent	28.7%	26.5%	4.1%	29.4%	7.1%	4.2%	100.0%	\$39,762
Rank	29	17	22	35	10	15		21
Virginia								
Percent	32.3%	30.9%	2.4%	26.2%	5.2%	2.9%	100.0%	\$44,075
Rank	19	9	44	40	20	19		8
West Virginia								
Percent	19.3%	23.6%	8.4%	37.0%	5.6%	6.1%	100.0%	\$31,634
Rank	43	26	3	19	15	8		50
U.S. Average	30.8%	22.9%	4.3%	33.7%	5.0%	3.2%	100.0%	\$40,166

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47).

(1) Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and others.

(2) Includes death and gift taxes, documentary and stock transfer taxes, severance taxes, and other taxes.

Source: Annual Survey of Government Finance, U.S. Census Bureau (July 2010); Population from the U.S. Census Bureau (December 2009); Personal income data from U.S. Bureau of Economic Analysis (June 2010)

Exhibit 2.2
Maryland State and Local Tax Revenues – Comparison to Selected States
2007-2008 Tax Revenues Per Capita

	<u>Property Tax</u>	<u>Personal Income Tax</u>	<u>Corporate Income Tax</u>	<u>Sales and Selective Taxes ⁽¹⁾</u>	<u>License Fees</u>	<u>Other Taxes ⁽²⁾</u>	<u>All Taxes</u>	<u>Per Capita Personal Income</u>
Maryland								
Amount	\$1,168	\$1,977	\$130	\$1,203	\$146	\$263	\$4,887	\$48,164
Rank	29	4	32	41	42	8	11	7
Delaware								
Amount	\$691	\$1,214	\$352	\$561	\$1,208	\$211	\$4,237	\$40,375
Rank	44	12	5	50	1	13	21	19
District of Columbia								
Amount	\$2,929	\$2,296	\$712	\$2,352	\$238	\$621	\$9,148	\$66,316
Rank	1	2	2	4	16	4	2	1
New Jersey								
Amount	\$2,621	\$1,455	\$325	\$1,459	\$201	\$147	\$6,209	\$51,473
Rank	2	8	7	22	28	17	6	3
North Carolina								
Amount	\$851	\$1,189	\$130	\$1,206	\$186	\$29	\$3,591	\$35,249
Rank	39	14	31	40	33	46	34	36
Pennsylvania								
Amount	\$1,236	\$1,141	\$175	\$1,266	\$308	\$180	\$4,306	\$39,762
Rank	24	17	16	35	6	15	19	21
Virginia								
Amount	\$1,356	\$1,298	\$101	\$1,100	\$220	\$122	\$4,196	\$44,075
Rank	19	10	40	44	22	19	23	8
West Virginia								
Amount	\$682	\$837	\$297	\$1,311	\$200	\$216	\$3,542	\$31,634
Rank	45	31	9	30	29	12	37	50
U.S. Average	\$1,346	\$1,001	\$190	\$1,474	\$219	\$141	\$4,371	\$40,166

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47).

(1) Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and others.

(2) Includes death and gift taxes, documentary and stock transfer taxes, severance taxes, and other taxes.

Source: Annual Survey of Government Finance, U.S. Census Bureau (July 2010); Population from the U.S. Census Bureau (December 2009); Personal income data from U.S. Bureau of Economic Analysis (June 2010)

Exhibit 2.3
Maryland State and Local Tax Revenues – Comparison to Selected States
2007-2008 Tax Revenues as a Percentage of Personal Income

	<u>Property Tax</u>	<u>Personal Income Tax</u>	<u>Corporate Income Tax</u>	<u>Sales & Selective Taxes</u> ⁽¹⁾	<u>License Fees</u>	<u>Other Taxes</u> ⁽²⁾	<u>All Taxes</u>	<u>Per Capita Personal Income</u>
Maryland								
Percent	2.4%	4.1%	0.3%	2.5%	0.3%	0.6%	10.2%	\$48,164
Rank	39	2	40	44	47	10	37	7
Delaware								
Percent	1.7%	3.0%	0.9%	1.4%	3.0%	0.5%	10.5%	\$40,375
Rank	47	14	6	49	1	12	25	19
District of Columbia								
Percent	4.4%	3.5%	1.1%	3.5%	0.4%	0.9%	13.8%	\$66,316
Rank	7	7	3	28	43	7	4	1
New Jersey								
Percent	5.1%	2.8%	0.6%	2.8%	0.4%	0.3%	12.1%	\$51,473
Rank	2	20	10	43	40	20	9	3
North Carolina								
Percent	2.4%	3.4%	0.4%	3.4%	0.5%	0.1%	10.2%	\$35,249
Rank	40	10	29	33	26	46	34	36
Pennsylvania								
Percent	3.1%	2.9%	0.4%	3.2%	0.8%	0.5%	10.8%	\$39,762
Rank	24	17	20	39	6	16	20	21
Virginia								
Percent	3.1%	2.9%	0.2%	2.5%	0.5%	0.3%	9.5%	\$44,075
Rank	26	16	42	45	32	21	41	8
West Virginia								
Percent	2.2%	2.6%	0.9%	4.1%	0.6%	0.7%	11.2%	\$31,634
Rank	43	22	5	15	14	8	16	50
U.S. Average	3.4%	2.5%	0.5%	3.7%	0.6%	0.4%	10.9%	\$40,166

Note: For the rankings, 1 indicates the highest. Rankings are out of 51 except for the personal income tax (out of 44) and the corporate income tax (out of 47).

(1) Includes the general sales tax along with selective taxes such as excise taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and others.

(2) Includes death and gift taxes, documentary and stock transfer taxes, severance taxes, and other taxes.

Source: Annual Survey of Government Finance, U.S. Census Bureau (July 2010); Population from the U.S. Census Bureau (December 2009); Personal income data from U.S. Bureau of Economic Analysis (June 2010)

Chapter 3. Individual Income Tax

Taxpayer

Individuals who maintain legal residence in Maryland or who earn or receive income from Maryland sources must pay the Maryland income tax. The six taxpayer classifications are single, married filing jointly, married filing separately, head of household, qualifying widow(er) with dependent child, and dependent taxpayer. Employers are required to withhold taxes (based on withholding tables) from the wages of employees. Income earned by an estate of a deceased person is subject to income taxes in the same manner as individuals.

Tax Base

The tax base is the taxpayer's federal adjusted gross income adjusted by Maryland addition and subtraction modifications, deductions, and exemptions, yielding "Maryland Taxable Income."

Valuation of Base

The individual taxpayer states the value of the base in the return. The return is subject to audit.

Tax Rates

Exhibit 3.1 shows Maryland's State income tax rates for tax year 2010. Legislation enacted in 2007 and 2008 increased the top maximum rate to 5.5% and imposed a temporary income tax rate of 6.25% for tax years 2008 through 2010.

Exhibit 3.1
Maryland State Income Tax Rates
Tax Year 2010

<u>Single</u>		<u>Married Filing Jointly</u>	
<u>Rate</u>	<u>Maryland Taxable Income</u>	<u>Rate</u>	<u>Maryland Taxable Income</u>
2.00%	\$1 - \$1,000	2.00%	\$1 - \$1,000
3.00%	\$1,001 - \$2,000	3.00%	\$1,001 - \$2,000
4.00%	\$2,001 - \$3,000	4.00%	\$2,001 - \$3,000
4.75%	\$3,001 - \$150,000	4.75%	\$3,001 - \$200,000
5.00%	\$150,001 - \$300,000	5.00%	\$200,001 - \$350,000
5.25%	\$300,001 - \$500,000	5.25%	\$350,001 - \$500,000
5.50%	\$500,001 - \$1,000,000	5.50%	\$500,001 - \$1,000,000
6.25%*	Excess of \$1 million	6.25%*	Excess of \$1 million

*Effective for tax years 2008 through 2010.

Source: Annotated Code of Maryland, Section 10-105 of the Tax – General Article

Computation of Tax

Exhibit 3.2 summarizes the primary components of the individual income tax computation and provides the gross dollar amounts associated with each component for the 2008 tax year. A description of each component follows the exhibit.

Exhibit 3.2
Computation of Individual Income Tax
Tax Year 2008
(\$ in Millions)

Federal Adjusted Gross Income	\$213,116
plus	
addition modifications	2,422
less	
subtraction modifications	44,299
equals	

Exhibit 3.2 (continued)

Maryland Adjusted Gross Income	\$171,239
less	
deductions	27,996
less	
exemptions	13,338
equals	
Maryland Taxable Income	\$129,905
multiplied by	
State tax rate (effective rate for tax year 2008)	4.88%
equals	
Gross State Tax	\$6,340
less	
tax credits	290
equals	
State Income Tax Revenues	\$6,050
 Maryland Taxable Income	 \$129,905
multiplied by	
local income tax rates	
equals	
Local Income Tax Revenues	\$3,670

Source: Annotated Code of Maryland, Title 10, Subtitle 2 of the Tax – General Article; *2008 Income Tax Summary Report*, Comptroller of Maryland

Special Provisions

Addition Modifications to Federal Adjusted Gross Income

Numerous addition modifications are provided under Maryland income tax law. These include:

- dividends and interest from state or local obligations, excluding obligations of Maryland and its subdivisions;

- 50% of tax preference items in excess of \$10,000 (\$20,000 for joint returns);
- the excess of the taxable amount of a lump sum distribution over the sum of 60% of the capital gains portion and the minimum distribution allowance;
- oil percentage depletion allowance;
- adjustments attributable to a period of nonresident status;
- income exempt from federal tax under federal tax law or treaty but not from Maryland tax;
- net additions to Maryland partnership and fiduciary tax returns;
- amounts claimed as enterprise zone credits, work not welfare credits, disability credits, and research and development credits;
- the amount of credit claimed for taxes paid to another state, if the claim is based on a tax paid by an S corporation to a state that does not recognize the federal tax treatment of an S corporation;
- pickup contributions of a State retirement or pension system;
- net operating loss deduction to the extent of a double benefit;
- the amount allowed in a prior year as a subtraction modification for reforestation or timber stand improvement in the year after decertification of land used for commercial forest land;
- expenses attributable to unlicensed/unregistered child care centers or family day care homes;
- capital losses from the sale of certain trust property;
- any refund or distribution not used for qualified higher education expenses received from a Maryland Prepaid College Trust, Maryland College Investment Plan, or Maryland Broker-Dealer College Investment Plan;

- amounts deducted for federal income tax purposes for qualified college tuition and related expenses;
- addition modification required to calculate Maryland taxable income without regard to the special depreciation allowances enacted under federal tax law;
- addition modification required to calculate Maryland taxable income without regard to the extended net operating loss carryback periods allowed under federal tax law;
- addition modification required to calculate Maryland taxable income without regard to the increased federal Section 179 and depreciation deduction for specified large sport utility vehicles;
- addition modification required to calculate Maryland taxable income without regard to the amount deducted under the qualified production activities income deduction as enacted by the federal American Jobs Creation Act of 2005; and
- addition modification required to calculate Maryland taxable income without regard to the amount allowed under the cancellation of debt income provisions enacted by the federal American Recovery and Reinvestment Act of 2009.

Subtraction Modifications to Federal Adjusted Gross Income

Numerous subtraction modifications (deductions) are provided under Maryland income tax law. These include:

- interest and dividends on United States obligations, including mutual fund dividends attributable to United States obligations;
- taxable pension and retirement annuity income up to the maximum annual Social Security benefit reduced by any Social Security benefits received if totally disabled or 65 years of age or older;
- Social Security and railroad retirement benefits included in federal adjusted gross income;
- certain employment-related household and dependent care expenses for an eligible child, dependent, or a disabled spouse if they are necessary for the person claiming the deduction to work or seek work;

- certain automobile travel expenses incurred while conducting specified charitable activities;
- income received while not a resident of Maryland;
- pension and disability payments for job-related injuries of law enforcement officers or firefighters;
- net subtractions from Maryland pass-through entity and fiduciary tax returns;
- income tax refunds from any state, the District of Columbia, or any subdivision;
- distributions to beneficiaries of income upon which fiduciary income tax has been paid;
- profits realized from the sale or exchange of bonds issued by Maryland or its subdivisions;
- benefits received under specified circumstances from a Keogh Plan;
- wages and salaries disallowed as a business expense because of taking the federal targeted jobs credit;
- up to \$1,000 in certain expenses incurred by an employer in obtaining readers for use in the employment of the blind, and up to \$5,000 of expenses not deducted under the federal medical expenses deduction incurred by a blind individual for personal use or use in employment;
- expenses for reforestation or timber stand improvements of commercial forest land;
- up to \$5,000 of certain expenses incurred by parents in adopting a child, or up to \$6,000 for a child with certain special needs adopted through a public or nonprofit adoption agency;
- taxable fringe benefits on official vehicles used by police and fire department members;

- art work donated to a museum in the State that is not deductible for federal tax purposes;
- length of service awards to fire, rescue, or ambulance personnel, funded by counties or municipalities;
- value of farm products donated to gleaning cooperatives that distribute food to the needy;
- up to \$15,000 in military pay attributable to service outside of the United States;
- annuities received from a state retirement or pension system plan included in federal adjusted gross income;
- interest and dividend income of certain dependent children included on the parent's return;
- up to \$5,000 in military retirement income of a qualified individual;
- payment for relocation and assistance under Title 12, Subtitle 2 of the Real Property Article;
- income that federal law or treaty exempts from a state but not federal tax;
- up to \$1,200 for income earned by two-income married couples filing joint returns;
- the full cost of qualified conservation tillage and manure spreading equipment, which can be carried forward for up to five years;
- contributions to the Maryland College Investment Plan and the Maryland Broker-Dealer College Investment Plan, up to \$2,500 annually;
- distributions to a beneficiary of the Maryland Prepaid College Trust, Maryland Broker-Dealer College Investment Plan, and Maryland College Investment Plan that are used for qualified higher education expenses;

- \$3,500 for qualifying active volunteer fire, rescue, or emergency medical services personnel, volunteer police officers, or members of the U.S. Coast Guard Auxiliary;
- any income of an individual that is related to tangible or intangible property that was seized, misappropriated, or lost as a result of the Holocaust;
- expenses incurred to buy and install handrails in an existing elevator in a health care facility or other building in which at least 50% of the office space is used for medical purposes;
- payments from a pension system to the surviving spouse or other beneficiary of a law enforcement officer or firefighter whose death arises out of or in the course of their employment;
- income derived within an arts and entertainment district from the production, publication, or sale of artistic work by a qualifying residing artist;
- grants received under the Solar Energy Grant program; and
- certain expenses incurred, less any assistance received from the Department of Natural Resources, in upgrading a residential septic system located in the Chesapeake and Atlantic Coastal Bays Critical Area.

Deductions

Taxpayers are allowed to reduce their Maryland adjusted gross income by either a “standard deduction” or by the total of qualifying itemized deductions. The standard deduction is equal to 15% of total Maryland adjusted gross income, subject to a minimum of \$1,500 (\$3,000 for a joint return) and a maximum of \$2,000 (\$4,000 for a joint return).

Taxpayers who elect to itemize for federal tax purposes can deduct the sum of qualifying itemized deductions as shown on the federal tax return, reduced (1) as required under the Internal Revenue Code; (2) by any amount deducted under Section 170 of the Internal Revenue Code for contributions of a preservation or conservation easement for which a State income tax credit is claimed under the Tax – General Article; (3) by state and local income taxes itemized on the federal return, after subtracting, where applicable and subject to federal phase out, a pro rata portion of the reduction to itemized deductions required of certain high-income taxpayers for federal purposes; and (4) deductions attributable to the period of nonresidence.

Exemptions

Effective beginning in tax year 2008, the value of the personal exemption amount is between \$600 and \$3,200, depending on the taxpayer's federal adjusted gross income and filing status, as illustrated in Exhibit 3.3.

Exhibit 3.3 Personal Exemption Values Tax Year 2010

<u>Single</u>		<u>Joint</u>	
<u>FAGI</u>	<u>Exemption Value</u>	<u>FAGI</u>	<u>Exemption Value</u>
\$100,000 or less	\$3,200	\$150,000 or less	\$3,200
\$100,001-\$125,000	2,400	\$150,001-\$175,000	2,400
\$125,001-\$150,000	1,800	\$175,001-\$200,000	1,800
\$150,001-\$200,000	1,200	\$200,001-\$250,000	1,200
over \$200,000	600	over \$250,000	600

FAGI: federal adjusted gross income

Source: Department of Legislative Services

An additional \$1,000 exemption is allowed for a taxpayer, or spouse, who is blind or 65 years of age or older. For each dependent that is at least 65 years old, an extra exemption of \$2,400 is allowed.

Tax Credits

Credits are allowed against State tax liability for:

- estimated tax payments made during the tax year or with an extension request;
- taxes withheld and paid to Maryland by employers;
- income tax paid to another state;

- certain wages and child care and transportation expenses for qualified employees with disabilities;
- 50% of the federal earned income credit claimed, not to exceed the total pre-credit tax liability – individuals can also claim a refund of the amount by which 25% of the federal earned income credit exceeds the State income tax;
- the lesser of the amount of tax actually paid to another state on income from installment sales or 5% of recognized income from such sales, if that income is recognized for federal tax purposes in the current year and resulted from the disposition of property located in a State other than Maryland and in an earlier tax year;
- portions of certain rehabilitation expenditures for qualified properties;
- taxes owed by taxpayers under the poverty level, if ineligible for the refundable earned income credit;
- up to \$5,000 annually for 16 years for the donation of a perpetual preservation or conservation easement if the easement is approved by the Board of Public Works;
- up to \$500 for the purchase of a tax-qualified long-term health care insurance policy in the year the policy is first purchased;
- up to \$1,500 of tuition paid by teachers for graduate level courses required to maintain certification;
- for individuals eligible for the federal Child and Dependent Care Credit, up to 32.5% of the federal credit for child and dependent care expenses;
- newly hired employees working in enterprise zones and focus areas;
- a portion of property taxes and/or wages paid to qualified employees of certain business entities that expand or establish in the State and create a minimum number of positions;
- eligible start-up costs and new jobs created by qualified businesses that establish or create new facilities in distressed counties;

- 60% of the total State, county, and municipal property taxes paid on operating real property by a telecommunications company that is a public utility during a tax year;
- 50% of the cost of specified commuter benefits provided to employees, subject to a maximum of \$50 per employee per month;
- 5% of the cost of providing long-term care insurance to employees, credit not to exceed \$5,000 or \$100 for each employee covered by long-term care insurance;
- portions of qualified research and development expenses;
- a portion of the expenses associated with the production of electricity from specified qualified energy resources;
- a portion of expenses associated with the construction or rehabilitation of “green buildings”;
- 100% of the cost for the purchase of an aquaculture oyster float, not to exceed \$500;
- a portion of wages paid to qualified ex-felon employees;
- 50% of qualifying contributions, subject to a maximum of \$125,000, to Department of Housing and Community Development approved projects conducted by nonprofit organizations in a Priority Funding Area;
- 50% of eligible investments, subject to a maximum of \$250,000 made in a qualified biotechnology company;
- 15% of the wages, subject to a maximum of \$1,500, paid to a qualified student participating in an approved work-based learning program;
- 3 cents per gallon purchased of qualifying biodiesel heating oil, subject to a maximum of \$500;
- 10% of qualified expenses incurred for cellulosic ethanol technology research and development; and

- \$5,000 for each eligible unemployed individual hired by a qualified employer between March 25, 2010, and December 31, 2010, subject to a maximum of \$250,000 in total credits.

Refunds

Generally, refunds are made for overpayment of taxes for claims made within three years from the date the tax return was originally filed, or two years from the date of payment, whichever is later in accordance with the Tax – General Article and the Internal Revenue Code.

Part-year Residents

Taxpayers who have not resided in Maryland for the entire tax year must prorate their deductions, exemptions, and modifications to reflect the proportion of income earned in Maryland.

Payment Dates

Individuals

Annual returns are due by April 15 of the year following the taxable year. Individuals who file income taxes electronically and pay the amount due electronically can pay by April 30. If the taxpayer uses a fiscal year basis, then the returns are due on or before the fifteenth day of the fourth month following the end of the fiscal year.

A quarterly declaration is due if the taxpayer expects to be underwithheld by more than one-half of the federal threshold amount (currently \$500). Such taxpayers must file an estimated return and make quarterly payments on or before April 15, June 15, September 15, and January 15 of the next year.

Employers

Based on the amount of taxes withheld, employers remit withholding taxes to the Comptroller monthly, quarterly, annually, seasonally, or as accumulated (for the largest employers).

- *Annually:* If an employer expects to withhold less than \$250 in taxes in the calendar year, the employer must remit withholdings by January 31 of the year that follows the year in which the taxes were withheld.

- *Seasonally:* Employers who operate only during certain months and obtain prior approval from the Comptroller's Office can file seasonally.
- *Quarterly:* If an employer expects to withhold \$250 or more in taxes annually and less than \$700 in a calendar quarter, the employer must remit withholdings by the fifteenth day of the month following the calendar quarter in which the taxes were withheld.
- *Monthly:* If an employer expects to withhold \$700 or more in a calendar quarter, the employer must remit withholdings by the fifteenth day of the month following the month in which the taxes were withheld.
- *Within Three Business Days:* Employers that withheld more than \$15,000 or more in the preceding calendar year and have accumulated \$700 of withholding tax must remit withholdings within three business days. Employers who meet this threshold, however, can file withholdings monthly if they are allowed to file monthly for federal withholding tax purposes.

Administration of Tax

The Revenue Administration and Compliance Divisions of the Comptroller of the Treasury are primarily responsible for collecting and administering the income tax, the sales and use tax, and certain other taxes. The combined fiscal 2011 appropriation for these divisions is \$68.6 million.

Fines, Penalties, and Interest

Failure to File – a penalty of not more than 25% of the tax due.

Fraudulent Returns – 100% of the underpayment.

Underpayments – interest assessed at a rate of 3% above the prime rate in the previous State fiscal year, but not less than 13%, as determined by State law.

Local Taxing Authority

Each county and Baltimore City levies a local income tax on their residents. The tax is assessed as a percentage of the taxpayer's Maryland taxable income. For tax year 2010, county income tax rates range from 1.25% in Worcester County to 3.2% in Baltimore City, Howard, Montgomery, and Prince George's counties. Generally, each

incorporated municipality shares in its county's income tax revenues by receiving the greater of 17% of the county income taxes paid by the municipality's residents or 0.37% of the State income tax liability of the municipality's residents.

Revenues

Individual income tax revenues are the largest single source of State revenues. Exhibit 3.4 sets forth Maryland's individual income tax revenues for fiscal 1985 to 2011.

Exhibit 3.4
Maryland Individual Income Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Net State Revenues¹</u>	<u>Percent Change²</u>
1985	\$1,767.9	—
1990	2,863.7	10.1%
1995	3,399.3	3.5%
1996	3,483.9	2.5%
1997	3,767.2	8.1%
1998	4,156.1	10.3%
1999	4,296.2	3.4%
2000	4,763.3	10.5%
2001	5,133.7	8.2%
2002	4,771.7	-7.1%
2003	4,703.7	-1.4%
2004	5,077.6	7.9%
2005	5,660.6	11.5%
2006	6,200.1	9.5%
2007	6,679.1	6.1%
2008	6,940.1	3.9%
2009	6,477.2	-6.7%
2010	6,178.2	-4.6%
2011(est.)	6,292.0	1.8%

¹ Net of refunds and distribution to subdivisions.

² 1990 and 1995 figures reflect average annual change.

Source: Board of Revenue Estimates; Department of Legislative Services

Distribution of Revenues

Individual income tax revenues (after an allowance for refunds, administrative costs, and unallocated withholdings) are distributed to the general fund. The local portion of the tax imposed by the counties and Baltimore City (not reflected in the figures above) is collected by the State and, after deducting administrative costs and a pro rata share of refunds, is distributed to local governments.

Trends

The personal income tax, the State's single most important revenue source, is estimated to yield approximately \$6.3 billion in fiscal 2011 (and an additional \$4.1 billion for the counties and municipalities). On average, each Maryland taxpayer in tax year 2008 paid approximately \$2,741 in State income taxes, plus \$1,662 in local income taxes.

Income tax revenues increased from fiscal 2006 through 2008, though a deteriorating housing market and weakening economy slowed the rate of growth from almost 10% annually to less than 4%. Prior to fiscal 2009, the individual income tax had only declined on three occasions since 1967. However, the collapse of the housing market, the economic recession, and financial market troubles caused steep revenue decreases in fiscal 2009 and 2010. The total decrease was about 13%, well in excess of the decrease experienced in the last recessionary period in fiscal 2002 and 2003.

While some revenue growth is projected for fiscal 2011, personal income tax revenues are not expected to surpass the fiscal 2008 level until fiscal 2013.

Comparison with Other States

Exhibit 3.5 shows how Maryland's individual income tax revenues compare with neighboring states.

Exhibit 3.5
Maryland State and Local Individual Income Tax
Comparison to Selected States
Fiscal 2008

	Percentage of Total Taxes		Per Capita		Percentage of Personal Income	
	<u>Percent</u>	<u>Rank</u>	<u>Amount</u>	<u>Rank</u>	<u>Percent</u>	<u>Rank</u>
Maryland	40.4%	1	\$1,977	4	4.1%	2
Delaware	28.7%	13	1,214	12	3.0%	14
District of Columbia	25.1%	23	2,296	2	3.5%	7
New Jersey	23.4%	28	1,455	8	2.8%	20
North Carolina	33.1%	5	1,189	14	3.4%	10
Pennsylvania	26.5%	17	1,141	17	2.9%	17
Virginia	30.9%	9	1,298	10	2.9%	16
West Virginia	23.6%	26	837	31	2.6%	22
U.S. Average	22.9%		\$1,001		2.5%	

Note: For the rankings, 1 indicates the highest. Rankings are out of 44.

Source: *Government Finances, 2007-2008*, U.S. Census Bureau, July 2010; *Regional Economic Accounts*, Bureau of Economic Analysis, June 2010

History of Major Changes

- 1937 – Individual income tax enacted.
- Tax rate of one-half percent.
- Exemptions: \$1,000 for individuals, \$2,500 for married couples, and \$400 for each additional dependent.
- 1940s – Rates frequently adjusted to yield nearly constant revenues.
- 1949 – Additional \$1,000 exemption for aged or blind taxpayers.
- Tax credit of \$600 for taxpayers with dependents over 65 years of age.

- 1955 – Employer withholding from wages.
 - All exemptions set at \$800.
- 1958 – Tax rate set at 3.0% of ordinary income.
- 1967 – Conformed State tax to federal income tax with addition and subtraction modifications.
 - Imposed current tax rate structure.
 - Piggyback county income tax enacted.
- 1975 – Tax preference items made an addition modification.
- 1979 – Increase in standard deduction from 10.0 to 13.0% of Maryland adjusted gross income with the maximum standard deduction increased to \$1,500 per return (\$3,000 for a joint return).
- 1982 – Federal two-earner marital deduction made an addition modification.
- 1985 – Social Security and railroad retirement benefits became subject to federal income tax; income from these sources made a subtraction modification (both effective for taxable year 1984).
- 1987 – Conformed State tax to federal income tax law changes with the exception of the tax treatment of capital gains (40.0% capital gains subtraction modification enacted).
 - Personal exemption increased to \$1,000 in 1987 and \$1,100 in 1989.
 - Standard deduction percentage increased to 15.0% with a minimum of \$1,000 and maximum of \$2,000 (\$2,000 minimum and \$4,000 maximum for joint returns).
 - Earned income credit equal to 50.0% of federal earned income credit enacted.
 - Tax amnesty was held in the fall.
- 1988 – Chesapeake Bay and Endangered Species Fund checkoff enacted.
- 1989 – Personal exemption increased to \$1,200 beginning in 1990.

- Standard deduction increased to a \$1,500 minimum with a \$2,000 maximum (\$3,000 minimum and \$4,000 maximum for joint returns).
 - Subtraction modifications enacted for earned income of individuals below the poverty line.
 - Decoupled from federal tax treatment of the elderly and blind by converting from an extra standard deduction to an additional exemption of \$1,000.
- 1991 – Capital gains subtraction is limited based on income, then phased out; it decreased from 40.0 to 30.0% in 1991 and was eliminated for tax years after 1991.
- 1992 – Temporary 6.0% tax rate added for incomes over \$100,000 for single taxpayers and \$150,000 for joint returns; the rate applied for tax years 1992 through 1994 only.
- The option for married couples to file combined separate returns is eliminated, but a two-earner subtraction is allowed for up to \$1,200 of salary income, resulting in a similar benefit.
 - Local income (“piggyback”) tax ceiling increased from 50.0 to 60.0% of State income tax liability.
- 1993 – The two-earner subtraction is expanded to include all types of income.
- 1997 – Top rate reduced from 5.0 to 4.75% and personal exemption increased from \$1,200 to \$2,400, phased in from 1998 to 2002; local income tax calculation based on 5.0% top rate and \$1,200 personal exemption amount.
- 1998 – Phase in of tax reduction accelerated; top rate reduced to 4.875% for 1998 (from 4.95%) and to 4.85% for 1999 (from 4.9%), and exemptions increased to \$1,750 for 1998 (from \$1,400) and to \$1,850 for 1999 (from \$1,600); last three years of phase in unaffected.
- Earned income credit made refundable at 10.0% of the federal credit for 1998 and 1999, 12.5% for 2000, and 15.0% thereafter.

- 1999 – Alteration of the local income tax calculation so that the local tax is a percentage of Maryland taxable income (instead of a percentage of the State tax).
- 2000 – Acceleration of refundable earned income credit phase in – made refundable at 15.0% of the federal credit for 2000.
- 2001 – Tax amnesty was held in the fall.
 - Refundable earned income credit made 16.0% of the federal credit for 2001 and 2002, 18.0% for 2003, and 20.0% for 2004.
- 2002 – Addition modification required for amounts deducted for federal income tax purposes for college tuition – decoupled from federal tax legislation.
 - Addition modification required to calculate Maryland taxable income without regard to the special depreciation allowance and extended net operating loss carryover provisions allowed in federal tax legislation.
- 2003 – Legislation enacted designed to increase tax compliance, including imposing State income tax withholding in certain transactions, requiring withholding taxes to be remitted on a more frequent schedule, and requiring tax clearance for certain business licenses.
- 2004 – Addition modifications required to calculate Maryland taxable income without regard to increased business expensing allowed under Section 179 of the Internal Revenue Code and increased depreciation deduction for specified large sport utility vehicles as enacted by federal tax legislation.
 - Legislation enacted related to the use of Delaware Holding Companies by businesses – an addition modification is created for the amount of specified payments made to a related party that are deducted for federal tax purposes and a statutory settlement period is created for the Comptroller to settle the Delaware Holding Companies related legislation.
 - Cancer Research Fund checkoff enacted.

- 2005 – Addition modification required to calculate Maryland taxable income without regard to qualified production activities income deduction as enacted by federal tax legislation.
- 2006 – Existing military retirement income subtraction modification expanded to \$5,000 for all qualified military retirees.
- 2007* – Legislation increased the top income tax rate to 5.5%, expanded the refundable earned income credit by increasing the value to 25.0% of the federal credit and by expanding eligibility of the credit to individuals without dependents, and altered the value of the personal exemption from \$2,400 for all taxpayers to between \$600 and \$3,200 depending on the taxpayer's federal adjusted gross income.
- 2008 – Temporary 6.25% tax rate added for incomes over \$1 million for tax years 2008 through 2010 only.
- 2009 – Addition modification required to calculate Maryland taxable income without regard to the cancellation of debt income provisions allowed in the federal American Recovery and Reinvestment Act.
 - Tax Amnesty was held in the fall.

*special session

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 10, and 13

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Chapter 4. Sales and Use Tax

Taxpayer

The sales and use tax is imposed on (1) the purchase of goods sold in Maryland; (2) the use, storage, or consumption in Maryland of tangible personal property purchased outside the State; and (3) certain services defined as taxable services in the Annotated Code of Maryland. Vendors who are engaged in business in the State are required to collect the tax from the purchaser.

Tax Base

The tax base for the sales and use tax is the taxable price of the goods and services sold that are subject to the tax.

Valuation of Base

The taxable price of goods subject to tax is defined by statute to include any consideration of any kind for a sale, including the value of a trade-in. Exclusions are provided for separately stated charges for installation, professional services, finance charges, delivery charges, certain taxes, certain mandatory gratuities for serving food or beverages, certain service charges in connection with the rental of video and audio equipment, or reimbursement of certain expenses in connection with providing a taxable detective service, and for the value of certain used parts on sales of remanufactured truck parts.

Tax Rates

The general sales and use tax is imposed on a bracket basis approximating 6%; a tax of 1 cent is imposed on sales of 20 cents; 2 cents is imposed on sales of at least 21 cents but less than 34 cents; 3 cents is imposed on sales of at least 34 cents but less than 51 cents; 4 cents is imposed on sales of at least 51 cents but less than 67 cents; 5 cents is imposed on sales of at least 67 cents but less than 84 cents; and 6 cents is imposed on sales of at least 84 cents. Six cents is imposed on sales of at least \$1 or more and for that part of a dollar in excess of an exact dollar. The tax does not apply to sales of less than 20 cents.

A special 11.5% tax is imposed on the rental of any passenger car or multipurpose vehicle that is rented for a period of 180 days or less, for which the lessor does not

furnish a driver and which is not to be used for transporting passengers or property for hire. Certain rental trucks are taxed at 8%.

Special Provisions

Related Taxes

A motor vehicle excise (titling) tax of 6% is imposed on the sale of motor vehicles in lieu of the sales and use tax. See Chapter 10 – Transportation Revenues of this handbook for more information.

An excise tax on vessels of 5% is imposed on the sale of boats in lieu of the sales and use tax. See Chapter 9 – Miscellaneous Taxes of this handbook for more information.

A special use tax is imposed on the use of electricity not distributed by a public service company at a rate of 0.062 cents per kilowatt hour. The special use tax does not apply to electricity that is used for residential purposes or used exclusively for emergency back-up generation and does not apply to on-site generated electricity.

The sales tax is imposed on 60% of the taxable price on the first retail sale of a mobile home and on the purchase of a modular home.

An admissions and amusement tax of 30% is imposed on the net receipts from certain electronic gaming machines and electronic tip jars.

Services Taxed

Several services are taxed under the Maryland sales and use tax. These include:

- cellular phone and other mobile telecommunications services;
- telephone custom calling features;
- 900-type telephone services;
- telephone answering services;
- prepaid telephone calling arrangements;

- security services;
- commercial building cleaning;
- certain commercial cleaning and laundering of textiles for businesses;
- credit reporting services;
- pay-per-view television;
- production of tangible personal property by special order; and
- transportation services for transmission, distribution, or delivery of taxable electricity or natural gas.

Major Exemptions

Numerous exemptions from the sales and use tax are provided under Maryland law. These include:

- sales of agricultural equipment and supplies;
- sales to nonprofit charitable, educational, or religious organizations;
- sales of a Maryland State, United States, prisoner of war, or missing in action flag;
- sales of food by grocery stores, not including certain prepared foods;
- vending machine sales of milk, fresh fruit and vegetables, and yogurt;
- bulk vending machine sales, if the taxable price of the merchandise is 75 cents or less;
- sales of natural gas, electricity, steam, oil, coal, and firewood for residential use;
- sales of equipment or machinery that is used only to load, unload, and handle cargo of ocean going vessels within an international marine terminal;

- sales of aircraft, motor vehicles, railroad rolling stock, or vessels and parts or components used in interstate or foreign commerce;
- casual and isolated sales of less than \$1,000, under specified conditions, and certain capital transactions;
- sales of machinery, equipment, and other tangible personal property used directly and predominantly in a production activity;
- sales of medicines and medical supplies and certain health, physical, and hygienic aids;
- sales of used mobile homes;
- sales of property acquired by a nonresident before coming into the State or for use in the presentation of an exhibit, show, or sporting event of less than 30 days;
- sales of photographic material and sales of artwork, composition, plates, etc. to commercial printers;
- sales of direct mail advertising literature and mail order catalogues to be distributed outside the State;
- sales of government documents;
- sales of property stored in the State pending shipment to another state, and sales of property to a contractor for incorporation into real property in another jurisdiction where the personal use of that property would not be subject to a sales and use tax or similar tax;
- sales of property used or consumed in research and development;
- sales of certain equipment and supplies for seafood harvesting purposes;
- sales of fuel or repair parts for a commercial fishing vessel or for a vessel otherwise used for commercial purposes;
- sales of electricity, fuel, and other utilities used to operate the machinery or equipment used to produce snow for commercial purposes;

- sales of personal, professional, or insurance services that involve a sale as an inconsequential element for which no separate charge is made;
- sales of specified custom software services;
- sales to the State and its political subdivisions (but not including sales to real property contractors for State or local governments);
- sales of items taxed under other laws, including admissions, motor fuel, certain communication services, and motor vehicles;
- sales of transportation services;
- sales of water through pipes and conduits;
- sales of property for resale or incorporated in other personal property produced for resale;
- sales of tangible personal property or a taxable service that is used directly in connection with a film production activity;
- sales of multifuel pellet stoves;
- purchases of specified tangible personal property purchased for use in the commercial cleaning or laundering of textiles;
- sales made to qualified veterans' organizations; and
- sales of specified solar energy equipment, geothermal equipment, and wind energy equipment.

Credit for Collections

In order to cover the expense of collection, persons filing timely returns are allowed to take a vendor credit against the gross tax remitted in an amount equal to 1.2% of the first \$6,000 collected and 0.9% of the excess.

From January 3, 2008, through June 30, 2011, the amount of the sales tax vendor credit is limited to a maximum of \$500 for each return filed.

Refunds

Refunds are made for overpayment of the tax for claims filed within four years from the payment of the tax.

Payment Dates

The tax is to be collected from purchasers at the time of sale or, in the case of out-of-state sales, when the use, storage, or consumption becomes subject to the tax. Vendors who have collected the tax and purchasers who have not paid the tax to vendors are required to remit the tax to the Comptroller by the twentieth day of the month following the month in which the sale or use occurred. The Comptroller is authorized to provide for less frequent filing schedules where circumstances warrant.

Administration of Tax

The Revenue Administration and Compliance Divisions of the Comptroller of the Treasury are primarily responsible for collecting and administering the sales and use tax, the income tax, and certain other taxes. The combined fiscal 2011 appropriation for these divisions is \$68.6 million.

Fines, Penalties, and Interest

Failure to File, Filing Late, or Underpaying the Tax – a penalty of 10% of the tax due.

Failure to Comply with a Notice and Demand for Payment of a Sales and Use Tax Assessment that is Final – a penalty of 25% of the tax due.

Fraudulent Returns and Fraudulent Failure to File Returns – a penalty of 100% of the tax due.

Underpayments – interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law.

Local Taxing Authority

Local governments in Maryland are not authorized to impose general sales taxes. Certain local governments are authorized to levy selected sales taxes on certain categories of sales, the most common of which are utility, hotel rental, and parking taxes.

Revenues

Sales and use tax revenues are the State's second largest source of general fund revenues. Exhibit 4.1 sets forth Maryland's sales and use tax revenues for fiscal 1985 to 2011. In fiscal 2011, sales and use tax revenues are estimated to be almost \$3.9 billion.

Exhibit 4.1
Maryland Sales and Use Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Net General Fund Revenues¹</u>	<u>Transportation Trust Fund</u>	<u>Total Revenues</u>	<u>% Change²</u>
1985	\$1,098.5		\$1,098.5	—
1990	1,572.0		1,572.0	7.4%
1995	1,951.0		1,951.0	4.5%
1996	2,000.3		2,000.3	2.5%
1997	2,093.8		2,093.8	4.7%
1998	2,161.2		2,161.2	3.2%
1999	2,299.3		2,299.3	6.4%
2000	2,478.5		2,478.5	7.8%
2001	2,626.8		2,626.8	5.6%
2002	2,642.5		2,642.5	1.0%
2003	2,697.1		2,697.1	2.1%
2004	2,921.8		2,921.8	8.3%
2005	3,129.4		3,129.4	7.1%
2006	3,355.2		3,355.2	7.2%
2007	3,420.2		3,420.2	4.4%
2008	3,675.3		3,675.3	7.5%
2009	3,620.4	\$203.7	3,824.1	4.8%
2010	3,529.0	196.2	3,725.2	-2.6%
2011 (est.)	3,650.4	204.2	3,854.6	3.5%

¹ Revenues are net of refunds (but include license fees).

² This reflects total revenues – 1990 and 1995 figures reflect average annual change.

Source: Comptroller of the Treasury; Department of Legislative Services

Distribution of Revenues

After an allowance for refunds and administrative costs, sales tax revenues are distributed to the general fund and the Transportation Trust Fund. Beginning in fiscal 2009 and for five fiscal years, 5.3% of total annual sales tax revenues will be distributed to the Transportation Trust Fund – beginning in fiscal 2014, 6.5% of total annual sales tax revenues will be distributed to the Transportation Trust Fund.

Revenues from the sales tax on short-term rental vehicles are distributed to the Chesapeake Bay 2010 Trust Fund (55%) and to the Transportation Trust Fund (45%).

Trends

Sales tax revenues grew steadily from fiscal 2007 to 2009, but the growth in revenues in fiscal 2008 and 2009 was primarily due to the rate increase enacted during the 2007 special session. Had the rate not been raised from 5 to 6% in January 2008, collections would have been essentially flat in 2008 and declined 6.3% in 2009, primarily due to the economic downturn that began in 2008. After a decline in fiscal 2010, sales tax revenues are expected to increase modestly in fiscal 2011.

Comparison with Other States

Sales and use taxes are imposed by 45 states and the District of Columbia, but there is little uniformity in tax rates, tax bases, and exemptions from state to state. Exhibit 4.2 shows how Maryland's general sales and use tax revenues compare with other states in the region for fiscal 2008. See Exhibit 4.3 for the major features of sales and use taxes in other states.

Exhibit 4.2
Maryland Sales and Use Tax
Comparison to Selected States
Fiscal 2008

	Percentage of Total Taxes		Per Capita		Percentage of Personal Income	
	<u>Percent</u>	<u>Rank</u>	<u>Amount</u>	<u>Rank</u>	<u>Percent</u>	<u>Rank</u>
Maryland	24.6%	43	\$1,203	41	2.5%	44
Delaware	13.2%	49	561	50	1.4%	49
District of Columbia	25.7%	41	2,352	4	3.5%	28
New Jersey	23.5%	45	1,459	22	2.8%	43
North Carolina	33.6%	26	1,206	40	3.4%	33
Pennsylvania	29.4%	35	1,266	35	3.2%	39
Virginia	26.2%	40	1,100	44	2.5%	45
West Virginia	37.0%	19	1,311	30	4.1%	15
U.S. Average	33.7%		\$1,474		3.7%	

Note: Includes state and local general sales tax revenues, as well as selective taxes on alcohol and tobacco products, motor fuel taxes, titling taxes, admissions and amusement taxes, insurance premiums taxes, public utility gross receipts taxes, and other taxes. Maryland localities are not authorized to impose a general sales tax. For the rankings, 1 indicates the highest. Rankings are out of 51. Delaware does not impose a general sales tax.

Source: *Government Finances*, U.S. Census Bureau (July 2010)

Exhibit 4.3
Major Features of Sales Taxes
in Other States
July 2010

<u>State</u>	<u>% Tax Rate</u>	<u>States Exempting</u>		<u>State</u>	<u>% Tax Rate</u>	<u>States Exempting</u>	
		<u>Food</u>	<u>Prescr. Drugs</u>			<u>Food</u>	<u>Prescr. Drugs</u>
Alabama	4.0%		E	Montana	No State Sales Tax		
Alaska	No State Sales Tax			Nebraska	5.5%	E	E
Arizona	5.6%	E	E	Nevada	6.85%	E	E
Arkansas	6.0%	2% ¹	E	New Hampshire	No State Sales Tax		
California	8.25%	E	E	New Jersey	7.0%	E	E
Colorado	2.9%	E	E	New Mexico	5.0%	E	E
Connecticut	6.0%	E	E	New York	4.0%	E	E
Delaware	No State Sales Tax			North Carolina	5.75%	E ¹	E
DC	6.0%	E	E	North Dakota	5.0%	E	E
Florida	6.0%	E	E	Ohio	5.5%	E	E
Georgia	4.0%	E ¹	E	Oklahoma	4.5%		E
Hawaii	4.0%		E	Oregon	No State Sales Tax		
Idaho	6.0%		E	Pennsylvania	6.0%	E	E
Illinois	6.25%	1%	1%	Rhode Island	7.0%	E	E
Indiana	7.0%	E	E	South Carolina	6.0%	E	E
Iowa	6.0%	E	E	South Dakota	4.0%		E
Kansas	5.3%		E	Tennessee	7.0%	5.5%	E
Kentucky	6.0%	E	E	Texas	6.25%	E	E
Louisiana	4.0%	E ¹	E	Utah	4.7%	1.75% ¹	E
Maine	5.0%	E	E	Vermont	6.0%	E	E
Maryland	6.0%	E	E	Virginia	5.0%	2.5%	E
Massachusetts	6.25%	E	E	Washington	6.5%	E	E
Michigan	6.0%	E	E	West Virginia	6.0%	3% ¹	E
Minnesota	6.875%	E	E	Wisconsin	5.0%	E	E
Mississippi	7.0%		E	Wyoming	4.0%	E	E
Missouri	4.225%	1.225%	E				

E: Exempt from sales tax.

¹ Food sales subject to local sales taxes.

Source: Federation of Tax Administrators; Department of Legislative Services

History of Major Changes

- 1947 – Retail sales and use taxes enacted at 2% rate and first imposed on July 1, 1947.
- 1959 – Rate increased to 3%.
- 1969 – Rate increased to 4%.
- 1977 – Rate increased to 5%.
- 1980 – Sales of manufacturing machinery and equipment, residential utilities, and cigarettes exempted from the tax.
- 1991 – Exemption for cigarettes repealed.
- 1992 – Cleaning, security, custom telephone, credit reporting, and pay-per-view television services added to taxable base, and tax imposed on snack foods and food for immediate consumption.
- 1995 – Long-term motor vehicle leases exempted from the tax.
- 1996 – Exemption for snack foods restored.
- 1997 – Exemption for tangible personal property used in a production activity broadened, phased in through a credit and fully effective July 1, 2000.
- 2000 – Exemption for the sale of clothing or footwear (except accessories) for the week of August 10 through August 16, 2001, if the taxable price of the item of clothing or footwear was less than \$100.
- 2002 – Sales and use tax vendor credit reduced by half so that vendors received 0.6% for the first \$6,000 collected and 0.45% for any amount above that for fiscal 2003 and 2004.
- 2004 – Continuation of the vendor credit reduction for fiscal 2005 and 2006.

- 2005 – Exemption for the sale of clothing or footwear (except accessories), if the taxable price of the item is \$100 or less, for the period of August 23 through August 27, 2006.
- Elimination of the vendor credit for use tax payments.
- 2006 – Exemption for sales made to qualified veterans organizations, effective for fiscal 2007 through 2009 only.
- 2007* – Rate increased to 6%.
- Tax imposed on various computer services effective July 1, 2008.
- Vendor credit is limited to a maximum of \$500 for each return filed.
- Exemption for the sale of clothing or footwear (except accessories), if the taxable price of the item is \$100 or less, for the seven-day period from the second Sunday in August through the following Saturday, beginning in calendar 2010.
- Exemption for the sale of solar water heaters or certain products meeting or exceeding certain Energy Star efficiency requirements, for the weekend that consists of the Saturday that precedes the third Monday in February, beginning in calendar 2011.
- An admissions and amusement tax of 30% is imposed on the net receipts from certain electronic gaming machines and electronic tip jars.
- 2008 – Tax imposed on computer services repealed.
- Exemption for the sale of certain solar energy and geothermal equipment.
- Exemption for sales made to qualified veterans organizations extended.

*special session

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 11, and 13

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Chapter 5. Business Taxes

Corporate Income Tax

Taxpayer

Each Maryland corporation and every other corporation that conducts business within Maryland, including public service companies and financial institutions, are required to pay the corporate income tax.

Tax Base

The tax base is the portion of federal taxable income, as determined for federal income tax purposes and adjusted for certain Maryland addition and subtraction modifications, that is allocable to Maryland. Federal taxable income for this purpose is the difference between total federal income and total federal deductions (including the net operating loss deduction and other special deductions).

In the case of an affiliated group of corporations, each separate corporation must file a separate income tax return and determine its own taxable income on a separate basis, taking into account only the isolated income and business activities of each separate legal entity.

Valuation of Base

The corporate taxpayer states the value of the base in the return. The return is subject to examination and audit.

Tax Rate

A tax rate of 8.25% is applied to Maryland taxable income.

Computation of Tax

Exhibit 5.1 summarizes the components of the corporate income tax computation.

Exhibit 5.1
Computation of Corporate Income Tax
Tax Year 2007
(\$ in Millions)

Federal Taxable Income	\$61,281
plus	
addition modifications	167,079
less	
subtraction modifications	124,287
equals	
Maryland Modified Income	\$104,073
multiplied by	
apportionment factor	
equals	
Maryland Taxable Income	
multiplied by	
State tax rate	8.25%
equals	
Gross Maryland Tax	730.2
less	
tax credits	19.5
equals	
Maryland Tax Liability	\$710.7

Source: Annotated Code of Maryland, Title 10 of the Tax – General Article

Special Provisions

Addition Modifications to Federal Taxable Income

Several addition modifications are provided under the Maryland corporate income tax. These include:

- State and local income taxes;
- interest or dividends attributable to state or local obligations (except Maryland and its subdivisions);
- net operating loss modification to the extent of a double benefit;
- oil percentage depletion allowance;
- interest or dividends on United States or foreign obligations if exempted from federal income tax but not state income tax;
- reforestation amount allowed in prior tax year if land was decertified in the previous year;
- net capital loss carryback;
- expenses attributable to unlicensed/unregistered child care center or family day care home;
- adjustments to reflect the State disallowance of or limitations on certain amounts allowed for depreciation and net operating loss deductions for federal tax purposes;
- otherwise deductible interest or intangible expenses paid to a related entity under specified circumstances;
- the amount of the dividends paid deduction allowed under the Internal Revenue Code to a “captive REIT” (real estate investment trust more than 50% of which is owned or controlled by a single entity); and
- the value of specified State tax credits, including the:

- enterprise zone wage credit;
- credit for property taxes paid by telecommunications companies; and
- credit for qualified research and development expenses.

Subtraction Modifications to Federal Taxable Income

Numerous subtraction modifications are provided under the Maryland corporate income tax. These include:

- Interest income attributable to obligations of the United States and its instrumentalities;
- dividends received from mutual funds that derive at least 50% of their interest from United States government obligations;
- refunds of State and local income taxes;
- profit realized from the sale or exchange of bonds issued by the State or its political subdivisions;
- cost of purchasing certain poultry or livestock manure spreading equipment;
- expenses to buy and install handrails in an existing elevator in a health care facility or any building that is used 50% or more for medical purposes;
- gain or loss on the disposition of certain assets by a public service company;
- dividends received by domestic corporations from certain foreign corporations, if the receiving corporation owns 50% or more of the paying corporation's outstanding stock;
- dividends included in the income of a domestic corporation claiming a foreign tax credit under Section 78 of the Internal Revenue Code;
- expenses incurred for certain conservation tillage equipment (including liquid manure soil injection equipment);

- a portion of dividends received from affiliated domestic international sales corporations;
- twice the expenses incurred for certain reforestation or timber stand improvement activity;
- payments for relocation and assistance under the Real Property Article, Title 12, Subtitle 2;
- for a regulated investment company, the amount of the addition for interest and dividends from state or local obligations of another state; and
- wages paid related to the federal targeted jobs credit for which a federal deduction was not allowed, not to exceed the federal targeted jobs credit.

Exemptions

Entities not required to file a corporate income tax return include:

- individual retirement account trusts that are exempt from federal income taxation, except those with taxable income for federal purposes;
- common trust funds;
- nonprofit organizations that are exempt from federal income taxation, except for any unrelated business taxable income;
- investment conduits such as a regulated investment company, real estate investment company, and real estate mortgage investment conduit, except those with taxable income for federal purposes;
- insurance companies subject to the insurance premium tax;
- business trusts;
- partnerships as defined in Section 761 of the Internal Revenue Code;
- small business corporations that have elected to be taxed in accordance with Subchapter S of the Internal Revenue Code, except to the extent that their income is subject to federal income tax; and

- limited liability companies to the extent that the company is taxable as a partnership.

Apportionment of Income

Corporations engaged in multistate operations are required to determine the portion of their modified income attributable to Maryland, a determination based on the amount of their trade or business that is carried out in Maryland. Corporations are generally required to use a three-factor formula that incorporates property, payroll, and a double-weighted receipts factor (receipts thus represent 50% of the final apportionment factor). The apportionment factor is multiplied by a corporation's modified total income to determine the amount subject to Maryland tax.

In the case of an affiliated group of corporations, each separate corporation must file a separate income tax return and determine its own taxable income on a separate basis, taking into account only the isolated income and business activities of each separate legal entity.

Corporations engaged primarily in leasing or rental activities are required to use an equally weighted two-factor formula of receipts and property. Corporations engaged primarily in transportation activities are required to use a one-factor formula specific to the industry.

Corporations engaged primarily in manufacturing activities are required to use a one-factor formula of receipts. Under this formula, only in-state sales made by the corporation are accounted for when determining income subject to Maryland income tax.

Tax Credits

Major credits allowed against State tax liability include:

- any estimated or tentative tax payments remitted for the account;
- certain wages paid to qualified employees in an enterprise zone or a focus area;
- certain wages and child care and transportation expenses for qualified employees with disabilities or qualified ex-felon employees;
- job creation tax credit (a portion of wages paid by certain businesses that expand or establish in the State and create a minimum number of jobs);

- neighborhood and community assistance credit;
- heritage structure rehabilitation credit;
- solar water heating and photovoltaic property credit;
- qualified energy resources credit;
- green building credit;
- One Maryland economic development credit (start-up and project costs of qualified businesses in distressed counties);
- employer provided long-term care insurance credit;
- qualified research and development expenses credit;
- credit for easement conveyed to the Maryland Environmental Trust or the Maryland Agricultural Land Preservation Foundation;
- employer provided commuter benefits credit;
- \$3 for each ton of Maryland-mined coal purchased by a cogenerator not subject to the public service company franchise tax (subject to overall cap for tax year 2007 through 2020 and phased out completely by tax year 2021);
- for telecommunications companies that are public utilities, 60% of the property taxes paid on operating real property;
- qualified biotechnology company investment tax credit; and
- Job Creation and Recovery tax credit for certified employers hiring qualified unemployed individuals between March 25, 2010, and December 31, 2010 (tax years 2010 and 2011 only).

Refunds

Generally, refunds are made for overpayment of tax for claims made within three years from the date the tax return was originally filed, or two years from the date of payment, whichever is later.

Payment Dates

Annual returns are due by the fifteenth day of the third month following the close of the corporation's taxable year (March 15 for calendar year taxpayers).

Quarterly declarations of estimated tax are due when the tax for a taxable year can reasonably be expected to exceed \$1,000. Such quarterly declarations are due by the fifteenth day of the fourth, sixth, ninth, and twelfth months of the taxable year.

Tentative tax payments remitted with an application for extension of time to file are required by the original annual return due date.

Administration of Tax

The Revenue Administration Division and Compliance Division, Comptroller of the Treasury are primarily responsible for collecting and administering the individual and corporate income tax, the sales and use tax, and certain other taxes. The combined fiscal 2011 appropriations for these divisions are \$68.6 million.

Fines, Penalties, and Interest

Underpayment – interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law.

Failure to Timely Remit the Tax Due – an additional 25% of the underpayment.

Additional Tax Due After the Original Return Due Date and Not Remitted After Initial Billings – not more than 25% of the additional tax due.

Failure to Remit Quarterly Estimated Tax Payments – not more than 25% of the underestimated tax.

Fraudulent Returns or Fraudulent Failure to File a Return – an additional 100% of the underpayment.

Local Taxing Authority

None.

Revenues

Exhibit 5.2 shows corporate income tax revenues from fiscal 1985 to 2011.

Exhibit 5.2
Maryland Corporate Income Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Transportation Trust Fund Allocation</u>	<u>Higher Education Investment Fund Allocation</u>	<u>General Fund Allocation</u>	<u>Total State Revenues¹</u>	<u>% Change²</u>
1985	\$72.5	-	\$141.4	\$213.9	—
1990	121.2	-	140.8	234.7	1.9%
1995	115.4	-	193.0	308.4	5.6%
1996	77.5	-	252.3	329.8	6.9%
1997	82.1	-	266.0	348.1	5.5%
1998	82.9	-	268.6	351.6	1.0%
1999 ³	95.4	-	306.1	401.5	14.2%
2000	99.9	-	319.5	419.3	6.3%
2001 ⁴	118.2	-	374.4	492.6	17.5%
2002 ⁵	84.5	-	273.2	357.8	-27.4%
2003	91.0	-	288.3	379.3	6.0%
2004 ⁶	103.8	-	328.6	432.3	14.0%
2005 ⁶	161.8	-	512.2	674.0	55.9%
2006 ⁶	196.8	-	623.2	820.0	21.7%
2007 ⁷	186.2	-	589.8	782.0	-4.6%
2008 ⁸	167.7	\$16.0	551.7	735.3	-6.0%
2009	151.3	47.0	550.7	749.0	1.9%
2010 ⁹	147.0	43.3	560.3	750.6	0.2%
2011 ¹⁰ (est.)	141.9	41.8	498.7	682.4	-9.1%

¹ Net of refunds.

² 1990 and 1995 figures reflect average annual change.

³ The 1999 increase reflects certain financial companies and telecommunications companies becoming subject to the corporate income tax.

⁴ The 2001 increase reflects financial institutions and public service companies becoming subject to the corporate income tax.

⁵ 2002 figures exclude revenue from the 2001 tax amnesty program.

⁶ 2004-2006 figures exclude revenues from settlements related to Delaware Holding Companies.

⁷ 2007 Total State Revenues figure includes \$6 million distributed to the Electric Universal Service Fund.

⁸ Distributions from corporate income tax revenue to the Higher Education Investment Fund began in fiscal 2008.

Exhibit 5.2 (Continued)

⁹ 2010 figures exclude revenue from 2009 amnesty program and \$129 million in extraordinary corporate income tax revenue distributed to the general fund pursuant to Chapter 484 of 2010.

¹⁰ 2011 estimates exclude revenue from 2009 amnesty program and reflect reduction in revenues from Job Creation and Recovery Tax Credit.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2011*, Department of Budget and Management; Board of Revenue Estimates; Department of Legislative Services

Distribution of Revenues

After an allowance for refunds, a distribution is made from corporate income tax revenue to the Higher Education Investment Fund and then a distribution is made to the general fund (these distributions began in fiscal 2008). A distribution is then made to an administrative cost account for the Transportation Trust Fund's share of the cost of administering the income tax on corporations, 24% of the remaining corporate income tax revenues are distributed to the Gasoline and Motor Vehicle Revenue Account in the Transportation Trust Fund, and the balance is distributed to the general fund.

Trends

In general, both corporate income tax revenues and corporate profits have increased during economic booms and slowed or declined during economic downturns. The inherent volatility of corporate income tax revenues makes them a relatively unpredictable source of revenue.

Comparison with Other States

Exhibit 5.3 compares Maryland's corporate income tax revenues with neighboring states.

Exhibit 5.3
Maryland Corporate Income Tax
Comparison to Selected States
Fiscal 2008

	Percentage of Total Taxes		Top	Per Capita		Percentage of Personal Income	
	<u>Percent</u>	<u>Rank¹</u>	<u>Tax Rate²</u>	<u>Amount</u>	<u>Rank¹</u>	<u>Percent</u>	<u>Rank¹</u>
Maryland	2.7%	40	8.25	\$130	32	0.3%	40
Delaware	8.3%	4	8.7	352	5	0.9%	6
District of Columbia	7.8%	6	9.975	712	2	1.1%	3
New Jersey	5.2%	11	9.0	325	7	0.6%	10
North Carolina	3.6%	28	6.9	130	31	0.4%	29
Pennsylvania	4.1%	22	9.99	175	16	0.4%	20
Virginia	2.4%	44	6.0	101	40	0.2%	42
West Virginia	8.4%	3	8.5	297	9	0.9%	5
U.S. Average	4.3%			\$190		0.5%	

¹ For the rankings, 1 indicates the highest. Rankings are out of 47.

² Top tax rates are rates effective for calendar 2010.

Source: *Annual Survey of Government Finance*, U.S. Census Bureau, July 2010; Population from the U.S. Census Bureau (December 2009); Personal income data from U.S. Bureau of Economic Analysis (June 2010); Tax rates from *Range of State Corporate Income Tax Rates*, Federation of Tax Administrators, March 2010

History of Major Changes

- 1937 – Corporate income tax enacted.
- Tax rate of 0.5%.
- 1939 – Tax rate changed to 1.5%.
- 1948 – Tax rate changed to 4.0%.
- 1955 – Tax rate changed to 4.5%.

- 1956 – Additional tax of 0.5% imposed for Maryland Port Authority Fund.
- 1967 – Adopted federal taxable income as Maryland taxable income base, with required addition and subtraction modifications.
 - Additional tax imposed for Maryland Port Authority Fund increased to 0.75%.
- 1968 – Base tax rate changed to 6.25%, making the total tax rate 7.0% (including that attributable to the Maryland Port Authority Fund).
 - State portion of personal property tax made an addition modification and tax credit.
- 1975 – Net operating loss deduction and adjustment for 50.0% of net long-term capital gain deleted as subtraction modification.
- 1976 – Dividend and nonbusiness interest income deleted as a subtraction modification.
- 1977 – Small business corporations (Subchapter “S”) exempted from corporate income tax.
 - Foreign “grossed up” dividends made a subtraction modification.
 - Estimated tax payments required quarterly.
- 1978 – Dividends received from certain domestic international sales corporations made a subtraction modification.
- 1979 – Profits realized from the sale or exchange of bonds issued by Maryland or its political subdivisions and dividends received from a foreign corporation in which the taxpayer owned 50.0% or more of the outstanding shares are made subtraction modifications.
- 1982 – Required taxation of unrelated business income of tax-exempt organizations.
 - Interest and dividends on any state or local obligations (other than Maryland and its subdivisions) or federal tax-exempt obligations made addition modifications.
 - Enterprise zone credit enacted.

- 1983 – Personal property made exempt from the State property tax, with the rate set at zero, and the corresponding credit against the income tax made inapplicable.
- 1984 – Statute revised to delete provisions for direct allocation and to apportion all income.
- 1989 – “S” corporation income subject to federal corporate income tax also made subject to Maryland corporate income tax.
 - Net operating loss modification enacted as an addition modification.
- 1991 – Income tax withholding requirement imposed on income earned by nonresident shareholders of “S” corporations conducting business in Maryland and by nonresident partners of partnerships conducting business in Maryland.
- 1992 – Income earned in providing interstate long-distance telecommunications service becomes subject to corporate income tax.
 - Three-factor apportionment formula changed to double-weight receipts relative to property and payroll.
- 1995 – Commercial banks, savings banks, trust companies, and companies that substantially compete with national banks in the State shifted from the financial institution franchise tax to the corporate income tax, fully effective January 1, 1998.
- 1997 – Income of local telephone companies becomes subject to corporate income tax.
- 1999 – Electric and gas utilities become subject to corporate income tax and subtraction modification for income subject to franchise tax is repealed.
- 2000 – Financial institutions franchise tax and savings and loan franchise tax repealed, making financial institutions subject to the corporation income tax.
- 2001 – Single factor (receipts) allocation formula for manufacturing enacted.

- 2002 – Maryland income tax is decoupled from the special depreciation and net operation loss provisions of the federal Job Creation and Worker Assistance Act of 2002.
- 2004 – Addition modification required for otherwise deductible interest or intangible expenses paid to related entity under specified circumstances.
- 2007 – Addition modification required for dividends paid deduction allowed for federal tax purposes to a “captive REIT” (real estate investment trust more than 50% of which is owned or controlled by a single entity).
 - *Tax rate increased from 7.0 to 8.25%, effective for tax years beginning after December 31, 2007.
 - *For tax years 2006 through 2010, for information purposes only, corporations required to submit *pro forma* “combined report” for corporate groups.

*special session

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 10, and 13

Public Service Company Franchise Tax

Taxpayer

Persons engaged in a telephone business in Maryland or the delivery, transmission, or distribution of electricity or natural gas in Maryland must pay the public service company franchise tax.

Tax Base

For telephone, electric, and gas companies, a tax is imposed measured by the company's gross receipts. Gross receipts are defined as the total operating revenues of the public service companies, excluding revenue derived from an activity other than a telephone, electric, or natural gas business. Gross receipts do not include uncollectible

revenue, receipts from a service or product resold by another public service company that is subject to the tax, or gross receipts from the sale of electricity or natural gas.

For electric and gas companies, a second tax is imposed measured by the kilowatt-hours of electricity or therms of natural gas delivered for final consumption in the State.

Valuation of Base

The value is stated in reports filed annually on or before March 15 with the State Department of Assessments and Taxation.

Tax Rate

The rate for the gross receipts component of the tax is 2% of gross revenues. The rate of the distribution tax imposed on electric and gas companies is 0.062 cents per kilowatt-hour for electricity delivered for final consumption and 0.402 cents per therm for natural gas delivered for final consumption.

Special Provisions

Exemptions

The gross receipts component of the tax does not apply to a public service company that is a county, municipal corporation, or nonprofit electric cooperative. Counties and municipal corporations are exempt from the distribution component of the tax with respect to natural gas only.

Allocation of Gross Receipts

The tax is applied to gross receipts derived from business in Maryland. The income of interstate telephone carriers is apportioned based on the location to which the service is charged.

Tax Credits

Major credits allowed against the tax include:

- estimated tax payments;
- tariff charges for telephone lifeline services not billed to eligible subscribers;

- \$3 for each ton of Maryland-mined coal purchased (subject to an overall cap for tax years 2007 through 2020 and phased out completely by tax year 2021);
- taxes paid by a long-distance telecommunications company on services taxed in another state;
- certain wages and child care and transportation expenses for qualified employees with disabilities or qualified ex-felon employees;
- certain wages paid for new jobs created in the State; and
- employer-provided long-term care insurance.

Electricity and natural gas providers are also allowed a credit for electricity or gas delivered to industrial customers for production activities. This credit must be passed on to the industrial customers in the form of lower rates. For electricity, the credit is 0.002 cents per kilowatt-hour between 500 million and 1.5 billion kilowatt hours during a calendar year delivered to a single industrial consumer at the same location for use in a production activity. For more than 1.5 billion kilowatt hours delivered, the credit rate is 0.0455 cents per kilowatt-hour. The credit for natural gas equals the tax imposed, so industrial consumers of natural gas are effectively exempted from the distribution tax for natural gas delivered for use in a production activity.

Payment Dates

An estimated payment of 25% of the anticipated tax for the full year for both components (gross receipts and distribution) must be paid to the State Department of Assessments and Taxation by April 1, June 15, September 15, and December 15 of the current year. The final tax return for the preceding calendar year is due to the department by March 15, along with any final payment.

Administration of Tax

The State Department of Assessments and Taxation's total administrative budget for its Business Property Valuation Program, which has responsibility for administering this tax and others, is \$3.2 million in fiscal 2011.

Fines, Penalties, and Interest

Failure to Pay Tax When Due – interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law; penalty not to exceed 10% of unpaid tax.

Estimated Tax Payment Is Less Than 25% of the Required Tax Due – interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law; penalty not to exceed 25% of unpaid tax.

Additional Tax Due – not more than 25% of unpaid tax.

Fraudulent Return – an additional 100% of the underpayment.

Local Taxing Authority

Subdivisions do not have the authority to levy a franchise/gross receipts tax, although several have been granted authority to levy a sales tax on the sales of selected public service corporations.

Revenues

Exhibit 5.4 shows the public service company franchise tax revenues from fiscal 1985 to 2011.

Distribution of Revenues

The revenues are distributed to the general fund.

Trends

Revenues from the public service company franchise tax are expected to be relatively stagnant for the next several years, as modest growth from the taxes on the electric and natural gas industries will be offset by anticipated declines in tax revenues from telecommunications companies.

Exhibit 5.4
Public Service Company Franchise Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Net Revenues</u>¹	<u>% Change</u>²
1985	\$86.3	—
1990	112.4	5.4%
1995	142.3	4.8%
1996	135.0	-5.1%
1997	145.6	7.9%
1998	146.5	0.6%
1999	153.0	4.4%
2000	153.9	1.6%
2001	144.0	-6.4%
2002	140.9	-2.2%
2003	130.1	-7.7%
2004	137.4	5.6%
2005	133.3	-3.0%
2006	125.2	-6.1%
2007	132.8	6.1%
2008	133.5	0.5%
2009	124.9	-6.4%
2010	139.5	11.7%
2011 (est.)	139.5	0.0%

¹ Net of refunds.

² 1990 and 1995 figures reflect average annual change.

Source: Board of Revenue Estimates; Department of Legislative Services

History of Major Changes

- 1972 — Gross receipts tax enacted.
- 1980 — Eliminated 2% gross receipts tax on railroads in lieu of State property tax.

- 1988 – State Department of Assessments and Taxation given full responsibility for administering the tax. Formerly, administration had been shared with the Comptroller of the Treasury.
- Tax recodified as the “Public Service Company Franchise Tax.” Formerly, the tax was the “Gross Receipts Franchise Tax.”
- 1992 – Method of apportioning interstate revenues for telephone companies altered and codified.
- Quarterly estimated tax payments instituted.
- Tax payments in excess of \$20,000 may be required to be made via electronic funds transfer.
- 1997 – Telecommunications companies required to disclose the tax as a line item on the telephone bill.
- Revenues from Internet access service exempted from the tax.
- 1999 – Taxation of electric and gas utilities changed to current structure of franchise tax on distribution with proceeds of sales of electricity and gas subject to the corporate income tax. Previously, the franchise tax was on gross receipts from the sale and distribution of electricity and natural gas.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 8, and 13

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Insurance Premium Tax

Taxpayer

Each authorized insurance company, surplus lines broker, or unauthorized insurance company that sells, or an individual who independently procures, any type of insurance coverage upon a risk that is located in the State is required to pay the insurance

premium tax. For-profit health maintenance organizations and Medicaid managed care organizations are also required to pay the tax.

Authorized insurers are those insurance companies licensed to engage in the insurance business in Maryland. Unauthorized insurers are those insurance companies not licensed to engage in the insurance business in Maryland. The majority of unauthorized insurers that are allowed to operate in the State offer specialty insurance (such as hurricane insurance) not offered by any authorized insurer in the State.

Tax Base

The tax base is the taxpayer's gross premiums less exclusions specified by law, which yields net premiums. For a for-profit health maintenance organization, premiums subject to the tax include subscription charges or other amounts paid on a periodic basis as compensation for providing health care services to members. For a managed care organization, premiums to be taxed include gross receipts received as a result of capitation payments, supplemental payments, and bonus payments for provider services to enrollees.

Valuation of Base

Value is determined by the net value of premiums reported in a calendar year to the Insurance Commissioner and is subject to audit.

Tax Rates

Authorized Insurers

A tax rate of 2% is imposed on all authorized classes of new or renewal net direct insurance policy premiums written by insurance companies, on gross receipts received as a result of capitation payments, supplemental payments, and bonus payments made to managed care organizations, and subscription amount or other amounts paid to for-profit health maintenance organizations.

A retaliatory tax is imposed on insurers whose state of charter requires the payment of a higher rate than that levied by Maryland.

Unauthorized Insurers

A tax rate of 3% is imposed on all authorized classes of new or renewal insurance policy gross premiums, less any returned premiums charged, placed by licensed surplus

lines brokers and unauthorized insurance companies. The insured pays this tax (in addition to the premium) to the surplus lines broker or directly to the Insurance Commissioner.

Special Provisions

Exclusions from Gross Premiums

Various exclusions and exemptions from the insurance premium tax are provided under Maryland law, as listed below.

- premiums on policies covering weekly disability benefit payments;
- credits on premiums for industrial insurers for payments made to home/branch offices;
- annuities (taxed at 0% rate);
- returned premiums, not including surrender values;
- dividends to policyholders; and
- returns or refunds due to retrospective ratings or safe driver awards.

Exemptions

Estimated, Gross Direct Premium, and Deposit Tax – Authorized Insurers:

- nonprofit health service plan corporations that meet certain public service requirements;
- fraternal benefit societies; and
- nonprofit health maintenance organizations, under certain circumstances.

Premium Receipt Tax – Unauthorized Insurers:

- life and health insurance in effect on July 1, 1968;
- annuities;

- reinsurance;
- wet marine insurance;
- transportation insurance;
- insurance on subjects located, resident, or to be performed wholly outside of this State;
- insurance on vehicles or aircraft owned and principally garaged outside of this State;
- insurance on property or operation of railroads engaged in interstate commerce;
- insurance of certain aircraft arising out of the ownership, maintenance, or use of such aircraft;
- insurance against legal liability arising out of the ownership, operation, or maintenance of any property having a permanent situs outside of this State; and
- insurance against the perils of navigation, transit, or transportation upon certain shipowner's interest.

Allocation

Gross direct premiums are allocated on the basis of the portion derived from or reasonably attributable to a company's insurance business conducted in the State.

Tax Credits

The following credits may be claimed against the premium tax:

- certain wages and child care and transportation expenses for qualified employees with disabilities or qualified ex-felon employees;
- certain wages paid for new jobs created in the State;
- neighborhood and community assistance programs;
- heritage structure rehabilitation;

- employer provided long-term care insurance;
- employer provided commuter benefits; and
- One Maryland economic development start-up costs.

Every life insurance company domiciled in Maryland is authorized a credit not to exceed 15% of the total tax for any fees paid to the Insurance Commissioner for valuing life insurance policies.

Surplus lines brokers are allowed a credit against taxes for any costs, paid or charged, of an examination of their records and operations.

Payment Dates

Any authorized insurer subject to taxation, including for-profit health maintenance organizations and managed care organizations, is required to report a declaration of estimated tax if its total tax for the calendar year reasonably may be expected to exceed \$1,000. An initial declaration of estimated tax is due on or before April 15, and quarterly estimated tax reports are due on or before June 15, September 15, and December 15. The quarterly payments must include at least 25% of the estimated annual tax. The total amount of actual taxes must be paid with the reports filed with the Insurance Commissioner by each March 15, after crediting the amount of tax paid with the declaration of estimated tax.

The tax on unauthorized insurers is due to the Insurance Commissioner semiannually by March 15 and September 15.

Insureds, unauthorized insurers, industrial insurers, and self-insureds who procure insurance coverage directly with an unauthorized insurer are required to report within 60 days and pay the 3% tax to the Insurance Commissioner by March 1 succeeding the calendar year in which the insurance was procured.

Licensed Maryland surplus lines brokers are required to submit an affidavit that supports each policy transaction within 45 days after the last day of the month in which the business was placed. Placing is defined as the effective date of the policy that becomes binding on the authorized insurance company.

Administration of Tax

The cost of administering the tax is not specifically identified in the budget of the Maryland Insurance Administration but is part of the appropriation for the administration's examining and auditing program, which has a fiscal 2011 appropriation of \$3.7 million.

Fines, Penalties, and Interest

Underpayments – penalty of 5% plus interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law.

Additional Tax Due – interest assessed at a 6% annual rate.

Failure to File – taxes can be assessed at up to twice the amount estimated to be due and become final within 15 days after mailing the assessment notice.

Fraudulent Returns – an additional 100% of the underpayment.

Local Taxing Authority

Local jurisdictions are prohibited from imposing any taxes upon any insurance company subject to insurance premium taxation under Maryland law, except taxes on real estate and tangible personal property.

Revenues

Exhibit 5.5 shows the insurance premium tax revenues from fiscal 1985 to 2011.

Exhibit 5.5
Maryland Insurance Premium Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>General Fund Revenues¹</u>	<u>Special Fund Revenues</u>	<u>Total Revenues</u>	<u>% Change²</u>
1985	\$82.2		\$82.2	—
1990	145.9		145.9	12.2%
1995	156.5		156.5	1.4%
1996	165.8		165.8	5.9
1997	165.8		165.8	0.0
1998	172.7		172.7	4.2
1999	177.8		177.8	3.0
2000	172.5		172.5	2.0%
2001	190.4		190.4	10.4%
2002	193.7		193.7	1.7%
2003	228.5		228.5	18.0%
2004	260.1		260.1	13.8%
2005	268.9		268.9	3.4%
2006	274.9		274.9	2.2%
2007	283.3	88.0	371.3	35.1%
2008	301.8	96.5	398.3	7.3%
2009	275.2	95.2	370.4	-7.0%
2010	277.0	101.4	378.4	2.2%
2011 (est.)	273.8	103.2	377.0	-0.4%

¹ Net of refunds; figures reflect cash collections for the fiscal year.

² Revenues from the tax imposed on HMOs and MCOs beginning in fiscal 2007 are distributed to the Maryland Health Care Provider Rate Stabilization Fund.

³ 1990 and 1995 figures reflect average annual change.

Source: Board of Revenue Estimates; Maryland Insurance Administration; Department of Legislative Services

Distribution of Revenues

The revenues from the tax on for-profit health maintenance organizations and managed care organizations are distributed to the Maryland Health Care Provider Rate

Stabilization Fund. The remaining revenues from the premium tax are distributed to the general fund.

Trends

Revenues from the premium tax are cyclical, as premiums rise and fall based on insurer returns on portfolios and underwriting loss experience. Premium growth is also affected by increased competition and by the level of economic activity, including numbers of automobile and home purchases, home prices, and general business activity. The revenues from the newly imposed tax on for-profit health maintenance organizations and managed care organizations increased overall revenues significantly beginning in fiscal 2007. After declining in fiscal 2009, overall premium tax revenues remain relatively constant in fiscal 2010 and 2011.

History of Major Changes

- 1941 – Established principal tax on domestic and foreign insurance companies, which was levied on new and renewal gross direct premiums.
- 1963 – Laws relating to insurance and its regulation were revised and recodified.
 - Rate on certain insurers procuring insurance from authorized insurers lowered to 3%.
- 1966 – Tax rate on premiums from annuities reduced and then eliminated.
- 1968 – Modifications to 3% premium tax applied to insurers on certain unauthorized insurance on risks located in Maryland and applied to insurers upon the obligation (represented by premium) for certain unauthorized insurance on risks located in Maryland.
- 1976 – Required estimated tax payments.
- 1984 – Repealed tax on perpetual fire insurance policies.
- 2005 – Tax imposed on for-profit health maintenance organizations and managed care organizations, with revenues dedicated to the Maryland Health Care Provider Rate Stabilization Fund.

Sections of the Maryland Annotated Code

Insurance Article, Title 3, Subtitle 3 (surplus lines brokers), Title 4, Subtitle 2 (unauthorized insurers), and Title 6

Legislative Handbook Series Cross-reference

Volume VII – Business Regulation in Maryland

Unemployment Insurance Contribution Tax

Taxpayer

Employers of individuals performing “covered employment” are responsible for making unemployment insurance contributions for their employees. Various exemptions from “covered employment” are specified in the unemployment insurance law. Some of these exemptions are, under specified circumstances, applicable to independent contractors; direct sellers; insurance and real estate agents working for commissions; domestic employees; agricultural labor, governmental employees, religious organizations; and taxicab, truck, or messenger service drivers. The vast majority of the exemptions and special coverage provisions are the same as those under the federal Unemployment Tax Act.

Tax Base

The tax base is the first \$8,500 of wages paid to each employee during a calendar year. This base is multiplied by the rate assigned to each employer’s account.

Valuation of Base

The employer reports both the taxable and total wages in the quarterly contribution return that is subject to audit.

Tax Rates

For calendar years beginning on or after January 1, 2006, the employer contribution rates range from a minimum of 0.3% to a maximum 13.5%, depending on the employer’s experience rating and the ratio of the balance in the Unemployment Insurance Trust Fund as of September 30 of the immediately preceding calendar year to the total taxable wages paid in covered employment for the four completed calendar

quarters immediately preceding September 30. For any calendar year, employer contribution rates are determined by the experience-based rate table applicable for the year, depending on the ratio of the Unemployment Insurance Trust Fund balance to total taxable wages, as shown in Exhibit 5.6.

Exhibit 5.6
Calculation of Unemployment Insurance Contribution Tax Rates

<u>Table</u>	<u>Ratio of UITF to Total Taxable Wages</u>	<u>Minimum Rate</u>	<u>Maximum Rate</u>
A	UITF exceeds 5.0%	0.3%	7.5%
B	UITF exceeds 4.5% but not 5.0%	0.6%	9.0%
C	UITF exceeds 4.0% but not 4.5%	1.0%	10.5%
D	UITF exceeds 3.5% but not 4.0%	1.4%	11.8%
E	UITF exceeds 3.0% but not 3.5%	1.8%	12.9%
F	UITF is 3.0% or less	2.2%	13.5%

UITF: Unemployment Insurance Trust Fund

Source: Department of Legislative Services

Special Provisions

Unemployment Insurance Fund

This fund is established as a special fund in the U.S. Treasury (separate and apart from all public monies or funds of this State) and made up of contributions paid by employers and interest earned. The fund is for the sole purpose of paying benefits to workers who are unemployed through no fault of their own.

Fund Balance

The term “fund balance” means the total amount available for benefits in the Maryland Unemployment Insurance Fund.

Adjustments and Refunds

An employer can file a request for an adjustment or refund of contributions that may have been paid in error. No refund or adjustment may be allowed unless an

application is made by the later of the following dates: (1) one year from the date on which the payment was made; or (2) three years from the last day of the calendar quarter for which the payment was made. Any refund or adjustment will be reduced if erroneously reported wages were used in determining former employees' eligibility for and payment of unemployment insurance benefits.

Federal Unemployment Tax Rate

The federal unemployment tax rate is 6.2% on a \$7,000 wage base. However, employers who have paid all State taxes due receive a credit of 5.4%, resulting in an effective federal tax rate of 0.8% or \$56 per employee per year.

Payment Dates

All employers are sent a tax and wage report at the end of each calendar quarter that is due one month following the end of that quarter. These due dates are April 30, July 31, October 31, and January 31.

Taxpaying employers are generally required to remit the appropriate amount due by the quarterly due date. For any calendar year in which the highest tax rate table (Table F) is in effect, regulations are required to offer a variety of payment plan options to spread through the end of August the due dates for contributions on taxable wages paid for the first six months of the year. For calendar 2010 and 2011, regulations are required to offer payment plan options spreading through the end of December the due dates for contributions on taxable wages paid for the first nine months of the year.

Reimbursing employers file the tax wage report amount without payment. They are billed at the end of each calendar quarter for any unemployment insurance benefits that may be charged to their account.

Administration of Tax

The Division of Unemployment Insurance within the Department of Labor, Licensing, and Regulation administers the unemployment insurance program. The office is responsible for the proper collection of all unemployment insurance taxes and pays unemployment insurance benefits to eligible individuals. The U.S. Treasury maintains the Unemployment Insurance Fund.

The operating budget of the Division of Unemployment Insurance is entirely federally funded from employers' federal unemployment insurance taxes. For

fiscal 2011, the State budget anticipates a federal appropriation of approximately \$63.9 million.

Fines, Penalties, and Interest

In general, interest charges are assessed at a rate of 1.5% per month (or fraction) for late payments. For calendar 2010 and 2011 and for any calendar year in which the highest tax rate table (Table F) is in effect, the interest rate is reduced to 0.5% per month.

A penalty assessment of \$35 is made for each quarterly contribution report filed late. A penalty assessment of \$15 is made for each Request for Separation Information form filed late.

Collections of interest, penalties, and fines are deposited in a special fund known as the Special Administrative Expense Fund in the State Treasury. Any monies in the fund are appropriated through the regular State appropriation process. On July 1, all monies in this fund in excess of \$250,000 must be paid into the general fund.

Local Taxing Authority

None.

Revenues

Exhibit 5.7 shows the unemployment insurance contribution tax revenues and benefit payments from fiscal 1990 to 2010.

Exhibit 5.7
Maryland Unemployment Insurance Contribution
Tax Revenues and Benefit Payments
Fiscal 1990-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>Fund Collections</u>	<u>Benefits Paid</u> ¹	<u>Fund Balance</u> ²
1990	\$148.2	\$217.4	\$593.0
1995	480.0	331.0	386.9
2000	284.8	277.5	816.1
2001	270.1	313.2	867.6
2002	251.5	475.4	832.1
2003	260.9	518.7	638.5
2004 ³	411.0	501.2	703.7
2005 ³	510.2	416.0	883.5
2006 ^{3 4}	480.6	393.0	891.5
2007 ⁴	401.6	409.2	928.2
2008 ⁴	361.0	501.7	896.7
2009 ⁴	371.3	927.9	312.4
2010 ⁵	643.9	942.6	456.3

¹ Includes only regular State unemployment benefits.

² Balance in the Maryland Unemployment Insurance Fund as calculated on September 30 following each fiscal year. A federal Reed Act distribution of \$142.9 million was provided to Maryland in March 2002. This amount was included in the account balances for fiscal 2002 and 2003. In November 2003, these funds were transferred to a separate account and are not included in the account balance for fiscal 2004 through 2007. In October 2007, \$132.8 million of these funds was transferred back to the fund and are included in the account balance for 2008 and beyond. During fiscal 2008, \$12.5 million of the funds were transferred to a separate account and are not included in the account balance in 2008 and beyond. For fiscal 2010, per Chapter 2 of 2010, the account balance includes \$126.8 million receivable by the fund under the provisions of the federal American Recovery and Reinvestment Act.

³ Fund collections for fiscal 2004 through 2006 include a 1.1% surcharge for calendar 2004 and a 0.8% surcharge for calendar 2005.

⁴ Fund collections for calendar 2006 are based on Table B, for calendar 2007 and 2008 Table A, and for calendar 2009 Table B.

⁵ Fund collections for calendar 2010 are based on Table F. Under the American Recovery and Reinvestment Act, \$126.8 million was provided to Maryland in May 2010 with the passage of Chapter 2 of 2010. Fund balance includes \$133.8 million in Federal Title XII Loan.

Source: Department of Labor, Licensing, and Regulation

Distribution of Revenues

All contributions, exclusive of penalties and interest, collected by the Department of Labor, Licensing, and Regulation are deposited with the U.S. Treasury. The sole purpose of the Maryland unemployment insurance tax is to pay unemployment insurance benefits to unemployed workers. There is no distribution to local governments.

History of Major Changes

- 1936 – Unemployment Insurance Law enacted.
 - Tax rate established as 2.7% of covered wages.
- 1943 – Experience rating introduced – tax range 0.9 to 2.7%.
- 1947 – Minimum tax rate reduced – range 0.3 to 2.7%.
- 1953 – Escalator clause on tax rates added – rates vary with the level of the reserve fund.
- 1959 – Surtax on employer tax rates added.
- 1960 – Basic tax revision increased most rates by 0.6% – range 0.3 to 3.6% plus an adjustment factor for a new minimum rate of 4.2%.
- 1964 – Basic tax rates reduced 0.3% – range 0.0 to 4.2% plus noncharged benefit factor.
- 1969 – Eliminated the noncharged benefit adjustment factor on employer tax rates and substituted a 0.1% minimum tax rate in all schedules.
- 1971 – Coverage extended to nonprofit organizations and to State hospitals and State institutions of higher education and provided an optional method of paying benefits costs in lieu of taxes.
 - Increased the taxable wage base to \$4,200 for each employee.
- 1977 – Coverage extended to certain agricultural labor, domestic service, governmental entities, and nonprofit groups.
 - Increased the taxable wage per employee to \$6,000.

- 1978 – Maximum tax rate increased from 3.6 to 5.0%.
 - Penalty tax rate changed from 4.2 to 2.0% above the assigned tax rate.
- 1980 – Maximum surcharge tax rate increased from 5.0 to 6.0%.
- 1981 – Eliminated 2.0% penalty rate adjustment and added \$35 penalty for failure to file reports timely, and also increased from 1.0 to 1.5% the monthly interest rate on overdue contributions.
- 1983 – Taxable wage base increased to \$7,000 for each employee.
- 1984 – Increased the standard employer tax rate and maximum basic employer tax rate from 5.0 to 5.4%.
 - Sick pay benefits to be treated as wages and taxable for unemployment insurance.
- 1988 – Eliminated charging benefits to taxpaying employers for the separation reason of gross misconduct.
 - Increased collateral requirements for reimbursing nonprofit employers with more than 25 employees to 5.4% of the prior year's taxable wages.
- 1990 – Imposed new employer tax rate on out-of-state contractors based on average of rates paid by Maryland employers in certain industries.
 - Increased the standard employer tax rate and maximum basic employer tax rate from 5.4 to 6.0%.
 - Increased the standard employer tax rate and maximum basic employer tax rate from 6.0 to 6.5%.
 - Decreased the maximum assignable surtax from 2.7 to 1.7%.
 - Increased the maximum assignable rate from 6.0 to 7.6%.
- 1991 – Moved computation date for trust fund solvency from May 31 to September 30.
 - Increased standard employer tax rate and the maximum basic employer rate from 6.0 to 6.5%.

- Maryland Unemployment Insurance Law recodified.
- 1992 – Exempted from the definition of wages any payment to employees of cafeteria plan benefits and employees' dependent care assistance benefits to comply with federal law.
- Taxable wage base increased from \$7,000 to \$8,500 per employee.
- Standard (maximum earned) rate increased from 6.5 to 7.0%. Continuing increases of 0.1% annually until the rate reaches 7.5% in 1998 were enacted.
- Maximum rate assignable in a surcharge situation increased from 7.6 to 8.1% and enacted the phasing out of the cap by 1998.
- Altered the ratio of the trust fund balance to taxable wages at which the surcharge will be triggered from 4.5 to 4.7%. Maximum surcharge rate reduced from 2.7 to 2.0%.
- Each division on the schedule of basic rates increased by 0.2%, making the minimum 0.3%.
- 1993 – All employer charges prorated based proportionally on the wages paid by each of a worker's employers. Formerly, if one employer was responsible for 75.0% of the wages used to determine eligibility, 100.0% of the charges were allocated to that employer.
- 1994 – Surcharge capped at 1.7% for calendar 1994 and 1995. The surcharge was originally to be 1.9% in 1994 and 2.0% in 1995.
- 2005 – Revised contribution rates (effective January 1, 2006) by establishing a single experience-based rating system to replace the previous experience-based rates and flat-rate surcharge system.
- Federal conformity legislation enacted to prohibit state unemployment tax avoidance schemes.
- 2010 – Payment plan options spreading out due dates for tax payments required for calendar 2010 and 2011 and any calendar year in which employer contributions are to be calculated using the highest tax rate table.

- Interest rate on overdue payments reduced from 1.5 to 0.5% for calendar 2010 and 2011 and any calendar year in which employer contributions are to be calculated using the highest tax rate table.

Sections of the Maryland Annotated Code

Labor and Employment Article, Title 8

Legislative Handbook Series Cross-reference

Volume VII – Business Regulation in Maryland

Business Organization Recording, Filing, and Organization and Capitalization Fees

Description of Fees

Maryland collects fees for a variety of business organization documents recorded by and filed with the State Department of Assessments and Taxation. These documents include articles of incorporation, charter amendments, corporate name changes, and annual reports.

The department also collects an organization and capitalization fee from Maryland corporations. This fee is based on the aggregate par value of a corporation's capital stock at the time of incorporation. If a corporation increases the par value of its capital stock through a new organization, a merger, or a consolidation, a fee is imposed on the increase in value.

Administration

These fees are administered by the State Department of Assessments and Taxation.

Revenues

Exhibit 5.8 shows the various fee revenues from fiscal 1985 to 2010.

Distribution of Revenues

All processing, filing, and organization and capitalization fees are credited to the general fund.

Exhibit 5.8 Business Organization Fee Revenues Fiscal 1985-2010

<u>Fiscal Year</u>	<u>Corporation Processing Fee</u>	<u>Business Organization Filing Fee</u>	<u>Total Recording and Filing Fees</u>	<u>Organization and Capitalization Fees</u>	<u>Total Business Organization Fees</u>
1985	\$531,766	\$3,147,571	\$3,679,337	\$428,862	\$4,108,199
1990	2,049,210	7,133,341	9,182,551	481,356	9,663,907
1995	2,735,940	11,699,140	14,435,080	594,286	15,029,366
2000	3,302,114	13,807,610	17,109,724	580,992	17,690,716
2001	3,304,565	15,101,963	18,406,528	676,225	19,082,753
2002	3,433,008	14,597,991	18,030,999	733,931	18,764,930
2003	3,675,165	14,389,143	18,064,308	767,260	18,831,568
2004 ¹	9,984,424	52,243,759	62,228,183	449,903	62,678,086
2005	10,733,666	68,489,933	79,223,599	470,422	79,694,021
2006	11,958,921	69,920,514	81,879,435	384,192	82,263,627
2007	11,733,365	73,289,578	85,022,943	335,898	85,358,841
2008	11,529,443	74,440,161	85,969,604	362,625	86,332,229
2009	10,059,784	76,435,157	86,494,941	455,394	86,950,335
2010	10,049,517	78,371,257	88,420,774	261,632	88,682,406

¹ Legislation enacted in 2003 increased the filing fee for the annual reports of various corporations and financial institutions from \$100 to \$300, imposed a new filing fee of \$300 on various noncorporate entities such as limited liability companies, and increased various other business organization fees.

Source: State Department of Assessments and Taxation

Sections of the Maryland Annotated Code

Corporations and Associations Article, Sections 1-201 through 1-204

Legislative Handbook Series Cross-reference

Volume VIII – Business Regulation in Maryland

Chapter 6. Property Taxes

Real Property Tax

Taxpayer

Owners of real property (land and improvements) located in Maryland are real property taxpayers.

Tax Base

The tax base for a given fiscal year is the total assessed value of all real property subject to the property tax as of the first of January (the date of finality) immediately preceding the first day of a fiscal year. New construction substantially completed as of July 1 of the fiscal year is taxed for the full year and new construction substantially completed as of January 1 of the fiscal year is taxed for a half-year. Exhibit 6.1 provides a historical summary of the real property assessable base.

Valuation of Base

Each year the State Department of Assessments and Taxation values one-third of all real property based on a physical inspection prior to the date of finality. Over a three-year period, all properties in the State are appraised based on a physical inspection.

Any increase in full cash value (market value) is phased in equally over the next three years. All property is assessed at 100% of full cash value.

The assessable base for all property by subdivision for fiscal 2011 is shown in Exhibit 6.2.

Tax Rates

The State property tax rate for fiscal 2011 is 11.2 cents per \$100 of assessable property. The rate is established by the Board of Public Works, which is required by law to calculate the rate necessary to support debt service on general obligation bonds by May 1 of each year after taking into account the funds available from other sources for debt service. The rate is then applied to the State assessable base. See Exhibit 6.1 for a historical summary of the State tax rates and State property tax revenues.

Exhibit 6.1
State Property Tax Assessable Base and State Property Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

Fiscal Year	State Tax Rate¹	Real Property²	Corporate & Local Personal Property	Public Utilities & Railroads³	Public Utilities Personal Property	Total State Property Tax Revenues	% Revenue Change⁴
1985	.21	\$44,818	\$10,400	\$2,900	\$2,500	\$100.7	---
1990	.21	72,529	16,300	3,800	3,400	161.5	9.9%
1995	.21	102,544	20,392	4,467	4,900	224.5	6.8%
1996	.21	105,205	19,829	4,938	5,520	225.3	0.4%
1997	.21	107,206	20,634	5,323	5,928	235.6	4.6%
1998	.21	109,923	23,893	5,457	6,021	240.7	2.2%
1999 ⁵	.21	111,875	24,478	4,367	7,179	242.2	0.6%
2000	.21	115,923	24,067	4,204	7,866	252.0	4.0%
2001 ⁶	.21	120,236	---	2,197	---	257.1	2.0%
2002 ⁷	.084/.21	316,881	---	2,313	---	268.1	4.1%
2003	.084/.21	334,586	---	2,312	---	283.0	5.3%
2004 ⁸	.132/.33	360,481	---	1,445	---	477.7	40.8%
2005	.132/.33	396,941	---	1,475	---	516.5	8.1%
2006	.132/.33	450,900	---	1,583	---	597.3	11.9%
2007	.112/.28	525,506	---	1,677	---	552.7	-7.5%
2008	.112/.28	616,322	---	1,311	---	625.7	13.2%
2009	.112/.28	706,479	---	1,095	---	698.6	11.7%
2010	.112/.28	750,335	---	1,073	---	762.4	9.1%
2011 (est.)	.112/.28	730,731	---	1,078	---	790.4	3.7%

¹ State tax rate applicable to real property assessable base. The State has not taxed personal property since 1984.

² Represents real property assessable base as of July 1 of the tax year, but excludes real property not previously assessed by January 1 of the tax year.

³ Public utilities and railroads operating property assessable base.

⁴ 1990 and 1995 figures reflect average annual change.

⁵ Fiscal 1999 and later utility figures reflect the reclassification of poles, lines, towers, and cables owned by telephone companies from real property to personal property.

⁶ All personal property is exempt from the State property tax for tax years beginning on or after July 1, 2000. Fiscal 2001 and later utility figures reflect the reclassification of poles, lines, towers, and cables owned by electric utilities from real property to personal property.

⁷ For fiscal 2002 and later, figures reflect the change in assessment level from 40 to 100% of full cash value for real property.

⁸ Decrease in public utility real property due to the reclassification of easements, pipelines, and tanks from real property to personal property.

Source: State Department of Assessments and Taxation; Bureau of Revenue Estimates; Department of Budget and Management; Department of Legislative Services

Exhibit 6.2
Estimated State Taxable Assessable Base
Fiscal 2011
(\$ in Millions)

<u>Counties</u>	<u>Real Property¹</u>	<u>New Construction Real Property²</u>	<u>Operating Real Property Railroads</u>	<u>Total Subject to Real Property Tax Rate</u>	<u>Utility Operating Real Property</u>
Allegany	\$3,619.7	\$3.5	\$9.8	\$3,633.0	\$12.7
Anne Arundel	81,271.2	150.0	0.5	81,421.7	51.9
Baltimore City	37,166.2	42.5	144.4	37,353.1	180.3
Baltimore	86,369.6	75.0	11.7	86,456.3	141.6
Calvert	13,323.2	20.0	--	13,343.2	36.2
Caroline	3,048.3	1.5	--	3,049.8	10.8
Carroll	20,349.4	30.0	2.7	20,382.1	17.5
Cecil	10,731.3	7.5	4.4	10,743.2	34.7
Charles	17,850.0	40.0	0.8	17,890.8	23.1
Dorchester	3,420.4	2.5	--	3,422.9	13.3
Frederick	29,472.6	100.0	6.5	29,579.1	30.4
Garrett	4,809.0	8.1	0.6	4,817.7	28.3
Harford	27,616.0	75.0	1.5	27,692.5	80.0
Howard	44,400.0	25.0	10.5	44,435.5	26.6
Kent	3,070.8	5.0	--	3,075.8	9.2
Montgomery	175,074.3	570.2	7.1	175,651.6	181.0
Prince George's	96,259.8	180.0	5.0	96,444.8	87.5
Queen Anne's	8,783.6	12.8	--	8,796.5	14.8
St. Mary's	12,758.2	30.5	--	12,788.7	9.4
Somerset	1,708.8	1.0	4.3	1,714.1	6.7
Talbot	10,094.4	8.4	--	10,102.7	10.1
Washington	13,500.0	30.0	22.7	13,552.7	24.3
Wicomico	7,095.0	10.0	5.3	7,110.3	26.9
Worcester	17,250.0	22.5	0.6	17,273.1	20.8
Total	\$729,041.9	\$1,451.0	\$238.4	\$730,731.3	\$1,077.9

¹ Assessable base before any applicable tax credits, and includes new construction added for the full-year levy (July 1) and land owned by railroads and utilities.

² Includes new construction added for partial-year levy.

Source: State Department of Assessments and Taxation

Local property tax rates are set annually by local governments and applied to the county and municipal assessable bases. The county and municipal assessable bases represent the State assessable base less exemptions granted by local jurisdictions.

Special Provisions

Exemptions

Generally, the law exempts certain types of real property from property taxation such as government-owned, charitable, benevolent, educational, churches, veterans' organizations, fire companies, historical societies, and museums. The State Department of Assessments and Taxation is responsible for determining exemptions that are specified by law. The department is required by law to assess all exempt real property, except property owned by the federal government.

See Exhibit 6.3 for a county-by-county breakdown of the value of exempt property by class.

Special Use Assessments

Property that may qualify for special use assessments includes the following:

- Land devoted to agricultural use may be valued on the basis of that use. The use values are based on soil classifications relating to productivity identified by the Maryland Department of Agriculture.
- Woodland under a forest conservation management program with the Department of Natural Resources may qualify for a frozen assessment for at least 15 years.
- Country clubs and public golf courses may qualify for a special use assessment under certain conditions.
- Planned development land may be valued at agricultural use rates when it consists of at least 500 contiguous acres, is part of a master or regional plan, and the owner pays for required public facilities.
- Marshland may be valued at a rate equivalent to the lowest agricultural rate.
- Conservation property, including land that is subject to a perpetual conservation easement approved prior to June 30, 1986, must be valued at a rate equivalent to the highest rate used for agricultural use land.

Exhibit 6.3
Exempt Property: Amount of Assessable Base
by Local Subdivision
Fiscal 2008
(\$ in Millions)

<u>County</u>	<u>Federal</u>	<u>State</u>	<u>County and Municipal</u>	<u>Tax-exempt Organizations</u>	<u>Individual</u>	<u>Total Exempt</u>
Allegany	\$78.8	\$332.9	\$321.9	\$242.8	\$13.0	\$989.4
Anne Arundel	1,116.2	1,083.5	1,905.0	1,223.2	151.0	5,478.9
Baltimore City	633.2	2,909.8	3,892.1	3,689.7	30.1	11,154.9
Baltimore	433.3	1,413.7	2,162.0	1,888.1	113.2	6,010.3
Calvert	65.8	95.3	404.3	179.1	21.9	766.5
Caroline	2.8	35.6	104.5	79.8	5.9	228.7
Carroll	10.7	153.7	765.9	501.4	20.6	1,452.2
Cecil	108.4	116.8	292.8	254.6	18.8	791.3
Charles	856.5	86.2	543.9	197.7	43.0	1,727.3
Dorchester	19.9	52.2	115.0	93.2	100.4	380.7
Frederick	337.6	118.6	1,031.2	713.5	48.0	2,248.9
Garrett	4.5	127.6	171.8	65.9	7.1	377.0
Harford	866.3	75.7	690.5	398.9	54.6	2,085.9
Howard	74.6	554.4	1,242.4	595.3	54.6	2,521.4
Kent	9.6	21.9	86.1	147.3	3.9	268.9
Montgomery	2,638.6	910.0	7,176.5	3,242.4	461.3	14,428.8
Prince George's	2,152.2	816.4	2,393.6	2,094.0	245.4	7,701.6
Queen Anne's	2.1	108.6	244.8	98.8	17.7	472.0
St. Mary's	1,583.3	168.2	346.5	198.5	22.0	2,318.6
Somerset	2.8	222.8	81.7	65.0	5.0	377.3
Talbot	13.4	18.1	157.8	165.5	12.5	367.2
Washington	61.7	238.8	567.5	526.4	25.9	1,420.3
Wicomico	4.9	209.6	394.5	274.5	16.4	900.0
Worcester	70.6	49.1	467.1	157.1	12.7	756.6
Total	\$11,147.7	\$9,919.4	\$25,559.8	\$17,092.7	\$1,505.0	\$65,224.6

Note: Exempt property is excluded from the assessable base figures for real property.

Source: State Department of Assessments and Taxation

- Owner-occupied residential property that has been rezoned to a commercial or industrial classification, not at the owner's initiative, may be assessed based on its residential use.

Assessment Appeals

The assessment appeal process typically begins with an appeal of the notice of assessment. These notices are mailed in late December, and an appeal may be filed with the supervisor of assessments within 45 days of the date of the notice. Following that appeal, the property owner receives a final notice. If the taxpayer is not satisfied with the outcome, the next appeal must be made to the Property Tax Assessment Appeals Board within 30 days from the date of the final notice. A further appeal may be taken to the Maryland Tax Court within 30 days of receiving notice from the board. Any further appeals are made through the judicial system, including the circuit court, the Court of Special Appeals, and the Court of Appeals.

Appeals of property values may also be filed with the supervisor outside of the regular assessment cycle. Appeals may also be filed by persons who have purchased property between January 1 and June 30. Such appeals must be made within 60 days of the purchase.

Constant Yield Tax Rate Program

The "constant yield tax rate" is the rate that, when applied to the current base, yields the same local property tax revenues as in the prior year. When there is growth in the assessable base, the constant yield tax rate is lower than the existing tax rate. The department notifies all county and municipal corporations by each February 14 of their constant yield tax rate for the upcoming taxable year.

Under the constant yield tax rate law, taxing authorities are required to (1) provide information about the constant yield tax rate and the assessable base to the public through advertisements in local newspapers; and (2) hold public hearings regarding proposals to enact a tax rate that is higher than the constant yield tax rate. Municipalities are exempt under certain circumstances. The department must report to the Attorney General any taxing authority found in violation of this law. Violating jurisdictions must reduce their property tax rates to the constant yield level.

Tax Credits

Statewide Mandatory Tax Credits

- *Homeowners' (Circuit Breaker) Tax Credit Program* – This is a State-funded program (*i.e.*, the State reimburses local governments) providing credits against State and local real property taxation for homeowners who qualify based on a sliding scale of property tax liability and income. The total State expenditure for the program in fiscal 2011 is estimated to be \$55.9 million. See Exhibit 6.4 for a summary of the number of credits granted, the total program cost, and the average credit for fiscal 2010. Counties and municipalities have the authority to enact local supplements to the homeowners' circuit breaker tax credit; the cost of such supplemental credits must be borne by the local governments.
- *Renters' (Circuit Breaker) Tax Credit Program* – This is a State-funded program (*i.e.*, the State makes payments for the amounts of the “credits” directly to recipients) for renters to provide relief from the burden attributable to State and local real property taxes. Qualification is based on a sliding scale of assumed property tax liability and income. The estimated State expenditures for fiscal 2011 are \$2.3 million. See Exhibit 6.5 for a summary of the number of credits granted, the total program cost, and the average credit for calendar 2009.
- *Enterprise Zones* – Within qualifying enterprise zones, the local governing body of the political subdivision is required to grant tax credits against property taxes imposed upon property meeting certain statutory requirements. The State reimburses local governments for one-half of the credit amount, and the credit is based upon 80% of any increased value in the property for five years. The amount then declines by 10% a year, to 30% by the tenth year of the credit. The estimated fiscal 2011 State cost of this program is \$15.2 million.
- *Homestead Tax Credit Program* – This program provides tax credits against State, county, and municipal corporation real property taxes for owner-occupied residential properties for the amount of real property taxes attributable to assessed values that exceed an annual assessment percentage increase or “cap” in any given year. The amount of the annual assessment cap is (1) 10%, for purposes of the credit against State property taxes; (2) 10% or less, as set by each county, for purposes of the credit against county property taxes; and (3) 10% or less, as set by the municipal corporation (otherwise the county cap applies), for the municipal corporation property tax credit. The cost of the credits against local property taxes is assumed by the local government.

Exhibit 6.4
Homeowners' Tax Credit
Fiscal 2010

<u>County</u>	<u>Credits Issued</u>	<u>Dollar Amount of Credits Issued</u>	<u>Average Credit</u>
Allegany	1,147	\$798,083	\$696
Anne Arundel	3,437	2,900,603	844
Baltimore City	10,526	12,389,115	1,177
Baltimore	8,076	7,569,993	937
Calvert	687	829,148	1,207
Caroline	402	338,384	842
Carroll	2,186	2,839,426	1,299
Cecil	971	1,075,648	1,108
Charles	925	1,141,472	1,234
Dorchester	479	396,550	828
Frederick	2,283	3,211,837	1,407
Garrett	477	299,058	627
Harford	2,613	3,501,810	1,340
Howard	1,846	2,856,646	1,547
Kent	273	252,054	923
Montgomery	3,614	4,079,056	1,129
Prince George's	4,251	6,018,552	1,416
Queen Anne's	401	380,601	949
St. Mary's	655	657,712	1,004
Somerset	322	235,449	731
Talbot	126	80,897	642
Washington	1,942	2,030,811	1,046
Wicomico	749	577,167	771
Worcester	436	354,694	814
Total	48,824	\$54,814,767	\$1,123

Source: State Department of Assessments and Taxation

Exhibit 6.5
Renters' Tax Credit
Calendar 2009

<u>County</u>	<u>Credits Issued</u>	<u>Average Rent Paid</u>	<u>Average Credit Received</u>	<u>Total Credit Disbursement</u>
Allegany	110	\$2,951	\$191	\$20,996
Anne Arundel	269	5,708	363	97,719
Baltimore City	3,572	3,544	258	921,884
Baltimore	1,673	4,687	293	490,978
Caroline	7	5,011	428	2,997
Calvert	44	2,266	173	7,630
Carroll	148	4,524	278	41,188
Cecil	61	3,676	287	17,523
Charles	150	4,982	309	46,427
Dorchester	104	2,931	219	22,860
Frederick	95	5,633	372	35,340
Garrett	13	2,595	219	2,853
Harford	180	3,804	239	43,065
Howard	285	5,107	308	87,865
Kent	36	3,572	208	7,502
Montgomery	502	3,809	210	105,629
Prince George's	627	5,596	330	207,088
Queen Anne's	26	3,884	242	6,288
St. Mary's	44	4,306	343	15,104
Somerset	38	3,580	258	9,817
Talbot	37	4,965	362	13,392
Washington	180	2,924	207	37,295
Wicomico	182	4,375	344	62,623
Worcester	45	4,377	358	16,126
Total	8,428	\$4,133	\$275	\$2,320,150

Source: State Department of Assessments and Taxation

Statewide Optional Tax Credits: Under State law, tax credits may be granted by local governing bodies against local property taxes for various types of property as specified by law, including cemetery property; structures utilizing solar or geothermal energy devices; restoration and preservation of historic or heritage structures;

manufacturing, fabricating, and assembling facilities; agricultural land subject to Maryland agricultural land preservation easements; newly constructed dwellings that are unsold or unrented; open space; tobacco barns; day care providers; property located in the Baltimore-Washington International Thurgood Marshall Airport noise zone; erosion control structures; certain low-income rental dwellings; conservation lands; property leased by religious organizations; property of businesses that create new jobs; new or expanded business premises; brownfields property; improved property that includes the installation of an automatic fire protection sprinkler system; certain vacant and underutilized commercial buildings; amateur sports athletic fields; rehabilitated property; certain buildings located in arts and entertainment districts; businesses that provide computers to employees for home use; high-performance buildings; repaired or reconstructed dwellings; nonprofit swim clubs; dwellings owned by individuals at least 65 years old; property used as a publicly sponsored business incubator; family assistance dwellings; commercial waterfront property and marine trade property; property equipped with accessibility features; urban agricultural property; and certain property owned by Habitat for Humanity.

Local Tax Credits: State law enumerates various mandatory and optional local property tax credits for counties and municipalities.

Payment Dates

Property taxes for owner-occupied residential property and small businesses that pay less than \$50,000 in property taxes are due on a semiannual schedule. The first installment is due on July 1 and may be paid without interest on or before September 30. The second installment is due on December 1 and may be paid without interest on or before December 31. Local governments may add a service fee to the second installment to pay for administrative costs. However, homeowners and certain small business owners may elect to pay the full year's property tax on or before September 30 to avoid a service charge or interest charge.

Property taxes for other property are due on July 1 and may be paid without interest on or before September 30.

Administration of Tax

Administration/Collection Responsibility

The assessment of properties is done by the State Department of Assessments and Taxation. Each of the 24 subdivisions, over 150 municipalities, and the State itself, depends upon the department to establish the assessable base upon which both State and

local property taxes are levied. Real property taxes are collected by the county, Baltimore City, or municipal finance offices. The State tax portion is remitted to the Comptroller of the Treasury.

Costs

The State Department of Assessments and Taxation's fiscal 2011 administrative budget for its Real Property Valuation Division is \$31.6 million. The department's fiscal 2011 administrative costs associated with the homeowners' and renters' circuit breaker tax credit programs are \$2.6 million.

Fines, Penalties, and Interest

The interest on State property taxes is charged on the total tax liability at a rate of 1% for each month (or fraction thereof) that the property taxes are past due. The first installment of taxes is due July 1, and interest accrues after October 1. The second installment is due on December 1, and interest accrues after January 1.

Unpaid taxes are a lien on the real property. The collector is required to sell property for which taxes are in arrears.

County, municipal, and special taxing district interest rates on overdue taxes are two-thirds of 1% per month, unless otherwise provided by law.

Local Taxing Authority

The subdivisions, incorporated municipalities, and special taxing districts have been granted the power by the State to levy a real property tax and to annually set the rate. For additional information on local property taxes, see *Volume VI – Maryland Local Government*.

Revenues

Distribution of Revenues

State real property taxes are special fund revenues for the Annuity Bond Fund and dedicated exclusively to pay the debt service on State general obligation bonds. In fiscal 2011, the State will receive an estimated \$790 million in State property taxes.

The proceeds collected by the State from this tax represent only a small portion of the total State and local taxes imposed on real property. Local governments are estimated to have collected approximately \$7.1 billion in real and personal property tax revenue in fiscal 2009.

Comparison with Other States

Exhibit 6.6 compares Maryland's combined State and local property tax burden with that of neighboring states.

Exhibit 6.6
Maryland State and Local Property Taxes
Comparison to Selected States
Fiscal 2008

	Percentage of Total Taxes		Per Capita		Percentage of Personal Income	
	<u>Percent</u>	<u>Rank</u>	<u>Amount</u>	<u>Rank</u>	<u>Percent</u>	<u>Rank</u>
Maryland	23.9%	37	\$1,168	29	2.4%	39
Delaware	16.3%	47	691	44	1.7%	47
District of Columbia	32.0%	21	2,929	1	4.4%	7
New Jersey	42.2%	3	2,621	2	5.1%	2
North Carolina	23.7%	39	851	39	2.4%	40
Pennsylvania	28.7%	29	1,236	24	3.1%	24
Virginia	32.3%	19	1,356	19	3.1%	26
West Virginia	19.3%	43	682	45	2.2%	43
U.S. Average	30.8%		\$1,346		3.4%	

Note: For the rankings, 1 indicates the highest. Rankings are out of 51.

Source: *Government Finances*, U.S. Census Bureau (July 2010)

Trends

The State assessable base has grown steadily since the early 2000s as real estate values and assessments have continued to increase. However, the rate of assessment increases have slowed considerably since reaching record increases in the latter half of the decade. The assessable base is expected to remain relatively constant over the course of the next several years.

History of Major Changes

- 1777 – First statewide assessment.
- 1914 – State Tax Commission established.
- 1959 – State Department of Assessments and Taxation established.
- 1973 – Law enacted for State takeover of all county assessment personnel over a three-year period.
- 1975 – Homeowners’ (Circuit Breaker) Property Tax Credit Program enacted.
- 1977 – 115% Assessment Increase (Homestead Tax) Credit Program first enacted.
 - “Constant yield tax rate” enacted.
- 1979 – Triennial Assessment Law enacted (present system).
 - Renters’ (Circuit Breaker) Property Tax Credit Program enacted.
- 1990 – Growth factor repealed and replaced with a flat 40% of full cash value to determine assessable base.
 - Homestead tax credit revised from a 15% limit to a lower limit of 0-10% set by local governments. The credit is applied to the State assessment using a 10% limitation.
 - Authority provided to local governments to supplement the homeowners’ circuit breaker program.
 - Property owners’ “Bill of Rights” enacted.
- 1992 – Property tax grant to the subdivisions (equivalent to about \$0.11 of the State property tax rate) eliminated.
 - Renters’ Circuit Breaker Tax Credit Program expanded to allow certain renters under 65 years of age to participate when they live with a dependent child under age 18.

- 1995 – Property taxpayers provided the option to pay State and local property taxes in semiannual installments.
- 1998 – Homeowners' Property Tax Credit Program revised to provide additional relief to qualified recipients.
- 1999 – Mandatory semiannual payment of property taxes established.
- 2000 – Property tax assessment method changed to system of full market value assessment.
- 2003 – Specified property (easements, pipelines, and tanks) used by railroads and public utilities is reclassified from real property to personal property.
- 2006 – Homeowners' Property Tax Credit Program and Renters' Property Tax Relief Program modified and expanded to provide additional relief to qualified recipients.
- 2007 – Homeowners are required to file an application with the State Department of Assessments and Taxation to receive the Homestead Property Tax Credit.
- 2010 – Semi-annual payments for certain small businesses authorized.

Sections of the Maryland Annotated Code

Tax – Property Article

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Personal Property Tax

The State has not imposed personal property taxes since fiscal 1984 and all personal property is exempt from State property tax. However, the counties, municipalities, and special taxing districts are authorized to tax personal property.

Taxpayer

All business entities in Maryland may be required to pay local personal property taxes. Beginning January 1, 2011, the personal property tax on heavy equipment property is replaced with a gross receipts tax on the short-term lease or rental of heavy equipment property.

Tax Base

All assessable tangible personal property located in Maryland and owned by businesses as of January 1 may be subject to a local personal property tax.

Valuation of Base

The assessment of personal property is the responsibility of the State Department of Assessments and Taxation, while the collection of the tax on personal property is the responsibility of local governments. The department separately values inventory and all other tangible business personal property based on information filed annually by property owners by April 15 (the data is as of the preceding January 1). Property owners may request a filing extension of two months.

Inventory is valued at its “fair average value,” which means the lower of cost or market value. All other personal property, including office furniture, fixtures, equipment and plant machinery, is valued at “full cash value.” Uniform rates of depreciation are applied to the cost of the property to determine full cash value.

Tax Rates

The State tax rate was zero from fiscal 1985 through 2000. Since that time, all personal property has been exempt from State property tax.

The counties, municipalities, and special taxing districts are authorized to tax personal property and to establish local tax rates.

Special Provisions

Exemptions

The State mandates certain exemptions from personal property assessment including aircraft, manufacturing tools, equipment or machinery, research and development property, farm implements, agricultural products, livestock, and residential property (nonbusiness property). Local governments are authorized to exempt from taxation tools, equipment, or machinery used in manufacturing.

Except for personal property used in connection with a business, personal property owned by an individual is not subject to valuation or taxation. Personal property used in connection with a business is also exempt if it is owned by an individual and is located at the individual's residence and either (1) is used in connection with a licensed family day care home; or (2) had a total original cost (excluding vehicles) of less than \$10,000.

Local governments may provide various additional exemptions.

Tax Credits

Various tax credits may be allowed against the local tax.

Amended Returns

Businesses may file amended personal property tax returns to correct previous errors in reporting or to claim missed exemptions, except for missed manufacturing exemptions, within three years of the April 15 date that the return was originally due.

Payment Dates

Locally imposed personal property taxes are due by July 1 but may be paid on or before September 30 without incurring interest charges.

Administration of Tax

Administration/Collection Responsibility

Assessments are determined by the State Department of Assessments and Taxation and the taxes, which are all locally imposed, are collected by local governments.

Costs

The total fiscal 2011 administrative budget for the Business Property Valuation Division within the State Department of Assessments and Taxation is \$3.4 million.

Fines, Penalties, and Interest

Interest on taxes due to county, municipal, and special taxing districts is two-thirds of 1% for each month or less overdue, unless otherwise provided. Unpaid taxes are a lien on the personal property and on the real property of the owner of the personal property.

The penalty for filing a late return is one-tenth of 1% of the county assessment with certain minimum penalties, assessed on the number of late days (beginning at \$30) and a maximum of \$500, plus 2% for each month or partial month the return is late.

Local Taxing Authority

The counties, municipalities, and special taxing districts are authorized to levy a personal property tax and to annually set the rate.

Revenues

See Exhibit 6.1 for a history of the assessable base and applicable State tax rates for personal property as well as total State property tax collections.

Distribution of Revenues

For fiscal 1984 and prior years, State revenues were credited to special funds. Beginning with fiscal 1985, there have been virtually no State revenues because the State tax rate was reduced to zero effective July 1, 1984.

History of Major Changes

- 1983 – State tax rate on personal property reduced to zero, and the offsetting credit against income taxes repealed.
- 1997 – Cables, lines, poles, and towers of telecommunications companies reclassified from operating real property to operating personal property.
- 1998 – Personal property with a total original cost of less than \$10,000 that is owned by an individual and used in connection with a business, occupation, or profession located at an individual's principal residence is made exempt from taxation for all taxable years beginning after June 30, 1999.
- 1999 – All personal property is exempt from the State property tax for all taxable years beginning after July 1, 2000.
- 2010 – Beginning January 1, 2011, the personal property tax on heavy equipment property is replaced with a gross receipts tax on the short-term lease or rental of heavy equipment property.

Sections of the Maryland Annotated Code

Tax – Property Article

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Public Utility and Railroad Property Tax

Taxpayer

Public utilities and railroads operating in Maryland are required to pay property tax.

Tax Base

For the State property tax, the property tax base is operating real property. For local property taxes, the tax base is operating real and operating personal property. See Exhibit 6.1 for a historical summary of the operating real and operating personal property assessable base for public utilities and railroads.

Valuation of Base

Operating property is valued at full cash value using the unit method relying primarily on the income approach and considering cost and market data when available. Operating land is valued and assessed by the department as part of the operating unit. Electric generating plants classified as non-utility generators are valued and assessed similar to other commercial and industrial property.

The assessable base for the operating real property of public utilities and railroads for fiscal 2011 is shown in Exhibit 6.2.

Tax Rate

The tax rates for railroad operating property are the same as those applied to all other real and personal property. The tax rates for public utility operating property are two and one-half times the rates applied to other real property. See Exhibit 6.1 for a historical summary of the State tax rates.

Special Provisions

Exemptions

The value of motor vehicles and the fair average value of fuel stocks of public utilities are deducted from the determined value. Except for tax (fiscal) years 2010 and 2011, 50% of the value of machinery and equipment used to generate electricity for sale is exempt from State and local property taxes. The governing body of a county may increase, by law, the taxable percentage of machinery and equipment used to generate electricity for sale to no more than 60% for the taxable year beginning July 1, 2009, and 55% for the taxable year beginning July 1, 2010.

Allocation and Apportionment of Property

The entire operating unit of a public utility or railroad is valued. For multistate companies, the department allocates to Maryland the value of that part of the operating unit reasonably attributable to this State.

Tax Credits

There are no tax credits for State purposes, although credits are allowed against the corporate income tax for certain telecommunications companies for 60% of the total property taxes on specified operating real property.

Payment Dates

The tax is due by July 1 but may be paid on or before September 30 without incurring interest charges.

Administration of Tax

Administration/Collection Responsibility

Similar to real property and business personal property, the State Department of Assessments and Taxation is responsible for certifying the assessment. Local governments are responsible for the collection of the tax, which is remitted to the State.

Costs

The total administrative budget for the Business Property Valuation Division within the State Department of Assessments and Taxation is \$3.4 million for fiscal 2011.

Fines, Penalties, and Interest

Interest on late payment of tax is the same as that imposed on real and personal property.

The penalty for filing a late return is one-tenth of 1% of the county assessment with a minimum initial penalty amount of \$30 and a maximum of \$500, plus 2% for each month or partial month the return is late.

Local Taxing Authority

The counties and municipalities are authorized to levy a tax on this property and to annually set the rate.

Revenues

See Exhibit 6.1.

Distribution of Revenues

State revenues from the taxation of real property of public utilities and railroads are treated the same as other property tax revenues in that they are special fund revenues dedicated to the Annuity Bond Fund for the payment of debt service on State general obligation bonds. The majority of the revenues generated from property taxes on public utility and railroad operating property is retained by local governments.

Trends

The assessable base for public utility and railroad property declined dramatically in fiscal 2004 with the reclassification of easements, pipelines, and tanks from real property to personal property as the result of a Court of Appeals decision in *Colonial Pipeline v. State Department of Assessments and Taxation*. The assessable base declined in fiscal 2008 and 2009 but will remain essentially constant in fiscal 2010 and 2011.

History of Major Changes

- 1997 – Cables, lines, poles, and towers of telecommunications companies were reclassified from operating real property to operating personal property. Corporate income tax credit allowed to telecommunications companies for 60% of property taxes paid on operating real property.
- 1999 – Partial exemption allowed for machinery and equipment used to generate electricity (25% for tax year 2001; 50% beginning in tax year 2002). Cables, lines, poles, and towers of electric companies reclassified from operating real property to operating personal property. Corporate income tax credit allowed to electric companies for 60% of property taxes paid on operating real property (other than land) used to generate electricity.

- 2003 – Easements, pipelines, and tanks used by public utilities and railroads reclassified to personal property from real property under *Colonial Pipeline v. State Department of Assessments and Taxation*.
- 2006 – Repeal of the corporate income tax credit allowed to electric companies for 60% of property taxes paid on operating real property (other than land) used to generate electricity.
- 2007* – Legislation enacted to allow a county to increase the taxable percentage of machinery and equipment used to generate electricity for sale to no more than 60% for the taxable year beginning July 1, 2009 and 55% for the taxable year beginning July 1, 2010.

*special session

Sections of the Maryland Annotated Code

Tax – Property Article, primarily Sections 6-103, 8-108, 8-109, 8-201, and 9-209

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Transfer Tax

Taxpayer

Any person or business conveying title to real property by means of an instrument of writing recorded with the clerk of the circuit court (for a county) or filed with the State Department of Assessments and Taxation is required to pay the transfer tax. In addition, beginning on July 1, 2008, transfer taxes are imposed on the transfer of real property with a value of \$1 million or more when the transfer is achieved through the sale of a “controlling interest” in a specified corporation, partnership, limited liability company, limited liability partnership, or other form of unincorporated business.

Tax Base

The tax base is the amount of the consideration payable for the instrument of writing. The consideration includes the amount of any mortgage or deed of trust assumed by the grantee.

Valuation of Base

Every instrument of writing conveying title to real property must state the consideration payable.

Tax Rates

The State transfer tax rate is 0.5% of the consideration payable for an instrument of writing (one conveying title to, or a leasehold interest in, real property); however, in the case of a first-time Maryland homebuyer purchasing a principal residence, the transfer tax rate is 0.25%.

Sixteen counties and Baltimore City currently impose local transfer taxes. In addition, Cecil County imposes a \$10 charge per deed.

Special Provisions

Instrument of Writing

An instrument of writing is required in order to convey title to, or a leasehold interest in, real property. The term includes a deed or contract, a lease, an assignment of a lessee's interest, articles of transfer, and articles of merger or consolidation. The term does not include a mortgage, deed of trust, or other contract that creates an encumbrance on real property or a security agreement.

Exemptions

Exemptions from the transfer tax are generally the same as the exemptions from recordation taxes and include conveyances to a government or public agency, conveyances involving related corporations, and transfers between spouses, relatives, or specified domestic partners.

Local governments are authorized to exempt, by law, from the local transfer tax an instrument of writing that transfers title to certain displaced homeowners if the improved residential property conveyed to the displaced homeowner qualifies as a replacement dwelling.

Revenues

Exhibit 6.7 shows revenues from the transfer tax for fiscal 1985 to 2011.

Exhibit 6.7
Maryland Transfer Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Total Net State Revenues¹</u>	<u>% Change²</u>
1985	\$46.1	—
1990	69.9	8.7%
1995	66.4	0.2%
1996	65.6	1.2%
1997	67.2	2.4%
1998	81.1	20.7%
1999	93.2	14.9%
2000	99.2	6.4%
2001	102.9	3.7%
2002	122.4	19.0%
2003 ³	140.9	15.1%
2004 ³	181.4	28.7%
2005 ³	237.3	30.8%
2006 ³	269.5	13.6%
2007	213.7	-20.7%
2008	188.6	-13.3%
2009	166.3	-13.4%
2010	114.7	-45.0%
2011 (est.)	149.9	23.5%

¹ Net of refunds; includes collections by the State Department of Assessments and Taxation and the clerks of the court.

² 1990 and 1995 figures reflect average annual change.

³ The Budget Reconciliation and Financing Acts of 2002 through 2005 transferred a total of \$479.2 million to the general fund for fiscal 2003 through 2006.

Source: Bureau of Revenue Estimates; Department of Legislative Services

Distribution of Revenues

State transfer tax revenues are paid to the Comptroller by the clerks of the circuit courts and the State Department of Assessments and Taxation and are used to fund several programs in the Department of Natural Resources and the Maryland Department of Agriculture. A portion of State transfer tax revenues (3%) is earmarked to defray administrative costs within the Department of Natural Resources, the Department of General Services, and the Maryland Department of Planning. The remainder is dedicated to various programs including Program Open Space, the Maryland Agricultural Land Preservation Foundation, Rural Legacy, and the Heritage Conservation Fund. Beginning in fiscal 2009, after the initial distribution of Program Open Space funds, the greater of \$21.0 million or 20% of remaining Program Open Space funds must be used to operate State forests and parks. After the required Program Open Space distributions are made, remaining funds are used to acquire land for open space.

Chapter 487 of 2009 authorized the use of \$1.2 million in fiscal 2010 and again in fiscal 2011 of the State's share of the Program Open Space funds for administrative expenses in the Department of Natural Resources, the Department of General Services, and the Maryland Department of Planning.

Under current law, 75.15% of the special fund revenues goes to Program Open Space, an additional 1.0% goes to Program Open Space for land acquisition purposes, 17.05% goes to the Maryland Agricultural Land Preservation fund, 5.0% goes to the Rural Legacy Program, and 1.8% goes to the Heritage Conservation Fund.

Legislation enacted in 2005 provides for, beginning in fiscal 2012, the repayment of State transfer tax revenues transferred to the general fund after fiscal 2005 by including the transfer tax special fund in the provisions relating to the disposition of any unappropriated general fund surplus.

Actions taken during the 2010 session directed transfer tax revenues to the general fund and replaced those revenues (that would otherwise be directed to land preservation programs) with general obligation bond funds.

Trends

Transfer tax revenues fluctuated throughout much of the 1990s, but revenues grew steadily from the late 1990s through the middle of the decade as a result of increasing real estate values; however, much of the revenue generated in fiscal 2002 through 2005 was diverted from land preservation programs to the general fund. Revenues have declined

since reaching their peak in fiscal 2006 due to the significant decrease in housing sales and prices.

Payment Dates

Payments are due before a transfer is recorded with the clerk of the court or when filed with the State Department of Assessments and Taxation.

Administration of Tax

Administration/Collection Responsibility

For taxable deeds, the State tax is collected by the clerks of the circuit courts. The State Department of Assessments and Taxation collects the State tax on corporate transfers involving the filing of articles of transfer.

Costs

The cost of administering this tax is not a separately stated item in the State budget. The total fiscal 2011 budget of the clerks of the circuit courts is \$96.1 million. The total fiscal 2011 budget for the Corporate Charter Unit (which collects the tax for certain corporate transfers) within the State Department of Assessments and Taxation is \$4.6 million.

Local Taxing Authority

All counties and Baltimore City, except Calvert, Carroll, Charles, Frederick, Somerset, and Wicomico, impose a local transfer tax or fee per deed.

History of Major Changes

- 1970 – Transfer tax first imposed on instruments conveying title to real property at one-half of 1% of the consideration paid to provide funding for Program Open Space.
- 1984 – Revised the distribution of revenues – the first \$24 million of revenues are credited to Program Open Space and the balance to the general fund.

- 1987 – Exemption enacted for the first \$20,000 in consideration paid for owner-occupied, improved residential property (for transfers recorded after July 1, 1988).
- 1988 – Exemption is increased from \$20,000 to \$25,000 for transfers recorded after July 1, 1988.
- 1989 – Exemption is increased to \$30,000 for transfers recorded after July 1, 1989.
- 1990 – Distribution of revenues revised to gradually increase the special fund distribution to 100% over the five-year period beginning in fiscal 1992.
- 1992- – Phase-in of revenue distribution delayed so that it is accomplished
1993 over a four-year period beginning in fiscal 1994.
- 1995 – A lower rate was enacted for first-time homebuyers' share of State transfer tax; local governments authorized to provide exemption from local transfer tax and recordation tax. Exemption for first \$30,000 of value of owner-occupied real property repealed.
- 1997 – Distribution of revenues revised to provide funding for the newly created Rural Legacy Program.
- 2002 – The Budget Reconciliation and Financing Act of 2002 transferred \$11.2 million in transfer tax revenue overattainment from fiscal 2001 to the general fund for fiscal 2002 and allocated \$47.3 million in transfer tax revenues to the general fund for fiscal 2003 and 2004 only.
- 2003 – The Budget Reconciliation and Financing Act of 2003 revised the distribution of revenues and allocated a portion of revenues to the general fund: (1) \$20.6 million in fiscal 2002 transfer tax revenue overattainment and \$18.1 million in fiscal 2003 transfer tax revenue overattainment were redirected to the general fund in fiscal 2003; (2) \$55.6 million in additional transfer tax revenues were redirected to the general fund in fiscal 2004; and (3) the transfer tax allocation formula was changed for fiscal 2005 so that 50% of the estimated transfer tax special funds were diverted to the general fund.

- 2004 – The Budget Reconciliation and Financing Act of 2004 redirected (1) \$70.3 million in transfer tax revenues to the general fund for fiscal 2005; and (2) \$41.9 million in estimated fiscal 2004 transfer tax revenue overattainment that would have otherwise supported programs in fiscal 2006. This diversion of transfer tax revenue was in addition to \$77.0 million in fiscal 2005 transfer tax revenue that was already redirected to the general fund.
- 2005 – The Budget Reconciliation and Financing Act of 2005 transferred \$90.0 million (\$21.8 million in fiscal 2004 revenue overattainment and \$68.2 million in estimated fiscal 2006 revenues) in transfer tax revenues to the general fund for fiscal 2006.
- Requirement that general funds reimburse Program Open Space and related programs for transfer tax revenues transferred to the general fund in fiscal 2006 and thereafter, from unappropriated general fund revenues beginning in fiscal 2012. Specifically, it is required that (1) up to the first \$10 million in unappropriated general funds be retained for the general fund; (2) between \$11 million and \$60 million in unappropriated general funds be transferred to Program Open Space and related programs; and (3) the Governor appropriate any unappropriated general funds exceeding \$60 million into the Rainy Day Fund.
- 2007* – Transfer taxes are imposed on the transfer of real property with a value of \$1 million or more when the transfer is achieved through the sale of a “controlling interest” in a specified corporation, partnership, limited liability company, limited liability partnership, or other form of unincorporated business, effective July 1, 2008. Controlling interest is defined as more than 80% of the total value of the stock or the interest in capital and profits.
- 2008 – Transfers of real property between domestic partners are exempt from the transfer tax.

*special session

Sections of the Maryland Annotated Code

Tax – Property Article, Title 13, Subtitles 1 and 2

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Recordation Tax

Taxpayer

Any person or business conveying title to real property or creating or giving notice of a security interest (*i.e.*, a lien or encumbrance) in real or personal property, by means of an instrument of writing, must pay the recordation tax. In addition, beginning in July 1, 2008, recordation taxes are imposed on the transfer of real property with a value of \$1 million or more when the transfer is achieved through the sale of a “controlling interest” in a specified corporation, partnership, limited liability company, limited liability partnership, or other form of unincorporated business. Controlling interest is defined as more than 80% of the total value of the stock or the interest in capital and profits.

Tax Base

In the case of instruments conveying title, the tax base is the actual consideration paid; for articles of transfer, the tax base is the actual consideration paid for the real property; and for financing statements and mortgages, the tax base is the principal amount of the debt secured under the instrument.

Valuation of Base

Generally, the value is determined at the time of recording the instrument or in an affidavit filed with the instrument. In the case of instruments conveying title to real property, the law requires that a statement of the amount of the actual consideration paid, including the amount of any mortgage or deed of trust assumed by the grantee, be included in every instrument.

Articles of transfer and certain financing statements are filed with the State Department of Assessments and Taxation. Investments conveying title to real property and certain other financing statements are filed with the clerk of the court.

Tax Rates

The State sets a rate of \$1.65 per \$500 (or fraction thereof) of the consideration payable or of the principal amount of the debt secured for articles of transfer, articles of merger, or articles of consolidation filed with the department evidencing a merger, consolidation, or other transfer.

The State sets a rate of 55 cents per \$500 (or fraction thereof) for instruments of writing for property located in two or more counties used as security for corporate bonds of public utilities.

Subdivisions are authorized by law to impose locally established recordation tax rates, with the revenues collected by the clerks of the court.

Special Provisions

Instrument of Writing

An instrument of writing is required in order to convey title to real property or a security interest in real or personal property and may include a deed or contract; a mortgage, deed of trust, or other contract that creates a security interest in real property; a lease of real property; an assignment of a lessee's interest in real property; articles of transfer; security agreements; articles of merger between foreign corporations or limited partnerships; and articles of consolidation between foreign corporations.

Exemptions

The following are exempt from recordation taxes: transfers to public agencies; liens on vehicles and vessels; transfers between relatives of the immediate family, including specified domestic partners; transfers between former spouses which are part of divorce decrees; transfers between former domestic partners; supplemental instruments; previously recorded instruments; refinancing instruments; mechanics liens or crop liens; uniform commercial code security agreements; judgments; releases; orders of satisfaction; participation agreements; transfer of corporate property between related corporations; corporate, limited liability company, or partnership conveyance; land installment contracts; options to purchase real property; deeds for prior contracts of sale and leases of seven years or less; certain articles of merger and consolidation between foreign corporations; transfers from cooperative housing corporations; transfers from specified entities to a limited liability company; transfers involving specified Maryland Stadium Authority affiliates; specified real estate enterprises; and transfers of specified conservation easements.

Local governments are authorized to provide an exemption from the recordation tax for transactions granting a security interest in real property from the United States, the State, an agency of the State, or a political subdivision of the State. Local governments are also authorized to exempt, by law, from the local recordation tax an instrument of writing that transfers title to certain displaced homeowners if the improved residential property conveyed to the displaced homeowner qualifies as a replacement dwelling.

Payment Dates

Tax is due at the time of recording a deed or instrument of writing with the clerk of the court, or when filed with the State Department of Assessments and Taxation (for articles of transfer).

Administration of Tax

Administration/Collection Responsibility

The State Department of Assessments and Taxation administers the collection of the State recordation tax in the case of articles of transfer, merger, and consolidation.

The director of finance in Prince George's County and either the clerks of the circuit courts or the county tax collectors in other jurisdictions administer the collection of the locally imposed recordation taxes for other instruments conveying title and financing statements where the statements are required to be filed locally.

Costs

The cost of administering this tax is not a separately stated item in the State budget. The total fiscal 2011 budget of the clerks of the circuit courts is \$96.1 million. The total fiscal 2011 budget for the Corporate Charter Unit (which collects the tax) within the State Department of Assessments and Taxation is \$4.6 million.

Local Taxing Authority

All subdivisions have the authority to impose the recordation tax and to set the local tax rate.

Revenues

For fiscal 2010, local governments are expected to collect \$249 million in recordation tax revenues.

Distribution of Revenues

State recordation tax receipts on articles of transfer of corporate property are collected by the department and are remitted to the Comptroller who, after deducting the department's administrative costs, distributes the net proceeds to the counties based on the ratio of recordation tax collected in the prior fiscal year in each county to the total recordation tax collected.

State recordation tax receipts resulting from security interests for corporate public utility bonds are deposited to the general fund.

The revenues collected by a clerk of the circuit court are paid to the governing body of the county where collected.

History of Major Changes

- 1937 – Recordation tax first imposed.
- 1947 – Rates increased from 10 cents per \$100 to 55 cents for each \$500.
- 1968 – Subdivisions authorized to set local recordation tax rates (repeal of federal documentary stamp tax effective January 1, 1968).
- 1972 – Required collection of a tax of \$1.65 for each \$500 of principal amount of debt secured under documents filed with the department.
- 1975 – Set basic tax rate at \$1.65 for each \$500 of consideration.
- 1997 – Exemption enacted for transfers of real property from a joint venture or a proprietorship involved primarily in real property transactions to a limited liability company if the members of the joint venture or proprietorship are identical and the predecessor entity is dissolved.

- 2000 – Exemption enacted for certain security interest filings made with the State Department of Assessments and Taxation under the Maryland Uniform Commercial Code – Secured Transactions.
- Authorized counties to designate county tax collectors, rather than clerks of the court, to collect recordation taxes.
- 2007* – Recordation taxes are imposed on the transfer of real property with a value of \$1.0 million or more when the transfer is achieved through the sale of a “controlling interest” in a specified corporation, partnership, limited liability company, limited liability partnership, or other form of unincorporated business, effective July 1, 2008. Controlling interest is defined as more than 80% of the total value of the stock or the interest in capital and profits.
- 2008 – Transfers of real property between domestic partners are exempt from recordation taxes.

*special session

Sections of the Maryland Annotated Code

Tax – Property Article, Title 12

Legislative Handbook Series Cross-reference

Volume VI – Maryland Local Government

Agricultural Land Transfer Tax

Taxpayer

Agricultural land transfer taxes are paid by any person or business conveying title to agricultural land that is subject to the tax. Either the buyer or the seller, as determined by the contract of sale, may pay the tax.

Tax Base

The tax base is the amount of consideration paid for the property, including the amount of any mortgage or deed of trust assumed by the grantee, less the value of any improvements or any land not subject to the tax.

Valuation of Base

The amount of consideration paid must be stated in the instrument of writing that transfers title to agricultural land.

Tax Rates

The rates assessed are:

- 5% for transfers of 20 acres or more of agricultural land;
- 4% for transfers of less than 20 acres assessed for agricultural use or as unimproved agricultural land; or
- 3% for transfers of less than 20 acres of agricultural land assessed as improved agricultural land or agricultural land with certain site improvements.

The transfer tax is reduced by 25% for each consecutive full taxable year before the transfer was made if the assessment was based on other than farm or agricultural use. Beginning in fiscal 2009, a 25% surcharge is imposed on an instrument of writing transferring title of certain agricultural land. The surcharge does not apply to transfers of agricultural land to a child or grandchild of the owner.

Special Provisions

Instrument of Writing

An instrument of writing conveys title to or provides a leasehold interest in real property. The term includes a deed or contract, a lease, an assignment of a lessee's interest, and articles of transfer. The term does not include a mortgage, deed of trust, or other contract that creates an encumbrance on real property, or other security agreements.

Exemptions

An instrument of writing is not subject to the agricultural land transfer tax if:

- the property tax on the land has been paid for five full consecutive taxable years before the transfer on the basis of an assessment other than the farm or agricultural use assessment;

- the amount of agricultural land transferred is not greater than the applicable residential minimum zoning size in effect at the time of transfer and the transfer is to a member of the owner's immediate family for residential use; or
- the transferee declares that the land will remain in farm or agricultural use for at least five full consecutive taxable years.

Revenues

Exhibit 6.8 shows agricultural land transfer tax revenues for fiscal 1985 through 2010.

Distribution of Revenues

The agricultural land transfer tax is collected by each county. Of the total collections, each county (except Montgomery) retains one-third of the funds and transfers the balance to the Comptroller. The Comptroller transfers up to \$200,000 of these funds to the Woodland Incentive Fund. For fiscal 2009 and 2010, the distribution of agricultural land transfer tax revenues is altered so that after distributions to the counties and the Woodland Incentive Fund:

- \$2.5 million was distributed to the Maryland Agricultural Land Preservation Fund beginning in fiscal 2009; this amount increases by 5% annually beginning in fiscal 2010;
- 37.5% (up to a maximum \$4.0 million annually) was distributed to a special fund for use by the Maryland Agricultural and Resource-Based Industry Development Corporation for the Next Generation Farmland Acquisition Program;
- \$4.0 million was be distributed into a special fund for use by Maryland Agricultural and Resource-Based Industry Development Corporation for a program facilitating preservation easement acquisition through the use of installment purchase agreements for easement purchases that have been approved by the Maryland Agricultural Land Preservation Foundation; and
- any remaining funds were to be distributed to the Maryland Agricultural Land Preservation Fund.

Exhibit 6.8
Maryland Agricultural Land Transfer Tax
Fiscal 1985-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>County Share</u>	<u>State Share</u>	<u>Total Net Revenues¹</u>	<u>% Change²</u>
1985	\$2.3	\$2.9	\$5.2	—
1990	5.5	7.6	13.0	20.1%
1995	3.4	1.9	5.3	-3.2%
1996	2.8	2.0	4.8	-9.4%
1997	3.2	2.2	5.4	12.5%
1998	4.0	1.8	5.8	7.9%
1999	5.1	2.4	7.5	29.5%
2000	7.8	3.2	11.0	45.6%
2001	5.5	3.1	8.7	-21.2%
2002	5.9	3.0	8.9	2.6%
2003	9.0	4.3	13.3	49.0%
2004	10.4	5.4	15.8	18.4%
2005	14.3	8.6	22.9	45.3%
2006	12.0	7.3	20.3	-11.4%
2007	9.5	4.3	13.8	-32.0%
2008	4.5	2.8	7.3	-47.1%
2009	4.0	1.7	5.7	-21.9%
2010 (est.)	4.2	1.8	6.0	5.3%

¹ Net of refunds.

² 1990 and 1995 figures reflect average annual change.

Source: Maryland Department of Agriculture; State Department of Assessments and Taxation; Department of Legislative Services

The Maryland Agricultural and Resource-Based Industry Development Corporation may use up to 3% of funds received for administrative costs for an installment purchase agreement program and the Next Generation Farmland Acquisition Program. Funds received by the Maryland Agricultural Land Preservation Fund after a specified date can only be used in Priority Preservation areas, and the Maryland Agricultural Land Preservation Fund also has additional flexibility in using resources to purchase agricultural land easements. Chapter 210 of 2010 updated the amount of

agricultural land transfer tax revenue that must be allocated to the Maryland Agricultural Land Preservation Fund and altered the distribution of agricultural land transfer tax revenues.

Montgomery County retains two-thirds of its funds and transfers the balance to the Comptroller. The monies retained by each county are generally used as local matching funds under the State agricultural easement program and for other approved county agricultural preservation programs.

The counties must spend or encumber all agricultural transfer tax revenues within three years from the date of receipt or remit the unspent or unencumbered portion to the Comptroller for deposit into the Maryland Agricultural Land Preservation Fund.

In 1990 the General Assembly created a program giving counties the ability to retain a larger share of the agricultural land transfer tax revenues if certain requirements were met. A qualifying county can receive 75% of the agricultural transfer tax revenues collected by that county (rather than 33%) and a portion of any surplus funds held by the foundation at the end of the fiscal year. In order to become certified to receive the additional funds, counties must develop effective farmland preservation programs that are approved by the Maryland Agricultural Land Preservation Foundation and the Maryland Department of Planning. Certification lasts for two years, and for a county to be recertified, the success of its program must be demonstrated.

There are currently 17 counties that have been certified as having an effective land preservation program: Anne Arundel, Baltimore, Calvert, Caroline, Carroll, Cecil, Charles, Frederick, Harford, Howard, Kent, Montgomery, Queen Anne's, St. Mary's, Talbot, Washington, and Worcester.

Trends

From the inception of the tax in 1981 until 1988, revenues increased due to rapid development in rural areas. Revenues decreased in the late 1980s and early 1990s as a result of the economic recession and a general slowdown in the real estate market. With falling interest rates and improved economic conditions, revenues rebounded in fiscal 1993. Revenues increased significantly every year from 2003 to 2005. Revenues declined significantly between fiscal 2006 and 2009, with a slight uptick expected in fiscal 2010.

Payment Dates

An instrument of writing subject to agricultural land transfer tax may not be recorded in any county or filed with the department until the agricultural land transfer tax is paid to the collector for the county or paid to the department.

Administration of Tax

The tax is collected by each county's treasurer or department of finance.

Fines, Penalties, and Interest

If the land fails to comply with the agricultural use declaration made by the transferee, the transfer tax plus a penalty will be due on the portion that fails to comply. In this event, the transfer tax is equal to the fair market value of the property at the time of the violation of the owner's declaration of intent, multiplied by the applicable rate plus an additional 10% penalty.

Local Taxing Authority

All subdivisions have the authority to impose the agricultural land transfer tax under the rates set by State law.

History of Major Changes

- 1981 – Agricultural land transfer tax created (derived from the development penalties created in 1969 to deter the development of lands receiving the agricultural use property assessment).
- 1982 – Transfer tax rates changed to the current rate structure based on the size of the property and not based on the previous type of assessment.
- 1988 – Tax penalty created for landowners who violate the declaration of intent to maintain the land in agricultural use. The new formula provided that the tax rates should be applied to the fair market value at the time the declaration of intent was violated (when land was no longer used for agricultural purposes). Under previous law, the tax was calculated as the amount that would have been payable at the time of the transfer had the owner not filed a declaration.

- 1990 – Certification program created giving counties the ability to retain a larger portion of the agricultural land tax revenues.
- 2008 – A 25% surcharge is imposed on an instrument of writing that transfer title of certain agricultural land. The surcharge does not apply to the transfer of agricultural land to a child or grandchild of the owner. Distribution of agricultural land transfer tax revenue is altered.

Sections of the Maryland Annotated Code

Tax – Property Article, Title 13, Subtitle 3

Chapter 7. Tobacco and Alcoholic Beverages Taxes

Tobacco Tax

Taxpayer

Taxpayers include licensed Maryland cigarette wholesalers, who pay the tax by purchasing tax stamps that they affix to all packages of cigarettes before sale at retail; registered wholesalers who sell other tobacco products to a retailer or consumer in the State; manufacturers who distribute sample cigarettes; and other retailers or consumers who possess other tobacco products in the State on which the tobacco tax has not been paid are required to pay the tobacco tax.

Tax Base

The tax base includes cigarettes and other tobacco products, including cigars, loose pipe tobacco, chewing tobacco, and snuff possessed in the State.

Valuation of Base

The taxpayer files monthly reports in accordance with rules and regulations of the Comptroller.

Tax Rates

The tax on a typical pack of 20 cigarettes is \$2.00. The tax is \$1.00 for each pack of 10 cigarettes or fewer and 10 cents per cigarette for packs in excess of 20 cigarettes and for packs of free sample cigarettes. Other tobacco products, including cigars, loose pipe tobacco, chewing tobacco, and snuff are taxed at a rate of 15% of the wholesale price.

Special Provisions

Tax Stamps

Tax stamps are affixed to a package of cigarettes to evidence payment of the tax.

Exemptions

Cigarettes and other tobacco products are exempt from tax if they are held for storage in a licensed storage warehouse on behalf of a licensed cigarette manufacturer or by a licensed wholesaler for sale outside the State or to a U.S. Armed Forces exchange or commissary. Generally, consumers can bring in to the State a maximum of \$5 worth of other tobacco products and two packages of cigarettes without being subject to the tax. Higher allowances exist for nonresident consumers traveling through the State and for individuals who bring tobacco products from a U.S. Armed Forces exchange or commissary and are entitled by law to make purchases at a U.S. Armed Forces exchange. Cigarettes that are being transported in the State have certain record and invoice information and are not deemed contraband are exempt from the tax.

Tax Refunds/Credits

Refunds/credits are given if stamps (1) are damaged or mutilated; (2) have been lost or destroyed (except by theft and the loss must be over \$250); (3) are erroneously affixed to anything other than a package of cigarettes or are affixed to a package of cigarettes that is unable to be sold; or (4) have been canceled by the Comptroller.

Discounts

A wholesaler is given a discount of 0.82% of the gross purchase price of the stamps.

Payment Dates

Wholesalers may purchase stamps with cash, certified check, with approved credit for up to 95% of the security for the tax posted with the Comptroller, or with cigarette tax credits issued by the Comptroller. The Comptroller may exempt licensed wholesalers who meet certain conditions from filing a security. Cash and tax credit payments must be made at the time of sale; tax due for credit purchases must be remitted by the twenty-first of the month following the report month.

Administration of Tax

The Field Enforcement Division of the Comptroller of the Treasury is responsible for the administration and collection of the tobacco tax. In fiscal 2011, total administrative costs for the Field Enforcement Division are projected to be \$5.1 million.

Fines, Penalties, and Interest

Willful Failure to Pay the Tax: a monetary penalty of not more than 25% of the tax due.

Underpayment: interest is assessed at a rate of 3% above prime rate during the previous fiscal year, but not less than 13%, as determined by State law.

Local Taxing Authority

Current law prohibits local governments from imposing a tax on cigarettes under Section 12-102 of the Tax – General Article.

Revenues

Exhibit 7.1 shows tobacco tax revenues from fiscal 1985 to 2011.

Exhibit 7.1
Maryland Tobacco Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Tax Rate (Cents Per Pack)</u>	<u>Net Revenues¹ (\$ in Millions)</u>	<u>% Change²</u>
1985	13	\$66.7	—
1990	13	59.6	-2.2%
1995 ^{3,4}	36	137.2	20.7%
1996	36	132.3	-3.6%
1997	36	130.2	-1.6%
1998	36	128.3	-1.5%
1999	36	128.9	0.5%
2000 ⁵	66	210.0	62.9%
2001	66	205.6	-2.0%
2002 ⁶	66	209.9	2.1%
2003	100	267.9	27.7%
2004	100	271.8	1.4%
2005	100	275.7	1.5%
2006	100	280.7	1.8%
2007	100	283.3	0.9%
2008 ⁷	100/200	376.1	32.8%

Exhibit 7.1. (Continued)

<u>Fiscal Year</u>	<u>Tax Rate (Cents Per Pack)</u>	<u>Net Revenues¹ (\$ in Millions)</u>	<u>% Change²</u>
2009	200	405.6	7.8%
2010	200	405.9	0.1%
2011 (est.)	200	387.9	-4.4%

¹Net of refunds and credits.

²Fiscal 1990 and 1995 figures reflect average annual change.

³The tax rate increased from 13 to 16 cents on June 1, 1991.

⁴The tax rate increased from 16 to 36 cents on May 1, 1992.

⁵The tax rate increased from 36 to 66 cents on July 1, 1999.

⁶The tax rate increased from 66 cents to \$1.00 on June 1, 2002.

⁷The tax rate increased from \$1.00 to \$2.00 on January 1, 2008.

Source: Comptroller of the Treasury

Distribution of Revenues

After an allowance for refunds, the proceeds are allocated to the general fund.

Trends

Cigarette sales in Maryland peaked in the mid 1970s and have been in a long-term decline; in fiscal 2010, sales were a little more than one-third the typical amount sold in the early 1980s. State tax rate increases enacted beginning in fiscal 2000, which have increased the tax rate from 36 cents per pack to the current \$2.00 per pack, have accelerated the decrease in sales. Since fiscal 1999, cigarette sales have decreased by a little less than one-half or about 5% annually. Although total sales and per capita sales have decreased over time, the amount of tax collected per capita has increased from about \$25 in fiscal 1999 to about \$70 in fiscal 2010.

Comparative Federal Tax Rate

The United States imposes a federal excise tax of \$1.0066 per pack of 20 cigarettes.

Comparison with Other States

Exhibit 7.2 shows a summary of state taxes imposed on cigarettes.

Exhibit 7.2
State Tobacco Tax Rates
Comparison with Other States
July 2010

<u>State</u>	<u>Tax Rate</u> <u>(¢ Per Pack)</u>	<u>Rank</u>	<u>State</u>	<u>Tax Rate</u> <u>(¢ Per Pack)</u>	<u>Rank</u>
Alabama ¹	42.5	47	Nebraska	64.0	38
Alaska	200.0	11	Nevada	80.0	35
Arizona	200.0	11	New Hampshire	178.0	16
Arkansas	115.0	29	New Jersey	270.0	6
California	87.0	33	New Mexico	166.0	19
Colorado	84.0	34	New York ¹	435.0	1
Connecticut	300.0	4	North Carolina	45.0	45
Delaware	160.0	20	North Dakota	44.0	46
DC	250.0	9	Ohio	125.0	27
Florida	133.9	26	Oklahoma	103.0	30
Georgia	37.0	48	Oregon	118.0	28
Hawaii	300.0	4	Pennsylvania	160.0	20
Idaho	57.0	42	Rhode Island	346.0	2
Illinois ¹	98.0	32	South Carolina	57.0	42
Indiana	99.5	31	South Dakota	153.0	23
Iowa	136.0	25	Tennessee ¹	62.0	39
Kansas	79.0	36	Texas	141.0	24
Kentucky	60.0	40	Utah	170.0	17
Louisiana	36.0	49	Vermont	224.0	10
Maine	200.0	11	Virginia ¹	30.0	50
Maryland	200.0	11	Washington	302.5	3
Massachusetts	251.0	8	West Virginia	55.0	44
Minnesota	156.0	22	Wyoming	60.0	40
Mississippi	68.0	37			
Missouri ¹	17.0	51	US Median	118	
Montana	170.0	17			

¹ Counties and cities may impose additional taxes.

Source: Federation of Tax Administrators

History of Major Changes

- 1957 – Tobacco tax legislation passed and vetoed by Governor.
- 1958 – Bill passed over Governor's veto and tax imposed at the rate of 3 cents per pack.
- 1961 – Rate increased to 6 cents per pack.
 - Political subdivisions prohibited from imposing cigarette taxes.
- 1975 – Rate increased to 10 cents per pack.
- 1980 – Rate increased to 13 cents per pack but exempted tobacco from sales tax.
- 1986 – Tax rate for sample cigarettes set at 6.5 mils per cigarette.
- 1991 – Rate increased to 16 cents per pack, and sales tax exemption repealed.
- 1992 – Rate increased to 36 cents per pack.
 - Distribution of revenues to the subdivisions repealed.
- 1999 – Cigarette tax rate increased to 66 cents per pack.
 - Licensed wholesaler discount reduced from 1.36 to 0.82%.
 - 15.0% tax on the wholesale price of other tobacco products, such as cigars and smokeless tobacco, is imposed effective July 1, 2000.
- 2002 – Cigarette tax rate increased to \$1.00 per pack.
- 2007* – Cigarette tax rate increased to \$2.00 per pack effective January 1, 2008.

*special session

Sections of the Maryland Annotated Code

Tax – General Article, Titles 12 and 13

Alcoholic Beverage Taxes

Taxpayer

Distilled Spirits Tax (Liquor Tax): The taxpayers are licensed Maryland wholesalers who sell to Maryland retailers.

Beer Tax: The taxpayers are licensed nonresident dealers for beer sales only to wholesalers, Maryland wholesalers (self-import products), or Maryland manufacturers. The taxpayer must pay the tax prior to the product entering the State (except for beer manufactured in Maryland).

Wine Tax: The taxpayers are licensed Maryland wholesalers or manufacturers (wineries) who pay the tax on prior month sales and deliveries of wine to retail dealers or, in the case of certain small wineries, deliveries to customers.

Tax Base

Distilled Spirits Tax: All distilled spirits (*i.e.*, any alcoholic beverage except beer or wine) sold or delivered by a licensed manufacturer or wholesaler to any retail dealer in the State are subject to the tax.

Beer Tax: Any brewed alcoholic beverages, including beer, ale, porter, stout, and hard cider, sold or delivered in Maryland are subject to the tax. In addition, an alcoholic beverage is subject to the beer tax if it is primarily derived from grain fermentation, and either contains 6.0% or less alcohol and has less than one-half of the overall alcohol content obtained from flavors and other added nonbeverage ingredients containing alcohol or contains more than 6.0% alcohol and less than 1.5% of the overall alcohol content obtained from flavors.

Wine Tax: All wine, including champagne, cider, sake, perry, and vermouth, sold or delivered by a licensed wholesaler or winery to any retail dealer in the State is subject to the tax.

Valuation of Base

The taxpayer files monthly tax returns in accordance with the rules and regulations of the Comptroller.

Tax Rates

Distilled Spirits Tax: The tax is imposed at the rate of \$1.50 per gallon or 39.63 cents per liter. If the distilled spirit is greater than 100 proof, an additional tax of 1.5 cents for each gallon or 0.3963 cents for each liter is applied for each one proof over 100.

Beer Tax: The tax is imposed at the rate of 9 cents per gallon or 2.3778 cents per liter.

Wine Tax: The tax is imposed at the rate of 40 cents per gallon or 10.57 cents per liter.

Special Provisions

Exemptions

No tax is paid on liquor, beer, and wine that is brought into the State under an import/export permit, a nonbeverage permit, or a nonresident storage permit; used on airplanes, trains, or ships, unless consumed in Maryland; used for sacramental or medicinal purposes; produced in connection with a fuel-alcohol or family beer and wine permit; brought into the State in limited quantities for personal use; or shipped to federal reservations.

Tax Credits

Distilled Spirits Tax: Credits are issued for sales to federal reservations and for alcoholic beverages used for sacramental or medicinal purposes.

Refunds

Refunds are given for loss (excluding theft), if the total loss exceeds \$250; alcoholic beverages, beer, and wine that are exempt; and for a discontinued business or discontinued sale and delivery of alcoholic beverages in certain container sizes, or for alcoholic beverages that are condemned.

Discounts

None.

Payment Dates

For manufacturers and wholesalers, tax returns are due on the tenth of each month and cover the previous month's activity. Holders of import/export, nonresident storage, public storage, nonresident dealer, family beer and wine, and nonresident wineries licenses must file a return and pay any tax due on the fifteenth day following the month in which the alcoholic beverage tax applies. Businesses that sell alcoholic beverages aboard airplanes, trains, or ships traveling within the State must file a return and pay any taxes due by the twenty-fifth day following the month in which sales occurred. Direct wine sellers must file annually.

Administration of Tax

The Field Enforcement Division of the Comptroller of the Treasury is responsible for the administration and collection of the alcoholic beverages tax. In fiscal 2011, total administrative costs for the Regulatory and Enforcement Division are projected to be \$5.1 million.

Fines, Penalties, and Interest

Willful Failure to Pay the Tax: a monetary penalty of not more than 25% of the tax due.

Underpayment: interest is assessed at a rate of 3% above prime rate during the previous fiscal year, but not less than 13%, as determined by State law.

Local Taxing Authority

Distilled Spirits Tax: None.

Beer Tax: None.

Wine Tax: None.

Revenues

Revenues generated in fiscal 1985 to 2011 from alcoholic beverage taxes are shown in Exhibits 7.3, 7.4, and 7.5, respectively.

Exhibit 7.3 Maryland Liquor Tax (Distilled Spirits Tax) Revenues Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Net Revenues¹ (\$ in Millions)</u>	<u>% Change²</u>
1985	\$15.0	—
1990	13.1	-2.7%
1995	11.1	-3.3%
1996	11.0	-1.0%
1997	11.0	0.0%
1998	11.2	1.0%
1999	11.2	0.0%
2000	11.5	2.6%
2001	11.4	-1.0%
2002	12.3	7.0%
2003	12.2	-0.2%
2004	12.9	5.5%
2005	13.2	2.3%
2006	13.7	3.8%
2007	14.2	3.6%
2008	14.3	1.2%
2009	14.7	2.6%
2010	15.1	2.6%
2011 (est.)	15.5	2.6%

¹ Net of refunds and credits.

² 1990 and 1995 figures reflect average annual change.

Source: Comptroller of the Treasury

Exhibit 7.4
Maryland Beer Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Net Revenues¹</u> <u>(\$ in Millions)</u>	<u>% Change²</u>
1985	\$9.3	—
1990	8.8	-1.0%
1995	8.8	0.0%
1996	8.7	-1.1%
1997	8.7	0.0%
1998	8.8	1.1%
1999	8.8	0.0%
2000	8.8	0.0%
2001	9.1	3.4%
2002	9.3	2.2%
2003	9.1	-1.1%
2004	9.4	3.6%
2005	9.4	0.0%
2006	9.4	0.0%
2007	9.4	0.0%
2008	9.4	0.0%
2009	9.1	-3.3%
2010	8.9	-2.4%
2011 (est.)	8.8	-0.6%

¹ Net of refunds and credits.

² Fiscal 1990 and 1995 figures reflect average annual change.

Source: Comptroller of the Treasury

Exhibit 7.5
Maryland Wine Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Net Revenues¹</u> <u>(\$ in Millions)</u>	<u>% Change²</u>
1985	\$4.1	—
1990	4.0	-0.5%
1995	3.5	-2.6%
1996	3.6	2.9%
1997	3.7	2.8%
1998	3.9	5.4%
1999	3.9	0.0%
2000	4.1	5.1%
2001	3.9	-4.8%
2002	4.2	7.7%
2003	4.4	4.1%
2004	4.6	4.5%
2005	4.8	5.2%
2006	4.9	1.0%
2007	5.1	4.1%
2008	5.2	2.4%
2009	5.4	2.7%
2010	5.5	3.3%
2011 (est.)	5.7	3.3%

¹ Net of refunds and credits.

² Fiscal 1990 and 1995 figures reflect average annual change.

Source: Comptroller of the Treasury

Distribution of Revenues

After allowing for refunds, all alcoholic beverage tax proceeds go to the general fund.

Trends

Distilled Spirits Tax: Sales of distilled spirits have increased on average by 2.8% annually in the last 10 years and are expected to increase at a similar rate in the next several years.

Beer Tax: Although relatively stable, beer revenues have experienced modest peaks and troughs in a fairly regular pattern. Revenues decreased in fiscal 2009 and 2010 and are at a similar level to the trough experienced in 2000. Revenues are expected to modestly decline in the next several years.

Wine Tax: Wine revenues were stable from 1980 to 1999 and increased by about 4 to 5% annually thereafter. Revenues are expected to increase by a slightly smaller amount in the next several years.

Comparative Federal Tax Rates

Distilled Spirits Tax: There is a federal excise tax of \$13.50 per gallon, less any credit for wine and flavor content on distilled spirits.

Beer Tax: Federal excise tax on beer is \$18.00 per barrel (31 gallons) or 33 cents per six-pack. A special tax rate of \$7.00 per barrel on the first 60,000 barrels applies to brewers who produce less than two million barrels annually.

Wine Tax: Federal excise tax on wine is shown in Exhibit 7.6.

Exhibit 7.6
Federal Excise Tax on Wine

	<u>Per Gallon</u>	<u>Per 750 ml Bottle</u>
14% Alcohol or Less	\$1.07	\$.21
Over 14 to 21%	1.57	.31
Over 21%	3.15	.62
Naturally Sparkling	3.40	.67
Artificially Carbonated (Sparkling Wine)	3.30	.65
Hard Cider	0.23	.40

A credit of up to \$0.90 per gallon is available for certain small wineries whose production does not exceed specified limits.

History of Major Changes

Distilled Spirits Tax

- 1933 – Tax first imposed on distilled spirits that are not over 100 proof at the rate of \$1.10 per gallon.
- 1939 – Tax increased to \$1.25 on 100 proof or less.
- 1955 – Tax increased to \$1.50 on 100 proof or less.
- 1991 – Requirement for distilled spirits excise tax stamps repealed.
- 1992 – Distribution of revenues to the subdivisions repealed.

Beer Tax

- 1936 – Beer tax first imposed at the rate of 2.4375 cents per gallon on 4/1/36.
- 1938 – Rate increased to 3 cents per gallon.
- 1972 – Rate increased to 9 cents per gallon.
- 1992 – Distribution of beer tax revenues to the subdivisions repealed.
- 2000 – Hard cider is considered as beer for tax purposes.
- 2006 – Garrett County beer tax is repealed.

Wine Tax

- 1935 – Wine tax imposed at the rate of 20 cents per gallon on April 1, 1935; prior to that date, a tax was levied on sparkling and fortified wines at the same rate as distilled spirits (*i.e.*, \$1.10 per gallon).
- 1972 – Rate increased to 40 cents.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 5 and 13

Chapter 8. Inheritance and Estate Taxes

Inheritance Tax

Taxpayer

Each executor, administrator, trustee, agent, fiduciary, or other person who distributes property that is subject to the inheritance tax is required to pay the tax before distributing the property. The recipient of property that passes from a decedent is required to pay the tax if that property passes from a decedent without distribution, or if the person who distributes property does not pay the tax as required.

Tax Base

The inheritance tax is imposed on the privilege of receiving property that has a taxable situs in the State and passes from a decedent to a “collateral” beneficiary (*i.e.*, a person other than a lineal relative or sibling of the decedent). Property that passes to “direct” or lineal beneficiaries or siblings of the decedent is exempt from the tax.

The tax is imposed on property that passes at or after the death of an individual by will or under Maryland’s laws of intestacy, by trust or otherwise. The tax applies to all property in which the decedent had an interest that may be passed on to heirs, including joint tenancies, remainder interests, property transferred in contemplation of death, or property transferred during life over which the decedent retained any dominion.

Valuation of Base

Within three months of appointment, a personal representative must submit to the register of wills:

- an “inventory” report showing the value of all assets in the probate estate, including all interests in real property, tangible personal property, bank accounts, stocks, bonds, debts due the decedent, and all other interests; and
- an “information” report showing nonprobate property that may be subject to the inheritance tax, such as (1) property in which the decedent at death had an interest as joint owner (other than with the surviving spouse); (2) transfers made in contemplation of death; and (3) an interest in an annuity or a public or private pension plan.

In estates where there is no formal administration, the person(s) receiving the property must file an Application to Fix Inheritance Tax on Nonprobate Assets within three months of the date of death.

Tax Rate

The inheritance tax is imposed at the rate of 10% on the “clear value” of the property that passes from a decedent. “Clear value” of assets means the market value of the assets less expenses.

Exemptions

The inheritance tax does not apply to:

- property passing to spouses, lineal beneficiaries, or siblings of decedents;
- interest in a joint primary residence that was owned in joint tenancy and passes to the domestic partner of a decedent;
- the first \$500 for perpetual upkeep of a grave;
- transfers to bona fide charitable, scientific, educational, religious, or literary institutions (organizations exempt from taxation under Section 501(c)(3) of the Internal Revenue Code);
- distributions to any one person of \$1,000 or less;
- “small estates” whose value is \$30,000 or less (subject to administration under the Estates and Trusts Article);
- the receipt of an annuity under a pension plan, if the annuity is not taxable for federal estate tax purposes;
- proceeds of a life insurance policy payable to any beneficiary other than the estate of the insured;
- except for tangible personal property that has its situs in Maryland, personal property that passes from a nonresident decedent if, at the time of death, the decedent is a resident of a state or foreign country whose law, on the date of the decedent’s death, does not impose death taxes on the receipt of similar personal

property of a resident of this State or contains a reciprocal exemption from death taxes similar to this exemption;

- property passing from a decedent to the State, its counties, or its municipal corporations; and
- income on probate assets after the death of the decedent.

Payment Dates

In general, the inheritance tax is due when the register of wills determines the amount due, when the personal representative accounts for the distribution of property of the estate. If an estate is administered under modified administration, the tax is due when the personal representative files the final report.

Administration of Tax

Administration/Collection Responsibility

The register of wills of the subdivision where the decedent resided at the time of death collects the inheritance tax or, if there is no formal administration of the estate and there is real property, the register of wills in the county where the real property is located collects the tax. If the decedent is not a Maryland resident, the register of wills in the county where the largest part of estate assets is located collects the tax.

Costs

The register of wills' office retains a 25% commission from the inheritance tax collected for administrative costs. Any revenues (including fees of the register of wills' office as well as commissions from inheritance taxes) exceeding the expenses of the register of wills' office are remitted to the Comptroller and credited to the general fund of the State.

Fines, Penalties, and Interest

Interest on unpaid inheritance tax is assessed at a rate of 3% above the prime rate, but not less than 13%, and begins:

- 30 days after the date on which the tax is determined;

- on the original due date, if there is no formal administration of the estate and the tax is not paid within 30 days after the date on which the tax bill is mailed; or
- 30 days after the original due date, if an alternative payment schedule for inheritance tax is allowed.

Local Taxing Authority

None.

Revenues

Exhibit 8.1 shows the inheritance tax revenues from fiscal 1985 to 2011.

Distribution of Revenues

After a 25% commission allowance, each register must file a monthly report with the Comptroller and remit the revenues for credit to the general fund. Any refunds must be certified by the Comptroller.

Trends

Inheritance tax revenues fluctuate due to their dependence on estate value and type of distribution. A decline in revenues from the tax occurred between fiscal 2001 through 2004 as a result of the repeal of the previously imposed tax on property passing to lineal beneficiaries and siblings. Revenues grew modestly in fiscal 2008 and 2009 but declined in fiscal 2010. Moderate revenue growth is expected in fiscal 2011.

Exhibit 8.1
Maryland Inheritance Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Direct Net Revenues¹</u>	<u>Collateral Net Revenues¹</u>	<u>Total</u>	<u>% Change²</u>
1985	\$7.6	\$21.3	\$28.9	—
1990	12.0	32.9	44.9	9.2%
1995	16.2	40.6	56.8	4.8%
1996	18.4	41.8	60.2	6.0%
1997	18.2	46.9	65.1	8.1%
1998	19.2	48.8	68.0	4.4%
1999	22.0	48.0	70.0	2.9%
2000 ³	23.1	55.9	79.0	6.8%
2001 ⁴	17.1	48.2	65.3	-17.3%
2002	2.8	47.8	50.6	-22.5%
2003	1.4	45.2	46.6	-7.9%
2004	0.4	42.0	42.4	-9.0%
2005	0.5	45.2	45.7	7.8%
2006	0.4	50.0	50.4	10.3%
2007	0.3	47.5	47.8	-5.2%
2008	0.6	48.4	49.0	2.5%
2009	0.2	51.8	52.0	6.1%
2010	0.2	47.3	47.5	-8.6%
2011 (est.)	0.2	50.0	50.2	5.7%

¹ Net of registers of wills' commissions.

² Fiscal 1990 and 1995 figures reflect average annual change.

³ For decedents dying between July 1, 1999, and July 1, 2000, the lineal tax rate was reduced to 0.9% and the collateral tax rate for property passing to siblings of a decedent was reduced to 5.0%.

⁴ For decedents dying on or after July 1, 2000, property passing to a lineal beneficiary or sibling of the decedent is exempt from the inheritance tax.

Source: Comptroller of the Treasury

History of Major Changes

- 1844 – Collateral inheritance tax enacted at 2.5%.
- 1864 – Collateral tax rate decreased to 1.5%.
- 1880 – Collateral tax rate increased to 2.5%.
- 1908 – Collateral tax rate increased to 5.0%.
- 1935 – Direct inheritance tax enacted at 1.0%.
 - Collateral tax rate increased to 7.5%.
- 1975 – Collateral tax rate increased to 10.0%.
- 1987 – The minimum size of estates subject to inheritance taxes increased from \$10,000 to \$20,000 beginning July 1, 1988.
- 1989 – Tax on commissions of personal representatives repealed for estates of decedents dying on or after July 1, 1989.
- 1997 – The minimum size of estates subject to inheritance tax changed to be based on net value rather than gross value.
 - Estate income exempted from the inheritance tax.
 - Most property may be valued by reference to the full cash value of the property for property tax purposes.
- 1999 – Direct inheritance tax rate decreased to 0.9%.
 - Collateral tax rate for siblings of decedents decreased to 5.0%.
- 2000 – For decedents dying on or after July 1, 2000, direct inheritance tax on property passing to lineal beneficiaries of decedents repealed and collateral inheritance tax on property passing to siblings of decedents repealed.
 - The minimum size of estates subject to inheritance taxes increased from \$20,000 to \$30,000.

- 2009 – Exemption for joint primary residence passing to the domestic partner of a decedent.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 7, and 13 and Estates and Trusts Article, Title 5, Subtitle 6 and Section 7-307

Estate Tax

Taxpayer

The Maryland estate tax is imposed on the transfer of the Maryland estate of a decedent who, at the time of death, was a resident of Maryland or was a nonresident whose estate included an interest in real or tangible personal property in Maryland. If a federal estate tax return is required to be filed, the person responsible for filing the federal estate tax return is required to file the Maryland estate tax return and pay the Maryland estate tax. For decedents dying before January 1, 2004, the Maryland estate tax was imposed only if a federal estate tax return was required.

For decedents dying on or after January 1, 2004, the Maryland estate tax is imposed if the decedent's taxable estate exceeds \$1 million, regardless of whether a federal estate tax return is required. For an estate that is subject to the Maryland estate tax where no federal estate tax return is required to be filed, the person who would be responsible for filing the federal estate tax return if the applicable exclusion amount under the federal estate tax were no greater than \$1 million is required to file a Maryland estate tax return and pay the Maryland estate tax.

Under the federal estate tax, the tax must be paid by the executor or administrator of an estate, or, if there is no executor or administrator, then by any person in actual or constructive possession of any property of a decedent.

Tax Base

The tax base is the taxable value of the estate as determined under federal estate tax law, determined without regard to any deduction allowed under the federal estate tax for state death taxes paid. The Maryland estate tax is based on the amount of the credit allowed against the federal estate tax for state death taxes paid, as the federal credit was in effect on December 31, 2001, before the phase out and repeal of the federal credit under the federal Economic Growth and Tax Relief Reconciliation Act of 2001.

Valuation of Base

The taxpayer reports the value of the taxable estate on return forms prescribed by the Comptroller from the federal estate tax return that is subject to audit.

The return is filed with either the Comptroller or the register of wills. Each register of wills is required to certify to the Comptroller the amount of inheritance tax paid. The Maryland estate tax is paid directly to the Comptroller.

Tax Rate

The Maryland estate tax is equal to the excess of the federal credit for state death taxes paid (as in effect on December 31, 2001) over the aggregate amount of estate, inheritance, succession, collateral, and legacy tax paid for Maryland property to any state or the District of Columbia (including Maryland inheritance tax). Because the Maryland estate tax is tied to the federal credit, no tax rates are specified under Maryland law. The rates of the federal credit for state death taxes paid, as in effect on December 31, 2001, range from 0.8% on the portion of the adjusted taxable estate from \$40,000 to \$90,000, to 16.0% on that portion of the adjusted taxable estate in excess of \$10,040,000. The federal credit used to determine the Maryland estate tax may not exceed 16.0% of the amount by which the taxable estate exceeds \$1,000,000.

Special Provisions

Unified Credit/Status of Federal Estate Tax Law

The unified credit allowed against the federal estate tax effectively exempts a portion of the taxable estate from taxation. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided for a phased increase in the unified credit, effectively increasing the size of estates that are exempt from federal estate tax taxation, to \$1.0 million for decedents dying in 2002 or 2003; \$1.5 million for decedents dying in 2004 or 2005; \$2.0 million for decedents dying in 2006, 2007, or 2008; and \$3.5 million for decedents dying in 2009. The 2001 federal Act further provided for the complete elimination of the federal estate tax in 2010. By its terms, the 2001 federal tax Act sunsets at the end of 2010, so that under the current federal law, the federal estate tax will return in 2011 with an effective exemption amount of \$1.0 million or less.

Notwithstanding the phased increases in the unified credit under the federal estate tax, the unified credit for Maryland estate tax purposes is limited to \$345,800, the amount that effectively exempts the first \$1 million of taxable estate from the Maryland estate tax. The Maryland estate tax will also continue, notwithstanding the repeal of the federal

estate tax, for decedents dying in 2010. In addition, the scheduled sunset of the 2001 federal tax Act, if allowed to take effect, will not impact the Maryland estate tax. If the federal credit for state death taxes paid comes back into existence as a result of the sunset of the 2001 federal Act, the Maryland estate tax would continue to be imposed on the same basis, but taxpayers would again be allowed to claim a credit against the federal estate tax for the amount of the Maryland estate tax paid.

Marital Deduction/Qualified Terminal Interest Property

For purposes of the Maryland estate tax, an estate may elect to treat property as a marital deduction qualified terminal interest property in accordance with provisions of the Internal Revenue Code. The election made for Maryland estate tax purposes may be inconsistent with an election made for the same estate for federal estate tax purposes. This enables married couples to defer payment of any estate tax until the death of the surviving spouse, while making maximum use of the applicable exclusion amounts for both federal and State tax purposes available to each spouse, notwithstanding the differing unified credit amounts for federal and Maryland estate tax purposes.

Exemptions

The Maryland estate tax does not apply to the transfer of personal property in the estate of a nonresident decedent (excluding a transfer of tangible personal property that has a taxable situs in this State), if at the time of death the decedent is a resident of a state or foreign country whose law when the personal property is transferred (1) does not impose death taxes on the transfer of similar personal property of a resident of this State; or (2) contains a reciprocal exemption from death taxes similar to this exemption.

Payment Dates

The Maryland estate tax return is due nine months from the date of death of the decedent. The Comptroller is authorized to grant an alternate payment schedule. Beginning in 2010, the Comptroller is required to allow a payment deferral for up to three years for up to \$375,000 of the Maryland estate tax imposed on qualified agricultural property that passes to a qualified recipient.

Administration of Tax

The cost of administering the tax is not specifically identified in the budget of the Comptroller. The Revenue Administration Division of the Comptroller of the Treasury, which administers the tax, has a total fiscal 2011 appropriation of \$39.2 million.

Fines, Penalties, and Interest

Underpayment – interest assessed at a rate of 3% above the prime rate, but not less than 13%, as determined by State law.

Failure to Pay Tax When Due – a penalty not exceeding 10% of the unpaid tax.

Fraudulent Returns or Fraudulent Failure to File a Return – a penalty not exceeding 100% of the underpayment of the tax.

Local Taxing Authority

None.

Revenues

Exhibit 8.2 shows the estate tax revenue for fiscal 1985 to 2011.

Distribution of Revenues

Revenues are distributed to the general fund.

Exhibit 8.2
Maryland Estate Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Net Revenues</u> ¹	<u>% Change</u> ²
1985	\$7.5	—
1990 ³	35.5	36.5%
1995	33.9	-0.9%
1996	50.2	48.1%
1997	33.6	-33.1%
1998	58.7	74.7%
1999	58.6	-0.2%
2000 ⁴	77.4	18.0%
2001 ⁴	103.4	33.6%
2002	134.1	29.7%
2003	95.7	-28.6%
2004	111.3	16.3%
2005	137.5	23.5%
2006	171.5	24.7%
2007	176.6	3.0%
2008	194.5	10.1%
2009	153.4	-21.1%
2010	126.0	-17.9%
2011 (est.)	106.9	-15.2%

¹ Net of refunds, but includes interest.

² Fiscal 1990 and 1995 figures reflect average annual change.

³ For decedents dying on or after July 1, 1989, the due date changed from 15 months to 9 months after death – some of the increase from 1985 to 1990 represents a one-time windfall.

⁴ Fiscal 2000 and 2001 increases reflect in part the reduction and elimination of the Maryland inheritance tax on lineal relations and siblings of a decedent. While reducing inheritance tax revenues, these changes increased Maryland estate tax revenues because inheritance taxes paid operate to reduce the estate tax liability.

Source: Comptroller of the Treasury

Trends

Estate tax revenue collections fluctuate due to their dependence on estate value, type of distribution, and economic conditions. After growing dramatically from fiscal 2000 through 2008, revenues declined significantly for fiscal 2009 and 2010 and are expected to decline again in fiscal 2011. Future growth in estate tax revenues is anticipated but is difficult to predict.

History of Major Changes

- 1929 – Maryland estate tax enacted equal to the allowable maximum federal credit for state death taxes.
- 1977 – Unified credit established by federal government.
- 1981 – Federal Economic Recovery Act set the value of the estates for which there is no estate tax.
- 1987 – Penalty for late payment of tax imposed.
- 1989 – Due date of the Maryland estate tax return reduced from 15 to 9 months from date of death.
- 1997 – With the permission of the taxpayer, the Comptroller of Maryland and the registers of wills can transfer adjustments for refunds between estate and inheritance taxes.
- 2002 – 2001 federal tax Act phased out and repealed the federal credit for state death tax; increased and phased up the unified credit and provided for repeal of federal estate tax by the year 2010; Maryland estate tax partially decoupled from these federal changes, maintaining the Maryland estate tax notwithstanding the repeal of the federal credit or the repeal of the federal estate tax, but remaining coupled to scheduled federal unified credit increases.
- 2004 – Unified credit for Maryland estate tax purposes set at amount effectively exempting taxable estates of \$1 million or less, decoupling from scheduled federal increases in the unified credit.

- 2006 – Maryland estate tax clarified to reflect the partial decoupling of the tax from the federal estate tax; expressly allowed estates to make inconsistent elections for federal and State estate tax purposes regarding marital deduction qualified terminal interest property; and limited Maryland estate tax to 16% of the amount by which a taxable estate exceeds \$1 million.
- 2009 – Estate tax returns authorized to be filed with either the Comptroller or the register of wills.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 7, and 13

Generation-skipping Transfer Tax

Taxpayer

Any trust or decedent's estate that must file a federal generation-skipping transfer tax return for persons dying on or after January 1, 1989, provided the original decedent was either a resident of Maryland or a nonresident whose estate for federal estate tax purposes included an interest in real or tangible personal property located or having situs in Maryland, must pay the generation-skipping transfer tax. An example of a "generation skip" for purposes of this tax is when a transferor is the grandparent of the transferee. In effect, the transfer "skips" over a generation (the parents of the grandchild).

Tax Base

The tax base is the value of the property included in a generation-skipping transfer as determined under the Internal Revenue Code.

Valuation of Base

The taxpayer reports the value of the generation-skipping transfer on return forms provided by the Comptroller using information obtained from the federal generation-skipping transfer tax return, which is subject to audit.

Tax Rate

The tax rate is the amount set forth in the Internal Revenue Code as the maximum allowable credit for state generation-skipping transfer taxes but may not exceed 5% of the federal generation-skipping transfer tax. In effect, the State “picks up” the maximum credit allowed by the federal government, thus sharing the federal generation-skipping transfer tax.

Special Provisions

Exemptions

The Maryland generation-skipping transfer tax does not apply to a “direct skip” as defined under the Internal Revenue Code. An example of a “direct skip” for purposes of the generation-skipping transfer tax is when a transferor is the grandparent of the transferee and the transferee’s parent, who was the transferor’s lineal decedent, was deceased at the time of transfer.

Refunds

If there is a decrease in the federal generation-skipping transfer tax due, a taxpayer may file with the Comptroller an affidavit requesting a refund with interest from the date of payment of the Maryland generation-skipping transfer tax.

Deficiencies

If there is an increase in the federal generation-skipping transfer tax due, the taxpayer must file an amended State generation-skipping transfer tax return when the additional federal tax is paid.

Payment Dates

Tax payment must be made to the Comptroller by the filing date for the Maryland return, which is on or before the last day for filing the federal generation-skipping transfer tax return.

Administration of Tax

The Revenue Administration Division of the Comptroller of the Treasury, which administers the tax, has a fiscal 2011 appropriation of \$39.2 million. The cost of administering the tax is not specifically identified in the budget of the Comptroller.

Fines, Penalties, and Interest

Interest on unpaid Maryland generation-skipping transfer taxes, which is assessed at a rate of 3% above the prime rate, but not less than 13%, begins on the date the Maryland generation-skipping transfer tax return is due and applies to tax that is not paid by that date, including an increase in Maryland generation-skipping transfer tax due to a change in federal generation-skipping transfer tax made after a payment of Maryland generation-skipping transfer tax.

Local Taxing Authority

None.

Revenues

Annual revenue collections have been negligible.

Distribution of Revenues

Revenues are distributed to the general fund.

Trends

Unlike the Maryland estate tax, which is due within nine months of the original decedent's death, generation-skipping transfer taxes may be payable when a transfer is made to a second or third generation at or some time beyond the death of the original decedent.

History of Major Changes

1989 – Maryland generation-skipping transfer tax enacted equal to the maximum federal credit for state generation-skipping transfer taxes.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 7, and 13

Chapter 9. Miscellaneous Taxes

Excise Tax on Vessels

Taxpayer

Persons purchasing a new or used vessel within Maryland to be titled and numbered in the State; persons possessing within Maryland a vessel purchased outside of Maryland to be used principally in Maryland are also required to pay an excise tax on these vessels.

Licensed boat dealers must collect the excise tax on all sales of vessels to be titled and numbered in Maryland and on all sales of vessels within the State to be federally documented and principally used in Maryland.

Tax Base

The tax base is the gross purchase price or fair market value of the vessel with a deduction for the value of a trade-in. The gross purchase price, verified by a certified bill of sale, includes the boat, motor, accessories, freight, and make-ready charges. The fair market value is determined by means of a national publication of used vessel values (specifically, the Used Boat Price Guide). A minimum value of \$100 applies to all sales.

Valuation of Base

Documentation supporting the value of the vessel and attached to the application for boat certificates, or validation emblems substantiating the value, must be submitted to the Department of Natural Resources.

Tax Rate

5%.

Special Provisions

Exemptions

The excise tax on vessels does not apply to:

- Vessel sales to the U.S. government.
- Vessel sales to local political subdivisions and State agencies.
- Vessel sales to charitable organizations.
- Transfers between members of an immediate family.
- Sales to licensed boat dealers for resale, rental, or lease.

Credit for Collections

The dealer may retain 1.2% of the gross tax amount collected, provided that the dealer forwards the tax to the Department of Natural Resources within 30 days of the date of sale.

Refunds

As determined by the department, an overpayment of the excise tax may be refunded.

Payment Dates

Payment is due within 30 days of the sale of the vessel or within 30 days of the date a vessel purchased out-of-state is brought into the State for principal use in Maryland.

Administration of Tax

For fiscal 2006 through 2009, the Department of Natural Resources could use up to a specified percentage of revenues in the Waterway Improvement Fund for administrative expenses directly related to implementing the purposes of the Waterway Improvement Fund. Beginning in fiscal 2010, the department may no longer use revenues in the fund for administrative expenses.

Fines, Penalties, and Interest

A 10.0% penalty is assessed against taxes that remain unpaid after 30 days, and interest at the rate of 1.5% per month accrues until the tax and penalty are paid.

Local Taxing Authority

None.

Revenues

The vessel excise tax revenues from fiscal 1985 through 2011 are shown in Exhibit 9.1.

Exhibit 9.1
Maryland Vessel Excise Tax Revenues
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Net Revenues¹</u>	<u>% Change²</u>
1985	\$9.5	—
1990	15.1	9.6%
1995	14.5	-0.8%
1996	14.6	0.6%
1997	16.1	10.3%
1998	17.1	6.2%
1999	20.8	21.6%
2000	22.9	10.1%
2001	22.8	-0.4%
2002	25.9	13.6%
2003	27.1	4.6%
2004	30.5	12.5%
2005	29.0	-4.9%
2006	29.9	3.1%
2007	27.0	-9.7%
2008	25.1	-7.0%
2009	16.8	-49.4%
2010	16.5	-1.8%
2011 (est.)	16.5	0%

¹ Net of refunds.

² 1990 and 1995 figures reflect average annual change.

Source: Department of Natural Resources

Distribution of Revenues

Vessel excise tax revenues are credited to the Waterway Improvement Fund. The fund may incur expenditures for the following purposes:

- marking channels and harbors and establishing aids to navigation;
- clearing debris, aquatic vegetation, and obstruction from State waters;
- dredging channels and harbors and construction of jetties and breakwaters;
- constructing marine facilities beneficial to the boating public;
- improving, reconstructing, or removing bridges over waters, if those structures impede the boating public;
- evaluating water-oriented recreation needs and recreational capacities of Maryland waterways and developing comprehensive plans for waterway improvements;
- providing matching grants to local governments for the construction of marine facilities that promote the safety of life and property; and
- boat safety and education.

Trends

Until 2008, the vessel excise tax, which is imposed in lieu of the sales and use tax, had generally been maintained at the same rate as the general sales and use tax rate. Effective January 3, 2008, the sales and use tax rate increased to 6%, but the vessel excise tax rate remained at 5%. Beginning in fiscal 2007, excise tax revenues began to decline; fiscal 2009 revenues declined by approximately 49% from 2008 due to the national economic downturn. Revenues are expected to remain relatively stable in fiscal 2010 and 2011.

History of Major Changes

- 1965 – Tax first imposed on vessels at the rate of 3%.
- 1973 – Tax increased to 4%.

- 1977 – Tax increased to 5%.
- 1986 – Sales and use tax on vessel sales repealed for sales subject to payment of excise tax on vessels to the Department of Natural Resources (*i.e.*, consolidated the authority for the collection of the tax within the Department of Natural Resources).
- 1998 – The gross purchase price of a vessel can be reduced by the value of a trade-in for purposes of calculating the tax.

Sections of the Maryland Annotated Code

Natural Resources Article, Title 8, Subtitle 7

Horse Racing Taxes

Taxpayer

Any licensed person, association, or corporation conducting racing within the State must pay horse racing taxes.

Tax Base

Each racing association pays to the Maryland Racing Commission a tax at the rate specified below on the total amount of money wagered on all races for each day of racing.

Valuation of Base

The amount wagered on races (*i.e.*, the handle) is reported on forms provided by the Maryland Racing Commission.

Tax Rates

Exhibit 9.2 shows the current horse racing wagering taxes.

Exhibit 9.2 Horse Racing Wagering Taxes

<u>Track</u>	<u>Tax Rate on Money Wagered</u>
Thoroughbred Mile: Laurel, Pimlico	0.32% of amount bet
Thoroughbred Half-mile: Timonium	3.5% of amount bet, but no tax during the State Fair (racing has taken place only during the State Fair since 1985; therefore, no State tax has been paid since then)
Harness: Rosecroft, Ocean Downs	0.32% of amount bet
Steeplechase: Fair Hill	9.0% of amount bet

Source: Maryland Racing Commission; Department of Legislative Services

Special Provisions

Maryland-Bred Race Fund

The Maryland-Bred Race Fund (thoroughbred) consists of revenues generated from 5% of the breakage (the odd cents left over after paying the successful bettors to the nearest \$0.10) plus a percentage of the amounts wagered, as shown in Exhibit 9.3.

Exhibit 9.3
Maryland-Bred Fund Distribution

<u>Track</u>	<u>% of Amount Wagered</u>
Thoroughbred Mile	1.1%
Thoroughbred Half-mile	1.5%

Source: Maryland Racing Commission; Department of Legislative Services

The fund is administered by the Maryland Racing Commission in the Department of Labor, Licensing, and Regulation, with the assistance of an advisory committee. The fund supports the Maryland-Bred Race Program.

Maryland Standardbred Race Fund

The Maryland Standardbred Race Fund consists of revenues from the following sources:

- 50% of the breakage if the average handle exceeds \$150,000;
- nomination, sustaining, declaration, and stallion registration fees; and
- a percentage of a licensee's takeout share, based on the average handle and the type of pool as follows:
 - if average handle is over \$600,000 –
 - on the first \$125,000 of the average handle:
 - 0.5% of single and two horse multiple bets; and
 - 1.0% of three or more horse multiple bets.
 - on the rest of the average handle:
 - 1.0% of single and two horse multiple bets; and
 - 1.5% of three or more horse multiple bets.

- if the average handle is between \$150,000 and \$600,000 –
 - on the first \$125,000 of the average handle:
 - 0.5% of single and two horse multiple bets; and
 - 1.0% of three or more horse multiple bets.
 - on the rest of the average handle:
 - 1.0% of single and two horse multiple bets; and
 - 1.5% of three or more horse multiple bets.
- if the average handle is \$150,000 or less –
 - 0.5% of single and two horse multiple bets; and
 - 1.0% of three or more horse multiple bets.

The fund is administered by the Maryland Racing Commission, with the assistance of an advisory committee. The fund supports two programs, the Foaled Stakes Program and the Sires Stakes Program.

Payment Dates

Thoroughbred licensees must pay to the Maryland Racing Commission the tax due within seven days after each day of racing.

The standardbred licensees must estimate the tax on money wagered due to the State each day. The first payment is due 33 days after the start of the meeting and includes the estimated tax for the first 30 days. Thereafter, the tax for any day must be paid to the commission no later than 72 hours after the close of racing for that day, and the total tax due for the meeting must be paid within 5 days of the close of the meeting.

Administration of Tax**Administration/Collection Responsibility**

The Maryland Racing Commission is responsible for the administration and collection of the taxes. Revenues are turned over to the Comptroller of the Treasury for distribution.

Costs

The cost of administering the tax is not specifically identified in the budget. The fiscal 2011 appropriation for the Division of Racing within the Department of Labor, Licensing, and Regulation, which administers the tax, is approximately \$4.9 million.

Local Taxing Authority

None.

Revenues

Maryland horse racing revenues are generated from several sources, including taxes on betting and certain license fees. Exhibit 9.4 shows the revenues from these sources from fiscal 1985 through 2011.

Exhibit 9.4
Maryland Horse Racing Revenues
from Betting Taxes and Licenses
Fiscal 1985-2011

<u>Year</u> ¹	<u>Betting Taxes</u>	<u>Track License Fees</u>	<u>Occupational Licenses</u>	<u>Total</u>	<u>% Change</u> ²
1985	\$8,433,187	\$162,175	\$185,080	\$8,780,442	—
1990	3,096,859	14,275	179,492	3,290,626	-17.8%
1995	2,820,126	14,125	287,390	3,121,641	-1.0%
1996	3,041,596	15,975	294,150	3,351,721	7.4%
1997	2,448,192	15,675	289,710	2,753,577	-17.8%
1998	1,743,488	19,000	258,155	2,020,643	-26.6%
1999	1,571,468	22,175	268,991	1,862,634	-7.8%
2000	1,760,997	24,575	291,965	2,077,537	11.5%
2001	1,743,438	22,675	288,200	2,054,313	-1.1%
2002	1,736,581	23,425	297,431	2,057,437	0.2%
2003	1,679,708	26,200	286,184	1,992,092	-3.2%
2004	1,628,038	29,825	246,472	1,904,335	-4.4%
2005	1,557,962	30,200	257,704	1,845,866	-3.1%
2006	1,677,321	31,000	278,474	1,986,795	7.6%
2007	1,652,744	26,375	263,216	1,942,335	-2.2%
2008	1,483,089	29,675	236,305	1,749,069	-10.0%
2009	1,224,436	26,993	350,000	1,601,492	-9.2%
2010	1,489,072	29,675	322,702	1,841,449	13.0%
2011(est.)	1,519,917	29,675	322,702	1,872,294	1.6%

¹ Betting tax rates and track license fees were significantly reduced as a result of legislation enacted in 1985. Legislation enacted from 1997 through 2000 further reduced the tax rate.

² 1990 and 1995 figures reflect average annual change.

Source: Maryland Racing Commission

Distribution of Revenues

Horse Racing Special Fund

Revenues from the taxes and license fees, as well as other horse racing revenues, are credited to a special fund. The Comptroller makes the following distributions from the fund:

- \$825,000 to the Maryland Agricultural Fair Board (for promotion of fairs and exhibits);
- \$500,000 for the Maryland Million;
- for as long as the Maryland State Fair remains at the Timonium Fairgrounds:
 - \$500,000 to the Maryland State Fair and Agricultural Society, Inc. (for promotion and enhancement of the fair); and
 - \$50,000 to Baltimore County (to replace former revenues);
- \$100,000 to Prince George's County (to replace former revenues from the admissions and amusement tax);
- \$40,000 to the Great Frederick Fair to support exhibition harness races;
- \$75,000 to the Maryland Agricultural Education Foundation;
- \$20,000 to the Great Pocomoke Fair;
- local impact aid; and
- other distributions.

Local Impact Aid

To assist services and facilities for communities within two miles of the Pimlico racetrack and three miles of the Laurel racetrack, there is impact aid for live racing. For each day training facilities are open at the Bowie Training Center, the City of Bowie receives \$50 (364 days estimated). In addition, for each day wagering is conducted at a track where live racing is not held, there is impact aid provided for simulcast wagering. However, the fiscal 2011 budget transferred \$500,000 of the \$1.2 million allocated for local impact aid to the general fund. As a result, impact aid is estimated to be made to communities in fiscal 2011 as follows:

- Anne Arundel County – \$201,900;
- Baltimore City – \$324,500;

- Baltimore County – \$29,300;
- City of Bowie – \$10,650;
- City of Laurel – \$30,300;
- Howard County – \$50,500; and
- Prince George's County – \$58,500.

Other Distributions

Nine percent of the total amount wagered at the steeplechase races at Fair Hill (approximately \$15,600 est. for 2011) is paid to the Racing Commission, which distributes the revenues to the Fair Hill Improvement Fund.

Remaining special fund revenues are distributed to the Maryland Agricultural Education and Rural Development Assistance Fund, Maryland-Bred Race Fund, and the Standardbred Race Fund.

History of Major Changes

- 1920 – Local laws controlling racing repealed, State control established, and Maryland Racing Commission created.
- 1933 – State tax on racing imposed at 1.0% on betting at mile tracks.
- 1937 – State tax imposed on half-mile tracks at 1.0% of betting over \$500,000, plus 5.0% on net revenues from racing.
– State tax imposed at 1.0% on betting at harness tracks.
- 1946 – A schedule of distribution of State revenues from racing established to divide the revenues with the counties and municipalities.
- 1985 – Major racetrack legislation enacted which effectively eliminated most State tax revenues from racing.
- 1988 – Authorized intertrack wagering between mile thoroughbred tracks.
– Delmarva Downs able to take wagers on live thoroughbred races.

- Authorized certain thoroughbred tracks to conduct wagering on races simulcast from tracks outside of Maryland if the simulcast race is of national or local significance with a purse in excess of \$50,000.
- 1990 – Authorized harness racetracks to conduct intertrack wagering between themselves and broadened intertrack wagering between the thoroughbred track in Laurel and harness tracks.
- All uncashed parimutuel tickets from harness tracks are payable to the Maryland Standardbred Fund Sire Stakes Program.
- 1992 – Off-track betting authorized and requirements for simulcast racing repealed.
- 1997 – State wagering tax rate reduced to 0.32% until May 31, 1998.
- 1998 – State wagering tax rate reduction to 0.32% extended until June 30, 1999, and, for fiscal 1998 and 1999, monies remaining in the special fund at the end of the year are to be distributed to the bred funds rather than the general fund.
- 1999 – State wagering tax rate reduction to 0.32% extended until June 30, 2000, and, for fiscal 1999 and 2000, monies remaining in the special fund at the end of the year are to be distributed to the bred funds rather than the general fund.
- 2000 – State wagering tax rate reduction to 0.32% extended permanently.
- 2005 – Altered the distribution of excess funds from the Racing Special Fund to distribute any available funds to the Maryland Agricultural Education and Rural Development Assistance Fund, the Maryland-Bred Race Fund, and the Standardbred Race Fund.
- 2007 – Repealed statutory restrictions on (1) night thoroughbred racing; (2) thoroughbred racing on Sundays; and (3) Sunday races held by the Maryland State Fair and Agricultural Society, other than at the State Fair.
*Provides, subject to certain conditions, for the distribution of proceeds from video lottery terminals to the horse racing industry, including 7.0% of gross revenue to a purse dedication account to enhance horse racing purse and bred funds, not to exceed \$100 million annually, and 2.5% for an eight-year period to a

Racetrack Facility Renewal Account, not to exceed \$40 million annually.

- 2010 – Contingent upon the purchase of the Rocky Gap Lodge and Golf Resort by a video lottery operation licensee, the 2.5% of video lottery terminal proceeds from the Allegany County facility that would otherwise be distributed to the Racetrack Facility Renewal Account will instead be distributed to the licensee for the Allegany County facility, for the first five years of operations. In addition, the thoroughbred racing license authorized for a track in Allegany County would be repealed.

*special session

Sections of the Maryland Annotated Code

Business Regulation Article, Title 11

Boxing and Wrestling Tax

Taxpayer

Boxing and wrestling promoters who conduct professional boxing, kickboxing, and wrestling events, as well as mixed martial arts events, in Maryland are required to pay the boxing and wrestling tax. The tax must also be paid by promoters who promote closed-circuit boxing, wrestling, kickboxing, and mixed martial arts events and organizations that offer boxing, wrestling, kickboxing, and mixed martial arts events on a pay-per-view basis.

Tax Base

The tax base consists of the gross receipts from (1) admission charges for live or closed-circuit boxing, kickboxing, wrestling, or mixed martial arts events; and (2) charges to view boxing, kickboxing, wrestling, or mixed martial arts events on a pay-per-view basis.

Valuation of Base

The valuation of the base is as reported by the taxpayer on returns filed with the Comptroller of the Treasury.

Tax Rate

The tax rate is the greater of 10% of the gross receipts or \$200 for charges for admission to a boxing, wrestling, or mixed martial arts contest, or for the sale of broadcast rights to a boxing, wrestling, or mixed martial arts contest.

For contests conducted by the Maryland National Guard or a post of the Veterans of Foreign Wars or the American Legion in Allegany County, the rate is 5% of the gross receipts for charges for admission to a boxing or wrestling contest.

If gross receipts from charges to view a telecast of boxing, kickboxing, wrestling, or mixed martial arts are subject to the sales and use tax, the boxing and wrestling tax rate is reduced by the amount of the sales and use tax so that the total tax rate does not exceed 10%.

Exemptions

The tax does not apply to an intercollegiate, interscholastic, or intramural boxing contest held on the campus or under the auspices of a college, high school, or university in the State; or an amateur boxing or wrestling contest held under the auspices of the United States of America Amateur Boxing Federation or the Young Men's Christian Association.

Payment Dates

Taxpayers must file a return by the tenth day of the month following the month in which the person has gross receipts subject to the admissions and amusement tax. The return must be filed with the Comptroller of the Treasury and be accompanied by any payment due.

Administration of Tax

The boxing and wrestling tax is administered by the Comptroller of the Treasury. Collections are handled by the Revenue Administration Division, while the Compliance Division enforces the tax. The cost of administering the tax is not specifically identified

in the budget of the Comptroller of the Treasury. The Revenue Administration Division, which administers the tax, has a fiscal 2011 appropriation of approximately \$39.2 million.

Fines, Penalties, and Interest

Unpaid Taxes – a maximum penalty of 10%.

Underpayment – interest is assessed at an annual rate of 3% above the prime rate, but not less than 13%, as determined by State law.

Local Taxing Authority

None.

Revenues

Boxing and wrestling tax revenues from fiscal 1985 through 2011 are shown in Exhibit 9.5.

Exhibit 9.5
Boxing and Wrestling Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Tax Revenues</u>	<u>% Change*</u>
1985	\$290,830	—
1990	248,078	-2.9%
1995	132,800	-9.3%
1996	393,700	196.5%
1997	507,500	28.9%
1998	476,900	-6.0%
1999	842,900	76.7%
2000	685,104	-18.7%
2001	600,734	-12.3%
2002	383,390	-36.2%
2003	394,664	2.9%
2004	418,295	6.0%
2005	319,903	-23.5%

Exhibit 9.5 (Continued)

<u>Fiscal Year</u>	<u>Tax Revenues</u>	<u>% Change*</u>
2006	\$407,996	27.5%
2007	555,915	36.3%
2008	405,724	-27.0%
2009	288,357	-29.0%
2010	967,108	235.4%
2011 (est.)	299,000	-69.0%

*1990 and 1995 figures reflect average annual change.

Source: Comptroller of the Treasury

Distribution of Revenues

All tax revenues, interest, and penalties are credited to the general fund.

Trends

In the late 1980s, boxing, kickboxing, and wrestling promoters discovered the pay-per-view technology of cable and satellite television services. The explosion of pay-per-view programming of these events replaced live events and is currently the primary source of the boxing and wrestling tax. Revenues declined significantly in fiscal 2008 and 2009, but experienced a huge jump in fiscal 2010 due to a single mixed martial arts event in Baltimore.

History of Major Changes

- 1920 – Commission was created and granted authority to administer the boxing and wrestling tax.
- The tax was established as 10% of the gross receipts from tickets sold to boxing and wrestling events.
- 1951 – Commission granted legislative authority to collect 10% of the gross receipts from the sale of television, radio, or motion picture rights to boxing and wrestling events.

- 1961 – Taxing authority extended to apply to closed-circuit or subscription television.
- 1984 – Taxing authority extended to boxing and wrestling events shown on a pay-per-view or pay-per-occasion basis through any medium.
- 1989 – Repeal of tax on broadcast rights to a boxing or wrestling contest.
- 1993 – Tax rate on pay-per-view events adjusted by reducing the 10% boxing and wrestling tax rate by the sales and use tax rate applied to the event (10% maximum tax rate per event).
 - Boxing and wrestling tax applied to the gross receipts derived from kickboxing events.
- 1994 – Administration of the boxing and wrestling tax transferred from the State Athletic Commission to the Comptroller of the Treasury.
- 2008 – Mixed martial arts events subjected to regulation and licensure by the State Athletic Commission; licensees are subject to the boxing and wrestling tax.

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 6, and 13

Chapter 10. Transportation Revenues

Description of the Transportation Trust Fund

The Transportation Trust Fund was created in 1971 as a dedicated fund to pay for the activities of the Maryland Department of Transportation. All department expenditures are made through the Transportation Trust Fund and may be used for any lawful purpose related to the exercise of the department's rights, powers, duties, and obligations subject to the appropriation limits approved within the annual State budget. A portion of the revenues credited to the Transportation Trust Fund is shared with local governments, the general fund, and other State agencies. The department's funds are allocated by the Secretary of Transportation and approved by the Governor and the General Assembly.

All or part of the following revenues are used to fund the Transportation Trust Fund:

- motor fuel tax revenues;
- motor vehicle excise (titling) tax revenues;
- motor vehicle registration, license, and other fees;
- corporate income tax revenues;
- a portion of general sales and use tax revenues;
- a portion of sales and use tax revenues from short-term motor vehicle rentals;
- bus and rail fares;
- fees from the Port Administration and Aviation Administration;
- federal funds;
- bond proceeds; and
- other miscellaneous sources.

Unspent funds at the close of each fiscal year remain in the Transportation Trust Fund and do not revert to the general fund.

Sources and Distribution of Transportation Revenues

Motor fuel tax and titling tax receipts are the largest State revenue sources for the Transportation Trust Fund. Together, these two sources account for approximately 35.0% of fiscal 2011 estimated revenues. Federal funds (distributions from federal agencies such as the Federal Highway Administration and the Federal Aviation Administration) constitute 21.8% of fiscal 2011 trust fund revenues. Federal funds are used to support highway and transit programs and projects, as well as other transportation programs.

Exhibit 10.1 illustrates the estimated contribution of each revenue source in fiscal 2011.

Exhibit 10.1
Transportation Trust Fund Revenue Estimates
Fiscal 2011
(\$ in Millions)

<u>Source</u>	<u>Revenues</u>	<u>% of Total</u>
Motor Fuel Tax	\$751	20.2%
Titling Tax	552	14.8%
Registration Fees	374	10.1%
General Sales and Use Tax	204	5.5%
Miscellaneous MVA Fees	203	5.5%
Corporate Income Tax	142	3.8%
Rental Car Sales and Use Tax	24	0.6%
Operating Revenues	414	11.1%
Federal Funds	811	21.8%
Bond Proceeds	205	5.5%
Other Revenues	40	1.1%
Total	\$ 3,720	100.0%

MVA: Motor Vehicle Administration

Source: Governor's Budget Books, Fiscal 2011

By law, a portion of Transportation Trust Fund revenues is allocated among the department and local jurisdictions by way of the Gasoline and Motor Vehicle Revenue Account, which consists of portions of the gas, titling, and corporate income taxes and registration fees. Funds credited to this account are known as highway user revenues. Historically, highway user revenues have been divided between the department (70%), and Baltimore City and local jurisdictions (30%); however, recent budget constraints have resulted in transfers of highway user revenues to the general fund. Specifically, the Budget Reconciliation and Financing Acts of 2009 and 2010 altered the distribution of highway user revenues to the department and local jurisdictions by adding a general fund transfer.

The department's share of highway user revenues was increased by the Budget Reconciliation and Financing Act of 2009 to 71.5% beginning in fiscal 2012. The Budget Reconciliation and Financing Act of 2010 altered the distribution to 68.5% for fiscal 2011 only. The Act also provided for general fund transfers in fiscal 2010 and 2011 of 19.5 and 23.0%, respectively, to help resolve the budget deficit. The Act also created a permanent transfer of 19.3% to the general fund beginning in fiscal 2013. The transfer to the general fund in fiscal 2013 is estimated to be \$339.4 million. Exhibit 10.2 shows the estimated general fund transfers for fiscal 2010 through 2013 as a result of the budget reconciliation actions.

The local share of highway user revenues is distributed to Baltimore City, the counties, and municipalities to assist in the development and maintenance of local transportation projects. The local share had been 30.0%, but the Budget Reconciliation and Financing Act of 2009 reduced the local share to 28.5%, beginning in fiscal 2012. The Budget Reconciliation and Financing Act of 2010 further altered the local share from fiscal 2010 through 2013 with a permanent distribution of 9.2% beginning in fiscal 2013 (Baltimore City will receive 7.5%, counties will receive 1.4%, and municipalities will receive 0.3%.) Exhibit 10.2 provides additional information on the local and general fund distribution from fiscal 2010 through 2013 and thereafter. Further information on the distribution of highway user revenues is provided in *Volume VI – Maryland Local Government*.

Exhibit 10.2
Estimated Highway User Revenue Distribution
Fiscal 2010-2013
(\$ in Millions)

	Fiscal 2010		Fiscal 2011		Fiscal 2012		Fiscal 2013	
	%	\$	%	\$	%	\$	%	\$
MDOT	70.0%	\$1,070.2	68.5%	\$1,082.3	71.5%	\$1,185.9	71.5%	\$1,257.5
General Fund	19.5%	298.1	23.0%	363.4	20.4%	338.4	19.3%	339.4
Baltimore								
City	8.6%	131.5	7.9%	124.8	7.5%	124.4	7.5%	131.9
Counties	1.5%	22.9	0.5%	7.9	0.5%	8.3	1.4%	24.6
Municipalities	0.4%	6.1	0.1%	1.6	0.1%	1.7	0.3%	5.3
Total	100.0%	\$1,528.9	100.0%	\$1,580.0	100.0%	\$1,658.6	100.0%	\$1,758.8

MDOT: Maryland Department of Transportation

Source: Department of Legislative Services

Motor Fuel Tax and Motor Carrier Tax

Taxpayer

Motor Fuel Tax: The following persons are subject to the motor fuel tax:

- licensed dealers that import gasoline or aviation fuel into Maryland, or purchase such fuel in Maryland for sale or redistribution at wholesale (under certain conditions);
- licensed special fuel sellers that sell any special fuel on which the motor fuel tax has not been paid; and
- licensed special fuel users that purchase special fuel for use in a motor vehicle.

Motor Carrier Tax: The motor carrier tax is imposed on each motor carrier who operates or causes the operation of a commercial motor vehicle on a highway in the State.

A commercial motor vehicle is defined as any motor vehicle used or maintained for the transportation of persons or property that:

- has two axles and an operating or registered gross vehicle weight in excess of 26,000 pounds;
- has three or more axles; or
- is used in combination with another vehicle and has an operating or registered gross vehicle weight in excess of 26,000 pounds.

Tax Base

Motor Fuel Tax: The motor fuel tax is based on the gallons of fuel purchased, plus or minus adjustments (stock loss or gain, temperature adjustments), or fuel consumed less an allowable cost of collection.

Motor Carrier Tax: The motor carrier tax is based on the gallons of fuel used in the operation of a commercial motor vehicle on a highway in the State. In accordance with the International Fuel Tax Agreement, interstate motor carriers pay taxes based on taxable miles traveled in each state or province.

Valuation of Base

All entities subject to the motor fuel tax or the motor carrier tax must file a report with the Motor Fuel, Alcohol, and Tobacco Tax Unit of the Comptroller of the Treasury. Motor fuel tax reports, which record gallons of fuel sold, are filed monthly. Motor carrier tax reports, which record miles traveled on Maryland highways, are filed quarterly. All reports are subject to audit.

Tax Rates

Motor Fuel Tax: The motor fuel tax is imposed at the following rates:

- 23.5 cents per gallon for gasoline and clean-burning fuels, except electricity;
- 24.25 cents per gallon for all other special fuels (*e.g.*, diesel); and
- 7.0 cents per gallon for aviation fuel.

These tax rates apply to all dealers, special fuel users and sellers, and motor carriers.

A federal excise tax of 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel fuel is also imposed.

Motor Carrier Tax: The motor carrier tax rate is the motor fuel tax rate for the type of fuel used in the operation of a commercial motor vehicle.

Special Provisions

Discount for Collections

To compensate dealers and special fuel sellers for loss from shrinkage and evaporation and for administrative costs, the law allows dealers and sellers to retain 0.5% of the first 10 cents of their fuel tax liability per gallon.

Dealers who make the first sale or distribution of motor fuel (tax paid) share the collection allowance with distributors to whom they sell gasoline by passing along two-thirds of the discount. Distributors in turn share one-third of the collection allowance with retail service station dealers. Dealers or special fuel sellers making the first sale of motor fuel (tax paid) to a retail service station dealer pass along half of the collection allowance.

Exemptions

- **Motor Fuel Tax:** Sales to the federal government; sales to the Department of General Services for State vehicles; export sales to another state; certain sales to the Washington Metropolitan Area Transportation Authority; motor fuel bought for use by a diplomatic mission or diplomatic personnel; and aviation fuel sales to scheduled air carriers, Maryland State and local governments, the federal government, and foreign governments.
- **Motor Carrier Tax:** Federal government vehicles and recreational vehicles.

Tax Credits

- **Motor Fuel Tax:** See Discount for Collections.

- **Motor Carrier Tax:** A credit is allowed equal to the amount of motor fuel tax paid by a motor carrier on motor fuel purchased in Maryland.

Decals

Interstate motor carriers must obtain and display a set of International Fuel Tax Agreement decals (two identification markers certifying registration) on each of their commercial motor vehicles operating interstate. There is no cost for the decal. The Motor Fuel, Alcohol, and Tobacco Tax Unit issues decals to motor carriers that designate Maryland as their base state under the agreement. Commercial motor vehicles that are tagged in Maryland or the District of Columbia and operate solely in Maryland or the District of Columbia are not required to register or to obtain any decals.

Trip Permit Fees

In lieu of the motor carrier tax, motor carriers can elect to obtain a 15-day permit, which carries a fee equal to the current special fuel tax on 174 gallons. Trip permits must be obtained for each commercial motor vehicle, but no reports of mileage are required.

Refunds

Motor fuel tax refunds may be obtained for nonhighway use, except for gasoline used in pleasure boats. Refunds may also be obtained for taxes paid on fuel used in the following:

- any vehicle operated by a volunteer fire company or volunteer rescue squad incorporated in the State;
- any vehicle owned and used by a Maryland chapter of the American Red Cross;
- any vehicle used by a bona fide unit of a national veterans' organization;
- certain public transit and paratransit systems based in the State; and
- vehicles used to perform specific diplomatic missions.

A refund is also available for any Maryland tax paid on motor fuel that is lost due to fire, collision, or casualty or any fuel exported to another state.

A partial refund is provided for five separate types of power-take-off equipped highway vehicles (concrete mixing, motor fuel delivery, solid waste compacting, well-drilling, and farm fertilizer spreading vehicles).

Aviation fuel tax refunds are available for aircraft manufacturing companies and for aviation fuel used in certain agricultural activities.

Motor carriers may obtain refunds of the motor carrier tax when fuel purchases in Maryland exceed fuel consumed on Maryland highways.

Payment Dates

Motor fuel monthly tax reports, as well as taxes due from dealers, special fuel sellers, and special fuel users, must be received by the last day of the month following the report period, or postmarked two or more days prior to the last day of the month.

Motor carrier quarterly tax reports, as well as taxes due, must be postmarked or received by the last day of the month following the end of the calendar quarter.

Annual motor carrier decals expire on December 31 of each year and must be renewed for the next registration year. Under the International Fuel Tax Agreement, there is a two-month grace period for displaying the new year decals for carriers in good standing, provided they have filed an acceptable renewal form with the Comptroller and new year decals have been issued.

Administration of Tax

Motor fuel and motor carrier taxes are administered by the Motor Fuel, Alcohol, and Tobacco Tax Unit of the Comptroller of the Treasury.

Costs

The Motor Fuel, Alcohol, and Tobacco Tax Unit will spend an estimated \$8.1 million in fiscal 2011 to administer the motor fuel tax provisions.

Fines, Penalties, and Interest

Late Motor Fuel Reports – a penalty not to exceed \$25.

Late Motor Carrier Reports – a penalty not to exceed \$50.

Fraudulent Reports – a penalty of 100% of the tax due.

Late Payments or Underpayments – interest is assessed at 3% above the prime rate but not less than 13%, as determined by law.

Local Taxing Authority

None.

Revenues

Exhibit 10.3 shows the motor fuel tax and motor carrier tax revenues from fiscal 1985 to 2011.

Exhibit 10.3
Maryland Motor Fuel Tax and Motor Carrier Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Tax Rate¹</u> <u>(Cents Per Gallon)</u>	<u>Net State Revenues</u> <u>(\$ in Millions)²</u>	<u>% Change³</u>
1985 ⁴	13.5	\$310.3	—
1990 ⁵	18.5	455.6	8.0%
1995 ⁶	23.5	605.9	6.1%
1996	23.5	608.0	0.3%
1997	23.5	615.6	1.2%
1998	23.5	626.7	1.8%
1999	23.5	680.3	8.6%
2000	23.5	646.5	-5.0%
2001	23.5	687.0	6.3%
2002	23.5	703.5	2.4%
2003	23.5	716.1	1.8%
2004	23.5	746.2	4.2%
2005	23.5	752.9	0.9%
2006	23.5	758.0	0.7%
2007	23.5	755.7	-0.3%

Exhibit 10.3 (Continued)

<u>Fiscal Year</u>	<u>Tax Rate¹</u> <u>(Cents per Gallon)</u>	<u>Net State Revenues</u> <u>(\$ in Millions)²</u>	<u>% Change³</u>
2008	23.5	755.2	-0.1%
2009	23.5	736.1	-2.5%
2010	23.5	740.0	0.5%
2011 (est.)	23.5	751.0	1.5%

¹ Tax rate per gallon is for gasoline. Net State revenues include all motor fuel and motor carrier tax revenue.

² Net of refunds.

³ Fiscal 1990 and 1995 figures reflect average annual change.

⁴ The tax rate increased from 9 to 11 cents on June 1, 1982 and to 13.5 cents on June 1, 1983.

⁵ The tax rate increased from 13.5 to 18.5 cents on June 1, 1987.

⁶ The tax rate for gasoline increased from 18.5 to 23.5 cents on May 1, 1992; the tax rate for special fuel increased from 18.5 to 19.25 cents on May 1, 1992, to 21.75 cents on January 1, 1993 and to 24.25 cents on July 1, 1993; and the tax rate for aviation fuel increased from 5 to 7 cents on May 1, 1992.

Source: Maryland Department of Transportation

Distribution of Revenues

Motor Fuel Tax: Motor fuel tax revenues are distributed as follows:

- reserves are set aside for refunds relating to the motor fuel and motor carrier taxes;
- a proportionate share of the cost of administration is distributed to an administrative cost account;
- the net proceeds of the aviation fuel tax (receipts less refunds) are credited to the Transportation Trust Fund;
- fuel tax revenues that are attributable to the portion of the rate that exceeds 18.5 cents per gallon are distributed to the Gasoline and Motor Vehicle Revenue Account; and
- the remainder each month is distributed to the following:

- 2.3% to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund (of note is that from fiscal 2009 through 2011, a portion of the revenues have been redirected or transferred from the trust fund to the general fund); and
- the balance to the Gasoline and Motor Vehicle Revenue Account, which is divided among the Maryland Department of Transportation, the general fund, and the local jurisdictions as described previously.

Motor Carrier Tax: Motor carrier tax revenues and trip permit fees are distributed to the Gasoline and Motor Vehicle Revenue Account.

Exhibit 10.4 shows the distribution of projected revenues for fiscal 2011.

Trends

Generally, revenues from fuel taxes grow slowly, primarily because they are not inflation sensitive. Because the fuel tax is a flat fee, levied per gallon, revenues are normally driven by consumption patterns and not by the relative price level of motor fuel. In recent fiscal years, as the economy declined and motor fuel prices spiked, consumption patterns changed and, as a result, motor fuel tax revenue growth has been flat or has declined. Any increases in motor fuel tax rates provide a short-term boost in revenue attainment, but otherwise, growth remains relatively flat.

History of Major Changes

- 1922 – One cent per gallon fuel tax introduced.
- 1924 – Tax rate increased to 2 cents per gallon.
- 1927 – Tax rate increased to 4 cents per gallon.
- 1947 – Tax rate increased to 5 cents per gallon.
- 1953 – Tax rate increased to 6 cents per gallon.
- 1957 – Motor Carrier Law enacted.
- 1964 – Tax rate increased to 7 cents per gallon.

Exhibit 10.4
Distribution of Motor Vehicle
Fuel Tax Revenues
Fiscal 2011
(\$ in Millions)

<u>Revenues</u>	<u>Amount (Est.)</u>	<u>Distribution</u>
Gross Receipts	\$ 751.4	
Administration Expenses	-8.1	
Aviation Fuel Tax	-0.8	Transportation Trust Fund, after Distribution for Administrative Expenses
Motor Carrier Tax, Decals, Temporary Permits, Fuel Receipts Greater Than 18.5 Cents Per Gallon	-166.5	(68.5% Department, 8.5% Locals, and 23.0% General Fund)*
Net Revenue Available for Distribution	\$ 576.0	
2.3% of Net Revenue Available	-13.2	General Fund and Chesapeake and Atlantic Coastal Bays 2010 Trust Fund*
Net Motor Fuel Tax Revenues	\$ 562.8	Gasoline and Motor Vehicle Revenue Account (68.5% Department, 8.5% Locals, and 23.0% General Fund)**

*In fiscal 2011, \$5 million is distributed to the general fund to help offset the budget deficit.

**The Gasoline and Motor Vehicle Revenue Account distribution will change to 71.5% to the department, 19.3% to the general fund, and 9.2 % to the locals in fiscal 2012, as noted previously.

Source: Maryland Department of Transportation

- 1969 – Motor Fuel Inspection Law enacted to provide for the inspection and testing of motor fuel products.
- 1972 – Tax rate increased to 9 cents per gallon.
- 1978 – Maryland Divestiture Law upheld in the U.S. Supreme Court, precluding producers/refiners from owning and operating retail service stations in Maryland.
- 1982 – Tax rate increased to 11 cents per gallon and decal fee raised to \$25 per vehicle.
- 1983 – Tax rate increased to 13.5 cents per gallon.
- 1985 – All sellers of special fuel must be licensed and all special fuel sales are subject to taxation except under specific circumstances. Decal fee for motor buses reduced from \$25 to \$10.
- 1987 – Tax rate increased to 18.5 cents per gallon.
- 1988 – Motor carrier decal registration fee reduced to \$7.
- 1992 – Increases in all motor fuel tax rates approved at the 1992 special session. This legislation:
 - increased the gasoline tax rate from 18.5 to 23.5 cents per gallon effective May 1, 1992;
 - increased the aviation fuel tax rate from 5 to 7 cents per gallon effective May 1, 1992;
 - increased the special fuel tax rate from 18.5 to 19.25 cents per gallon effective May 1, 1992, and from 19.25 to 21.75 cents per gallon effective January 1, 1993, with an additional 2.5 cents per gallon increase effective July 1, 1993 (for a total of 24.25 cents per gallon by July 1, 1993); and
 - imposed a 0.75 cent per gallon motor carrier surcharge on gasoline and clean-burning fuel powered vehicles effective July 1, 1993.

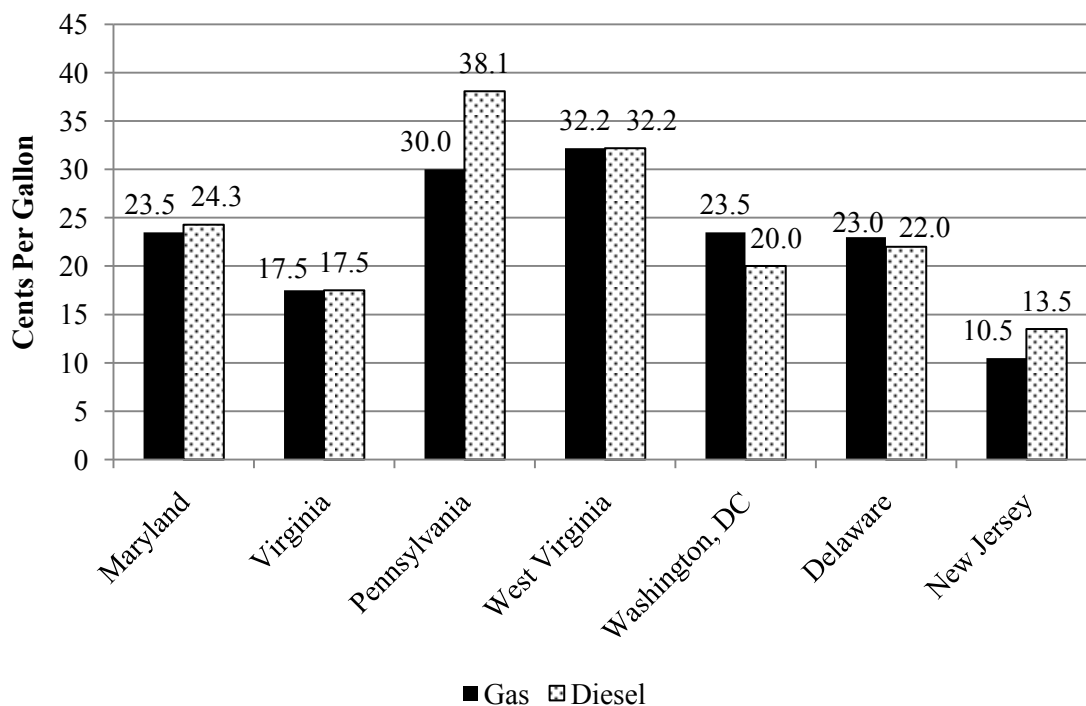
- 1994 – Eliminated the 0.75 cent per gallon motor carrier surcharge on gasoline and clean-burning fuel powered vehicles.
- 1996 – Maryland enters the International Fuel Tax Agreement.
- 2000 – Eliminated the \$7 International Fuel Tax Agreement decal registration fee in an attempt to encourage the use of electronic credentialing through the Commercial Vehicle Information Systems and Networks.
- 2002 – Altered the motor fuel tax discount from 1.0 to 0.5% of the first 10 cents of fuel tax liability per gallon.
- 2005 – Exempted motor fuel purchased by the Department of General Services for State agencies from the motor fuel tax.
- 2007* – Redirected a portion of the motor fuel tax revenue from the general fund (that historically had been used for Chesapeake Bay related programs) to the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund, as renamed by legislation enacted during the 2008 session.

*special session

Comparison with Other States

As seen in Exhibit 10.5, Maryland imposes the third highest tax rate on gasoline and diesel fuel of neighboring states. It should be noted that New Jersey also assesses an additional Petroleum Products Gross Receipts Tax of 4 cents.

Exhibit 10.5
Comparison of Regional Motor Fuel Tax Rates
December 2009



Source: Federal Highway Administration

Sections of the Maryland Annotated Code

Tax – General Article, Titles 2, 9, and 13

State Finance and Procurement Article, Section 7-113

Transportation, Section 8-402

Motor Vehicle Excise (Titling) Tax

Taxpayer

An applicant for a Maryland certificate of title for a motor vehicle, trailer, or semi-trailer is required to pay the tax for an original or subsequent title to a vehicle or for certain vehicles in interstate operation.

Tax Base

The tax is applied to the purchase price or fair market value of the vehicle. Purchase price is defined as the price of a vehicle agreed upon by the buyer and dealer, less an allowance for the value of a trade-in vehicle but with no allowance for other monetary consideration. Fair market value is defined as:

- for a new or used vehicle sold by a licensed dealer, the purchase price of the vehicle as certified by the dealer;
- for a vehicle less than seven years old and sold by a person other than a licensed dealer, the greater of the total purchase price or, if the total purchase price is \$500 or more below the retail value of the vehicle as shown in a national publication of used car values (as adopted by the Maryland Department of Transportation), the valuation in the national publication is used if the total purchase price cannot be documented;
- for a vehicle greater than seven years old and sold by a person other than a licensed dealer, the greater of the purchase price or \$640;
- trailers or off-highway recreational vehicles purchased in a private sale are assessed an excise tax on the greater of the total purchase price or \$320; and
- in any other case, the total purchase price or valuation shown in a national publication of used car values.

Valuation of Base

Documents substantiating the fair market value of the vehicle must be provided by the applicant and include the date the vehicle was purchased, the purchase price and other

information used in determining the fair market value of the vehicle, and a certified bill of sale (if the tax will be based on the purchase price).

Tax Rate

Applicants pay 6% of the fair market value or purchase price of the vehicle, less an allowance for a trade-in vehicle, with a minimum of \$32. Trailers, other than a camping trailer rated by the manufacturer as having a gross vehicle weight of 2,500 pounds or less, are assessed an excise tax of \$50.

Special Provisions

Exemptions

Exemptions from the titling tax include:

- a mobile home over 35-feet long;
- a government-owned vehicle (federal, State, or local);
- a vehicle owned by a fire department, a nonprofit rescue squad, the Civil Air Patrol, the Maryland Red Cross, or a national veterans' organization;
- a vehicle registered in a jurisdiction not requiring title and acquired for resale by a dealer, or involuntarily transferred to a dealer where the title is not available;
- a school bus owned by a tax-exempt religious organization or private school;
- a privately owned bus used for public transportation on regular schedules and routes;
- a vehicle used to transport the disabled, if owned by certain nonprofit organizations;
- a mobile hearing/vision unit owned by a nonprofit organization;
- a vehicle transferred under certain circumstances, such as:
 - repossession under a security agreement;

- nonmonetary transfer to certain relatives;
- transfer to a legal heir;
- transfer for certain business purposes;
- a leased vehicle transferred to the lessee at the end of a lease term of at least 180 days;
- involuntary transfer due to divorce or separation; or
- a jointly owned vehicle transferred to one of the owners;
- vehicles registered as Class F (tractors) or Class P (passenger bus);
- a vehicle acquired by an insurance company from a comprehensive collision claim;
- a vehicle acquired for resale by a licensed dealer if the dealer reassignment sections contained on the certificate of title are exhausted;
- a Class M motor home or Class G travel trailer that is transferred or retitled in the dealership's name under State law;
- a salvage vehicle acquired by a licensed dealer that has been restored by the licensed dealer and that has been inspected under State law;
- a rental vehicle;
- a special purpose vehicle owned by a coal company used for the transportation of workers, coal, or equipment used in the coal production process and used exclusively on coal mining property; and
- a vehicle otherwise exempt from the titling tax by any other applicable law.

Vehicles Formerly Titled in Another State

If a vehicle was formerly titled in another state, and the present owner has paid sales or titling tax to the other state, the titling tax is still imposed if:

- the present owner is a Maryland resident who has not been in the State for more than 60 days;
- an individual is a member of the military on active duty and not a Maryland resident for more than one year; or
- an individual is a Maryland resident on or returning from active duty and who applies for titling and registration in Maryland no more than one year after return.

However, the owner may credit the out-of-state titling tax against his or her Maryland liability. If the titling tax paid out of state exceeds the owner's tax liability in Maryland, the owner must still remit a minimum of \$100 to title the vehicle in Maryland.

Discount for Collections

A licensed dealer may retain 1.2% of the tax collected for administering and remitting the titling tax.

Refunds

Refunds are made for overpayments of the tax when supported by documentation. In addition, a full or partial refund is paid when the purchase price (or some portion) is refunded or the vehicle is accepted for return by a dealer, manufacturer, factory branch, or distributor or by voluntary agreement.

Tax Credits

If a vehicle was formerly exempt, the tax is reduced by any retail sales tax assessed on the vehicle and paid by the present owner.

A qualified plug-in electric drive vehicle is eligible for a tax credit equal to 100% of the tax imposed, up to \$2,000, provided that the vehicle is:

- titled between October 1, 2010, and June 30, 2013; and
- originally and currently registered in the State.

Payment Dates

The titling tax is due at the time of application (*i.e.*, before issuing the title).

Administration of Tax

The Motor Vehicle Administration of the Maryland Department of Transportation is responsible for the administration and collection of the titling tax.

Costs

Part of the estimated fiscal 2011 allocation of \$27 million for the Driver and Vehicle Policy and Program division of the Motor Vehicle Administration is used for administering the titling tax.

Fines, Penalties, and Interest

For deficiency assessments against dealers, violators are fined an amount equal to the tax due plus a 10% penalty and an interest charge of between 12 and 15%, as determined by State law.

If after 10 days from notice a dealer fails to pay a deficiency assessment, an additional penalty of 25% may be levied.

Any person who fails to pay the excise tax as required is guilty of a misdemeanor and on conviction is subject to a maximum \$1,000 fine.

Local Taxing Authority

None.

Revenues

Titling data and revenue for fiscal 1985 through 2011 are shown in Exhibit 10.6.

Exhibit 10.6
Maryland Motor Vehicle Excise (Titling) Tax Revenues
Fiscal 1985-2011

<u>Fiscal Year</u>	<u>Titles</u>	<u>% Change¹</u>	<u>Net Revenues²</u> <u>(\$ in Millions)</u>	<u>% Change¹</u>
1985	797,689	3.6%	\$258.7	—
1990	828,328	0.8%	326.5	4.8%
1995	866,151	1.1%	438.5	6.9%
1996	846,763	-2.2%	459.6	4.9%
1997	866,476	2.3%	481.0	4.7%
1998 ³	875,458	1.0%	494.2	2.7%
1999	915,228	4.5%	535.1	8.3%
2000	973,109	6.3%	604.5	13.0%
2001	963,267	-1.0%	612.8	1.4%
2002	1,011,412	5.0%	650.2	6.1%
2003	1,006,265	-0.5%	669.3	2.9%
2004	1,064,905	5.8%	719.8	7.5%
2005	1,045,918	-1.8%	717.8	-0.3%
2006	1,202,561	1.5%	719.2	0.0%
2007	1,166,195	-3.0%	703.8	-2.1%
2008 ⁴	1,096,692	-6.0%	649.7	-7.7%
2009	930,858	-15.1%	514.2	-20.9%
2010	930,500	0.0%	514.0	0.0%
2011 (est.)	999,300	7.4%	552.0	7.4%

¹ Fiscal 1990 and 1995 figures reflect average annual change.

² Net of refunds and discounts for collections.

³ Beginning in 1998, short-term rental vehicles are exempt from the titling tax and 45% of the sales and use tax revenue from short-term vehicle rentals is distributed to the Transportation Trust Fund.

⁴ Beginning in January 2008, the tax rate increased from 5 to 6% with a full trade-in allowance.

Source: Maryland Department of Transportation

Distribution of Revenues

The titling tax is distributed as follows:

- one-third to the Transportation Trust Fund; and
- two-thirds to the Gasoline and Motor Vehicle Revenue Account, which is then distributed to the local jurisdictions, the general fund, and the department as discussed previously.

Exhibit 10.7 illustrates the distribution of fiscal 2011 estimated titling tax revenues.

Exhibit 10.7
Distribution of Titling Tax Revenues
Fiscal 2011
(\$ in Millions)

	<u>Amount (Est.)</u>	<u>Distribution</u>
Net Revenues*	\$ 552.0	
Less Distributions:		
One-third of Proceeds	184.0	Transportation Trust Fund
Two-thirds of Proceeds	368.0	Gasoline and Motor Vehicle Revenue Account (Maryland Department of Transportation, Local Jurisdictions, and the General Fund)

* Net of refunds and discounts for collections.

Source: Maryland Department of Transportation

History of Major Changes

- 1933 – Titling tax rate of 1% introduced for use as a general revenue source.
- 1939 – Tax rate increased to 2%.

- 1947 – Tax revenues allocated to the State Highway Administration and dedicated to transportation uses.
- 1964 – Tax rate increased to 3%.
- 1969 – Tax rate increased to 4%: 3% distributed to the State Highway Administration; 1% to the general fund.
- 1971 – Transportation Trust Fund established. One percent distribution to the general fund repealed and redistributed to the Gasoline and Motor Vehicle Revenue Account. Established a distribution of titling taxes within the Gasoline and Motor Vehicle Revenue Account.
- 1978 – Tax rate increased to 5%, with 20% of revenues allocated to the general fund.
- 1981 – Transportation Revenue Sharing Account established; 20% of the titling tax revenues allocated to this account (revenues previously distributed to the general fund). Transportation Revenue Sharing Account revenues were allocated accordingly: 75% to the Transportation Trust Fund and 25% to Baltimore City and counties.
- 1985 – Distribution of the Transportation Revenue Sharing Account revenues altered: 76% to the Transportation Trust Fund and 24% to Baltimore City and counties.
- 1993 – Distribution of the Transportation Revenue Sharing Account revenues altered: 76% to the Transportation Trust Fund and 24% to the general fund.
 - Increased the sales tax rate for short-term rental of passenger cars and multipurpose vehicles from 8.0 to 11.5%.
- 1994 – Transportation Revenue Sharing Account is repealed effective July 1, 1995, and the 20% of titling tax revenues allocated to the Transportation Revenue Sharing Account is allocated to the Transportation Trust Fund.
- 1995 – Long-term vehicle leases exempted from the sales and use tax.

- 1998 – Short-term rental vehicles exempted from the motor vehicle excise tax and distribution of revenues collected from sales and use tax on short-term rental vehicles altered.
- 2000 – Instituted an excise tax credit for electric vehicles and hybrid vehicles titled before July 1, 2004. Also exempted vehicles transferred to a lessee who purchases a vehicle at the end of a lease term from the titling tax.
- 2001 – Altered distribution of revenues collected from the sales tax on short-term vehicle rentals so that 100% of the revenues went to the Transportation Trust Fund, instead of 45%.
- 2002 – Altered distribution of short-term vehicle rental excise tax revenues back to 45% to the Transportation Trust Fund and 55% to the general fund (reversed 2001 change).
- 2003 – Increased the maximum processing fee that a vehicle dealer may charge for the sale of a vehicle from \$25 to \$100 and applied the fee toward the vehicle's total purchase price for imposing the State vehicle excise tax.
- 2006 – Reduced the minimum fair market value for a used trailer sold by a private individual from \$640 to \$320.
- 2007* – Tax rate increased to 6%, with the increase dedicated to the Transportation Trust Fund and a full trade-in allowance to be applied to the total purchase price.
- 2010 – Tax credit provided of up to \$2,000 for certain electric vehicles beginning October 1, 2010, through June 30, 2013.

*special session

Sections of the Maryland Annotated Code

Transportation Article, Sections 8-402 through 8-405 and Title 13, Subtitle 8

Motor Vehicle Registration, License, and Other Fees

Registration Fees

All motor vehicles, trailers, and related transportation equipment domiciled within the State must register with the Motor Vehicle Administration. Most vehicles are registered biannually. Vehicles exempt from registration fees generally include those owned by:

- a government agency, including law enforcement vehicles;
- a volunteer fire company or rescue squad or recognized fire buff organization;
- the Civil Air Patrol;
- a national veterans' organization;
- the American Red Cross;
- certain nonprofit organizations;
- certain disabled veterans and their surviving spouses; and
- certain school vehicles.

Normal registration fees are distributed to the Gasoline and Motor Vehicle Revenue Account. Current fees for personal vehicles are either \$101 or \$153, depending on the size and type of vehicle.

In addition to registration fees otherwise required, an annual surcharge of \$13.50 is imposed for registration of most motor vehicles. This surcharge is distributed to the Maryland Emergency Medical Services Operations Fund (\$11.00) and the Trauma Physician Services Fund (\$2.50) to support the State's emergency medical services system.

In addition to the annual registration fee otherwise required, an owner desiring a personalized (vanity) tag pays an additional \$25 annual fee. Revenues from vanity tags are distributed to the Transportation Trust Fund for the cost recovery of the Motor Vehicle Administration's operating and capital expenses.

Initial fees (not renewals) from other special registrations, commemorative tags, and organizational tags are paid to the Transportation Trust Fund for cost recovery. The renewal revenues from the Maryland Agriculture Plate and the Chesapeake Bay Plate are dedicated to a special fund that benefits those specified causes.

License Fees

The Motor Vehicle Administration collects fees for operating and regulatory licenses. Regulatory licenses are required for car dealers, wreckers, title service agents, driving school instructors, and others. Maryland vehicle operating licenses are required for all operators of motor vehicles within the State except:

- drivers of certain federally owned vehicles;
- members of Congress (except those elected in Maryland);
- drivers of vehicles for “off-highway” use;
- nonresident students;
- new residents for up to 60 days;
- certain members of the armed forces; and
- visitors to the State licensed in other states.

Commercial operator’s license fees over and above the base fees, driver’s license renewals, and fees collected from the issuance of regulatory licenses are credited to the Transportation Trust Fund.

Miscellaneous Fees

State law requires the Motor Vehicle Administration to recover between 95 to 100% of its operating and capital costs through the assessment of miscellaneous fees. Fee adjustments are to be made if recovery exceeds 100%. Each year, the Motor Vehicle Administration issues a new fee schedule to meet the cost recovery requirement.

A number of miscellaneous fees assessed by the Motor Vehicle Administration are distributed based upon a formula set in statute, with all or a portion of the revenue transferred to other funds or purposes. Following are several examples:

Vehicle Emission Inspection Program Fees

In accordance with the federal Clean Air Act, Maryland requires specified vehicles registered in certain areas of the State to undergo vehicle emissions inspections. The State operates an enhanced emissions testing program that uses various tests depending upon the model year/weight of the vehicle. All model year 1977 and newer vehicles in the State must be tested every two years; however, some vehicles are exempt, including:

- new vehicles less than 24-months old or qualified hybrid vehicles less than 36 months after first being registered in the State;
- vehicles owned by individuals aged 70 and over or with certain disabilities who drive less than 5,000 miles each year;
- emergency vehicles;
- certain vehicles over 26,000 pounds;
- vehicles powered solely by diesel or electric;
- zero emissions vehicles, as established in regulation;
- vehicles registered as a farm truck, farm truck tractor, or farm area vehicle; and
- historic or antique vehicles.

Diesel vehicles with a gross weight above 10,000 pounds, which had initially been exempt, are currently subject to spot roadside testing.

If a vehicle fails the test, the owner can qualify for a waiver from additional tests if \$450 worth of repairs are made to the vehicle (1) within 30 days before the test; or (2) within 120 days following the initial test. The administration may enforce the program through administrative sanctions, including suspension of the vehicle registration; denial of vehicle registration renewal; or confiscation of the vehicle registration plates. In addition, the owner of a diesel vehicle with a gross weight above 10,000 pounds is subject to a federal fine of up to \$1,000.

Currently, the inspection fee is \$14. Vehicle Emissions Inspection Program fees are estimated to total \$20 million for fiscal 2011. These fees are retained by the program operator, Environmental Systems Products, Inc., to offset contract costs. Late fees (assessed at a rate of \$15 starting the day after the due date and every 28 days thereafter) are retained by the department and are estimated to total \$8.4 million in fiscal 2011.

Uninsured Motorist Fees

The State penalizes motorists who operate motor vehicles without insurance by assessing a \$150 penalty for the first 30 days the vehicle is not insured and a \$7 daily penalty for each day thereafter. Uninsured motorist fee revenues are distributed according to the following schedule:

- 70% is distributed among three special funds (the Vehicle Theft Prevention Fund, the Maryland Automobile Insurance Fund, and the School Bus Safety Enforcement Fund) and the general fund; and
- 30% is retained by the Transportation Trust Fund.

Salvage Inspection Fees

The Motor Vehicle Administration collects a salvage inspection fee at the time of titling salvage vehicles. The fee is set at \$25, and the revenues are paid to the Auto Theft Unit of the Department of State Police.

A summary of the revenues from motor vehicle registration, license, and other fees for fiscal 1985 through 2011 is provided in Exhibit 10.8.

Exhibit 10.8
Maryland Motor Vehicle Registration, License, and Other Fees
Fiscal 1985-2011
(\$ in Millions)

<u>Fiscal Year</u>	<u>Registration</u>	<u>License</u>	<u>VEIP</u>	<u>Misc.¹</u>	<u>Total</u>	<u>% Change²</u>
1985	\$92.8	\$8.0	\$1.6	\$14.6	\$117.0	—
1990	145.6	9.2	4.4	20.6	179.8	9.0%
1995 ^{3 4}	159.2	23.2	4.5	57.6	244.5	7.3%
1996	155.2	19.4	15.5	56.8	246.9	1.0%
1997	162.5	19.2	16.6	60.4	258.7	4.8%
1998	164.0	15.3	12.1	53.7	245.1	-5.3%
1999	173.5	15.8	15.7	58.6	263.6	7.6%
2000	173.5	16.5	15.9	64.8	270.7	2.7%
2001	183.1	13.5	4.1	71.8	272.4	0.6%
2002	185.0	18.0	4.8	92.4	300.2	10.2%
2003 ⁵	188.0	37.6	4.9	82.7	313.2	4.3%
2004	198.8	39.7	5.4	90.4	334.3	6.7%
2005 ⁶	351.3	41.3	5.9	96.9	495.4	48.2%
2006	361.0	38.1	6.7	103.2	509.0	2.7%
2007	372.5	38.2	7.4	113.2	531.8	4.5%
2008	355.0	42.8	8.0	114.8	520.6	-2.1%
2009	355.0	42.9	8.0	122.6	528.5	1.5%
2010	357.0	40.1	6.0	122.5	525.6	-0.5%
2011 (est.) ⁷	374.1	37.1	28.5	125.8	565.4	7.6%

VEIP: Vehicle Emissions Inspection Program

¹ Does not include learner's permits, new drivers' licenses, and security interest filing fees. Security interest filing fees are included beginning in fiscal 2008 and beyond as a result of the 2007 special session.

² Fiscal 1990 and 1995 figures reflect average annual change.

³ Miscellaneous fees increased by 1991 legislation.

⁴ Increase reflects adoption of biennial registration system.

⁵ Some revenues were reclassified. License now includes new driver – graduated licenses; some fees were increased.

⁶ Registration fees increased by 2004 legislation.

⁷ Beginning in fiscal 2011, the accounting for the Vehicle Emissions Inspection Program was altered to reflect gross revenues instead of net revenues after the expenses of the contractor were paid.

Source: Maryland Department of Transportation

Sections of the Maryland Annotated Code**Registration Fees**

Transportation Article, Title 13, Subtitles 4, 5, and 9

License Fees

Transportation Article, Title 16

Miscellaneous Fees

Transportation Article, Section 12-120

Vehicle Emissions Inspection Program Fees

Transportation Article, Section 23-205

Security Interest Filing Fees

Transportation Article, Section 13-208

Uninsured Motorist Fees

Transportation Article, Section 17-106

Salvage Inspection Fees

Transportation Article, Section 13-507

Other Sources of Transportation Trust Fund Revenues**General Sales and Use Tax**

As part of the increase in the sales and use tax rate during the 2007 special session, the Transportation Trust Fund received 6.5% of general sales and use tax revenue (after other statutory distributions were made) beginning in fiscal 2009. In fiscal 2008, the annual sales and use tax distribution to the Transportation Trust Fund was altered to 5.3% for fiscal 2009 through 2013. In fiscal 2014 and each year thereafter, the Transportation

Trust Fund will receive 6.5% of sales and use tax revenue. It is estimated that the trust fund will receive \$204 million from the sales and use tax in fiscal 2011.

Corporate Income Tax

The Transportation Trust Fund receives 24% of the first 7% of the corporate income tax rate, or approximately 20.4% of revenues generated from the corporate income tax. It is estimated that \$142 million will be allocated from the corporate income tax to the trust fund in fiscal 2011.

Rental Car Sales Tax

Since 1998, the Transportation Trust Fund has received 45% of revenues generated from the rental car sales and use tax. In fiscal 2011, an estimated \$24 million will be allocated to the Transportation Trust Fund.

Operating Revenues

The Maryland Transit Administration collects operating revenues from fares, fees, rates, and rentals and other charges for mass transit. Maryland law requires the administration to recover at least 35% of the net operating costs for bus and rail service provided in Baltimore City and 35% of Maryland Rail Commuter System operating and administrative costs from fares. The Maryland Transit Administration is also required to submit annual operating performance goals for each mode of service provided. In fiscal 2011, the administration is expected to collect an estimated \$124 million in fees and charges.

The Maryland Aviation Administration collects revenues from charges, rentals, and fees for use of Baltimore-Washington International Thurgood Marshall and Martin State airports. In fiscal 2011, the administration is expected to collect an estimated \$195 million in charges, rentals, and fees.

The Maryland Port Administration collects operating revenues from rates, fees, rentals, or other charges associated with port operations. In fiscal 2011, the administration is expected to collect an estimated \$45 million from these sources.

Investment Income

The Treasurer invests funds of the Maryland Department of Transportation. Interest earned from funds deposited in the common pool is allocated to the department on a pro-rata basis.

Reimbursements and Miscellaneous Collections

Reimbursements received by the State, such as reimbursements for the cost of repairing damage done to State property, are another source of Transportation Trust Fund revenues. The State Highway Administration will receive approximately \$11 million in reimbursements in fiscal 2011. Miscellaneous other revenue sources include the sale of maps, plans, etc., or sales by the Secretary's office, which will generate approximately \$10 million in fiscal 2011. In addition, the administration collects hauling permit fees issued for oversized and overweight vehicles. The administration is expected to collect an estimated \$10 million in hauling permits in fiscal 2011.

Sections of the Maryland Annotated Code

Sales and Use Tax

Tax – General Article, Section 2-1302.2

Corporate Income Tax

Tax – General Article, Sections 2-613 through 2-615; and Transportation Article, Section 3-215

Rental Car Sales Tax

Tax – General Article, Section 2-1302.1

Operating Funds

Transportation Article, Sections 5-304 and 5-408 (Maryland Aviation Administration), 6-204 (Maryland Port Administration), and 7-208 and 7-505 (Maryland Transit Administration)

Investment Income

Transportation Article, Section 2-103.2

Reimbursements and Miscellaneous Collections

Transportation Article, Sections 8-625, 8-642, 8-646, 8-710, 8-718, 8-805, and 24-112 (hauling permits)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Volume VII – Business Regulation in Maryland

Chapter 11. Maryland State Lottery

Revenues

The Maryland State Lottery is expected to generate revenues of \$601.7 million after payment of prizes and agent earnings in fiscal 2011, as shown in Exhibit 11.1. Of this total, \$54.1 million will be used for operating expenses of the lottery, and \$20.0 million will be transferred to the Maryland Stadium Authority for debt service on bonds used to finance authority construction projects, including Camden Yards, M&T Bank Stadium, the Hippodrome Performing Arts Center, and the Ocean City Convention Center. After payment of all expenses and the transfer to the Stadium Authority, the remainder of \$527.6 million will be credited to the general fund.

Exhibit 11.1
State Lottery Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Total</u>
Maryland State Lottery	\$527.6	\$54.1	\$581.7
Maryland Stadium Authority		20.0	20.0
Total	\$527.6	\$74.1	\$601.7

Source: Maryland State Lottery; Department of Legislative Services

State Lottery Fund

All monies received in sales, less agent commissions, are credited to a special account known as the State Lottery Fund. A system of voucher deposits provides for payout of prizes and commissions outside the State budget. Operating expenses of the State Lottery Agency are paid from the fund through normal budgetary procedures. The remaining funds are available as prizes, with any undistributed portion becoming part of

the State's share. Any special distributions, such as for the Maryland Stadium Authority, are deducted from the State's share.

Exhibit 11.2 displays the State Lottery Fund's receipts and disbursements from fiscal 2009 to 2011. Exhibit 11.3 provides historical distributions of gross lottery sales and Exhibit 11.4 provides a historical breakdown of lottery revenues by game.

Exhibit 11.2
State Lottery Fund
Sales and Revenues
Fiscal 2009-2011
(\$ in Millions)

	2009 <u>Actual</u>	2010 <u>Estimated</u>	2011 <u>Estimated</u>
Gross Sales	\$1,698.2	\$1,737.6	\$1,759.5
Deductions			
Agent Commissions	121.9	116.3	117.3
Operating Expenses	59.1	51.1	54.1
Prizes	1,023.9	1,027.7	1,040.4
Net Lottery Revenues	\$493.2	\$542.6	\$547.6
Maryland Stadium Authority	20.0	19.6	20.0
General Fund Revenues	\$473.2	\$523.0	\$527.6

Note: Figures may not sum due to rounding.

Source: Maryland State Lottery

Exhibit 11.3
State Lottery Fund Flow
Fiscal 1985-2011
(\$ in Millions)

Fiscal Year	Gross Sales	Agent Commissions	Admin. Expenses	Prize Fund	Net General Fund Revenues		% of Gross Sales
					Distribution	Amount	
1985	\$681.1	\$27.4	\$25.2	\$384.8	\$13.5 ¹	\$250.1	38.7%
1990	811.5	41.7	26.1	408.3	24.0	311.3	41.3%
1995	1,039.2	55.0	50.1	548.5	19.1	366.6	37.1%
2000	1,172.9	68.6	45.0	658.2	33.3	401.1	37.0%
2001	1,212.3	78.6	47.7	691.8	22.0	407.2	35.4%
2002	1,306.5	85.4	49.1	733.2	27.2	416.3	31.9%
2003	1,322.2	87.3	53.5	743.4	21.9	422.9	32.0%
2004	1,395.4	91.2	51.6	788.8	22.0	436.4	31.3%
2005	1,484.8	96.6	53.5	857.6	21.2	455.9	30.7%
2006	1,560.9	102.7	54.6	902.6	20.5	480.5	30.8%
2007	1,577.3	112.2	51.8	919.2	21.0	473.1	30.0%
2008	1,673.0	117.8	58.4	967.3	32.3	497.1	29.7%
2009	1,698.2	121.9	59.1	1,023.9	20.0	473.2	27.9%
2010 (est.)	1,737.6	116.3	51.1	1,027.7	19.6	523.0	30.1%
2011 (est.)	1,759.5	117.3	54.1	1,040.4	20.0	527.6	30.0%

¹ In 1984 and 1985, distributions were made to local subdivisions. Beginning in 1988, distributions have been made to the Stadium Authority.

Source: Maryland State Lottery

Exhibit 11.4
Maryland State Lottery Agency
Revenue Percentages by Game
Fiscal 1995-2010

<u>Fiscal Year</u>	<u>Pick 3</u>	<u>Pick 4</u>	<u>Multimatch</u>	<u>Instant</u>	<u>Keno/Keno Bonus</u>	<u>Racetrax</u>	<u>Bonus Match 5</u>	<u>Mega Millions¹</u>	<u>Other²</u>	<u>Total Net Revenues</u>
1995	36.8%	18.6%		12.3%	17.8%		3.4%		11.1%	\$385.7
1996	34.7%	17.8%		13.1%	18.3%		3.5%		12.5%	390.5
1997	36.7%	18.6%		12.2%	18.5%		3.2%	3.9%	6.9%	392.5
1998	36.4%	17.3%		12.6%	19.4%		1.7%	3.7%	8.9%	400.0
1999	36.4%	18.1%		11.2%	21.5%			5.4%	7.3%	393.1
2000	33.3%	16.9%		12.4%	23.4%			7.6%	6.4%	401.0
2001	31.6%	20.9%		14.5%	22.8%			4.8%	5.7%	407.0
2002	27.1%	21.3%		15.5%	23.4%		0.5%	7.2%	4.9%	442.5
2003	31.2%	17.8%		14.4%	25.2%		1.6%	6.3%	3.4%	444.9
2004	27.6%	19.5%		14.8%	25.1%		1.6%	8.2%	3.2%	458.4
2005	26.3%	19.3%		14.9%	26.3%	0.0%	1.5%	8.8%	2.8%	477.1
2006	23.2%	21.7%	1.1%	14.9%	26.3%	0.0%	1.6%	9.6%	1.6%	501.0
2007	25.5%	19.1%	2.1%	16.0%	24.3%	2.6%	1.4%	8.5%	0.4%	494.1
2008	23.5%	21.1%	2.1%	17.4%	21.3%	3.1%	1.4%	10.1%		529.4
2009	21.1%	18.6%	2.3%	18.3%	23.6%	3.9%	1.7%	10.5%		493.2
2010 (est.)	20.3%	20.4%	2.6%	17.5%	22.4%	3.9%	1.4%	11.4%		542.6

¹ Powerball started in fiscal 2010.

² Includes Lotto (1995-2006); Cash in Hand (1998-2003); Let it Ride (2001-2002); Instant Win (2004); Countdown to Millions (2007-2008); MD Hold'Em (2007-2009); and miscellaneous adjustments.

Source: Board of Revenue Estimates; Department of Legislative Services

Trends

Gross lottery sales have continued to grow in recent years. General fund revenues to the State, however, have increased at a slower rate as the percentage of prizes paid out has increased. Prize payouts have been increasing because Keno and Instant ticket games, which have higher payout ratios, have increased their share of sales.

Instant ticket game sales surpassed monitor games for the first time in fiscal 2008. Unusually high prize payouts resulted in an increase in prizes and agent earnings as a percentage of sales for fiscal 2009. In fiscal 2011, an estimated 59.0% of sales will be distributed as prizes, 6.7% to agent commissions, approximately 3.1% to administrative expenses, 1.1% to the Stadium Authority, and 30.0% to the general fund.

Lottery Games

The Maryland Lottery currently administers 10 games. These games can be grouped into numbers games, instant games, and multi-state games.

Numbers games include:

- **Pick 3** – a three-digit lottery game conducted twice daily;
- **Pick 4** – a four-digit lottery game conducted twice daily;
- **MultiMatch** – a twice weekly game where players select 6 numbers from 1 to 43, and then players automatically receive two additional sets of 6 randomly selected numbers for a total of 18 numbers per each play – players win by either matching at least 3 numbers on any set of numbers, or at least 5 numbers on all three lines of 18 numbers, with the 6 numbers drawn by the Lottery; and
- **Bonus Match 5** – a daily game where players select 5 of 39 numbers; players can also purchase an additional set or sets of numbers.

Instant games include:

- **Ticket Games** – also known as “Scratch-offs,” in which purchased tickets have a concealed prize structure and winners are determined when a player rubs material concealing the prize structure on the ticket to determine winning tickets;

- **Keno** – drawings, occurring in four-minute intervals, are shown on television monitors in licensed Keno agent locations including restaurants, taverns, and bowling alleys, and are played by choosing up to 10 numbers from a field of 80 – players win when their selected numbers match those the computer selects in a given drawing;
- **Keno Bonus** – a supplement to Keno, where before each Keno drawing, the Keno Bonus feature is drawn and the drawing determines how much the player's potential Keno winnings will be increased by, if at all, a multiplier of up to 10; and
- **Racetrax** – a computer-animated game that simulates betting at a live horse racing event; games are shown on television monitors at licensed retailer locations, with races occur approximately every five minutes.

Multi-state games include:

- **Mega Millions** – a twice weekly game where players select 5 numbers from 1 to 56, along with 1 of 46 for the Gold Mega Ball; and
- **Powerball** – a twice weekly game where players select 5 numbers from 1 to 59, along with 1 of 39 for the Red Power Ball.

Equipment

For lottery games, the agency provides:

- computer terminals to agents at no cost;
- any communications charges for use of the computer; and
- promotional materials.

Compensation

Agents are paid:

- a commission amounting to 5.0% of all lottery sales (reverting to 5.5% on July 1, 2012); and
- a fee of up to 3.0% of prizes for validating and cashing winning tickets.

The Lottery Commission may authorize additional payment of special bonuses or incentives, not to exceed one-half of 1% of the gross sales from ticket sales for which the incentives are awarded, to licensed agents and their employees.

Unclaimed Prizes

Unclaimed prizes for a winning ticket are retained by the Lottery Agency for 182 days after the drawing in which the prize was won. If no claim is made after that time, the prize is held in an unclaimed prize fund for further use as prizes. However, the holding of bonus games or drawings with a preannounced period for the claiming of prizes of other than 182 days is allowed.

Administration

The Maryland State Lottery Agency is the administrative entity, with the State Lottery Commission providing oversight.

Costs

Total administrative expenses for the State Lottery Agency in fiscal 2011 are approximately \$54.1 million.

Penalties

A person is guilty of a misdemeanor and is subject to a fine not exceeding \$2,500 or imprisonment not exceeding three years or both, if that person is convicted of any one of the following: (1) selling a lottery ticket or share without a license; (2) selling a lottery ticket or share at a price other than prescribed; (3) selling a lottery ticket or share to a minor; (4) paying a prize winner less than the lawfully due amount; (5) receiving a cash fee for cashing a winning ticket filed in error; (6) knowingly presenting or transferring counterfeit or altered tickets for payment; (7) failing to report income tax information

relating to holders of winning tickets to the Internal Revenue Service; or (8) paying a prize to a holder of a winning lottery ticket if the Lottery Agency has notified the licensed agent that the holder has been certified as not paying restitution or child support payments under State law.

History of Major Changes

- 1973 – Weekly game.
- Regular subscription game.
- 1976 – First instant game.
- Pick 3 game.
- 1981 – Second instant game.
- 1982 – Third instant game.
- 1983 – Pick 4 game.
- Lotto game.
- 1986 – Fourth instant game.
- Fifth instant game.
- 1988 – Multiple instant games.
- Distributions to Maryland Stadium Authority begin.
- 1990 – Winners Take All cash game.
- 1991 – Match 5 (replaces Winners Take All).
- 1993 – Keno.
- 1996 – The Big Game.
- 1997 – One-time distribution of \$5 million of fiscal 1997 lottery revenues (revenue overattainment) to a special fund to increase purses at racetracks and to supplement existing bred funds.

- 1998 – Cash in Hand (replaces Match 5).
 - One-time distribution of \$5 million of fiscal 1998 lottery revenues (revenue overattainment) to a special fund to increase purses at racetracks and to supplement existing bred funds.
- 1999 – Commission from ticket sales of online games increased from 4 to 5% of total sales.
 - One-time distribution of \$10 million of fiscal 1999 lottery revenues (revenue overattainment) to a special fund to increase purses at race tracks and to supplement existing bred funds.
- 2000 – One-time distribution of \$10 million of fiscal 2000 lottery revenues (revenue overattainment) to a special fund to increase purses at race tracks, supplement existing bred funds, and improve the health and education benefits for eligible persons licensed by the Racing Commission.
- 2001 – Let It Ride game created.
- 2002 – Let It Ride and Cash in Hand cancelled.
 - Bonus Match 5 returns (replaces Cash in Hand).
 - Lottery Agency authorized to enter into agreements to operate multijurisdictional lotteries with political entities outside the United States or private licensees of a state or a foreign nation.
 - Big Game renamed Mega Millions.
- 2003 – Plans for international lottery game canceled, which Maryland and 20 other states had planned to join, as four of eight European countries pull out in the days prior to the United States invasion of Iraq.
- 2006 – Commission from ticket sales increased from 5.0 to 5.5% of total sales effective July 1, 2006.
 - MultiMatch replaces Lotto.
 - Racetrax is launched statewide.

- 2007 – *Establishes the framework for video lottery terminal gaming in Maryland, subject to voter approval at the 2008 general election.
- 2008 – Maryland voters amend the State Constitution to allow for video lottery terminal gaming.
 - State Lottery Commission expands from five to nine members.
- 2009 – Commission from ticket sales decreased from 5.5 to 5.0% of total sales for fiscal 2010 to 2012.
- 2010 – Powerball is introduced.

*special session

Video Lottery Terminals

Two video lottery terminal gambling bills passed during the 2007 special session – House Bill 4 (Chapter 5) and Senate Bill 3 (Chapter 4). Chapter 5 is a constitutional amendment that was approved by Maryland voters at the November 2008 general election, authorizing 15,000 video lottery terminals at five locations in the State. Chapter 5 also specifies that the General Assembly may only authorize expanded forms of gambling subject to certain restrictions. Chapter 4, which was contingent on voter ratification of Chapter 5, established the operational and regulatory framework for the authorized video lottery terminal program.

Established by Chapter 4, the Video Lottery Facility Location Commission is responsible for awarding video lottery operation licenses for the five approved locations. In the fall of 2009, the Video Lottery Facility Location Commission awarded operation licenses for the locations in Anne Arundel, Cecil, and Worcester counties, and rejected proposals for the Allegany County and Baltimore City locations.

The Cecil County facility opened in September 2010, and the Worcester County facility is scheduled to open in late 2010 or early 2011. The Anne Arundel license award is on hold pending the outcome of a local voter referendum to be held in November 2010, and the commission will rebid the Allegany County and Baltimore City locations. The State Lottery Commission has regulatory authority over the video lottery terminal program and will lease or own all video lottery terminals as well as a central monitor and control system.

Exhibit 11.5 shows anticipated video lottery terminal revenues for fiscal 2011 through 2013 (not including one-time initial license fees).

Exhibit 11.5
Estimated VLT Revenues Generated by Facility
Fiscal 2011-2013
(\$ in Millions)

	<u>2011</u>	<u>2012</u>	<u>2013</u>
Anne Arundel	\$0.0	\$0.0	\$226.9
Baltimore City	0.0	0.0	0.0
Cecil	86.7	132.3	149.6
Worcester	45.4	85.2	94.3
Rocky Gap	0.0	0.0	0.0
Total*	\$132.1	\$217.4	\$470.8

VLT: video lottery terminal

Note: Figures may not sum due to rounding.

Source: Department of Legislative Services

Comparison with Other States

Exhibit 11.6 provides comparative information on fiscal 2009 state lottery revenues.

Sections of the Maryland Annotated Code

State Government Article, Title 9, Subtitle 1 (and Subtitle 1A for Video Lottery Terminals)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Exhibit 11.6
Comparison of Lottery Revenues in Maryland and Selected States
Fiscal 2009

<u>State</u>	<u>Gross Revenues</u> ¹	<u>Per Capita Sales</u>	<u>Agent Comm.</u>	<u>Expenses</u>	<u>Net Revenues</u>	<u>Prizes Paid</u>	<u>% Total Revenues</u> ²	<u>Government Earmarking</u>
Maryland	\$1,698.07	\$298	7.20%	3.50%	29%	60%	4.60%	General Fund, Maryland Stadium Authority
Delaware	123.17	140	6.00%	11.10%	29%	54%	2.00%	General Fund
Washington, DC	245.45	409	6.20%	13.50%	48%	52%	3.50%	General Fund
New Jersey	2,540.64	287	5.50%	2.90%	34%	57%	3.64%	State Sponsored Education and Institutions
Pennsylvania	3,060.69	245	5.40%	4.30%	30%	61%	4.00%	Senior Citizens Programs
Virginia	1,370.75	173	5.60%	5.40%	32%	57%	2.94%	Education
West Virginia	212.22	109	6.50%	4.40%	33%	56%	2.09%	Education, Senior Citizens, Tourism

Note: Percentages may not sum due to rounding.

¹ Does not include video lottery terminal revenue for Delaware, West Virginia, and Pennsylvania.

² Percentage of total own-source state and local revenues, based on fiscal 2007-2008 U.S Census data.

Source: *La Fleur's 2010 World Lottery Almanac*

Chapter 12. Overview of Additional Nontax Revenue Sources

In addition to the taxes, the State lottery, and transportation already discussed in this handbook, additional revenues for the fiscal 2011 budget are derived from a wide range of sources; however, several specific areas account for a substantial portion of the total. The single largest source of nontax revenues is federal funds. These revenues are earmarked for a broad range of State programs. The State's higher education institutions generate revenues primarily from tuition, fees, and from educational and auxiliary sales; those revenues are used to pay for the operating costs of the State's public universities and colleges. The remaining revenues are derived from a wide variety of user fees, charges, investment earnings, and other miscellaneous sources that are described in the following chapters. Exhibit 12.1 provides a summary of the nontax revenues by general, special, and federal funds for each department of State government.

Presentation of Information

The amounts shown in Exhibit 12.1 and in the following chapters may not necessarily correlate with the figures shown in Exhibit 1.2 of this handbook. The figures from Exhibit 1.2 are based primarily on estimates in the Department of Budget and Management's *Fiscal Digest* and also generally include federal funds resulting from the American Recovery and Reinvestment Act of 2009. The estimates in Exhibit 12.1 and throughout the nontax revenue portion of this handbook have been modified and recategorized in some ways to more accurately represent the actual annual flow of revenues by category to the departments and agencies involved.

Detailed information was derived from the *Fiscal 2011 State Budget Books*, representatives from various departments and agencies, and analysts within the Department of Legislative Services. While based on estimates contained in the *Fiscal Digest*, the fiscal 2011 estimates shown in Exhibit 12.1 and in the following chapters for each department or division within a department may differ from those in the *Fiscal Digest* for several reasons. First, revenue sources that are attributed to a specific department for budgeting purposes but are collected by a different agency or through a different revenue source are included in estimates at the source. For example, the Waterways Improvement Fund of the Department of Natural Resources is described and accounted for under the discussion of the excise tax on vessels in Chapter 9.

Exhibit 12.1
Additional Nontax Revenue Sources
Fiscal 2011 Estimates
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Chapter 13				
Bond Proceeds	\$1,104.3	\$392.0		\$1,496.3
Chapter 14				
Higher Education		3,564.4		3,564.4
Higher Education Support Agencies		8.7	\$5.0	13.7
Public Education		107.8	966.9	1,074.7
Chapter 15				
Health and Mental Hygiene	93.8	734.6	4,806.3	5,634.7
Cigarette Restitution Fund		139.1		139.1
Human Resources		117.6	1,443.7	1,561.3
Juvenile Services		0.2	16.0	16.2
Chapter 16				
Business and Economic Development		24.3	0.8	25.1
Housing and Community Development		64.1	259.9	324.0
Chapter 17				
Environment		200.3	55.2	255.4
Agriculture		48.2	6.5	54.7
Natural Resources		96.0	48.6	144.6
Chapter 18				
Public Safety	9.6	157.0	20.5	187.1
State Police and State Fire Marshal	3.2	81.9	23.0	108.1
Chapter 19				
Financial and Revenue Administration	124.3	20.2		144.5
Judicial and Legislative	151.4	78.8	9.5	239.7
Labor, Licensing, and Regulation	8.8	33.5	147.6	189.9
Executive and Administrative	4.5	268.3	148.4	421.3
Retirement		27.2		27.2
Total	\$1,499.9	\$6,164.2	\$7,957.9	\$15,622.0

Note: Detail may not add to total due to rounding.

Source: *Fiscal Digest of the State of Maryland for the Fiscal Year 2011*, Department of Budget and Management; *Fiscal 2011 State Budget Books*; Department of Legislative Services

Second, in certain departments, the accounting methods used to generate a consistent balance sheet for purposes of the *Fiscal Digest* are not necessarily adopted for purposes of this handbook. For instance, the Maryland Department of Agriculture maintains a number of special funds that are allowed to “carry over” fund balances from year to year; therefore, the funds left over from fiscal 2010 are shown as a beginning fund balance for fiscal 2011. To allow the fund revenues and expenditures to balance in the *Fiscal Digest*, these beginning fund balances have been accounted as revenues. For purposes of this handbook, however, those fund balances have generally been “backed out” to show the revenues actually received by the fund for the year from the more germane areas, such as service charges and fees.

Finally, miscellaneous revenue sources (generally those representing less than \$1 million) are described and accounted for at the end of each section. This may understate the revenues attributed to a specific division within a department compared to the *Fiscal Digest* estimate.

Chapter 13. Bond Proceeds

Bond proceeds represent debt financing. The State borrows money by selling bonds that are redeemed in subsequent years through the payment of debt service. Debt financing is restricted almost exclusively to capital expenditures. The ongoing operations of the State are paid for from current funds.

As bonds are issued (sold), they generate revenues that are used to support the State's capital programs. In addition to bonds, the fiscal 2011 capital budget is funded by general funds (\$10.8 million), special funds (\$634.4 million), federal funds (\$890.0 million), and revenue bond proceeds (\$177.0 million). Exhibit 13.1 lists the authorized bond issuance levels for fiscal 2011 of the various types of government activity bonds – general obligation bonds, transportation bonds, and revenue bonds. Each type of bond is discussed below.

Exhibit 13.1 Bond Proceeds Fiscal 2011 (\$ in Millions)

<u>Bond Type</u>	<u>Authorized Amount</u>
General Obligation Bonds	\$1,104.3
Transportation Bonds	215.0
Revenue Bonds	177.0
Total	\$1,496.3

Note: The number reported for general obligation bonds is net of de-authorization of \$39.7 million in previously authorized debt.

Source: *The 90 Day Report: A Review of the 2010 Legislative Session*, Department of Legislative Services; *Maryland Capital Budget: Fiscal Year 2011*, Department of Budget and Management

General Obligation Bonds

General obligation bonds are authorized and issued to pay for the construction, renovation, or equipping of facilities for State, local government, and private-sector entities. Projects funded with general obligation bonds include, but are not limited to,

public and private colleges and universities, public school and community college construction, prisons and detention centers, and hospitals.

The Maryland Constitution prohibits the issuance of general obligation debt unless in the same act authorizing the debt, an annual tax or taxes are levied sufficient to pay debt service within 15 years. Repeal of the dedicated tax or its use for other purposes until the debt is repaid is also prohibited. As a uniform practice, each debt authorization pledges toward repayment an *ad valorem* property tax on all taxable property in the State. The Board of Public Works is required annually to set a State property tax rate by May 1 that will produce revenue sufficient to meet debt service requirements.

In fiscal 2011, the General Assembly authorized the issuance of \$1.144 billion in general obligation bonds to help support a capital budget totaling nearly \$3.06 billion. The General Assembly also de-authorized \$39.7 million in previously authorized general obligation debt. Exhibit 13.2 shows the distribution of general obligation bond proceeds.

Exhibit 13.2
Distribution of General Obligation Bond Proceeds
Fiscal 2011
(\$ in Millions)

<u>Agency/Project</u>	<u>Amount</u>
State Facilities	\$ 26.2
Health/Social	43.7
Natural Resources/Environment/Agriculture	320.3
Public Safety	25.8
Education	
Public School Construction	259.6
Other	9.1
Higher Education	
University System of Maryland	207.8
Morgan State University	30.5
Community Colleges	78.7
Private Colleges/Universities	8.0
Housing/Community Development	37.6
Economic Development	4.3

Exhibit 13.2 (Continued)

<u>Agency/Project</u>	<u>Amount</u>
Local Projects	
Administrative	25.8
Legislative	17.6
Transportation/Highway	89.3
De-authorizations	-39.7
Total	\$1,144.5

Note: Detail may not add to total due to rounding.

Source: Department of Legislative Services

Transportation Bonds

Transportation bonds are issued by the Maryland Department of Transportation to finance transportation-related projects. Like general obligation bonds, these bonds must be paid with revenues from specific taxes as required by the Constitution. Motor fuel and titling taxes, a portion of corporate income tax revenues, rental car sales tax revenues, and a portion of sales tax revenues are currently pledged to pay the principal and interest on these bonds. The department may also issue grant anticipation notes, bond anticipation notes, and revenue anticipation notes.

In fiscal 2011, the Maryland Department of Transportation expects to issue \$215 million in transportation bonds to help support a transportation capital program totaling \$1.4 billion. The remaining funds supporting the transportation capital program come from the federal government (\$721 million) and the Transportation Trust Fund (\$690 million).

The fiscal 2011 transportation capital program is shown in Exhibit 13.3. Because transportation bond proceeds are not specifically designated to any particular project at this point, the exhibit below includes federal funds, transportation bond proceeds, and Transportation Trust Fund revenues.

Exhibit 13.3
Distribution of Transportation Capital Program
Fiscal 2011 Appropriations
(\$ in Millions)

<u>Agency within the Maryland Department of Transportation</u>	<u>Amount</u>
Administration	\$27.3
Washington Metropolitan Area Transit Authority	102.0
Highway	712.6
Port	86.0
Motor Vehicle	23.2
Transit	433.3
Aviation	25.7
Total	\$1,410.1

Source: Department of Legislative Services

Revenue Bonds

Certain agencies of State government are authorized to borrow money under laws that in most instances expressly provide that the loan obligations do not constitute a debt or a pledge of the full faith and credit of the State. The principal and interest on bonds issued by these bodies are usually payable solely from fees generated from the use of facilities or enterprises financed by the bonds.

Projects financed by revenue bonds can be divided into two general categories: traditional governmental activities and private purposes. Traditional governmental activities include transportation projects, the construction of public educational facilities, and water and sewer treatment facilities. Agencies that issue traditional governmental activity revenue bonds are the Community Development Administration of the Department of Housing and Community Development, higher education institutions (including the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College), the Maryland Transportation Authority, the Maryland Water Quality Financing Administration, and the Maryland Environmental Service.

Private activity bonds are securities issued by or on behalf of local governments to provide financing for projects that are generally used by private users. They can be issued for such purposes as housing, hospitals, private higher education, economic development, and energy conservation. State entities that issue private purpose bonds include the Community Development Administration, the Maryland Economic Development Corporation, the Maryland Health and Higher Education Facilities Authority, and the Maryland Food Center Authority.

Legislative Handbook Series Cross-reference

Volume IV – Maryland’s Budget Process

Chapter 14. Education

State Colleges and Universities

Funding for public higher education institutions for fiscal 2011 is projected to total \$4.8 billion, which is comprised of higher education revenues and State general and Higher Education Investment Funds. Higher education revenues are those non-State funds received by Maryland public institutions including public four-year institutions and Baltimore City Community College, which is the only State-operated community college. The other 15 community colleges, which are locally operated, also receive State funds, but the non-State revenues do not pass through the State budget.

A summary of the estimated fiscal 2011 revenues from Maryland's public colleges and universities is shown in Exhibit 14.1. Higher education revenues are expected to total almost \$3.6 billion in fiscal 2011, accounting for 75% of the revenues used to support public higher education institutions. State general and Higher Education Investment Funds, totaling \$1.2 billion, make up the remainder of the funding and are not shown in Exhibit 14.1. The first part of the exhibit shows the revenues generated by the University System of Maryland and other public institutions, while the second part summarizes revenues by source.

Higher education revenues are classified as either unrestricted or restricted funds, unlike other State agencies that categorize revenues as general, special, or federal funds. Unrestricted funds may be spent at the discretion of the institution to support general operations such as instruction, research, or auxiliary enterprises. Restricted funds are available to support operations but are restricted by the donor or outside entity to be spent on specific programs, departments, or schools. Most revenues from the State and tuition and fees are unrestricted, while most federal and contract revenues are restricted.

Tuition and Fees

Tuition and fee revenues in fiscal 2011 are expected to total \$1.3 billion, accounting for the largest source of higher education unrestricted fund revenues. State funds, which are not shown in Exhibit 14.1, are the next highest revenue source. Institutions set tuition and fee rates, which vary by campus and education programs, through their respective governing boards.

Exhibit 14.1
Higher Education Revenues
Fiscal 2011
(\$ in Millions)

<u>System/Institution</u>	<u>Institutional Revenues</u>		
University System of Maryland	\$3,333.3		
St. Mary's College of Maryland	52.6		
Morgan State University	126.7		
Baltimore City Community College	51.8		
Total	\$3,564.4		

	<u>Unrestricted Funds</u>	<u>Restricted Funds</u>	<u>Total</u>
Revenues by Source			
Tuition and Fees	\$1,306.7	\$0.0	\$1,306.7
Auxiliary and Education Sales	805.2	82.8	888.0
Federal Grants and Contracts	125.0	735.4	860.4
State and Local Grants and Contracts	37.9	165.0	202.9
Private Gifts, Grants, and Contracts	22.4	191.4	213.7
Endowment Income and Other	84.9	7.7	92.6
Total	\$2,382.1	\$1,182.3	\$3,564.4

Note: Numbers may not sum due to rounding.

Source: *Fiscal 2011 State Budget Books*; Department of Legislative Services

Resident undergraduate tuition rates for students at University System of Maryland institutions and Morgan State University were frozen at the fall 2005 level from fiscal 2007 through 2010. The freeze was lifted in fiscal 2011, with University System of Maryland and Morgan State University permitted to increase tuition rates by 3.0% for the 2010-2011 academic year. For the 2009-2010 academic year (fiscal 2010) tuition and fees, excluding room and board, for resident full-time undergraduate students at Maryland's public four-year institutions averaged \$7,343 and \$17,592 for out-of-state students. As shown in Exhibit 14.2, the expected average increase in tuition and fees for the 2010-2011 academic year is 3.7%, to \$7,615 for resident undergraduate students and 1.8%, to \$17,900 for out-of-state students. Maryland residents at four-year public institutions will account for approximately 82% of the overall full-time equivalent student population in fiscal 2011.

Exhibit 14.2
Full-time Undergraduate Tuition and Mandatory Fees
Fiscal 2010-2011

	In-state		Out-of-state	
	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
University System of Maryland				
UMB (Nursing)	\$7,941	\$8,711	\$23,650	\$26,400
College Park	8,053	8,416	23,990	24,831
Bowie State	6,040	6,153	16,479	16,677
Towson	7,418	7,656	18,232	19,114
Eastern Shore	6,082	6,305	13,306	13,746
Frostburg State	6,684	6,904	13,040	13,110
Coppin State	5,276	5,382	13,971	14,582
University of Baltimore	7,171	7,330	20,678	16,846
Salisbury	6,618	6,908	15,114	15,404
University College*	5,520	5,688	11,976	11,976
Baltimore County	8,872	9,171	18,213	19,108
St. Mary's College of Maryland	13,234	13,630	24,627	25,023
Morgan State University	6,548	6,744	15,418	15,881
Average	\$7,343	\$7,615	\$17,592	\$17,900

*Annual tuition and fees for 12 credits per semester.

UMB: University of Maryland, Baltimore

Source: Department of Legislative Services

Auxiliary and Educational Sales

Auxiliary enterprises are expected to generate \$607 million in unrestricted fund revenues in fiscal 2011. These revenues are collected from self-supporting activities that provide goods and services to students, faculty, and staff in exchange for a fee such as parking, housing, and food service.

Educational sales are projected to generate \$198.2 million in unrestricted and \$82.8 million in restricted fund revenues in fiscal 2011. Revenues are derived from the sales and services of educational and research services or materials and include income from conferences, charges for duplicating services, income from demonstration day care

programs, special summer programs (*e.g.*, camps and festivals), and special instruction for high school students.

Federal Grants and Contracts

Unrestricted revenues from federal grants and contracts are expected to total \$125 million in fiscal 2011. These funds cover overhead expenses and the costs associated with research activities such as salaries, fuel costs, and space rental.

Revenues from federal grants and contracts comprise the largest portion of higher education restricted revenues, totaling \$735.4 million in fiscal 2011 and used to fund specific research projects. Federal government agencies, specifically the National Institutes of Health, the National Science Foundation, and defense agencies, impose strict guidelines on the types of research or services to be performed with this funding.

State and Local Grants and Contracts

State and local grants and contracts, similar to the above mentioned federal grants and contracts, are projected to generate \$37.9 million in unrestricted revenues in fiscal 2011 to support administrative expenses related to research activities and \$7.2 million in State special funds from the Emergency Medical Services Fund to support the Maryland Fire and Rescue Institute at College Park. Restricted fund revenues are expected to total \$165.0 million to support grants and contracts for specific research or services funded by State and local governments.

Private Gifts, Grants, and Contracts

Private gifts, grants, and contracts are expected to generate \$22.4 million in unrestricted funds and \$191.4 million in restricted fund revenues in fiscal 2011. Gifts can be in the form of cash or in-kind contributions such as equipment. If the gift is restricted, it must be used according to the guidelines set forth by the donor. Gifts are received from both individuals and corporations.

Endowment Income and Other Revenues

Endowment income and other revenues are anticipated to provide \$84.9 million and \$7.7 million in unrestricted and restricted fund revenues, respectively, in fiscal 2011. Revenues are composed of investment income and miscellaneous revenues from activities such as facility rentals.

Higher Education Support Agencies

A summary of the estimated fiscal 2011 revenues to be collected by the higher education support agencies is presented in Exhibit 14.3. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is a summary of the same revenues, shown by source.

Exhibit 14.3
Higher Education Support Agency Revenues
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Nonbudgeted Funds</u>	<u>Total</u>
Revenues by Agency				
Maryland Higher Education Commission	\$8.7	\$5.0		\$13.7
College Savings Plans of Maryland			2.4	2.4
Total	\$8.7	\$5.0	\$2.4	\$16.1
Revenues by Source				
Guaranteed Student Tuition Fund	\$0.4			\$0.4
Veteran's Dependency and Indemnity Compensation for Service-connected Death		\$0.4		0.4
Loan Assistance Repayment Program		0.3		0.3
Improving Teacher Quality State Grants		1.7		1.7
Gaining Early Awareness and Readiness Through Undergraduate Programs		1.3		1.3
Leveraging Educational Assistance Partnership		1.3		1.3
Health Care Professional License Fees	0.8			0.8
College Savings Plans Fees			2.4	2.4
Nurse Support Program II	7.5			7.5
Total	\$8.7	\$5.0	\$2.4	\$16.1

Note: Figures may not sum due to rounding.

Source: *Fiscal 2011 State Budget Books*; Department of Legislative Services

Maryland Higher Education Commission

The Maryland Higher Education Commission is the State's coordinating body for the State's public and private colleges and universities. The Maryland Higher Education Commission will receive \$13.7 million in special and federal fund revenues in fiscal 2011.

The Nurse Support Program Assistance Fund, which accounts for \$7.5 million of the \$8.7 million total special fund revenue in fiscal 2011, was created by legislation in 2006 to increase the number of bedside nurses and nurse educators in Maryland through the Nurse Support Program II. The program is funded with revenues generated by a 0.1% increase in hospital rates approved by the Health Services Cost Review Commission and provides stipends for nurse faculty and competitive institutional grants to expand nursing program capacity through collaboration between nursing schools and hospitals. Between fiscal 2006 and 2010, the hospital rate increase generated \$35.8 million in special fund revenue. In fiscal 2010, the commission suspended the increase to better align the Nurse Support Program II revenues and expenditures, and no revenue was collected by the fund. The rate increase is expected to resume mid-way through fiscal 2011, and revenues are projected to total \$11.0 million in fiscal 2012. The rate increase is scheduled to end in fiscal 2016, to accommodate the program's planned phase out.

The remaining \$1.2 million in special fund revenues are \$800,000 from licensing fees generated by health care professionals, with half supporting the Janet L. Hoffman Loan Assistance Repayment Program and half supporting the Health Professional Shortage Incentive Grant Program; and \$400,000 paid by for-profit postsecondary institutions to the Guaranteed Student Tuition Fund.

The Maryland Higher Education Commission also receives \$5.0 million in federal funds for college preparation programs (Gaining Early Awareness and Readiness Through Undergraduate Programs, \$1.3 million), teacher training programs (\$1.7 million), student financial aid (Leveraging Educational Assistance Partnership, \$1.3 million and Loan Assistance Repayment Program, \$250,000), and veteran's educational assistance (\$400,000) in fiscal 2011.

Sections of the Annotated Code of Maryland

Education Article, Title 11, Subtitle 4 and Title 18, Subtitles 15 and 28

Legislative Handbook Cross-reference

Volume II – Government Services in Maryland
Volume IX – Education

College Savings Plans of Maryland

The Maryland Prepaid Tuition Savings Program was created in 1997 and later renamed the College Savings Plan of Maryland. This independent agency now administers three savings plans for higher education: a defined benefit plan – the Prepaid College Trust; and two investment plans – the Maryland College Investment Plan and the Maryland Broker-dealer College Investment Plan. The agency is projected to receive approximately \$2.4 million of nonbudgeted funds in fiscal 2011 from enrollment fees, management fees, and program contributions.

The Prepaid College Trust Program allows participants to lock in future college tuition and fees at Maryland public colleges and universities at today's prices. Participants enter into a contract with the trust for prepayment of tuition and fees for a specified number of year(s) of community college and/or semester(s) or year(s) of university tuition and fees. Costs for a contract are based on the current cost for tuition and fees, the number of years until the child enters college, and anticipated costs of tuition and fees at the time of enrollment. Payments are invested with the intent of covering future costs. The trust is backed by the Maryland Legislative Guarantee which requires the Governor, in instances when current prepaid obligations exceed the market value of the trust's assets, to include in the annual budget funds to cover the shortfall. Taxpayers may subtract up to \$2,500 per year from State taxable income for contributions to Maryland's college savings plans.

The Maryland College Investment Plan allows participants to select among enrollment-based or fixed-income plans. Under the plan, participants take on greater risk in exchange for the possibility of greater returns. Contributions can be used to pay for higher education-related expenses such as tuition, fees, room and board, and other expenses as defined by the Internal Revenue Service. The plan is not guaranteed by the State. The Maryland Broker-dealer College Investment Plan was created in 2008 to enable families who invest through private investment advisors to participate in college savings plans that will result in State income tax benefits. Taxpayers may take a subtraction modification of up to \$2,500 annually for contributions made to the broker-dealer plan or the investment plan for the same beneficiary.

Sections of the Maryland Annotated Code

Education Article, Title 18, Subtitle 19, 19A, and 19B

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland
Volume IX – Education

Maryland State Department of Education

A summary of the estimated fiscal 2011 revenues that the Maryland State Department of Education expects to collect is shown in Exhibit 14.4. The exhibit lists the revenues according to the agency or program that primarily generates them and according to their source. Primary and secondary education revenues are itemized separately due to the magnitude of that revenue category.

Primary and Secondary Education

Of an estimated \$739.0 million in federal funding for primary and secondary education in fiscal 2011 (most of which goes to local school boards), \$627.6 million flows from three programs: educationally deprived children, child nutrition, and students with disabilities. An estimated \$216.3 million in federal fund revenues under Title I of the Elementary and Secondary Education Act will support programs for educationally deprived children. Federal funds of \$209.7 million from the Child Nutrition Act will subsidize free and reduced-priced breakfasts and lunches for low-income children. The department is budgeted to receive \$201.6 million under the federal Individuals with Disabilities Education Act and the Medicaid program to provide special education services to eligible infants, children, and their families.

The remaining fiscal 2011 federal funds for primary and secondary education come from a variety of sources, including \$40.0 million for teacher development under the No Child Left Behind Act. Efforts to support children at risk will receive \$22.0 million, primarily from Twenty-First Century Community Learning Center funds. Career and Technology Education is set to receive \$15.5 million. Innovative Programs, including Reading First and programs to promote healthy families, will receive \$10.1 million. Language assistance for students whose first language is not English will receive \$9.0 million.

The 2011 budget includes special funds of \$85.5 million from the Education Trust Fund, which represents revenues from video lottery terminals. The budget also includes \$4.4 million in special funds from the Cigarette Restitution Fund for nonpublic textbooks; \$2.4 million in special funds from the SEED school, the State's public boarding school; and \$0.6 million from local boards of education for their share of National Board for Professional Teaching Standards certification costs.

Other and miscellaneous special and federal funds totaling \$58.6 million at the department support information technology projects and headquarters functions such as business services, accountability and assessments, and supervision of special education.

Exhibit 14.4
Maryland State Department of Education Revenues
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Primary and Secondary Education	\$93.0	\$739.0	\$831.9
Early Childhood Development		84.2	84.2
Rehabilitation Services	3.6	75.8	79.4
Children's Cabinet Interagency Fund		7.7	7.7
Library Services		3.4	3.4
Maryland School for the Deaf	0.2	1.0	1.2
Maryland School for the Blind	7.5	0.8	8.3
Other Maryland State Department of Education	3.5	55.1	58.6
Total	\$107.8	\$966.9	\$1,074.7
Revenues by Source for Primary and Secondary Education			
Educationally Deprived Children		\$216.3	\$216.3
Food Services		209.7	209.7
Students with Disabilities		201.6	201.6
Teacher Development	\$0.6	40.0	40.6
Children at Risk	2.4	22.0	24.4
Career and Technology Education		15.5	15.5
Innovative Programs		10.1	10.1
Language Assistance		9.0	9.0
School Technology		7.3	7.3
Charter Schools		4.8	4.8
Nonpublic Textbooks	4.4		4.4
Science and Mathematics Initiative		1.7	1.7
Gifted and Talented		1.0	1.0
Education Trust Fund	85.5		85.5
Subtotal	\$93.0	\$739.0	\$831.9

Exhibit 14.4 (Continued)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Other Sources			
Child Care and Development Block Grant and Other Early Childhood Funds		\$73.9	\$73.9
Rehabilitation Services	\$0.2	43.1	43.3
Social Security Disability Insurance		32.7	32.7
Temporary Assistance for Needy Families		17.6	17.6
Information Technology		9.9	9.9
Blind Vendors Program	3.4		3.4
Public Libraries		3.4	3.4
Maryland School for the Deaf	0.2	1.0	1.2
Maryland School for the Blind	7.5	0.8	8.3
Miscellaneous	3.5	45.6	49.1
Subtotal	\$14.8	\$227.9	\$242.7
Total	\$107.8	\$966.9	\$1,074.7

Note: Student transportation and teacher retirement funds are not included. Federal stimulus funds for the Foundation and Compensatory Education formulas are included in the fiscal 2011 budget but are not reflected here because those formulas usually are supported only with general funds. Special funds from the Universal Services Trust Fund replaced some general funds for the Maryland School for the Deaf in fiscal 2011 but those funds are also not reflected here.

Source: *Fiscal 2011 State Budget Books*; Maryland School for the Blind

Sections of the Maryland Annotated Code

Education Article, Title 5, Subtitle 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Volume IX – Education

Early Childhood Development

In fiscal 2011, the department is budgeted to receive \$84.2 million in federal funds for early childhood development. The funds are administered by the Division of Early Childhood Development, which handles child care subsidies for low-income families, licensing and monitoring of child care centers, grants for providers to pursue accreditation and staff credentialing, grants for Judith P. Hoyer early learning centers, Head Start coordination, and curriculum development. The Child Care and Development Block Grant and related early childhood funds represent \$73.9 million of the division's federal funds. Of this amount, \$49.8 million is for child care subsidies. Some funds from Temporary Assistance for Needy Families also support the child care subsidy program (\$10.3 million for fiscal 2011).

Sections of the Maryland Annotated Code

Education Article, Title 2, Subtitle 3

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume IX – Education

Rehabilitation Services

Federal funds for vocational rehabilitation services for disabled citizens are budgeted at \$79.4 million in fiscal 2011. The Division of Rehabilitation Services fund programs that prepare individuals for employment and provides cash payments for those who are unable to work due to total or permanent disability. Field offices throughout the State provide connections to a variety of services, including the division's own Workforce and Technology Center, which provides vocational training and independent living rehabilitation services. The division includes the Office of Blindness and Vision Services to coordinate services for blind individuals. Federal funds for vocational rehabilitation services total \$43.3 million for 2011. Social Security disability insurance payments are budgeted at \$32.7 million. Special funds of \$3.4 million are expected to be generated by the Blind Vendors Program.

Sections of the Maryland Annotated Code

Education Article, Title 21, Subtitle 3

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland
Volume IX – Education

Children's Cabinet Interagency Fund

The Children's Cabinet Interagency Fund is the funding mechanism used to support coordinated delivery of services to the State's children and families. The Maryland State Department of Education serves as the fiscal agent, and it is administered by the Maryland Children's Cabinet. The Governor's Office for Children, created by executive order in 2005, provides overall planning, monitoring, and coordination of services at the State level. Local management boards, the State Coordinating Council for Children, and local coordinating councils oversee the integration of comprehensive services to specific children and families. Any unspent general or special fund revenues in the fund revert to the general fund at the end of each fiscal year. In fiscal 2011, the interagency fund is budgeted to receive \$7.7 million in federal funds, \$7.3 million of which is from Temporary Assistance for Needy Families to support early intervention and prevention of out-of-home placements.

Sections of the Maryland Annotated Code

Human Services, Title 8, Subtitle 5

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland
Volume IX – Education

Library Services

In fiscal 2011, the State Department of Education is budgeted to receive \$3.4 million in federal funds for library services under the Museum and Library Services Act. The Division of Library Development and Services helps develop public library services and resource sharing among libraries throughout the State. The division's oversight responsibilities include (1) the State's 24 public library systems; (2) the Enoch Pratt Central Library, which is designated as the State Library Resource Center; (3) the Library for the Blind and Physically Handicapped; (4) three regional resource centers; and (5) metropolitan cooperative service programs.

Sections of the Maryland Annotated Code

Education Article, Title 23

Legislative Handbook Series Cross-references

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Volume IX – Education

Maryland School for the Deaf

The Maryland School for the Deaf provides educational and developmental services for deaf children. The school follows the curriculum used in most public schools. For students with multiple disabilities, the school also offers a Life-based Education program. Maryland residents do not pay tuition, while nonresident students pay tuition at a rate set by the school. Each local school system pays its share of the basic cost of educating the students, which is determined by the Maryland State Department of Education. The school is budgeted to receive \$1 million in federal funding in fiscal 2011, primarily from funds under the Individuals with Disabilities Education Act and Medicaid. Special funds are set at \$200,000 for 2011 and represent local school reimbursements, food sales, student fees, and donations.

Sections of the Maryland Annotated Code

Education Article, Title 8, Subtitles 3 and 4

Legislative Handbook Series Cross-references

Volume II – Government Services in Maryland

Volume IX – Education

Maryland School for the Blind

The Maryland School for the Blind, in conjunction with the Maryland State Department of Education and local boards of education, provides educational and developmental services for blind children. The curriculum is similar to the curriculum in most public schools, with additional services for visually impaired students. As with the School for the Deaf, each local school system pays its share of the basic cost for each student. The Maryland School for the Blind is budgeted to receive \$800,000 in federal funds in fiscal 2011. The majority of federal revenues come from special education and

Medicaid funding. Special funds are budgeted at \$7.5 million, which are mostly from State grants for enhanced services, donations, draws from the school's endowment, local contributions, summer program tuition, and income from program services.

Sections of the Maryland Annotated Code

Education Article, Title 8, Subtitles 3 and 4

Legislative Handbook Series, Cross-references

Volume II – Government Services in Maryland

Volume IX – Education

Chapter 15. Health, Human Resources, and Juvenile Services

Department of Health and Mental Hygiene

A summary of the revenues to be collected by the Department of Health and Mental Hygiene in fiscal 2011 is presented in Exhibit 15.1. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 15.1 Department of Health and Mental Hygiene Revenue Estimates Fiscal 2011 (\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program				
Administration		\$0.4	\$14.5	\$14.8
Office of Health Care Quality		0.4	6.7	7.1
Health Occupation Boards		27.4		27.4
Infectious Disease and Environmental Health Administration/Office of Preparedness and Response		18.1	89.1	107.2
Family Health Administration		44.0	137.0	181.0
Office of the Chief Medical Examiner			0.2	0.2
Chronic Disease Services		5.2		5.2
Laboratories Administration		0.5	3.4	3.8
Alcohol and Drug Abuse Administration		20.8	34.0	54.8
Mental Hygiene Administration		23.4	321.9	345.3
Developmental Disabilities Administration		4.3	317.5	321.8
Medical Care Programs Administration		428.8	3,882.0	4,310.7

Exhibit 15.1 (continued)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program				
Health Regulatory Commissions		161.3		161.3
Hospital Patient Recoveries	43.3			43.3
Medicaid Disproportionate Share Payments	24.1			24.1
DHMH Miscellaneous Revenues	26.4			26.4
Total	\$93.8	\$734.6	\$4,806.3	\$5,634.7
Revenues by Source				
Women, Infants & Children (WIC)			\$112.1	\$112.1
Public Health Emergency Preparedness			15.0	15.0
Children's Health Insurance Program			160.2	160.2
Medical Assistance Program			4,332.9	4,332.9
HIV Care Formula Grants			36.9	36.9
Block Grants for Prevention and Treatment of Substance Abuse			32.2	32.2
Maryland AIDS Drug Assistance Program Drug Rebates		\$17.6		17.6
Nursing Home Provider Fee		43.8		43.8
Health Care Coverage Fund		126.9		126.9
Hospital Assessments		27.0		27.0
Recoveries from Medicaid Providers		23.7		23.7
Uncompensated Care Fund		125.0		125.0
Cigarette Restitution Fund		166.3		166.3
Rate Stabilization Fund		96.0		96.0
Hospital Patient Recoveries	\$43.3			43.3
Medicaid Disproportionate Share Payments	24.1			24.1
DHMH Miscellaneous GF Revenues	26.4			26.4
Other Sources		108.3	117.0	225.3
Total	\$93.8	\$734.6	\$4,806.3	\$5,634.7

Source: *Fiscal 2011 State Budget Books*; Department of Health and Mental Hygiene; Department of Legislative Services

Department Administration

The Department of Health and Mental Hygiene Administration includes the following offices within the department: (1) Office of the Secretary, which establishes policies regarding health services and supervises the administration of the health laws of the State and its subdivisions; (2) Operations; (3) the Deputy Secretary for Public Health Services, which is responsible for policy formulation and program implementation affecting the health of State citizens through actions and interventions of various public health administration and offices within the department; and (4) the Deputy Secretary for Behavioral Health and Disabilities, which oversees and coordinates the work of the Alcohol and Drug Abuse Administration, Mental Hygiene Administration, and Developmental Disabilities Administration.

The administration is expected to collect \$14.4 million in federal fund revenues in fiscal 2011, including approximately \$65,000 in federal stimulus funding discussed later in this chapter. Special funds are estimated at \$410,000.

Sections of the Maryland Annotated Code

Health – General Article, Title 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Infectious Disease and Environmental Health Administration/Office of Preparedness and Response

The Infectious Disease and Environmental Health Administration will receive \$36.5 million in federal Ryan White Part B formula funds. Federal regulations require that 75% of these funds be used for direct care services for those diagnosed with HIV/AIDS, and 25% of these funds for HIV/AIDS prevention services. The administration collects an additional \$10.7 million in competitive federal funds from the Centers for Disease Control for HIV prevention services and \$17.6 million in special funds from rebates on HIV/AIDS pharmaceuticals purchased through the Maryland AIDS Drug Assistance Program.

The fiscal 2011 allowance includes \$1.8 million in federal funds from the American Recovery and Reinvestment Act of 2009, which includes \$1.2 million to fund two vaccine effectiveness studies and vaccination programs at local health departments, including school-based influenza vaccination clinics.

The fiscal 2011 allowance for the Office of Preparedness and Response is \$20.7 million, almost completely funded through federal grants for public health emergency preparedness and hospital preparedness.

Sections of the Maryland Annotated Code

Health – General Article, Titles 13, 17, and 18

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume IV – Maryland's Budget Process

Chronic Disease Services

At Maryland's two State-run chronic and rehabilitative hospitals, Western Maryland Center and Deer's Head Center, the Department of Health and Mental Hygiene provides chronic care and treatment to patients who require hospital-level rehabilitation, as well as inpatient and outpatient renal dialysis. Hospital patient recoveries at the two chronic disease hospitals are expected to generate \$5.2 million in fiscal 2011. This includes renal dialysis service, which is supported primarily by special fund collections including payments from patients, legally responsible relatives, and other third-party payers, which is expected to generate \$4.3 million.

Sections of the Maryland Annotated Code

Health – General Article, Title 19, Subtitle 5

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Alcohol and Drug Abuse Administration

In fiscal 2011, Maryland expects to receive almost \$34 million in federal funds for alcohol and drug abuse treatment services, primarily through the Substance Abuse and Prevention and Treatment Block Grant. These revenues provide addiction services through private and nonprofit agencies and local health departments. Programming includes sub-acute detoxification, residential intermediate care, intensive outpatient care, halfway houses, and outpatient and prevention services for adults and adolescents.

Sections of the Maryland Annotated Code

Health – General Article, Title 8

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Mental Hygiene Administration

The Mental Hygiene Administration is projected to collect \$11.8 million in general funds through hospital patient recoveries in fiscal 2011. These revenues consist of Medicare, Medicaid, private insurance, and out-of-pocket payments made on behalf of patients in the State's psychiatric hospitals.

Federal fund revenues for the Mental Hygiene Administration total almost \$322 million in fiscal 2011, of which \$282 million is from Medical Assistance program funds to provide specialty mental health services not covered under Medicaid's managed care program.

The remaining federal funds are derived from a variety of grants, which include the Block Grants for Community Mental Health Services, Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances, and the Shelter Plus Care Program. Special fund revenues are estimated at \$23.4 million.

Developmental Disabilities Administration

The Developmental Disabilities Administration provides direct services to individuals with developmental disabilities including autism, blindness, cerebral palsy, deafness, epilepsy, mental retardation, and multiple sclerosis. Services are provided in three State residential centers and through funding of a coordinated service delivery system that supports the integration of these individuals into the community. Because the majority of the individuals served are Medicaid-eligible, the State receives federal matching funds for services provided to Medicaid enrolled individuals.

The Developmental Disabilities Administration is estimated to collect \$317.5 million in federal funds through the Medicaid program for services provided to individuals with developmental disabilities. Most of these services are delivered in community-based settings. Special fund revenues are expected to total \$4.3 million, which includes \$0.9 million from the waiting list equity fund.

Sections of the Maryland Annotated Code

Health – General Article, Titles 7 and 10

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Family Health Services

The Family Health Administration receives the bulk of its special funds from the Cigarette Restitution Fund. In fiscal 2011, the administration was appropriated approximately \$43.0 million from the fund. Cigarette restitution funds are also distributed to other programs, a breakdown of which is detailed later in this chapter. The Family Health Administration also receives various federal grants for program activities including \$112.1 million for the Women, Infants, and Children Program; \$8.2 million for Centers for Disease Control and Prevention grants; \$7.0 million for Maternal and Child Health Services grant; and \$4.3 million for family planning grants.

Health Occupations Boards and the Commission on Kidney Disease

Under the Office of the Secretary of Health and Mental Hygiene, there are 18 boards that regulate and discipline more than 300,000 individual health care professionals. Also, under the umbrella of the health occupations boards is the Maryland Commission on Kidney Disease. All but two of the health occupations boards are exclusively special funded by revenues generated from licensing and certification fees. The Board of Examiners of Nursing Home Administrators is general funded, though the board generates some revenues from licensing fees, and the Board for the Certification of Residential Child Care Program Professionals is 100% general funded. In fiscal 2011, \$27.4 million are anticipated from license and examination fees collected by the boards.

Other Health Regulatory Entities

The Health Services Cost Review Commission regulates hospital charges in Maryland. Rates established by the commission are binding on all payers, including Medicare and Medicaid. The commission imposes a user fee on the facilities it regulates, with special fund fee revenues anticipated at \$5.3 million in fiscal 2011.

In addition, the Health Services Cost Review Commission is responsible for administering the Uncompensated Care Fund, which is funded by fees collected from all hospitals and redistributed to those hospitals that serve a disproportionate share of the uninsured and underinsured population. These fees are expected to generate \$125 million in special funds in fiscal 2011.

The Maryland Health Care Commission is responsible for health planning, cost containment, and a medical care database. The commission's budget is supported by fees assessed on health insurers, health maintenance organizations, third-party administrators, and health care providers. Special fund revenues of \$11.3 million are expected from these fees in fiscal 2011.

The Office of Health Care Quality within the Department of Health and Mental Hygiene is funded using a combination of approximately 60% general funds, 35% federal funds, and 5% special funds. The agency expects to receive approximately \$5.8 million in federal reimbursement for Medicare and Medicaid survey requirements at the State's health care facilities in fiscal 2011. The agency will also collect approximately \$0.4 million in special fund revenues from civil penalties that are used for nursing home quality improvement initiatives. Finally, the agency expects approximately \$0.9 million in federal stimulus funds discussed later in this chapter.

Sections of the Maryland Annotated Code

Health Occupations Article, Titles 1 through 5 and 7 through 20 (boards and commissions); and Health – General Article, Title 19 (health care facilities)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Laboratories Administration

The Laboratories Administration provides various laboratory services, including testing to assist physicians and health officials in the prevention, diagnosis, and control of human disease; planning against bioterrorism attacks; examinations in connection with the enforcement of food and drug laws; scientific substantiation for surveillance of the environment in order to detect water pollution, air pollution, and other conditions that adversely affect health; emergency laboratory support in response to environmental disasters and disease outbreaks; and enforcement of minimum standards and qualifications for all tissue banks and medical and environmental laboratories in Maryland. As part of its work, the Laboratories Administration collects fees (general

funds) for providing these services and receives federal funds through a variety of grants to address public health concerns such as bioterrorism activity and disease control. The fiscal 2011 budget anticipates \$3.4 million in federal fund revenue, \$1.4 million of this from the Centers for Disease Control and Prevention.

Sections of the Maryland Annotated Code

Health – General Article, Title 17

Medical Care Programs

The Medical Care Programs Administration, a unit of the Department of Health and Mental Hygiene, is responsible for administering the Medical Assistance Program (Medicaid), the Maryland Children's Health Program, the Family Planning Program, the Primary Adult Care Program, the Kidney Disease Program, and the Employed Individuals with Disabilities Program. The federal share of administration expenses is expected to total almost \$3.9 billion in fiscal 2011, which includes approximately \$788 million in federal stimulus funding discussed below. The funds will be spent to meet the administrative costs of the program, pay a portion of the capitated fees to Medicaid managed care organizations, and reimburse medical providers and pharmacies for prescription drugs and services, such as nursing home and medical day care.

Anticipated special fund revenues for fiscal 2011 consist of \$428.8 million. Larger sources of revenue include the Rate Stabilization Fund, Health Care Coverage Fund, Cigarette Restitution Fund, and nursing home and hospital assessments.

The American Recovery and Reinvestment Act and Medicaid

In February 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 into law. The American Recovery and Reinvestment Act's provisions support State programs by funding infrastructure, education programs, and human services programs, as well as providing discretionary funds. As reflected in Exhibit 15.1, the American Recovery and Reinvestment Act funding for Medicaid totals \$788 million in fiscal 2011. Of this, \$389 million has been authorized by the American Recovery and Reinvestment Act through December 31, 2010. These funds are available because the legislation increased the federal share of Medicaid funding by increasing the federal medical assistance percentage. The budget assumes an additional \$389 million will be authorized to support the last half of the fiscal year, although this full amount has not been authorized by the federal government.

Sections of the Maryland Annotated Code

Health – General Article, Title 15

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Cigarette Restitution Fund

The Cigarette Restitution Fund was established by Chapter 173 of 1999 and is supported by payments made under the Master Settlement Agreement. Through the Master Settlement Agreement, settling tobacco manufacturers will pay the litigating parties – 46 states (Florida, Minnesota, Texas, and Mississippi had previously settled litigation), five territories, and the District of Columbia – approximately \$206 billion over a period of years, and must also conform to a number of restrictions on marketing to youth and the general public.

The distribution of the Master Settlement Agreement funds among the states is determined by formula, with Maryland receiving 2.26% of the Master Settlement Agreement monies; these revenues are adjusted for inflation, volume, and prior settlements. In addition, the State will collect 3.3% of monies from the Strategic Contribution Fund, distributed according to each state's contribution toward resolution of the state lawsuits against the major tobacco manufacturers.

The use of the Cigarette Restitution Fund is restricted by statute in a variety of ways. For example:

- at least 50% of the funds must be appropriated to eight health- and tobacco-related priorities including tobacco production alternatives, tobacco control and cessation, cancer prevention, treatment and research, and substance abuse treatment and prevention;
- at least 30% of the funds must be appropriated to Medicaid; and
- at least 0.15% of the fund is dedicated to enforcement of Title 16, Subtitle 5 of the Business Regulation Article (Escrow Requirements for Nonparticipating Tobacco Product Manufacturers) by the Office of the Attorney General.

However, the State's recent fiscal difficulties have prompted reductions to the mandated funding levels for various Cigarette Restitution Fund programs. Exhibit 15.2 details the distribution of funds in fiscal 2009 through 2011.

Exhibit 15.2
Cigarette Restitution Fund Budget
Fiscal 2009-2011
(\$ in Millions)

	2009	2010	2011
	<u>Actual</u>	<u>Working</u>	<u>Budget</u>
Beginning Fund Balance	\$9.6	\$9.1	\$0.8
Settlement Payments	150.3	144.0	139.1
Nonparticipating Manufacturers and Other Shortfalls in Payments	-11.6	-12.0	-12.0
Awards from Disputed Account	12.2	0.0	12.0
Other Adjustments	37.6	36.9	36.9
Subtotal	\$198.1	\$178.0	\$176.7
Prior Year Recoveries	\$3.7	\$1.0	\$0.5
Total Available Revenue	\$201.8	\$179.0	\$177.2
Health			
Tobacco	\$16.3	\$4.1	\$4.0
Cancer	21.8	11.5	14.4
Substance Abuse	17.1	17.1	19.5
Medicaid	125.4	117.5	112.2
Administration	0.9	1.0	1.0
Breast and Cervical Cancer		14.6	15.2
Subtotal	\$181.6	\$165.8	\$166.3
Other			
Aid to Nonpublic School	\$3.7	\$4.5	\$4.5
Crop Conversion	7.0	7.0	5.0
Attorney General	0.4	1.0	1.0
Subtotal	\$11.1	\$12.5	\$10.5
Total Expenses	\$192.7	\$178.3	\$176.9
Ending Fund Balance	\$9.1	\$0.8	\$0.4

Source: Department of Legislative Services

Department of Human Resources

A summary of the revenues to be collected by the Department of Human Resources in fiscal 2011 is shown in Exhibit 15.3. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 15.3
Department of Human Resources Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Social Services	\$2.6	\$268.0	\$270.6
Child Support Enforcement	12.7	56.6	69.3
Family Investment	102.3	1,037.0	1,139.3
Miscellaneous	0.0	82.1	82.1
Total	\$117.6	\$1,443.7	\$1,561.3
Revenues by Source			
Supplemental Nutrition Assistance Program		\$728.1 ¹	\$731.9
Temporary Assistance for Needy Families		281.6 ²	281.6
Foster Care – Title IV-E		161.9	161.9
Child Support Enforcement – Title IV-D		76.1 ³	76.1
Medicaid Administration		72.8	72.8
Electric Universal Service Program	38.5 ⁴		38.5
Strategic Energy Investment Fund	42.7		42.7
Social Services Block Grant		32.1	32.1
Home Energy Assistance Grants		49.7	49.7
Child Support Offset – Assistance Payments	10.1		10.1
Local Government Contributions	8.8		8.8
Child Welfare/Family Preservation		11.3	11.3
Refugees and Entrant Assistance		10.3	10.3

Exhibit 15.3 (continued)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source			
Interim Assistance Reimbursement for Disabled			
Adults	8.0		8.0
Child Support Reinvestment Fund	9.1		9.1
Cooperative Reimbursement Agreement Fees	0.3		0.3
Miscellaneous	0.1	19.8	19.9
Total	\$117.6	\$1,443.7	\$1,561.3

¹ Includes \$21.7 million in American Recovery and Reinvestment Act funds.

² Includes new Temporary Assistance for Needy Families revenues in fiscal 2011 as well as available revenue from Temporary Assistance for Needy Families balance from prior years to reflect the fiscal 2011 appropriation for the Department of Human Resources. American Recovery and Reinvestment Act funds of \$23.6 million are also included.

³ Includes \$2.8 million in American Recovery and Reinvestment Act funds.

⁴ Includes new revenue in fiscal 2011 as well as projected carry-over funds of \$1.5 million from fiscal 2010.

Source: *Fiscal 2011 State Budget Books*; Department of Human Resources; Department of Legislative Services

Social Services

Foster Care Title IV-E

The Department of Human Resources will receive approximately \$161.9 million from the federal Foster Care Title IV-E fund in fiscal 2011. These funds mainly support services for children in foster care and adoption provided through the Social Services Administration. Title IV-E funds, which are an uncapped entitlement for the states, cover 50% of foster care and subsidized adoption expenses for very low-income children.

Adoption Assistance, Child Welfare and Family Preservation

The State will receive \$11.3 million in federal funds for child welfare and family preservation services in fiscal 2011. These revenues are designed to supplement existing State and local funding, with a particular emphasis on programs enabling children to remain in their own homes or in alternative permanent homes.

Specifically, Maryland will receive \$6.8 million from the Promoting Safe and Stable Families Act Program to support community-based, family preservation services for families at risk or in crisis, reunification and transition services, and adoption promotion and support services for foster children. The amount received is based on the number of children receiving food stamps. The State will also receive \$4.5 million in federal funds for child welfare services.

Social Services Block Grant

The Social Services Block Grant is another major source of federal revenues for child and adult welfare services. In addition to the goal of preventing neglect, abuse, or exploitation of children and adults, the block grant provides funding to social service programs that reduce dependency on welfare programs, prevent inappropriate institutional care, and secure appropriate institutional care. For fiscal 2011, the State is expecting a grant of \$32.1 million.

Sections of the Maryland Annotated Code

Generally, Human Services Article, Title 4.

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Child Support Enforcement

Title IV-D

Maryland receives federal funding from the Title IV-D Child Support Enforcement Program amounting to two-thirds of the State's total costs for child support enforcement. In fiscal 2011, the State will receive \$76.1 million through this federal program (including \$2.8 million in American Recovery and Reinvestment Act funds) for several purposes: (1) to enforce the support obligations owed by absent parents to their children; (2) to locate absent parents; (3) to establish paternity; and (4) to obtain child, spousal, and medical support.

Child Support Reinvestment Fund

The Child Support Reinvestment Fund consists of federal child support enforcement performance incentive payments received by the Department of Human Resources in a fiscal year. In fiscal 2011, the department anticipates approximately \$9.1 million in special funds.

Under State law, reinvestment dollars may only be used for (1) privatization and outsourcing; (2) development of special projects; (3) automation; (4) an employee performance incentive program; (5) staff development and training; (6) community outreach; and (7) public awareness projects.

Cooperative Reimbursement Agreements

Another \$295,600 in special fund revenues for fiscal 2011 is expected from cooperative reimbursement agreement monitoring fees. Under cooperative reimbursement agreements, the Department of Human Resources draws down and passes on to local agencies federal matching funds for child support services that the local entities will provide. The agreements assign responsibility for monitoring local performance to the Department of Human Resources and require the local entities to reimburse the department for monitoring costs. The fees are used to cover a portion of the department's child support administrative costs.

Sections of the Maryland Annotated Code

Generally, Family Law Article, Title 10, Part II.

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Community Services/Family Investment

Low-income Home Energy Assistance Program

Maryland is expected to receive a \$49.7 million grant from the federal Low-income Home Energy Assistance Program in fiscal 2011. The Office of Home Energy Programs within the Family Investment Administration uses these funds to administer the Maryland Energy Assistance Program, which provides direct payments to a qualifying homeowner or energy supplier to assist in meeting the costs of home energy. Funds are also available for some low-cost residential weatherization. During times of

high energy costs and extreme weather conditions, the federal government may provide supplemental grants to the states.

Electric Universal Service Fund

The Electric Universal Service Fund provides energy assistance to low-income electric customers through the Electric Universal Service Program. Each year, \$37.0 million is to be collected for the fund. For the fiscal 2011 budget, the Department of Human Resources has budgeted \$38.5 million in fund expenditures, which assumes that \$1.5 million will be available to carry over from fiscal 2010.

Strategic Energy Investment Fund

Chapters 127 and 128 of 2008 established the Strategic Energy Investment Fund and specified that 17% of the fund is to be transferred to the Department of Human Resources to be used for the Electric Universal Service Program and other electricity assistance programs. This allocation was temporarily increased by provisions in the Budget Reconciliation and Financing Acts of 2009 and 2010. The fiscal 2011 budget assumes revenues of \$42.7 million from the fund.

Refugees' Assistance

The department will receive approximately \$10.3 million in federal funds in fiscal 2011 from federal Refugees and Entrant Assistance Grants. These funds provide cash, medical assistance, and various social services to refugees to assist their resettlement in the United States. The program is 100% federally funded. The majority of the funding (\$9.9 million) is allocated to the Maryland Office for Refugees and Asylees within the Family Investment Administration.

Temporary Assistance for Needy Families

Federal legislation enacted in 1996 created the Temporary Assistance for Needy Families Block Grant, which transformed welfare from a cash benefits program to a program focused on work and temporary assistance. Federal legislation enacted in 2006 reauthorized the Temporary Assistance for Needy Families for five years. Under Temporary Assistance for Needy Families, Maryland is eligible to receive a \$229.1 million block grant each year as long as it meets a maintenance of effort requirement of \$177.7 million (\$189.0 million if the State fails to comply with certain federal work participation requirements). Funds that are not expended during a fiscal year remain available to the State in subsequent fiscal years. Additionally, funds from the American Recovery and Reinvestment Act (\$46.2 million) are also anticipated

in fiscal 2011, for total State revenues of \$275.3 million. Although the majority of the funds will support programming within the Department of Human Resources, the Temporary Assistance for Needy Families dollars are also used for local management boards and by the State Department of Education. For fiscal 2011, the Department of Human Resources has budgeted \$281.6 million (which represents its share of the block grant, \$23.6 million in American Recovery and Reinvestment Act funding, and funds from the balance of the Temporary Assistance for Needy Families funds from prior years) for the Temporary Assistance for Needy Families expenditures.

Supplemental Nutrition Assistance Program

The Supplemental Nutrition Assistance Program (formerly the food stamp program), administered by the U.S. Department of Agriculture, provides funding for vouchers to low-income families to improve their food purchasing abilities. Benefit costs are covered entirely with federal dollars, while administrative costs are shared evenly by the State and the federal government. Of the \$728.1 million in total funds the department expects to receive in fiscal 2011, \$681.8 million is allocated for benefits (including \$21.7 million of American Recovery and Reinvestment Act funds); the remainder is for administrative costs.

Child Support Offset – Assistance Payments

Child support payments made by noncustodial parents of children receiving cash assistance are evenly divided and retained by the State and the federal government to offset cash assistance benefits. In fiscal 2011, the State expects to realize \$10.1 million in special funds from these offset payments.

Temporary Disability Assistance Program

Budgeted as special fund revenue, the State receives a reimbursement for State financed cash assistance provided to disabled adults while they had a successful application for federal Supplemental Security Income benefits pending. Through the Temporary Disability Assistance Program, Maryland provides cash assistance to adults without dependents who have a disability. The benefit is limited to 12 months during a 36-month period unless the individual has an application for federal benefits pending. Individuals receiving the Temporary Disability Assistance Program benefits who eventually qualify for federal benefits receive the federal cash assistance retroactive to the date of application and must reimburse the State for any of the Temporary Disability Assistance Program benefits received while the federal application was pending. In fiscal 2011, the State anticipates \$8 million in special fund revenues from benefit reimbursements.

Medicaid

In fiscal 2011, the Department of Human Resources will receive \$72.8 million from Medicaid. A majority of this amount will be used for administrative costs within several of the department's administrations. Most significantly, funds will be used to determine financial eligibility for the Medicaid program administered by the Department of Health and Mental Hygiene.

Sections of the Maryland Annotated Code

Generally, Human Services Article, Titles 5 and 6; State Finance and Procurement Article, Section 7-315; State Government, Title 9, Subtitle 20B; Public Utility Companies Article, Section 7-512.1

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Miscellaneous

The Department of Human Resources also generates revenues from various other sources. These sources are listed below.

Exhibit 15.4 Miscellaneous Revenues Department of Human Resources (\$ in Millions)

	<u>Amount</u> <u>(\$ in Millions)</u>
Special Funds	
Adoption Search Registry Fees	\$0.1
Federal Funds	
Independent Living – Social Services	\$4.2
Child Abuse and Neglect Grants	0.5
Access & Visitation	0.2
Mandatory and Matching Child Care Funds	11.8

Exhibit 15.4 (continued)

	Amount (<u>\$ in Millions</u>)
Federal Funds	
State Fiscal Stabilization Funds – Discretionary	\$1.5
Family Violence Prevention	1.6
Total	\$19.9

Note: Figures do not sum due to rounding

Department of Juvenile Services

A summary of the revenues to be collected by the Department of Juvenile Services in fiscal 2011 is shown in Exhibit 15.5. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 15.5
Department of Juvenile Services Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Departmental Support		\$0.2	\$0.2
Residential and Community Operations		2.8	2.8
Regional Operations	0.2	13.0	13.2
Total	\$0.2	\$16.0	\$16.2

Exhibit 15.5 (continued)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source			
American Recovery and Reinvestment Act (ARRA)		\$4.5	\$4.5
Donations	\$0.2		0.2
Foster Care (Title IV-E)		3.2	3.2
Medicaid Rehab Option		3.0	3.0
Substance Abuse		0.8	0.8
Breakfasts		1.0	1.0
Title I		1.2	1.2
Foster Care Grandparent Program		0.3	0.3
U.S. Department of Labor Grant		2.0	2.0
Total	\$0.2	\$16.0	\$16.2

Source: *Fiscal 2011 State Budget Books*; Department of Juvenile Services; Department of Legislative Services

Departmental Support

The Division of Departmental Support provides a number of services, including strategic recommendations, research, evaluation, policy and program development, training, facility maintenance, and youth advocacy programs to assist the Operations Division. It expects to receive \$152,700 in federal funds for fiscal 2011 related to Title IV-E Foster Care and the Medical Assistance Program. Special funds of approximately \$45,000 are expected from donations.

Residential and Community Operations

Residential and Community Operations provides community and residential services to all youths supervised by the department. It also provides health, educational, and placement services, community detention/electronic monitoring, violence prevention initiatives, and victim services. Its operations promote the continuity of integrated case management based on a youth's level of risk and need. In fiscal 2011, Residential and Community Operations will receive approximately \$2.8 million in federal funds: \$98,500 from the School Breakfast Program; \$302,200 from the Title I Program for Neglected and Delinquent Children; \$88,600 from substance abuse grants; and

\$339,200 from the Foster Grandparent Program funds. The remaining funds are from a \$2.0 million grant from the U.S. Department of Labor to provide an aftercare program for youth in Baltimore City.

Regional Operations

Chapter 498 of 2007 required the department to deliver services on a regional basis in order to ensure that services will be as close to a youth's family and community as possible. The department's six regions provide community services, including intake, probation, aftercare, and alternatives to detention. The regions will collectively receive \$13.0 million in federal funds in fiscal 2011. These funds are from Title IV-E (\$3.1 million), Medical Assistance Program (\$2.9 million), American Recovery and Reinvestment Act of 2009 (\$4.5 million), substance abuse grants (\$0.7 million), School Breakfasts Program (\$0.9 million), and Title I Program (\$0.9 million). Exhibit 15.6 shows the federal funds by region that are anticipated in fiscal 2011. In addition to the federal funds, the regions will collectively receive special funds of approximately \$152,000 from donations in fiscal 2011.

Exhibit 15.6 Department of Juvenile Services Federal Fund Revenues by Region (\$ in Millions)

<u>Region</u>	<u>Federal Funds</u>
Baltimore City	\$3.4
Central	1.7
Eastern Shore	1.6
Metro	2.0
Southern	1.7
Western	2.6
Total	\$13.0

Source: *Fiscal 2011 State Budget Books*; Department of Juvenile Services; Department of Legislative Services

Sections of the Maryland Annotated Code

Generally, Human Services, Title 9

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Chapter 16. Economic Development and Housing

Department of Business and Economic Development

A summary of the revenues to be collected by the Department of Business and Economic Development in fiscal 2011 is shown in Exhibit 16.1. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 16.1
Department of Business and Economic Development
Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Division of Business and Enterprise Development	\$23.7		\$23.7
Division of Tourism, Film, and the Arts	0.6	\$0.8	1.4
Total	\$24.3	\$0.8	\$25.1
Revenues by Source			
Investment Earnings, Loan Repayment, and Interest Earned (MSBDFA)	\$15.3		\$15.3
Investment Earnings and Loan Insurance Premiums (MIDFA)	1.3		1.3
Investment Earnings and Interest Earned (MEIF)	1.2		1.2
Investment Earnings and Loan Repayment (MEAF)	0.1		0.1
Investment Earnings, Loan Repayment, and Interest Earned (MEDAAF)	5.8		5.8
Miscellaneous Income, Division of Tourism, Film, and the Arts	0.6	\$0.8	1.4
Total	\$24.3	\$0.8	\$25.1

MEAF: Maryland Economic Adjustment Fund

MEDAAF: Maryland Economic Development Authority and Assistance Fund

MEIF: Maryland Enterprise Investment Fund

MIDFA: Maryland Industrial Development Financing Authority

MSBDFA: Maryland Small Business Development Financing Authority

Source: *Fiscal 2011 State Budget Books*; Department of Business and Economic Development; Department of Legislative Services

Financing Programs

The department's financing programs in the Division of Business and Enterprise Development are expected to generate approximately \$23.7 million in special fund revenues in fiscal 2011.

Special fund income of \$15.3 million for the Maryland Small Business Development Financing Authority is expected from the repayment of loans and interest on reserves. Loans and other financing assistance are provided to small businesses and contractors, as well as for socially and economically disadvantaged persons engaged in business, through the following programs (1) Surety Bond Guaranty Program; (2) Long Term Guaranty Program; (3) Equity Participation Investment Program; and (4) Contract Financing Program.

The Maryland Industrial Development Financing Authority anticipates special fund income of \$1.3 million from insurance premiums, fees, and interest on reserves. The program was established to facilitate financing support for manufacturing, industrial, and technology-based businesses. The fund does not make direct loans but insures transactions made by conventional financial institutions for working capital, fixed assets, letters of credit, and leasing, and provides linked deposits. The fund can also issue or insure taxable and tax-exempt economic development revenue bonds on behalf of businesses.

The Maryland Enterprise Investment Fund is expected to generate \$1.2 million in special funds from earnings on investments and interest on reserves. The fund consists of two programs, the Enterprise Investment Program and the Challenge Investment Program, which each operate much like a private-sector venture capital fund. The Enterprise Investment Program makes direct equity investments in early stage companies that, in developing innovative technologies, are seeking outside venture capital for their initial influx of significant investment dollars. Investment returns are limited to 25% of a company's total equity, and the fund seeks a return on its investment within three to seven years. Individual investments, except those made in venture capital limited liability companies, are limited to \$250,000 per company, unless a greater amount is authorized by the Secretary of Business and Economic Development, and may not exceed 15 years in duration. The Challenge Investment Program is a "seed" program designed to provide financing for the early development stages of technology-driven companies that are commercializing new products and services. Funds are provided as royalty-bearing investments and generally limited to \$100,000 per company; subsequent investment in a company is based on predetermined milestones.

The Maryland Economic Adjustment Fund is expected to produce \$105,000 in special fund revenues through loan repayments and interest on reserves. The fund was established to make loans to new or expanding companies in communities suffering dislocation due to adjustments in the federal defense industry. The loans enable the companies to modernize their manufacturing operations, develop commercial applications for technology, or enter into and compete in new economic markets. The fund has been underutilized in recent years. The Base Realignment and Closure process underway in the State necessitated an expansion of eligibility under the program. As such, legislation was enacted in 2010 to remove the requirement under the program that eligible companies must be in communities suffering dislocation due to adjustments in the federal defense industry. Loans are now authorized to any company with 50 or fewer employees.

Special funds of \$5.8 million are expected from the Maryland Economic Development Authority and Assistance Fund. Established in 1999, the program is designed to provide below market long-term fixed rate financing to specific growth industry sector businesses locating or expanding in a State priority funding area. The fund provides loans, grants, and investments to six major economic development capabilities: (1) significant economic development opportunities; (2) local economic development opportunities; (3) direct assistance to local jurisdictions and the Maryland Economic Development Corporation; (4) regional or local revolving loan funds; (5) special purpose loans; and (6) infrastructure investment.

Sections of the Maryland Annotated Code

Generally, Economic Development Article, Title 5 (Subtitles 2, 3, 4, 5 and 6)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Tourism, Film, and the Arts

The Division of Tourism, Film, and the Arts generates revenues from several miscellaneous sources. These sources are expected to generate approximately \$1.4 million in fiscal 2011. These funds include \$300,000 in special funds from the Maryland Tourism Board Development Fund, from advertisements in the board's magazines, and \$300,000 from local sponsors of the Artists in Education program, which funds artists who work or hold workshops in public schools to supplement the school curriculum. These funds also include approximately \$800,000 in federal funds from a

Promotion of the Arts grant, which is granted to further the objectives of the National Endowment for the Arts.

Sections of the Maryland Annotated Code

Generally, Economic Development Article, Title 4

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of Housing and Community Development

The Department of Housing and Community Development is expected to collect approximately \$324 million in fiscal 2011, as set forth in Exhibit 16.2. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 16.2
Department of Housing and Community Development Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Division of Development Finance ¹	\$43.8	\$218.1	\$261.9
Division of Neighborhood Revitalization	14.5	41.8	56.3
Division of Credit Assurance	5.8	0.0	5.8
Total	\$64.1	\$259.9	\$324.0
Revenues by Source			
Loan Repayment and Interest Earned (Home Ownership Programs)	\$5.3		\$5.3
Loan Repayment and Interest Earned (Special Loan)	5.7		5.7

Exhibit 16.2 (Continued)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source (Continued)			
Loan Repayment and Interest Earned (Rental/Partnership)	12.1		12.1
Tax-exempt Bonds and Administrative Fees ²	14.4		14.4
Maryland Affordable Housing Trust	3.0		3.0
Foreclosure Mediation and Housing Counseling Funds	10.0	1.5	11.5
Utility Company and Electric Universal Service Program Contributions	0.1		0.1
Weatherization Assistance		2.2	2.2
Strategic Energy Investment Funds	1.0		1.0
Low-income Housing Assistance		198.3	198.3
Federal HOME Investment Partnership Programs		8.3	8.3
MacArthur BRAC Preservation Funds	2.2		2.2
Energy Efficiency Community Block Grant		20.0	20.0
Loan Repayment and Interest Earned (Neighborhood Business Development)	3.6		3.6
Community Development Block Grant		10.5	10.5
Community Services Block Grant		9.2	9.2
Loan Repayment and Interest (Community Legacy Program)	0.6		0.6
Mortgage Insurance Premiums	5.8		5.8
Section 8 Contract Administration Administrative Fees		9.3	9.3
Miscellaneous	0.4	0.6	1.0
Total	\$64.1	\$259.9	\$324.0

BRAC: Base Realignment and Closure

¹Does not include \$4.7 million generated by the Maryland Energy Efficiency and Housing Affordability Program (\$3.2 million) and the Maryland Energy Assistance Program (\$1.5 million). These are reimbursable funds provided through other State agencies.

²These revenues are derived from the General Bond Reserve Fund.

Source: *Fiscal 2011 State Budget Books*; Department of Housing and Community Development; Department of Legislative Services

Development Finance

The fiscal 2011 revenue estimate for the Division of Development Finance is \$261.9 million, of which \$43.8 million is special funds and \$218.1 million is federal funds.

Special fund revenues of \$5.3 million consist of loan repayments and interest earned on reserves of the Maryland Homeownership Programs Fund. Two active programs comprise the homeownership programs: (1) the Maryland Home Financing Program makes direct loans to very low-income households to purchase homes; and (2) the Downpayment and Settlement Expense Loan Program assists families with limited income in meeting closing cost requirements.

Special fund revenues of \$5.7 million are derived from loan repayments and interest on reserves of the Special Loan Programs Fund. Program components include the Maryland Housing Rehabilitation Program, the Indoor Plumbing Program, the Lead Hazard Reduction Program, and the Group Home Financing Program. Collectively, the programs provide preferred interest rate loans and grants to (1) families of low- and moderate-income; (2) sponsors whose small rental properties are leased substantially by limited income families; and (3) nonprofit sponsors of housing facilities. In general, the fund may be used to construct or rehabilitate single-family homes and multifamily housing with four or fewer units or to acquire properties for use as group homes or shelters.

Loan repayments, encumbrances cancelled, and interest earned on reserves of the Rental Housing Fund account for \$12.1 million in special fund revenues in fiscal 2011. Three programs are currently operated through the fund: (1) the Rental Housing Production Program; (2) the Elderly Rental Housing Program; and (3) the Maryland Housing Rehabilitation Program-Multifamily Rehabilitation Program. These programs provide financial assistance to for-profit and nonprofit developers for the acquisition, construction, renovation, and rehabilitation of low- and moderate-income rental housing. An award from the John D. and Catherine T. MacArthur Foundation will also provide \$2.2 million in fiscal 2011 for additional affordable rental housing activities in areas specifically affected by the Base Realignment and Closure process.

Special fund revenues of \$14.4 million are derived from the General Bond Reserve Fund which is raised through investment in tax-exempt bonds. Revenues are used to cover administrative expenses within the Community Development Administration.

The Maryland Affordable Housing Trust provides \$3 million in special funds generated from interest earned on the escrow accounts of title insurance companies. The trust is a charitable public corporation administered by a board of trustees and the department. Funds are provided to assist in the acquisition, construction, rehabilitation, or preservation of affordable housing.

A total of \$3.3 million in special and federal funds is expected to finance weatherization and energy assistance programs in fiscal 2011. Included in that total is \$100,000 in special funds expected to be contributed by utility companies to provide cost-effective energy conservation and education services to low-income homeowners and renters. Special funds of \$1.0 million will be provided for weatherization needs from the Strategic Energy Investment Fund. This fund is primarily composed of revenue received from the Regional Greenhouse Gas Initiative auctions of carbon dioxide emissions allowances. While the Department of Housing and Community Development administers the weatherization component of the program, the Strategic Energy Investment Fund also supports the Department of Human Resources' Energy Assistance Program (which helps pay for current or past due electric bills), the Rate Relief Program and other energy efficiency and renewable energy programs. Federal funds of \$2.2 million are expected from the U.S. Department of Energy through the Weatherization Assistance for Low Income Persons Program. Grants are used to assist eligible low-income households, particularly the elderly and handicapped, install energy conservation materials in their dwelling units.

Although not reflected in Exhibit 16.2, an additional \$1.5 million in reimbursable funds will be provided for weatherization programs by the Maryland Energy Assistance Program, which provides assistance with home heating bills to low-income families. \$3.2 million in reimbursable funds will also be made available through the Maryland Energy Efficiency and Housing Affordability Program, which provides energy efficiency services to multifamily developments. Furthermore, the agency was awarded nearly \$62.0 million for low-income energy efficiency activities through the American Recovery and Reinvestment Act of 2009. Although the vast majority of these funds were encumbered during fiscal 2010, they will be expended through fiscal 2012 in accordance with federal guidelines.

Federal funds of \$198.3 million are expected through the Low Income Housing Assistance Program, commonly referred to as the Section 8 Housing Program, to provide housing assistance payments to participating rental housing owners on behalf of eligible tenants. The goal is the provision of adequate, safe, and sanitary housing for low-income families. Housing assistance payments are used to supplement a family's portion of rent payments.

Federal funds of \$8.3 million are anticipated from the HOME Investment Partnership Programs. This program provides formula-based matching grants to eligible states and localities to help expand the supply of affordable housing for low- and very low-income individuals and families. The grant funds are also used to foster partnerships among public and private groups to strengthen the supply of affordable housing.

Sections of the Maryland Annotated Code

Housing and Community Development Article, Title 4

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Neighborhood Revitalization

The revenue estimate for the Division of Neighborhood Revitalization is \$56.3 million in fiscal 2011, of which \$14.5 million is special funds and \$41.8 million is federal funds.

The Neighborhood Business Development Program loan fund is expected to generate \$3.6 million in special funds through loan repayments and interest on reserves. The program provides gap financing in the form of low-interest loans and grants to small businesses and nonprofit organizations in support of community-based economic development in designated revitalization communities.

The State will receive \$10.5 million in federal funds in the form of Community Development Block Grants for the development of viable urban communities. These funds provide competitive grants to local governments in nonentitlement areas of the State for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, or improving community facilities and services. Entitlement areas receive a direct allocation of block grant funds from the U.S. Department of Housing and Urban Development and are not eligible for the State program. In addition, the State will receive \$600,000 in federal funds for Emergency Shelter Grants. Emergency Shelter Grants are provided to State and local governments and organizations to provide homeless persons with basic shelter and essential supportive services.

The department will receive \$9.2 million in federal Community Service Block Grant funds through the U.S. Department of Health and Human Services. These funds, administered by community action agencies, are used for services to low-income individuals and families to assist this population in becoming self-sufficient.

The Community Legacy Program provides grants and loans to assist in the revitalization of neighborhoods that are at risk of physical, economic, or social deterioration. Funds may be used for streetscapes and façades, recreational amenities, community gathering places, and other capital improvements that enhance the desirability of the community. Fund recipients may be individuals and business owner occupants, community development organizations, and local governments. The program will generate \$600,000 in special fund interest and loan repayments in fiscal 2011.

Additional special and federal fund revenues in fiscal 2011 for the Division of Neighborhood Revitalization support two new programs – the Housing Counseling and Foreclosure Mediation program and the Energy Efficiency Community Block Grant program. Chapter 485 of 2010 created the Housing Counseling and Foreclosure Mediation Fund, which is expected to receive \$10.0 million in special funds generated by filing fees and an additional \$1.5 million in federal support. While a portion of the revenues will support foreclosure outreach activities, community events, and housing counseling through the Department of Housing and Community Development, a portion of the funds will support foreclosure mediation activities in the Office of Administrative Hearings.

The Energy Efficiency Community Block Grant program will receive \$20 million in federal funds in fiscal 2011. This new energy efficiency building retrofit program will assist businesses, homeowners, and multifamily housing developments with the purchase of energy-reducing supplies and equipment. The program was announced in spring 2010 and the one-time funds are made available through the American Recovery and Reinvestment Act of 2009.

Sections of the Maryland Annotated Code

Housing and Community Development Article, Title 6

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Credit Assurance

The Division of Credit Assurance is expected to receive special funds of \$5.8 million in fiscal 2011. This accounts for mortgage insurance premiums credited to the Maryland Housing Fund which are projected to be \$5.8 million. The program provides residential mortgage loan primary insurance and pool insurance for mortgages

financed with revenue bond proceeds issued by the Community Development Administration.

In addition, the division expects to receive \$325,000 in special funds from Building Codes Administration fees. These funds will be used to help ensure that buildings erected in Maryland meet applicable health and safety standards.

The division's Asset Management office manages the department's single-family, multifamily, and small business portfolios, as well as its real estate assets. The office expects to receive \$9.3 million in federal funds from administrative fees for its asset review and management of projects that receive Section 8 subsidies.

Sections of the Maryland Annotated Code

Housing and Community Development Article, Title 3

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Chapter 17. Environment, Agriculture, Natural Resources, and Energy

Maryland Department of the Environment

A summary of the revenues to be collected by the Maryland Department of the Environment in fiscal 2011 is provided in Exhibit 17.1. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 17.1
Maryland Department of the Environment Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Air and Radiation Management	\$11.1	\$4.5	\$15.6
Land Management	14.7	9.3	23.9
Water Management	170.2	37.6	207.8
Miscellaneous	4.3	3.7	8.0
Total	\$200.3	\$55.2	\$255.4
Revenues by Source			
Maryland Clean Air Fund	\$8.9		\$8.9
State Clean Diesel Grant Program		\$0.4	0.4
National Clean Diesel Funding Assistance Program		0.2	0.2
Air Toxics Monitoring		0.4	0.4
State Radiation Control Fund	2.2		2.2
Radiation Activities Research		0.2	0.2
Community Right-to-Know Fund	0.4		0.4
State Hazardous Substance Control Fund	0.7		0.7
Voluntary Cleanup Fund	0.5		0.5
Coal Combustion By-Products Fund	0.9		0.9
Hazardous Substance Response Trust Fund		1.4	1.4
Oil Disaster Contain., Cleanup and Contingency Fund	5.5		5.5

Exhibit 17.1 (Continued)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source (Continued)			
Underground Storage Tank Program		2.9	2.9
Used Tire Clean Up and Recycling Fund	3.4		3.4
Lead Poisoning Prevention Fund	1.7		1.7
Childhood Lead Poisoning Prevention		0.7	0.7
Maryland Recycling Trust Fund	0.4		0.4
Bituminous Coal Open-Pit Mining Reclamation Fund	0.4		0.4
Deep Mining Fund	0.1		0.1
Surface Mined Land	0.2	0.6	0.8
Acid Mine Drainage Fund	0.6		0.6
Abandoned Mine Reclamation Program		1.7	1.7
Maryland Clean Water Fund	2.4		2.5
Maryland Water Quality Revolving Loan Fund ¹	94.2	16.5	110.7
Congressionally Mandated Projects		0.1	0.1
Bay Restoration Fund	63.0		63.0
Nonpoint Source Implementation Program		4.3	4.3
Water Quality Management Planning		0.3	0.3
Nonpoint Source Fund	2.0		2.0
Drinking Water Revolving Loan Fund ¹	6.5	10.6	17.1
Grants to Reimbursed Operators of Small Water Systems		0.6	0.6
Wetlands and Waterways Program Fund	1.5		1.5
Nontidal Wetlands Compensation Fund	0.4		0.4
Tidal Wetlands Compensation Fund	0.2		0.2
Wetlands Protection – State Development Grants		0.1	0.1
Map Modernization Management Support Program		0.3	0.3
Miscellaneous	4.3	3.7	8.0
Performance Partnership Grant		10.2	10.2
Total	\$200.3	\$55.2	\$255.4

¹ Revenues include funds for capital program, program set-asides, and administration.

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

Source: Maryland Department of the Environment

Air and Radiation Management

Approximately \$11.1 million in special funds and \$4.5 million in federal funds are expected to be generated for the Air and Radiation Management Administration in fiscal 2011.

The Maryland Clean Air Fund is expected to generate \$8.9 million in special fund revenues. Of the special funds, about \$7.1 million is expected from application fees, permit fees, penalties, and asbestos license and training approval fees. These fees generally support the State's efforts to identify, monitor, and regulate air pollution in the State. Additionally, the department expects to receive approximately \$1.8 million from the Maryland Energy Administration's Strategic Energy Investment Fund for administering the State's participation in the Regional Greenhouse Gas Initiative. These funds represent only a small portion of the total amount of auction proceeds deposited into the Strategic Energy Investment Fund; total auction proceeds and the various uses of the funds are discussed in more detail later in this chapter.

Federal funds of \$3.4 million will be received for Air Pollution Control Program Support through the departmental Performance Partnership Grant. Federal funds of \$600,000 will be received to mitigate air pollution from diesel powered multipassenger transportation devices. In addition, the department is expected to receive federal funds for air toxics monitoring (\$355,000).

Special funds of \$2.2 million are attributed to the State Radiation Control Fund from license fees, registration fees, radiation machine certification fees, penalties, and other funds. This fund is used for activities related to identifying, monitoring, and controlling sources of radiation, including radiation machines, and for program development of these activities. The department also anticipates receiving \$160,000 in federal funds for radiation activities research.

Sections of the Maryland Annotated Code

Environment Article, Sections 2-107 and 8-306

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland
Volume VII – Business Regulation in Maryland

Land Management

Land Management Programs are expected to receive \$14.7 million in special funds and \$9.3 million in federal funds in fiscal 2011. These funds will support activities related to hazardous materials and hazardous substances, oil control, solid waste management, used tire recycling, lead poisoning prevention, and mining. The Mining Program was formerly housed in the Water Management Administration prior to reorganization in fiscal 2010.

Hazardous Materials and Hazardous Substances

Special fund revenues for hazardous materials and hazardous substances are projected to be \$2.4 million in fiscal 2011; federal fund revenues are estimated to be \$3.1 million.

Special fund revenues of \$350,000 are anticipated from owners and operators of facilities that manufacture, store, and use hazardous and toxic chemicals. These fees will be credited to the Community Right-to-Know Fund in the Science Services Administration and used to provide grants to local emergency planning committees; to collect, manage, and analyze data submitted by facilities; and to plan and train for chemical emergencies.

Special fund revenues of approximately \$700,000 are anticipated from hazardous waste facility permit fees and license fees for trucks and drivers engaged in the transportation or storage of hazardous materials. Funds are credited to the State Hazardous Substance Control Fund and are used to monitor and enforce the State's hazardous waste laws and regulations.

The Voluntary Cleanup Fund should receive approximately \$450,000 in special funds from application fees collected under the Voluntary Cleanup Program. Under this program, the department streamlines the environmental assessment and cleanup process for industrial or commercial properties, also known as brownfields, that are contaminated, or thought to be contaminated, by hazardous substances in order to encourage their redevelopment. Funds are used for activities related to the review of proposed voluntary cleanup projects and the direct administrative oversight of these projects, including cost recovery and program development.

Established in 2009, the Coal Combustion By-products Fund is expected to generate approximately \$900,000 in special fund revenues from fees assessed on each ton of coal combustion by-products generated, and will be utilized for regulating coal combustion by-products.

The Hazardous Substance Response Trust Fund program is expected to receive \$1.4 million in federal funds. Also known as Superfund, these funds are used to clean up hazardous waste sites that are found to pose the most imminent hazards to human health.

The State will receive approximately \$1.7 million in federal funds for Hazardous Waste Management State Program Support as a part of the departmental Performance Partnership Grant. These funds are used to implement the State's hazardous waste program to control the generation, transportation, treatment, storage, and disposal of hazardous wastes.

Oil Control/ Underground Storage Tank Program

A surcharge on oil transported into the State should generate special fund revenues of \$5.5 million for the Maryland Oil Disaster Containment, Cleanup, and Contingency Fund. The fee is currently 5.75 cents per barrel, decreasing to 4.0 cents after July 1, 2013. The revenues are used to monitor and enforce oil control laws and regulations and to assist in oil spill cleanup and remediation.

The federal Underground Storage Tank programs are anticipated to provide the department with approximately \$2.9 million in federal funds to support enforcement and cleanup activities related to petroleum releases from underground storage tanks.

Used Tire Cleanup and Recycling Fund

A per tire fee of 80 cents is levied on the sale of new tires in Maryland, which will generate an estimated \$3.4 million in special funds in fiscal 2011. These revenues are deposited into the State Used Tire Cleanup and Recycling Fund to support efforts to properly recycle or dispose of waste materials from automotive tires.

Lead Poisoning Prevention Program

Special fund revenues for the Lead Poisoning Prevention Program are derived from lead accreditation fees from those involved in lead abatement activities and from annual registration fees paid by rental property owners. Fiscal 2011 revenues from these sources are projected at \$1.7 million.

In fiscal 2011, federal funds of \$680,000 from the Centers for Disease Control and \$280,000 as part of the departmental Performance Partnership Grant are expected for lead poisoning prevention activities.

Statewide Electronic Recycling Program

Established in 2005, the Computer Recycling Pilot Program requires computer manufacturers to register with the department and pay a registration fee if they intend to sell computers in Maryland on or after January 1, 2006. Subsequently, Chapter 239 of 2007 expanded the program to include covered electronic devices, increased initial manufacturer registration fees to \$10,000, changed the program title to the Statewide Electronic Recycling Program, and directed all recycling fines and penalties to the Recycling Trust Fund. In addition, Chapter 713 of 2009 instituted manufacturer costs for the removal, collection, and recovery of mercury switches.

Approximately \$350,000 in special funds from computer manufacturer registration fees is expected to be received for the State Recycling Trust Fund in fiscal 2011. The department also expects to receive a nominal amount of special funds from newsprint recycling incentive fees for the State Recycling Trust Fund. The trust fund will be utilized to provide grants to counties and municipalities to support local recycling activities.

Mining

Special funds totaling \$1.3 million and federal funds totaling \$2.3 million are anticipated to support the department's activities relating to mining.

The department expects to receive special funds of \$710,000 from coal and mineral license and permit fees and coal removal surcharges from coal mining operators. Three separate special funds exist to support land reclamation and associated costs resulting from the removal of coal, as follows:

- Bituminous Coal Open Pit Mining Reclamation Fund – \$400,000
- Deep Mining Fund – \$100,000
- Surface Mined Land Reclamation Fund – \$210,000

For each ton of coal removed by strip mining, open pit mining, or deep mining, a surcharge of 15 cents is levied. Nine cents is credited to the applicable special fund and 6 cents is deposited into the Bond Supplemental Reserve until the fund reaches a certain amount. The 6 cents is then distributed to the county from which the coal was removed.

Strip miners and open pit miners are also assessed a two-cent bond supplement reserve surcharge on each ton of coal removed. This is subject to temporary termination when the balance of the bond supplement reserve exceeds certain limits.

The department should also receive an estimated \$600,000 in fiscal 2011 special fund revenues that will be credited to the Acid Mine Drainage Abatement and Treatment Fund. This fund is used to abate and treat acid mine drainage in accordance with federal law.

Federal funds of \$2.3 million further support land and mine reclamation efforts and enforcement of mining restrictions. Specifically, anticipated fiscal 2011 federal funds include:

- Abandoned Mine Reclamation Program – \$1,700,000
- Regulation of Surface Coal Mining – \$600,000

Sections of the Maryland Annotated Code

Environment Article, Sections 4-411, 4-704, 5-909, 6-844, 6-1004, 7-218 through 7-221, 7-501 through 7-506.1, 7-604, 9-228, 9-244, 9-273, 9-275, 9-281 through 9-284, 9-320, 9-1707, 9-1727 through 9-1730, 15-509, 15-515 through 15-517, 15-604, 15-805, 15-1103, and 16-205

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Business Regulation in Maryland

Water Management

Water-related activities span several different administrations within the department, including the Water Management Administration, the Science Services Administration, the Land Management Administration, and the Coordinating Offices. In addition, the majority of the capital programs fall under the auspices of water management activities.

In fiscal 2011, water management activities – including those related to water pollution control, water supply, wetlands, and waterways – are projected to receive \$170.2 million in special funds and \$37.6 million in federal funds.

Water Pollution Control

The Maryland Clean Water Fund is expected to receive \$2.4 million in special funds in fiscal 2011. Of this amount, the department anticipates special fund revenues of \$1.6 million for the issuance of industrial discharge permits and corresponding fines, penalties, and court awards. This fund supports the monitoring, enforcement, and inspection of water pollution sources, as well as efforts to analyze the effects of water pollution. An additional amount of approximately \$800,000 in special funds from sewage sludge generator fees, permit application fees, and various penalties, including penalties from sediment control violations, will be deposited into the fund. Funds are used for emergency removal of sewage sludge and mitigation activities, inspection of construction sites and sewage sludge utilization sites, and monitoring activities.

The department expects to receive \$94.2 million in special funds and \$16.5 million in federal funds for the Maryland Water Quality Revolving Loan Fund in fiscal 2011. Of this amount, special funds totaling \$90.2 million in fiscal 2011, from interest and loan repayments to the Maryland Water Quality Revolving Loan Fund, will be used to finance local government water quality improvement projects. Eligible projects include improvements at wastewater treatment plants, failing septic systems, and nonpoint source management projects, such as urban stormwater control projects. Additional special funds of approximately \$4.0 million will be utilized for program administration, including project management, inspections, and payment processing. Federal funds for this program are estimated to be \$16.5 million. The department also expects to receive \$100,000 in federal funds for engineers to perform plan review and inspections for wastewater treatment plants.

In an effort to reduce nutrient loading into the Chesapeake Bay from point sources, Chapter 428 of 2004 established the Bay Restoration Fund within the department. As a revenue source for the fund, Chapter 428 imposed a fee on users of wastewater treatment plants, septic systems, and sewage holding tanks. The fee is generally \$30 per year for residential users and up to \$120,000 per year for commercial and industrial users. In fiscal 2011, the fee is expected to generate an estimated \$63.0 million in special fund revenues for the department (\$54.0 million from users of wastewater treatment plants and \$9.0 million from users of septic systems and sewage holding tanks). The fee revenue collected from users of wastewater treatment plants will be used primarily to provide grants to wastewater treatment plant owners to upgrade their facilities with enhanced nutrient removal technology.

A "septics account" within the Bay Restoration Fund receives 60% of the fee revenue collected from users of septic systems and sewage holding tanks. (The remaining 40% is transferred to the Maryland Department of Agriculture.) The

department will receive approximately \$9 million in fiscal 2011 to provide grants to upgrade septic systems and sewage holding tanks.

The Budget Reconciliation and Financing Act of 2010 authorized the transfer of \$155 million during fiscal 2010 and \$45 million during fiscal 2011 from the Bay Restoration Fund to the general fund as part of the solution to the State's budgetary situation. The revenues transferred will be replaced by general obligation bonds.

The department expects to receive \$4.3 million in federal funds for grants and administrative costs associated with implementation of the Nonpoint Source Implementation Program under the federal Clean Water Act. The State may use these funds to support a wide variety of activities, including technical assistance, financial assistance, education, training, technology transfer, demonstration projects, and monitoring to assess the success of specific nonpoint source implementation projects. In addition, the department expects to receive \$310,000 from the Water Quality Management Planning Program under the federal Clean Water Act to support water quality assessment and planning projects that promote healthy aquatic ecosystems. The department also expects to receive approximately \$2.0 million in special funds from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund; these funds will be deposited into the Chesapeake and Atlantic Coastal Bays Nonpoint Source Fund and used for urban and suburban stormwater projects. Other uses of funds in the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund will be discussed later in this chapter.

Approximately \$3.1 million in federal funds will be received for Water Pollution Control – State and Interstate Program Support as part of the departmental Performance Partnership Grant. Funds will be used to maintain adequate measures for prevention and control of surface and ground water pollution from both point and nonpoint sources.

Water Supply Program

The administration expects to receive an estimated \$6.5 million in special funds and approximately \$12.9 million in federal funds for activities relating to the State's drinking water supply in fiscal 2011.

Special funds totaling \$6.5 million are projected in interest and loan repayments to the Drinking Water Revolving Loan Fund. This fund is used to finance drinking water improvement projects, such as treatment plants, water main distribution replacements, consolidation of community water systems, and for program administration. The federal fund revenue for the program is estimated to be \$10.6 million for capital projects, operating costs, and for certain nonproject drinking water program (set aside) activities consistent with the federal Safe Drinking Water Act. An additional \$1.7 million for

water supply activities is included in the department's Performance Partnership Grant. The department also anticipates receiving approximately \$600,000 in federal funds relating to the water supply program for small system operator training.

Wetlands and Waterways

The special fund revenues for wetlands and waterways activities are estimated to total approximately \$2.1 million in fiscal 2011, and federal funds relating to these activities are estimated at \$400,000.

The Wetlands and Waterways Program fund was established during the 2008 legislative session. Payments of permit fees into this fund are used to provide an improved level of service to the regulated community throughout the permitting process. This fund is also the repository for fees for utility crossings based on Board of Public Works requirements, which were previously deposited into the Tidal Wetlands Compensation Fund. The department expects to receive approximately \$1.5 million in fiscal 2011.

The department anticipates special funds of \$395,000 from payments into the Nontidal Wetland Compensation Fund resulting from permits issued by the department. Revenue for the fund is derived from any monetary compensation paid by an applicant instead of engaging in the creation, restoration, or enhancement of nontidal wetlands and any related civil or criminal penalty imposed by a court. Funds are used for the creation, restoration, and enhancement of nontidal wetlands.

Payments into the Tidal Wetlands Compensation Fund represent monetary payments by a licensee in lieu of creating, restoring or enhancing tidal wetlands that is required by the department or the Board of Public Works as a condition of a permit or license. During fiscal 2011, these fees are expected to generate \$165,000 in special funds. Funds may be used for acquisition and conservation of wetland areas.

Federal funds of \$120,000 will be received to continue multiple wetland protection activities, such as wetland delineation, aerial photography, watershed inventory, stream assessment, and water supply management. The department also anticipates federal grant funds of approximately \$280,000 for map modernization projects and other wetland projects.

Sections of the Maryland Annotated Code

Environment Article, Sections 5-203.1, and 9-1605 through 9-1605.3

Legislative Handbook Series Cross-reference*Volume II – Government Services in Maryland**Volume VI – Maryland Local Government**Volume VII – Business Regulation in Maryland***Miscellaneous**

The Maryland Department of the Environment also receives revenues from various miscellaneous sources. These sources are expected to generate a total of \$8.0 million in fiscal 2011 (\$4.3 million in special funds and \$3.7 million in federal funds.)

Maryland Department of Agriculture

The Maryland Department of Agriculture is projected to generate revenues of approximately \$48.2 million in special funds and \$6.5 million in federal funds in fiscal 2011, as presented in Exhibit 17.2. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them. The second part of the exhibit is an alternative summary of the same revenues, shown by source.

Agricultural Land Preservation

In total, the department expects to receive approximately \$15.9 million in fiscal 2011 for agricultural land preservation activities. Funds are used by the Maryland Agricultural Land Preservation Foundation to purchase easements on agricultural land in order to preserve the land for agricultural use.

The department is expected to receive \$2.0 million in federal Farmland Protection grants that will be credited to the Maryland Agricultural Land Preservation Fund. In addition, the department expects to receive \$13.9 million in special funds for agricultural land preservation (\$9.9 million in special funds from the agricultural land transfer tax and county matching funds, and \$4.0 million in special funds from the State transfer tax) pursuant to legislation enacted in 2010 that eliminates the diversion of State transfer tax revenues from the Maryland Agricultural Land Preservation Foundation to the Maryland Agricultural and Resource-Based Industry Development Corporation. See Chapter 6 – Property Taxes of this handbook for more information on the property transfer tax and the agricultural land transfer tax.

Exhibit 17.2
Maryland Department of Agriculture Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special</u> <u>Funds</u>	<u>Federal</u> <u>Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Agricultural Land Preservation	\$13.9	\$2.0	\$15.9
Plant Industries and Pest Management	4.9	1.5	6.5
Marketing, Animal Industries and Consumer Services	10.9	2.4	13.3
Resource Conservation	17.4	0.2	17.6
Miscellaneous	1.1	0.3	1.4
Total	\$48.2	\$6.5	\$54.7
Revenues by Source			
Agricultural Land Preservation – County Governments, Agricultural Land Transfer Tax, State Transfer Tax, Farm and Ranch Lands Protection Program	\$13.9	\$2.0	\$15.9
Forest Pest Management	0.3	0.1	0.4
Mosquito Control	1.3		1.3
Plant Protection	0.2	0.9	1.2
Pesticide Regulations	0.7	0.3	1.0
Turf and Seed	0.2		0.2
State Chemist	2.2	0.1	2.3
Weights and Measures	1.4		1.4
Food Quality Assurance	1.5	0.3	1.8
Animal Health	0.4	0.4	0.8
Horse Industry Board	0.2		0.2
Agricultural Marketing	2.9	1.7	4.6
Rural Maryland Council	0.3		0.3
Veterinarian Board	0.5		0.5
Tobacco Transition	2.3		2.3
Maryland Agricultural Fair Board	1.5		1.5
Program Planning and Development	0.7		0.7
Conservation Operations	0.8	0.2	1.0
MD Agriculture Water Quality Cost Share	15.9		15.9
Miscellaneous	1.1	0.3	1.4
Total	\$48.2	\$6.5	\$54.7

Notes: Totals may not sum due to rounding. Special fund revenues for Resource Conservation and Miscellaneous revenues by agency/program and special fund revenues for Program Planning and Development, Conservation Operations, MD Agriculture Water Quality Cost Share and Miscellaneous revenues by source include certain reimbursable funds.

Source: Maryland Department of Agriculture; Department of Legislative Services

Plant Industries and Pest Management

The department expects to receive a total of \$4.9 million in special funds and approximately \$1.5 million in federal funds to support the department's efforts related to plant industries and pest management.

Special fund revenues of \$1.6 million come from local governments for the shared costs of forest pest management and mosquito control. The department will also receive almost \$100,000 in federal funds in fiscal 2011 for forest pest management. These funds are used to monitor and assess insect and disease situations and to implement any necessary control methods.

Special funds of \$220,000 are projected from nursery license, registration, service, and inspection fees. These fees, and approximately \$936,000 in federal funds, will be used for various plant protection activities, including nursery inspection, plant quarantine, nuisance bird control, and registration of honey bee colonies. Currently, the major federal program related to plant protection is the eradication of the emerald ash borer.

Pesticide regulation activities are expected to generate around \$670,000 in special fund revenues from license, registration, and certification fees. These fees are used to license businesses that commercially apply pesticides, to train and certify pesticide applicators, and enforce pesticide laws and regulations. The department will also receive approximately \$290,000 in federal funds for pesticide compliance monitoring.

Turf and seed certification and testing fees should generate \$250,000 in special fund revenues to conduct certification programs that ensure products meet purity, variety, germination, and labeling standards.

Special fund revenues of \$2.2 million come from registration and inspection fees collected by the State chemist. The program registers, examines, and tests products such as fertilizers, pesticides, and animal feed as part of the department's efforts to enforce Maryland laws governing quality, content, and labeling. An additional \$140,000 in federal funds will augment the funding for this program.

Marketing, Animal Industries, and Consumer Services

The Marketing, Animal Industries, and Consumer Services Division is expected to receive a total of \$10.9 million in special funds and \$2.4 million in federal funds in fiscal 2011.

Special fund revenues of \$1.4 million are projected from fees charged by the Weights and Measures Section, which ensures accuracy, equity, and the prevention of fraud in the sale and measurement of commodities and similar transactions.

Fees for the inspection and grading of eggs, poultry, grain, fruits, and vegetables for quality and size are expected to generate special fund revenues of \$1.5 million. These fees will be used to inspect and grade products and license grain dealers. In addition, the federal government is expected to provide a grant totaling \$319,000 for food quality assurance activities.

Laboratory fees from testing animal health samples will generate an estimated \$410,000 in special fund revenues in fiscal 2011. These fees will be used for the department's Animal Health Program, which oversees animal disease control programs, operates diagnostic laboratories, and controls the importation of animals. Additionally, the Animal Health Program is expected to receive \$361,000 in federal grants. These funds will primarily be used to support Maryland's participation in various national programs aimed at preventing animal diseases.

The Maryland Horse Industry Fund within the department will receive approximately \$206,000 in special funds from a \$6 per ton fee collected on the sale of commercial horse feed in Maryland and from the \$50 inspection renewal fee and \$75 license renewal fee. These funds will be used to conduct a variety of equine promotion activities, to support equine education and research, and for general operations costs. The Maryland Department of Agriculture advises that beginning in fiscal 2011, the Maryland Horse Industry Board will be totally dependent on this fund and no longer receive a general fund appropriation.

The department will receive approximately \$2.9 million in special funds and \$1.7 million in federal funds to support programs related to marketing and agricultural development. Of the special fund revenue, \$2.8 million is expected from the Cigarette Restitution Fund. Included in the amount of federal funds received are monies from the Supplemental Nutrition Program for Women, Infants, and Children and the Child and Adult Care Food Program.

The Rural Maryland Council will generate approximately \$333,000 in special funds in fiscal 2011 from racing revenue and grants and bequests from private foundations to support rural communities and families.

For fiscal 2011, approximately \$505,000 in registration and licensing fees will be deposited into the State Board of Veterinary Medical Examiners Fund to support this regulatory board's operations and inspections.

Although not included above, the department will also receive funds from the Cigarette Restitution Fund (\$2.3 million) to fund the State's Tobacco Conversion Program and Tobacco Buyout in Southern Maryland. For more information on the Cigarette Restitution Fund, see Chapter 15 – Health, Human Resources, and Juvenile Services of this handbook. In addition, the Maryland Agricultural Fair Board will receive funds from horse racing revenues to promote and provide assistance to agricultural fairs, exhibits, and youth organizations. For more information on horse racing revenues and disbursements, see Chapter 9 – Miscellaneous Taxes.

Resource Conservation

The Office of Resource Conservation works with Maryland farmers and soil conservation districts to plan and implement conservation practices and programs that balance crop and livestock production with the need to protect natural resources. These activities will receive an estimated \$17.4 million in special funds and \$240,000 in federal funds in fiscal 2011.

Within the Office of Resource Conservation there are three main programs: Program Planning and Development, Conservation Operations, and the Maryland Agricultural Water Quality Cost Share Program. In fiscal 2011, Program Planning and Development is anticipated to receive \$725,000 in special funds from interagency charges and \$35,000 in federal funds. Conservation Operations is anticipated to receive special fund revenues totaling approximately \$767,000 (including \$552,000 from interagency charges, \$118,000 from gifts and bequests, and \$97,000 from local subdivision participation) and an estimated \$205,000 in federal grant funding from the Environmental Quality Incentives Program.

A key program under the Maryland Agricultural Water Quality Cost Share Program is the Cover Crop Program. The Cover Crop Program subsidizes farmers who engage in the best management practice of planting certain crops that retain nutrients still remaining in the soil from the previous season and stabilizing the soil by having a crop on the ground in the winter. The program receives an allocation from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and 40% of the bay restoration fee revenues collected from users of septic systems and sewage holding tanks. For fiscal 2011, the Cover Crop Program will receive approximately \$15.3 million in special funds (\$9.5 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and \$5.8 million in bay restoration fees). Additional special funds for the Maryland Agricultural Water Quality Cost Share are anticipated from the following sources: Poultry Litter Transportation Fund (\$421,000); interagency charges (\$115,000); and gifts and bequests (\$54,000).

Sections of the Maryland Annotated Code

Agriculture Article, Sections 2-303, 2-505, 2-708.2, 3-302, 3-303, 4-110, 4-118, 4-119, 4-207, 4-311.5, 5-203, 5-207, 5-302, 5-309, 5-404, 5-804, 6-103, 6-107.2, 6-204, 6-208, 9-101 through 9-110, 9-201 through 9-307, 9-403, 10-303, 10-702, 10-902, and 13-202 through 13-205

Business Regulation Article, Section 11-404.1

Environment Article, Section 9-1605.2

Natural Resources Article, Section 8-2A-02

State Finance and Procurement Article, Section 7-317

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Miscellaneous

The Maryland Department of Agriculture also generates revenues from various miscellaneous sources totaling \$1.4 million in fiscal 2011, including \$1.1 million in special funds and \$350,000 in federal funds.

Department of Natural Resources

The fiscal 2011 revenue estimates for the Department of Natural Resources are presented in Exhibit 17.3. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the unit that primarily generates or spends them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 17.3
Department of Natural Resources Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Forest Service	\$3.9	\$1.5	\$5.4
Park Service	36.4	0.7	37.1
Wildlife and Heritage Service	7.0	3.8	10.8
Land Acquisition and Planning	2.6	13.8	16.4
Engineering and Construction	1.0		1.0
Boating Services	0.5	1.9	2.4
Licensing and Registration Service	2.2		2.2
Natural Resources Police	0.2	4.3	4.5
Resource Assessment Service	9.7	1.7	11.4
Watershed Services	21.2	6.7	27.9
Fisheries Service	11.3	14.2	25.5
Total	\$96.0	\$48.6	\$144.6
Revenues by Source			
Forest and Park Fees	\$17.7		\$17.7
Property Transfer Tax	24.8		24.8
Hunting Fees	6.4		6.4
Chesapeake Bay Endangered Species Fund	0.6		0.6
Wildlife Grants		3.8	3.8
Forestry Grants		1.5	1.5
Park Grants		0.7	0.7
Land Acquisition Grants		13.8	13.8
Beach Replenishment	1.0		1.0
Boat Titling Tax and Registration Fees	2.5		2.5
Natural Resources Police Grants		4.3	4.3
Boating Grants		1.9	1.9
Environmental Surcharge	9.3		9.3
Maryland Geological Survey Sales	0.2		0.2
Resource Assessment Grants		1.7	1.7
Chesapeake and Atlantic Coastal Bays 2010 Trust Fund	20.0		20.0
Loan Repayment (Shore Erosion Control)	0.9		0.9

Exhibit 17.3 (Continued)

Revenues by Source (Continued)	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Watershed Service Grants		6.7	6.7
Fishing Fees	11.3		11.3
Fisheries Grants		14.2	14.2
Donations	1.3		1.3
Total	\$96.0	\$48.6	\$144.6

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

Source: Department of Natural Resources

Forest Service, Park Service, and Wildlife and Heritage Service

The special fund revenue estimates for forest, park, and wildlife activities total \$47.3 million in fiscal 2011, and federal fund revenue estimates total \$6.0 million.

Of the \$17.7 million in special funds generated by forest and park fees, \$14.0 million are projected directly from fees for the use of the State's forest reserves, parks, scenic reserves, parkways, historic monuments, and recreation areas. An additional \$1.8 million are expected from concession sales at State forests and parks. These fees are credited to the Forest and Park Concession Account and used for the maintenance and operation of concession operations. Furthermore, special fund revenues of \$800,000 are anticipated in fiscal 2011 from boat launching fees at Deep Creek Lake State Park, funds collected from lake and buffer use permits, contracts, grants, and gifts from the Deep Creek Lake management program. These funds are credited to the Deep Creek Lake Recreation Maintenance and Management Fund and used for the maintenance and management of the land, recreational facilities, and services that are related to Deep Creek Lake. A portion of the revenue is also forwarded to Garrett County. The remaining amount of the \$17.7 million will be generated by other special fund revenues related to forests and parks, including the Fair Hill Natural Resources Management Area (\$400,000), the Natural Resources Property Maintenance Fund (\$400,000), the Off-Road Vehicle Account (\$100,000), and the Woodland Incentives Fund (\$200,000).

The funds generated from fees for the use of the State's forest reserves, parks, scenic reserves, parkways, historic monuments, and recreation areas, and revenue received from concession sales are generally shared with the county in which the forest or

park is located – 15 or 25%, depending on the percentage of total county land denoted as forest or park land. However, the Budget Reconciliation and Financing Act of 2009 eliminated these revenue sharing payments in fiscal 2010 and 2011. The remaining funds are used to support park operations (in the case of forest and park use fee revenue) and park concession operations (in the case of concession revenue).

Chapter 2 of the 2007 special session allocated the greater of 20% or \$21.0 million of State property transfer tax revenues for the Maryland Park Service. In fiscal 2011, it is expected that of the \$24.8 million that the Department of Natural Resources receives from transfer tax revenues, not including revenues allocated for Program Open Space, \$22.2 million will be allocated to the park service. In addition, the department anticipates that it will receive approximately \$400,000 in donations (considered special fund revenues) for forest and park services.

Approximately \$6.4 million in fees from hunting license, stamp, application, and permit fees are expected to be credited to the wildlife-related funds in fiscal 2011. These funds are used for the scientific investigation, protection, propagation, and management of wildlife. In addition, these funds are also used to support the activities of the Natural Resources Police.

Taxpayers are able to make donations directly to the Chesapeake Bay and Endangered Species Fund on income tax returns. The income tax “check off” system is expected to generate approximately \$600,000 in special funds in fiscal 2011. Up to 5% of the proceeds may be used for promotional expenses, with the remainder equally split between the Chesapeake Bay Trust and programs designed to conserve nongame, threatened, and endangered species.

Federal funds of \$3.8 million will be received for wildlife restoration and endangered species programs. An additional \$1.5 million in federal funds is anticipated for forestry programs, such as Cooperative Forestry Assistance, which includes a number of programs that provide technical and financial assistance to qualifying landowners, community associations, local governments, fire departments, and other nongovernmental organizations to encourage the management, retention, protection, and restoration of Maryland’s forest resources. Parks will receive about \$700,000 in federal funds, mainly for youth programs.

Sections of the Maryland Annotated Code

Natural Resources Article, Title 1, Subtitle 7, Title 8, Subtitle 19, and Sections 5-212, 5-212.1, 5-218, 5-1302, and 10-209; and Tax – General Article, Section 2-110

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Land Acquisition and Planning, Engineering and Construction

Land acquisition and planning programs are projected to generate special funds totaling \$2.6 million and \$13.8 million in federal funds in fiscal 2011.

Of the \$24.8 million the department anticipates receiving from the property transfer tax, not including funds allocated for Program Open Space, \$2.6 million will be devoted to land acquisition and planning programs. The \$13.8 million in federal funds will be used for the development of recreational and land acquisition projects.

Under the Engineering and Construction program, the department anticipates receiving almost \$1.0 million in special funds from Worcester County and Ocean City to be used to support beach replenishment efforts in and around Ocean City.

As stated above, these revenue estimates do not include property transfer tax revenues that are dedicated to Program Open Space capital projects. See Chapter 6 – Property Taxes of this handbook for more information on the property transfer tax.

Sections of the Maryland Annotated Code

Natural Resources Article, Sections 5-908, 8-1005, and 8-1103

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Boating Services and Water Safety

Special fund revenues totaling approximately \$2.9 million are anticipated from boating and water safety activities in fiscal 2011, and federal funds for these activities are projected to total \$6.2 million.

Special fund revenues of approximately \$500,000 are expected for the Waterway Improvement Fund. Of this amount, \$300,000 is from boat titling tax penalties and interest payments. This estimate does not include receipts from the vessel excise tax,

which are also credited to that fund. The remaining \$200,000 anticipated for the fund will come from donations. See Chapter 9 – Miscellaneous Taxes of this handbook for more information on the vessel excise tax and the Waterway Improvement Fund.

Special fund revenues of \$2.2 million are expected from boat registration fees, title fees, application fees, security interest filing fees, and penalties associated with the enforcement and administration of the laws governing the operation of vessels. These fees, which are credited to the State Boat Act Fund, will be used for the department's administration of the State Boat Act, including activities of the Natural Resources Police.

The Natural Resources Police will receive an estimated \$200,000 in special fund donations in fiscal 2011. In addition, the Natural Resources Police will receive federal homeland security funds of \$4.3 million in fiscal 2011 for education and enforcement of boating safety and other programs. The department will also receive approximately \$1.9 million in federal funding for other boating-related activities, including boating infrastructure grants and clean marina grants.

Sections of the Maryland Annotated Code

Natural Resources Article, Section 5-908.1 and Title 8, Subtitle 7

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Resource Assessment Service

The department anticipates generating \$9.7 million in special funds and \$1.7 million in federal funds for the Resource Assessment Service in fiscal 2011.

Electric companies are assessed a surcharge on each kilowatt hour of electricity generated in the State. This environmental surcharge is projected to generate special funds of \$9.3 million in fiscal 2011. The rate is set annually by the Public Service Commission at an amount estimated to yield sufficient revenues to cover the expenses of the department's Power Plant Research Program. However, the rate may not exceed the lesser of 0.15 mil per kilowatt hour or a rate resulting in more than \$1,000 per month for each customer. These monies are used for a number of activities, including the implementation of a continuing research program for electric power plant site evaluation and related environmental and land use considerations.

The electric companies collect the surcharge by either (1) incorporating it into their rates or (2) separately stating the amount on customer invoices. Electric companies receive a collection credit of 0.75% of the total surcharge collected. The revenues are collected from electric companies by the Comptroller and credited to the Environmental Trust Fund administered by the Secretary of Natural Resources.

The Resource Assessment Service also generates \$200,000 in donations, and the Maryland Geological Survey generates an equal amount (\$200,000) in sales.

In fiscal 2011, the department expects to receive \$1.7 million in federal resource assessment grants for monitoring and assessment activities related to the Chesapeake Bay primarily through the Chesapeake Bay Implementation Grant program.

Sections of the Maryland Annotated Code

Natural Resources Article, Section 3-302 and Public Utility Companies Article, Section 7-203

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Watershed Services

The department anticipates \$21.2 million in special funds and \$6.7 million in federal funds in fiscal 2011 for Watershed Services.

Chapter 6 of the 2007 special session established a Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to be used to implement the State's tributary strategy. The fund is financed with a portion of existing revenues from the motor fuel tax and the sales and use tax on short-term vehicle rentals. Subsequently, Chapter 120 and 121 of 2008 established a framework for how the trust fund money must be spent by specifying that it be used for nonpoint source pollution control projects and by expanding it to apply to the Atlantic Coastal Bays.

Watershed Services is expected to receive \$20.0 million from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund for nonpoint source projects. Of this amount, \$9.5 million will be used by the Maryland Department of Agriculture for its Cover Crop Program, and \$2.1 million will be used by the Maryland Department of the Environment's Chesapeake and Atlantic Coastal Bays Nonpoint Source Fund for urban

and suburban stormwater projects. In addition, the department expects to receive approximately \$300,000 in donations for bay restoration activities.

Approximately \$900,000 in special fund revenue represent payments on loans previously made for shore erosion control structures. These loan repayments are credited to the Shore Erosion Control Construction Loan Fund and are supplemented by general fund appropriations. Individual citizens, counties, and municipalities are eligible for the interest-free loans.

Federal funds totaling approximately \$6.7 million will assist the department in its efforts relating to coastal zone management and bay restoration.

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Fisheries Service

The special fund revenue estimates for the department's activities relating to fish and fisheries total \$11.3 million in fiscal 2011, and federal funds are anticipated to total \$14.2 million.

The department collects various license, stamp, permit, service, and application fees for the privilege of fishing in the State. Fees are used for the scientific investigation, protection, propagation, and management of fish. Funds generated by these programs are also used to support the activities of the Natural Resources Police. Fiscal 2011 revenue projections from these sources total \$11.3 million.

The department also expects to receive \$14.2 million in federal funds to support the department's efforts to restore the State's sport fish population.

Sections of the Maryland Annotated Code

Natural Resources Article, Sections 4-208 and 4-209

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Maryland Energy Administration

Pursuant to the Healthy Air Act, enacted as Chapters 23 and 301 of 2006, Maryland joined the Regional Greenhouse Gas Initiative compact to limit greenhouse gas emissions from electric generating units. Under the Regional Greenhouse Gas Initiative, Maryland has participated in auctions of carbon dioxide emissions allowances since September 2008. The State's primary sources of carbon dioxide emissions are power plants fired by coal and natural gas and industrial facilities such as steel mills and brick yards. Under State law before 2008, the Regional Greenhouse Gas Initiative auction proceeds were to be paid into the Maryland Clean Air Fund, which the Maryland Department of the Environment uses to administer its federally delegated air quality control programs. That fund, however, had a cap of \$750,000, beyond which excess monies reverted to the general fund. The Regional Greenhouse Gas Initiative memorandum of understanding specifies the permissible uses of auction proceeds, and limits their application to general expenditures. Accordingly, the State needed a separate special fund to receive the Regional Greenhouse Gas Initiative auction proceeds, which were estimated to yield between \$80 million and \$140 million each year.

Chapters 127 and 128 of 2008 established the Maryland Strategic Energy Investment Program and Fund administered by the Maryland Energy Administration. The program applies proceeds from the sale of the Regional Greenhouse Gas Initiative carbon dioxide allowances to specified purposes, including low-income energy assistance, energy efficiency and demand response programs, and ratepayer relief. The stated purpose of the fund is to decrease energy demand and increase energy supply to promote affordable, reliable, and clean energy. The Acts specified allocations from the fund, established a related advisory board, and established planning and reporting requirements.

Other than the Regional Greenhouse Gas Initiative proceeds, other sources of income for the Maryland Strategic Energy Investment Program and Fund include (1) money appropriated to the program in the State's general fund budget; (2) repayments and prepayments of principal and interest on loans made from the fund; (3) interest and investment earnings; (4) renewable portfolio standard compliance fees; and (5) money received from any public or private source for the benefit of the fund. Exhibit 17.4 shows the fiscal 2011 revenue estimates for the fund by source.

Exhibit 17.4
Fiscal 2011 SEIF Revenue by Source
(\$ in Millions)

<u>Revenue Source</u>	<u>Allocation</u>
RGGI Auctions ¹	\$67.7
State General Fund	0.0
Loan Repayments ²	0.0
Interest and Investment Earnings ³	0.0
Compliance Fees	1.0
Other Funds Received	0.0
Total	\$68.7

RGGI: Regional Greenhouse Gas Initiative

SEIF: Strategic Energy Investment Fund

¹ Regional Greenhouse Gas Initiative Auction estimate based on four auctions at \$2.19 per CO₂ allowance.

²To date, no loans have been made from the Strategic Energy Investment Fund.

³According to the Maryland Energy Administration, no interest and investment earning revenue is anticipated in fiscal 2011.

Source: Maryland Energy Administration

The Maryland Energy Administration is required to use the fund to:

- invest in the promotion, development, and implementation of cost-effective energy efficiency and conservation programs, projects, or activities; renewable and clean energy resources; climate change programs; and demand response programs designed to promote changes in customer electric usage;
- provide targeted programs, projects, activities, and investments to reduce electricity consumption by low-income and moderate-income residential customers;
- provide supplemental funds for low-income energy assistance to the Electric Universal Service Program Fund;

- provide residential customers with rate relief by offsetting electricity rates of residential customers, including an offset of surcharges imposed on ratepayers for utility energy efficiency programs;
- provide grants, loans, and other assistance and investment as necessary and appropriate;
- implement energy-related public education and outreach initiatives regarding energy consumption and greenhouse gas emissions; and
- pay the expenses of the program.

Estimates of fiscal 2011 auction proceeds range from \$67.7 million (for four auctions) to \$85.5 million (for five auctions). These estimates assume a price of \$2.19 per allowance. Fiscal 2011 funds from the Strategic Energy Investment Fund are to be allocated as provided in Exhibit 17.5.

Of the allocation for energy efficiency, conservation, and demand response programs, at least one-half was required to target the low-income residential sector with no cost to participants and the moderate-income residential sector. By December 15, 2008, the Maryland Energy Administration was required to develop a plan for expenditures from the fund for fiscal 2009 and 2010. By September 1, 2009, and every three years thereafter, the administration is required to develop a plan for expenditures covering the next three fiscal years. After holding public meetings in conjunction with the development of a plan, the administration is required to submit the plan to the advisory board for review. The administration also is required to regularly disclose specified summary information on any contract that encumbers \$100,000 or more from the fund. The Acts also established specified requirements for the administration with respect to monitoring and analyzing program impacts and outcomes.

Exhibit 17.5
Strategic Energy Investment Fund Allocation
Fiscal 2011

<u>Program</u>	<u>Percent Allocation¹</u>
Energy Assistance (through DHR)	Up to 50.0%
Residential Rate Relief	23.0%
Energy Efficiency and Conservation	At least 17.5% ²
Renewable and Clean Energy, Climate Change, Education, and Outreach	At least 6.5%
Maryland Energy Administration	Up to 3.0% ³
Administrative Activities	
Total	100.0%

DHR: Department of Human Resources

¹ The allocation distribution shown is in effect through fiscal 2012. Beginning in fiscal 2013, the percent allocated for energy assistance will decrease to 17.0% and the percent allocated to energy efficiency and conservation programs will increase to at least 46.0%; up to 10.5% will be allocated to renewable and clean energy, climate change, education, and outreach; and up to 3.5% will be allocated to administrative expenses (not to exceed \$4.0 million). The percent allocated to residential rate relief will remain at 23.0%.

² At least half of which must go to low- and moderate-income energy efficiency.

³ Not to exceed \$4.0 million.

Source: Department of Legislative Services

Sections of the Maryland Annotated Code

State Government Article, Section 9-20B
Public Utility Companies Article, Section 7-705

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Chapter 18. Public Safety

Department of Public Safety and Correctional Services

The revenue estimates for the Department of Public Safety and Correctional Services for fiscal 2011 are summarized in Exhibit 18.1. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

9-1-1 Emergency Telephone System

The 9-1-1 Emergency Telephone System assessment is projected to generate \$57.3 million in special fund revenues to cover a portion of the costs of administration, maintenance, and enhancement of the 9-1-1 system. The assessment, which is paid by local telephone service subscribers, consists of a State fee of 25 cents per month and an optional additional fee of up to 75 cents imposed by a county or Baltimore City.

The fees are collected by the telephone companies and remitted to the State for deposit to the 9-1-1 Trust Fund. The phone companies retain a 0.75% collection fee from the State assessment only. Revenues from the State fee cover the expenses of the Emergency Number Systems Board, with the balance retained in the 9-1-1 Trust Fund to reimburse the subdivisions for the costs of 9-1-1 system enhancements. Revenues from the 75 cent county fee are collected by the State but pass through directly to the counties.

The State also received a \$1.0 million federal E-911 grant for fiscal 2011 to support the implementation and operation of enhanced 9-1-1 services and the migration toward an IP-enabled emergency network.

Sections of the Maryland Annotated Code

Public Safety Article, Sections 1-301 through 1-312

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Exhibit 18.1
Public Safety and Correctional Services Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Reimb. Funds</u>	<u>Total</u>
Revenue by Agency/Program					
9-1-1 Emergency Telephone System		\$57.3	\$1.0		\$58.3
Office of the Secretary		6.1	0.5	\$2.9	9.5
Division of Correction and Patuxent Institution	\$2.4	78.9	15.9	3.8	101.0
Police and Correctional Training Commissions		0.3		0.5	0.8
Inmate Grievance Office		0.7			0.7
Division of Pretrial Detention and Services		2.2			2.2
Division of Parole and Probation	7.2	7.9		0.3	15.4
Criminal Injuries Compensation Board		3.6	3.1		6.7
Total	\$9.6	\$157.0	\$20.5	\$7.5	\$194.6
Revenue by Source					
9-1-1 Emergency Telephone System		\$57.3	\$1.0		\$58.3
Data Processing Services		0.9		\$0.1	1.0
Criminal Record Checks		3.2		1.1	4.3
National Criminal History Improvement Program			0.5		0.5
Offender Re-entry Program			0.5		0.5
Maryland Correctional Enterprises		58.0		1.2	59.2
Inmate Welfare Fund		23.1			23.1
Work Release Earnings		1.6			1.6
Home Detention Monitoring		0.2			0.2
Inmate Work Crews		0.4		2.3	2.7
Local Government Training Program Participation		0.3			0.3
State Government Training Program Participation				0.1	0.1
Gifts		0.2			0.2
Federal Funding for Federal Inmates			15.4		15.4
Parole and Probation Supervision Fees/Administration	\$7.2	0.1			7.3
Drinking Driver Monitor Program Fund		7.6			7.6
Criminal Injuries Compensation Fund		3.6			3.6
Federal Crime Victim Compensation			3.1		3.1
Rental of Land	2.4				2.4
Capital Funding to Support Construction Monitoring				0.6	0.6
Miscellaneous Grants		0.5		2.1	2.6
Total	\$9.6	\$157.0	\$20.5	\$7.5	\$194.6

Source: Department of Public Safety and Correctional Services

Office of the Secretary

The Information Technology and Communications Division of the Office of the Secretary is responsible for maintaining criminal record data systems. State and non-State agencies that request information from these systems, such as criminal record checks, are assessed a fee. In fiscal 2011, these fees are estimated to generate special and reimbursable funds of \$5.3 million. Another \$2.0 million in special funds is received from the Inmate Welfare Fund (discussed below under Division of Correction and Patuxent Institution) in support of administration of the inmate medical contract. The office is also expected to receive approximately \$500,000 in federal funds for improvements in computer systems in support of the Criminal Justice Information System.

The office expects to receive approximately \$1.7 million in additional revenue from a variety of miscellaneous sources. This additional revenue is generated from other State and local agencies for training and information technology support, from the Department of Health and Mental Hygiene for AIDS counseling and education, and from federal pass-through grants from the Governor's Office of Crime Control and Prevention.

Division of Correction and Patuxent Institution

The Division of Correction and the Patuxent Institution are projected to generate a total of \$78.9 million in special funds, \$15.9 million in federal funds, and \$3.8 million in reimbursable funds in fiscal 2011.

Special funds of \$58 million are derived from the activities of the Maryland Correctional Enterprises, an inmate training program that produces and sells goods and services. Inmate labor is used to manufacture food and merchandise for sale or to provide services to the State and other governmental or charitable organizations. The goods and services are supplied at a cost that is no more than the prevailing wage market price as determined by other State departments. The funds are used to cover the cost of administration, supervision, supplies, and materials.

Another \$18.4 million in special funds are derived primarily from commissary sales, vending commissions, and inmate telephone calls at Division of Correction institutions and the Patuxent Institution. These revenues are credited to the Inmate Welfare Fund and are used for educational activities, inmate medical services, the inmate grievance process, athletic equipment, hygiene supplies for indigent inmates, and other activities that benefit inmates. Payments from inmates in work release programs also generate special funds of \$1.6 million. The division will also receive \$25,000 from the

Martin Healy trust fund that was established by an individual's estate to annually purchase athletic shoes and recreational equipment for inmates.

The Division of Correction expects to receive a \$500,000 federal grant through the Second Chance Act, which supports offender re-entry programming. Another \$14.0 million in federal dollars will be provided as reimbursement for housing federal prisoners. Finally, a federal grant of \$1.4 million is expected in fiscal 2011 to defray the costs of incarcerating illegal aliens convicted of one felony or two misdemeanor offenses and to expedite the transfer of custody for certain deportable aliens.

The Division of Correction also receives reimbursable funds from other State agencies for services rendered. This includes reimbursement of \$2.3 million from the State Highway Administration for the costs of employing inmate work crews for removing litter, landscaping, and roadside park maintenance along State roads. Costs are reimbursed for inmate transportation, inmate wages, and correctional officer supervision. Laundry operations approximating \$1.2 million are expected from agencies that make use of Division of Correction laundry facilities, such as the Department of Health and Mental Hygiene.

Sections of the Maryland Annotated Code

Correctional Services Article, Sections 3-501 through 3-528 (Maryland Correctional Enterprises); Sections 9-501 through 9-520 (Inmate Work Crews); and Sections 10-501-through 10-504 (Inmate Welfare Fund)

Pretrial and Detention Services

The Division of Pretrial and Detention Services is expected to generate a total of \$2.2 million in special funds and \$10,000 in federal funds in fiscal 2011. Special fund revenues are estimated at \$2.0 million from the Inmate Welfare Fund and approximately \$159,000 from gifts to the division. As in the Division of Correction, Inmate Welfare Fund monies are generated from commissary sales and used to fund activities that benefit the inmate population. Federal funds of \$10,000 are generated from the housing of federal prisoners.

Parole and Probation

General funds of \$7.2 million are expected from the collection of supervision and urinalysis fees by the Division of Parole and Probation in fiscal 2011. Since many offenders receive exemptions and are not required to pay these fees, the fees collected do not cover the entire cost of the program.

Special funds of \$7.9 million are expected from the assessment of a \$55 monthly supervision fee for offenders sentenced to the Drinking Driver Monitor Program. Revenues are credited to the Drinking Driver Monitor Program Fund.

The division also expects to collect \$200,000 from offenders on home detention to pay for the equipment required to monitor these offenders. Home Detention Unit operations were transferred to the Division of Parole and Probation from the Division of Correction in fiscal 2008.

Reimbursable fund revenue from other State agencies to the Division of Parole and Probation total about \$286,000 in fiscal 2011. This largely includes approximately \$98,000 from the Department of Human Resources' Community Services Administration in support of victim advocacy and just under \$200,000 from the Governor's Office of Crime Control and Prevention (mostly pass-through federal funds).

Section of the Maryland Annotated Code

Correctional Services Article, Sections 3-401 through 3-415 (Home Detention Program); Sections 6-104, 6-115, and 6-116 (Drinking Driver Monitor Program Funding)

Criminal Injuries Compensation Board

The fiscal 2011 budget anticipates a total of \$6.7 million in special and federal funds to provide awards to victims of crime. Special funds of \$3.6 million are expected from court fees and will be credited to the Criminal Injuries Compensation Fund. The State also receives federal funds for victims of crime, which is based on a percentage of prior expenditures by the State. In fiscal 2011, the State expects \$3.1 million in federal dollars.

Sections of the Maryland Annotated Code

Courts and Judicial Proceedings Article, Section 7-301
Criminal Procedure Article, Section 11-819

Police and Correctional Training Commissions

The Police and Correctional Training Commissions expect approximately \$800,000 in special and reimbursable fund revenues in fiscal 2011. Approximately \$300,000 is special fund revenue from participating local jurisdictions paid on behalf of local police or correctional personnel who receive training from the commissions. The remainder, which consists of reimbursable funds, comes from other State agencies, such as the Department of State Police, the Maryland Department of Transportation, and the Department of Juvenile Services for specialized training courses provided by the Police and Correctional Training Commissions.

Inmate Grievance Office

Funding for the Inmate Grievance Office totals approximately \$735,000 in special funds in fiscal 2011, which comes from the Inmate Welfare Fund. Inmates can appeal to the office when they have exhausted all relevant institutional procedures. Grievances are either dismissed or scheduled for hearings with the Office of Administrative Hearings.

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of State Police, Fire Prevention Commission, and Office of the Fire Marshal

The revenues estimated to be collected by the Department of State Police, the Fire Prevention Commission, and the Office of the Fire Marshal in fiscal 2011 are set forth in Exhibit 18.2. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 18.2
Department of State Police, Fire Prevention Commission, and
Office of the Fire Marshal Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Reimb. Funds</u>	<u>Total</u>
Revenues by Agency/Program					
Maryland State Police	\$1.8	\$81.9	\$23.0	\$1.6	\$108.3
Fire Prevention Commission and Fire Marshal	1.4	0.0	0.0	0.3	\$1.7
Total	\$3.2	\$81.9	\$23.0	\$1.9	\$110.0
Revenues by Source					
Md. Emergency Medical Systems Operations Fund	\$0.0	\$20.1	\$0.0	\$0.0	\$20.1
Automotive Safety Enforcement Division (TTF)	0.0	7.0	0.0	0.0	7.0
Commercial Vehicle Enforcement Division (TTF)	0.0	21.7	0.0	0.0	21.7
Speed Monitoring Systems Fund	0.0	4.7	0.0	0.0	4.7
John F. Kennedy Memorial Highway (MDTA)	0.0	7.6	0.0	0.0	7.6
Local Government Payments	0.0	8.1	0.0	0.0	8.1
Federal Fund Recovery Income	0.0	0.0	20.3	0.0	20.3
Vehicle Theft Prevention Fund	0.0	2.0	0.0	0.0	2.0
Reimbursable Overtime	0.0	10.1	0.0	0.0	10.1
Miscellaneous	3.2	0.6	2.7	1.9	8.5
Total	\$3.2	\$81.9	\$23.0	\$1.9	\$110.0

MDTA: Maryland Transportation Authority

TTF: Transportation Trust Fund

Source: Fiscal 2011 State Budget Books, Department of Legislative Services

Department of State Police

State Police Field Operations Bureau

The fiscal 2011 budget of the Field Operations Bureau anticipates \$79.3 million in special fund revenues. The largest component of these revenues comes from the Maryland Emergency Medical Systems Operations Fund, which provides \$20.1 million in support of the medical evacuation component of the Aviation Division. Special funds support 80% of the Aviation Division budget, which is based on the percentage of medical evacuation flights to non-medically related flights. Funding for the Commercial Vehicle Inspection Division (\$21.7 million related to conducting truck weight inspections) and the Automotive Safety Enforcement Division (\$7.0 million related to certifying vehicle inspection stations) comes from the Transportation Trust Fund. Approximately \$10.1 million is anticipated for overtime and special project services provided by the bureau on behalf of State, federal, and local agencies. The remaining special fund revenues are derived from highway work zone speed camera citations (\$4.7 million), the Maryland Transportation Authority for policing the John F. Kennedy Memorial Highway (\$7.6 million), and the Resident Trooper Program (\$8.1 million). The Resident Trooper Program allows counties and municipalities to receive additional State troopers, for which the State is reimbursed the entire direct cost as well as receiving an administrative fee from the local jurisdictions in which the resident troopers serve.

Sections of the Maryland Annotated Code

Transportation Article, Sections 12-118 and 13-955
Public Safety Article, Title 2, Subtitle 6

Vehicle Theft Prevention Council

The Vehicle Theft Prevention Council will receive \$2 million in special funds in fiscal 2011 from the Vehicle Theft Prevention Fund. The fund was established for the purpose of making grants and providing programs to reduce vehicle theft in the State. Appropriations totaling \$2 million are mandated annually to the fund from fines on uninsured motorists.

Sections of the Maryland Annotated Code

Transportation Article, Section 17-106
Public Safety Article, Sections 2-701 through 2-704

Miscellaneous

The department expects to generate \$8.5 million in fiscal 2011 revenue from a variety of miscellaneous sources. Revenues to the general fund are expected to total \$3.2 million in fiscal 2011, of which \$1.8 million is derived from Maryland State Police activity as shown in Exhibit 18.3. The remaining \$1.4 million is discussed under the Office of the State Fire Marshal.

Exhibit 18.3 Department of State Police General Fund Revenue Fiscal 2011

	<u>Amount</u>
Firearms Licensing	\$700,000
Security Guard and Private Detective Licensing	325,000
Licensing Vehicle Inspection Stations	105,000
Processing Fingerprint Cards	150,000
Issuing Special Police Commissions	25,000
Administering Inspection Mechanic Exams	20,000
Motor Vehicle Accident Reports	250,000
Security System Technician and Sales	75,000
Miscellaneous Fees, Fines, etc.	150,000
Total	\$1,800,000

Source: Fiscal 2011 State Budget Books, Department of Legislative Services

The department expects to receive \$610,000 in special fund revenue for criminal background check fees (\$250,000) and vehicle salvage inspections (\$360,000). Federal dollars are expected to total \$2.7 million, mostly from a \$2.5 million grant for Crime Victim Assistance. Other grants address narcotic training and DNA analysis. Additionally, the department expects to receive \$436,000 in federal funding for the Internet Crimes Against Children Task Force Program. Reimbursable fund revenues of approximately \$1.6 million are provided from the Governor's Office of Crime Control and Prevention, the Maryland Department of Transportation, and the Major Information Technology Project Development Fund, as shown in Exhibit 18.4.

Exhibit 18.4
Department of State Police
Non-general Fund Revenues
Fiscal 2011

	<u>Amount</u>
Special Funds	
Maryland Department of Transportation	\$360,000
Criminal Background Record Check Fees	250,000
Total	\$610,000
Federal Funds	
Narcotics and Dangerous Drug Training	\$100,000
Crime Victim Assistance	2,459,434
Forensic DNA Backlog Reduction	150,000
Total	\$2,709,434
Reimbursable Funds	
Governor's Office of Crime Control and Prevention	\$484,000
Maryland Department of Transportation	56,635
State Highway Administration	50,000
Motor Vehicle Administration	240,901
Major Information Technology Project Development Fund	750,000
Total	\$1,581,536

Source: Fiscal 2011 State Budget Books, Department of Legislative Services

Fire Prevention Commission and Office of the Fire Marshal

The Office of the Fire Marshal anticipates generating \$1.4 million in revenue for the general fund, as shown in Exhibit 18.5. The majority comes from fire safety inspections and plan reviews.

Exhibit 18.5
Office of the Fire Marshal General Fund Revenue
Fiscal 2011

	<u>Amount</u>
Fire Protection Plan Reviews	\$900,000
Day/Foster Care Inspections	410,000
Explosive Dealers	90,000
Total	\$1,400,000

Source: Fiscal 2011 State Budget Books, Department of Legislative Services

The office expects to receive approximately \$363,000 in reimbursable revenue from other State agencies, including \$195,000 for fire inspections of health facilities from the Department of Health and Mental Hygiene and \$168,000 for fire safety surveys and inspections of day, foster, and adoptive care facilities conducted on behalf of the Department of Human Resources and the Maryland State Department of Education.

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Chapter 19. Other Agencies

Many other agencies within State government generate revenue from a variety of sources; these agencies include financial and revenue administration; judiciary; labor, licensing, and regulation; executive and administrative agencies; and retirement agencies.

Financial and Revenue Administration

The financial and revenue administration agencies are charged primarily with the collection, accounting, and management of public funds and the assessment of corporate and private, real, and personal property. In the performance of such duties, the agencies generate general and special fund revenues from a variety of sources.

The revenues expected to be collected by the financial and revenue administration agencies in fiscal 2011 are shown in Exhibit 19.1. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 19.1
Financial and Revenue Administration Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General</u> <u>Funds</u>	<u>Special</u> <u>Funds</u>	<u>Total</u>
Revenues by Agency/Program			
Treasurer	\$49.5	\$7.3	\$56.8
Comptroller	71.0	8.3	79.3
Register of Wills	3.5	0.0	3.5
Assessments and Taxation	0.3	4.6	4.9
Total	\$124.3	\$20.2	\$144.5
Revenues by Source			
Interest Earned on Funds	\$43.0	\$4.0	\$47.0
Miscellaneous Revenues – Treas.	6.5	3.3	9.8
Sale of Abandoned Property	70.0	4.0	74.0

Exhibit 19.1 (Continued)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Total</u>
Revenues by Source			
Cigarette Licensing Fees	0.0	0.3	0.3
Alcoholic Beverage License Fees	1.0	0.0	1.0
Delinquent Income Tax	0.0	1.2	1.2
Admissions and Amusement Tax	0.0	2.8	2.8
Register of Wills – Excess Fees	3.5	0.0	3.5
Expedited Service Fees	0.3	4.6	4.9
Total	\$124.3	\$20.2	\$144.5

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

Source: State Treasurer's Office; Comptroller's Office

Office of the State Treasurer

The investment of the State's funds is the responsibility of the State Treasurer. Interest earnings are projected to be \$47 million in fiscal 2011, with an estimated \$43 million accruing to the general fund and the remainder accruing to special funds.

The Treasurer's Office also generates revenues from unrepresented checks (\$6.5 million in general funds) and from fees to cover investment and bond sale expenses (\$3.3 million in special funds).

The main emphasis of the Treasurer's investment program is the investment of cash that is temporarily available between the time it is collected and disbursed. The program also includes longer-term investments associated with the maturity of certain bonds, the purchase of 20-year development easements on agricultural land, and the payment of lottery prizes over multi-year periods.

On June 30, 2009, the State's portfolio totaled \$5.1 billion. Interest earnings during fiscal 2009 were \$245 million, of which \$103 million accrued to the general fund. The earnings on the portfolio averaged 3.39% for the year.

Sections of the Maryland Annotated Code

State Finance and Procurement Article, Sections 6-222 through 6-226

Legislative Handbook Series Cross-reference*Volume II – Government Services in Maryland***Office of the Comptroller**

The Unclaimed Property Section of the Comptroller's Office is charged with administering the abandoned property laws of the State. This includes collecting abandoned property, selling the property, and distributing the revenues to the State's general fund. Total general fund revenues in fiscal 2011 from the sale of abandoned property are estimated at \$70 million. Approximately \$4 million in special fund revenues will be used to administer this program.

In addition to the many taxes collected by the Comptroller described in the first part of this handbook, the Comptroller's Office also collects certain license and permit fees. General fund revenues of \$1 million are expected from alcoholic beverage licenses and permits. Cigarette sales licenses should generate \$300,000 in special funds.

Alcoholic beverage licenses and permits are comprised of two major types: manufacturer and wholesaler. State licenses are also issued for trains, boats, and airplanes that, by their nature, travel around the State. Permits are issued by the State primarily for the storage and transportation of alcoholic beverages, while licenses for retail sales of alcohol are issued by the counties and Baltimore City and generate local, not State, revenues. Cigarette sales licenses are issued in several categories: manufacturer, retailer, storage warehouse, subwholesaler, vending machine operator, and wholesaler.

The Compliance Division anticipates collecting \$1.2 million in special funds from delinquent income taxes owed to the State. While the bulk of delinquent tax collections are remitted to the general fund, fees charged by outside collection agencies are deducted and accounted for separately as special fund revenues.

Special funds of \$2.8 million will be received by the Comptroller in fiscal 2011 for the collection of admissions and amusement taxes for local governments. These taxes are local taxes but are collected by the State for administrative efficiency.

Sections of the Maryland Annotated Code

Commercial Law Article, Section 17-317 (unclaimed property); Article 2B (alcoholic beverages licenses); Business Regulation Article, Sections 16-201 through 16-204 (cigarette business licenses); and Tax – General Article, Title 4 (admissions and amusement tax)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Registers of Wills

In fiscal 2011, the Registers of Wills expect to remit \$3.5 million in general funds to the State representing an excess of fees collected and commissions over expenses. Revenues are derived from probate fees and the registers' 25% commission for collection of the inheritance tax. The Registers of Wills provide support to the orphans' court of each county and Baltimore City in administering Maryland probate laws.

The registers collect probate fees to cover the cost of docketing and processing estates. Probate fees are determined according to the value of the estate and vary from \$50 to over \$2,500. The Registers of Wills also retain, as a commission, 25% of all inheritance taxes to cover operating expenses. Operating expenses of the Registers of Wills are not reported in the annual State budget.

Sections of the Maryland Annotated Code

Constitution of Maryland, Article III, Section 45; and Estates and Trusts Article, Title 2, Subtitle 2

Legislative Handbook Series Cross-reference

Chapter 8 – Death Taxes of this Handbook

Volume II – Government Services in Maryland

State Department of Assessments and Taxation

In fiscal 2011, the State Department of Assessments and Taxation is expected to collect \$4.6 million in special fund revenues from fees charged for processing documents on an expedited basis. The department is also expected to remit \$300,000 in miscellaneous filing fees to the general fund.

Sections of the Maryland Annotated Code

Corporations and Associations Article, Sections 1-201 through 1-204; and Tax-Property Article, Section 2-220

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VI – Maryland Local Government

Volume VII – Business Regulation in Maryland

Judicial and Legislative

The revenues projected for collection by judicial and legislative agencies in fiscal 2011 are set forth in Exhibit 19.2. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 19.2 Judicial and Legislative Agencies Revenue Estimates Fiscal 2011 (\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program				
District Court	\$89.6	\$11.3	\$0.1	\$101.0
Clerks of the Circuit Court	33.5	19.3	5.1	57.9
Other Judiciary	0.8	2.8	1.8	5.4
Attorney General	26.0	0.7	1.9	28.6
Public Defender	1.5	0.1	0.0	1.6
Workers' Compensation Commission	0.0	23.8	0.0	23.8
Public Service Commission	0.0	17.7	0.7	18.4
Subsequent Injury Fund	0.0	2.0	0.0	2.0
Uninsured Employers' Fund	0.0	1.1	0.0	1.1
Total	\$151.4	\$78.8	\$9.5	\$239.7
Revenues by Source				
District Court Fines, Costs, and Funds	\$89.6	\$6.1	\$0.1	\$95.8
Clerks of Court Fees and Commissions	33.5	0.0	0.0	33.5
Land Records Improvement Fund	0.0	16.4	0.0	16.4
Maryland Legal Services Surcharge	0.0	10.9	0.0	10.9
Miscellaneous Court Fees	0.8	0.0	0.0	0.8
Clerks of Court Child Support Enforcement	0.0	0.0	5.1	5.1

Exhibit 19.2 (Continued)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source (Continued)				
Foster Care, Adoption Laws, and Judicial Processes	0.0	0.0	1.8	1.8
Public Defender Administrative and Court Ordered Fees	1.5	0.0	0.0	1.5
Public Defender Grants	0.0	0.1	0.0	0.1
Registration of Securities Dealers	22.0	0.0	0.0	22.0
Consumer Protection Fees	0.0	0.7	0.0	0.7
Medicaid Fraud Control	4.0	0.0	1.9	5.9
Workers' Compensation Insurers and Self Insured	0.0	23.8	0.0	23.8
Subsequent Injury Fund Assessment	0.0	2.0	0.0	2.0
Uninsured Employers' Fund Assessment	0.0	1.1	0.0	1.1
Public Utility Regulation Fund	0.0	17.6	0.0	17.6
Miscellaneous Public Utility Funds	0.0	0.1	0.7	0.8
Total	\$151.4	\$78.8	\$9.5	\$239.7

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

Source: *Fiscal 2011 State Budget Books*; Department of Legislative Services

District Court

Projected fiscal 2011 general fund revenues of \$89.6 million collected by the District Court system consist of fines and fees. Court fees in traffic and criminal cases are \$22.50 and vary from \$5.00 to \$25.00 in civil cases. Traffic fines and fees account for the majority of District Court revenues.

Anticipated special fund revenues of \$11.3 million include \$2.0 million for the Criminal Injury/Victims Crime Fund; \$1.1 million for Criminal Injury Compensation; \$800,000 for the Victims Crime Fund; and \$39,600 for the Maryland Substance Abuse Fund.

A surcharge of \$5 for ejectment cases and \$10 for all other types of civil cases is imposed by the District Court for the Maryland Legal Services Corporation; the Administrative Office of the Courts expects to receive \$5.2 million from surcharges imposed by the District Court.

Sections of the Maryland Annotated Code

Courts and Judicial Proceedings Article, Sections 7-301 and 7-408

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Clerks of the Circuit Court

The 24 clerks of the circuit courts expect to collect \$57.9 million in fees, commissions, and other revenues in fiscal 2011. These revenues represent fees on court cases and the land record surcharge. Of this amount, \$33.5 million are general fund revenues and \$19.3 million are special fund revenues derived from surcharges that benefit the Maryland Legal Services Corporation and the Land Records Improvement Fund. Federal funds of \$5.1 million are anticipated by clerks in several jurisdictions for the operation of child support enforcement collection and disbursement units. In addition, the clerks of the circuit courts expect to collect \$6.1 million in special fund revenues that will be distributed to the Criminal Injuries Compensation Fund, the Victims of Crime Fund, the Maryland Substance Abuse Fund, and the Volunteer Company Assistance Fund.

The circuit courts expect to receive \$16.4 million in fiscal 2011 from a \$20 surcharge placed on the filing of real property and financing statement records collected by the clerks of the circuit court. The surcharge goes into the Land Records Improvement Fund to be used for land record personnel, operating expenses, and other expenses associated with the repair and modernization of office equipment in circuit court land record offices. Currently, the improvement fund supports implementation of the electronic land records online image system and the digital image reference system for subdivision and condominium plats. During the 2007 special session, legislation was adopted to expand the scope of the fund to support the Judiciary's major information technology development projects.

A surcharge of \$25 is imposed in civil cases for the Maryland Legal Services Corporation. The Administrative Office of the Courts expects to receive approximately \$2.8 million for the corporation from surcharges imposed by the circuit courts.

Sections of the Maryland Annotated Code

Courts and Judicial Proceedings Article, Title 7, Subtitle 2 (circuit courts) and Title 13 (court supporting agencies), Subtitle 6 (circuit court real property records)

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Other Judiciary

The Judiciary expects to receive approximately \$800,000 in general fund revenues from miscellaneous Court of Appeals filing fees, transcript fees, and bar exam petition fees.

The Administrative Office of the Courts expects to collect \$2.8 million in special fund revenues for the Maryland Legal Services Corporation from monies received from the abandoned property fund and interest from the lawyers' trust fund.

The Judiciary expects to receive \$1.8 million in federal funds for child support enforcement collection and foster care programs.

Sections of the Maryland Annotated Code

Courts and Judicial Proceedings Article, Sections 7-102 and 7-408

Attorney General

The Office of the Attorney General expects to receive \$28.6 million in total revenues in fiscal 2011. Of this amount, \$22.0 million in general funds will be collected in fiscal 2011 by the Division of Securities through registration and license fees. This division charges fees for the registration of securities offerings. The division also collects license fees from broker dealers, stockbrokers, investment advisors, and financial planners.

The Division of Consumer Protection within the Office of the Attorney General expects to receive \$745,000 in special fund revenue in fiscal 2011 from health club and homebuilders registration fees. Federal funds of \$1.9 million represent monies for the Medicaid Fraud Control Unit to support its investigation and prosecution of Medicaid provider fraud. Additionally, \$4.0 million in general fund revenues generated by the Medicaid Fraud Control Unit will be made available for use by the Department of Health and Mental Hygiene.

Sections of the Maryland Annotated Code

Corporations and Associations Article, Sections 11-407 and 11-506

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Office of the Public Defender

The Office of the Public Defender collects administrative court fees and court ordered fees. The administrative court fee is \$50 for adult defendants and \$25 for juvenile defendants. This fee can either be paid voluntarily or through an income tax refund intercept program. Court ordered fees are imposed by judges at the end of a case and typically amount to \$50 or \$100 for each defendant. Revenues estimated at \$1.5 million will be credited to the general fund in fiscal 2011.

Special funds of \$79,600 are expected from the following sources: (1) a grant from St. Mary's County to staff the drug court; (2) a Baltimore County grant to reduce inmate pretrial population at the Baltimore County Detention Center; and (3) a Harford County grant to reduce inmate pretrial population at the Harford County Detention Center.

Sections of the Maryland Annotated Code

Generally, Article 27A

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Workers' Compensation Commission

Special fund revenues of \$23.8 million in fiscal 2011 will be derived from assessments paid by insurance carriers, the Injured Workers' Insurance Fund, and self-insured employers. The assessment, which is equal to a percentage of employee payrolls, is set at a level to generate sufficient revenues to cover all the expenses of the Workers' Compensation Commission. Hence, the "assessment percentage" is determined by dividing the expenses of the Workers' Compensation Commission (including the

administrative expenses of the Occupational Safety and Health Program of the Division of Labor and Industry) by the total insured payroll of all insurance carriers.

An additional \$30,200 of special fund revenues will be collected for fiscal services provided to the Subsequent Injury Fund and the Uninsured Employers' Fund by the Workers' Compensation Commission.

Sections of the Maryland Annotated Code

Labor and Employment Article, Title 10, Subtitle 1

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Public Service Commission

Public service companies subject to the jurisdiction of the Public Service Commission are assessed annual fees to cover all operating costs of the commission and the Office of People's Counsel. Each public service company pays a share of the operating costs based on the ratio of its gross revenues from intrastate utility operations to total gross revenues from the intrastate utility operations of all companies in the State. The total amount charged to any one company may not exceed 0.22% of its gross operating revenues from intrastate utility operations. In fiscal 2011, the special fund assessment is expected to produce approximately \$17.6 million in revenue.

The Public Service Commission has two other ongoing revenue sources: (1) special fund revenue from an assessment on the permits of vehicles that are regulated by the commission related to for-hire driving services; and (2) federal fund revenue from the reimbursement of expenses associated with the pipeline safety program. In fiscal 2011, the commission anticipates receiving \$134,200 in revenue from the For-Hire Driving Services Enforcement Fund and \$282,200 from pipeline safety reimbursement.

The Public Service Commission also received a federal grant via the American Recovery and Reinvestment Act of 2009 for State Electricity Regulator Assistance to be used for staff and training to assist in the review of electricity projects. Funds from this grant are expected to be available to the agency in fiscal 2011 (\$379,500).

Sections of the Maryland Annotated Code

Public Utility Companies Article, Title 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Subsequent Injury Fund

The Subsequent Injury Fund receives special funds from a legislatively mandated 6.5% assessment on (1) awards against an employer or insurer for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. The special funds are credited to the Subsequent Injury Fund to provide compensation to injured workers whose disability is substantially increased by the combined effects of a current injury and any previous condition. The fiscal 2011 revenue estimate is \$2.0 million.

Sections of the Maryland Annotated Code

Labor and Employment Article, Section 9-806 and Title 10, Subtitle 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Uninsured Employers' Fund

The Uninsured Employers' Fund receives special funds from legislatively mandated assessments on workers' compensation awards, including primarily a 2% assessment on (1) awards against an employer or insurer for permanent disability or death; and (2) amounts payable by an employer or insurer under a settlement. The Uninsured Employers' Fund also collects penalties from sanctions on uninsured employers and revenue from recovery of benefits paid out for uninsured claims. The special funds are used to provide compensation benefits and medical expenses on claims against uninsured employers. The fiscal 2011 revenue estimate is \$1.1 million.

Sections of the Maryland Annotated Code

Labor and Employment Article, Sections 9-1005 to 9-1008 and Title 10, Subtitle 3

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

General Assembly

The Department of Legislative Services, which provides support services to the General Assembly, is projected to generate general funds of approximately \$45,000 in fiscal 2011. Revenues are primarily derived from the sale of legislative documents and expense reimbursements for certain audits performed by the Legislative Auditor.

Sections of the Maryland Annotated Code

State Government Article, Title 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of Labor, Licensing, and Regulation

The Department of Labor, Licensing, and Regulation generates revenues through the licensing and regulation of various businesses, professions, and trades. It also receives funds for administering a variety of federal employment services programs.

The fiscal 2011 revenue estimates for the department are detailed in Exhibit 19.3. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 19.3
Department of Labor, Licensing, and Regulation Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency/Program				
Occupational and Professional Licensing	\$4.5	\$5.0	\$0.0	\$9.5
Labor and Industry	1.7	11.1	4.7	17.5
Financial Regulation	2.4	6.7	0.0	9.1
Horse Racing	0.2	5.4	0.0	5.6
Unemployment Insurance	0.0	4.2	77.9	82.1
Workforce Development	0.0	1.1	65.0	66.1
Total	\$8.8	\$33.5	\$147.6	\$189.9
Revenues by Source				
Occupational and Professional Licensing	\$4.5	\$5.0	\$0.0	\$9.5
Licensing and Penalties	1.7	0.0	4.7	6.4
Workplace Inspection/Safety Training	0.0	11.1	0.0	11.1
Licensing and Examination Fees of Financial Institutions and Related Industries	2.4	6.7	0.0	9.1
Licensing and Regulation (Horse Racing)	0.2	0.0	0.0	0.2
Miscellaneous Racing Activities	0.0	5.4	0.0	5.4
Unemployment Insurance Program	0.0	4.2	77.9	82.1
Workforce Development Grants	0.0	0.0	36.9	36.9
Employment and Training Assistance	0.0	0.0	18.7	18.7
Adult Education	0.0	1.1	9.4	10.5
Total	\$8.8	\$33.5	\$147.6	\$189.9

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

Source: Department of Labor, Licensing, and Regulation

Occupational and Professional Licensing

The department collects general and special fund revenues from boards and commissions within the Division of Occupational and Professional Licensing. Revenues are primarily generated from license and examination fees. An estimated \$9.5 million in occupational and professional licensing fees is expected in fiscal 2011. Of this total, fees of \$5.0 million will be collected as special funds to directly offset operating costs for seven of the boards and commissions. The remaining \$4.5 million will be credited to the general fund.

Most licenses are renewed biennially, causing revenues to fluctuate from year to year. Exhibit 19.4 lists the average annual revenues for fiscal 2008 to 2011 for each of the boards and commissions.

Exhibit 19.4 Boards and Commissions Average Annual Revenue Estimates Fiscal 2008-2011

<u>Board or Commission</u>	<u>Average Annual Revenues</u>
Board of Barbers	\$213,000
Board of Stationary Engineers	227,000
Commission of Real Estate Appraisers and Home Inspectors	324,000
Board of Master Electricians	138,000
Board of Plumbing	243,000
Secondhand Precious Metal Object Dealers and Pawnbrokers	20,000
Board of Architects	303,000
Board for Professional Land Surveyors	58,000
Board for Professional Engineers	968,000
Board of Public Accountancy	1,450,000
Board of Foresters	9,500
Board of Pilots	19,300
Home Improvement Commission	2,075,000
Real Estate Commission	2,400,000
State Athletic Commission	29,000
Board of Heating, Ventilation, Air Conditioning, and Refrigeration Contractors	230,000
Board of Certified Interior Designers	14,000
Board of Cosmetologists	927,000
Board of Examiners of Landscape Architects	70,000
Office of Cemetery Oversight	420,000
Board of Elevator Safety Review	73,000

Source: Department of Labor, Licensing, and Regulation; *Fiscal 2011 State Budget Books*

Sections of the Maryland Annotated Code

Generally, Business Occupations and Professions Article and Business Regulation Article

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Labor and Industry

The department collects general, special, and federal fund revenues within the Division of Labor and Industry, estimated to total \$17.5 million for fiscal 2011. Of this total, general fund revenues of \$1.7 million are projected, mainly from licensing activities and penalty recoveries. The Employment Standards and Prevailing Wage Units collect penalties from firms that violate wage and employment laws, and the Safety Inspection Program collects revenues from the licensing of boiler and pressure vessels. The division will also receive approximately \$11.1 million from the Workers' Compensation Commission and the Public Service Commission for railroad and other workplace safety inspections.

The Maryland Occupational Safety and Health Administration will receive approximately \$4.7 million in federal funds in fiscal 2011 from its federal counterpart to develop workplace inspection and safety training programs.

Sections of the Maryland Annotated Code

Generally, Labor and Employment Article

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Financial Regulation

The department collects general and special fund revenues within the Division of Financial Regulation, estimated to total \$9.1 million for fiscal 2011. Of this total, the division is projected to collect general funds of \$2.4 million in licensing and examination fees from State-chartered financial institutions, including banks, credit unions, trust

companies, consumer finance companies, mortgage lenders and brokers, consumer debt collection agencies, and check cashers. This division is also expecting \$6.7 million in special funds from the licensure of mortgage originators and from fees imposed on the money transmission and debt management industries.

Sections of the Maryland Annotated Code

Generally, Financial Institutions Article, Titles 5, 6, 11 and 12

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Horse Racing

The department collects general and special fund revenues within the Division of Racing, estimated to total \$5.6 million for fiscal 2011. The division provides administrative support services to the Maryland Racing Commission. General fund revenues of \$170,000 in fiscal 2011 are expected from license and registration fees imposed on horse racing participants and certain track employees.

Special fund revenues of \$5.4 million are projected from the pari-mutuel tax, uncashed pari-mutuel tickets, impact aid payments, and reimbursements from tracks for division operations. The division operates a drug testing laboratory, performs background checks on track employees, and officiates races.

Sections of the Maryland Annotated Code

Generally, Business Regulation Article, Title 11

Legislative Handbook Series Cross-reference

See Chapter 9 – Miscellaneous Taxes of this handbook for information on the pari-mutuel tax and the distribution of horse racing revenues.

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Unemployment Insurance

The department collects special and federal fund revenues within the Division of Unemployment Insurance, estimated to total \$82.1 million for fiscal 2011. Of this total, the division expects special funds of \$4.2 million from fines, penalties, and interest generated from assessments on employers who fail to observe State or federal rules under the unemployment insurance law.

Federal funds of \$77.9 million for the unemployment insurance program will be used to finance the costs of administration in fiscal 2011. All State unemployment insurance tax collections are used solely for the payment of benefits and remain off budget. Each state is required to operate an unemployment insurance program, but states are prohibited from using their tax revenues to pay for administrative costs.

Sections of the Maryland Annotated Code

Generally, Labor and Employment Article, Title 8

Legislative Handbook Series Cross-reference

See the discussion of unemployment taxes in Chapter 5 – Business Taxes of this handbook.

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Workforce Development and Adult Learning

The department collects federal fund revenues within the Division of Workforce Development and Adult Learning, estimated to total \$66.1 million in fiscal 2011. Of this total, the division anticipates federal funds of \$18.7 million to pay for the costs associated with operating the Maryland one-stop career centers. These work centers place persons in employment by providing a variety of placement-related services without charge to job seekers.

Federal funds of \$36.9 million are projected in fiscal 2011 from the federal Workforce Investment Act and various other federal employment and training assistance programs. These funds provide job training and related assistance to economically disadvantaged individuals and reemployment and retraining opportunities for dislocated workers.

In 2009, adult education programs were transferred to the department from the Maryland State Department of Education in an effort to streamline adult learning and workforce development. The division expects to collect \$1.1 million in special funds from various fees and from the Special Inmate Welfare Fund in connection with its literacy services within the prison system. Also, \$9.4 million in federal funds is expected in fiscal 2011 for adult learning programs such as basic skills, secondary instruction, and GED preparation classes.

Sections of the Maryland Annotated Code

Generally, Labor and Employment Article, Title 11

Legislative Handbook Series Cross-reference

See the discussion of public assistance programs in the Department of Human Resources in Chapter 15 – Health, Human Resources, and Juvenile Services of this handbook.

Volume II – Government Services in Maryland

Volume VII – Business Regulation in Maryland

Executive and Administrative

Exhibit 19.5 is a summary of the estimated fiscal 2011 revenues to be collected by executive and administrative control agencies. These revenues are displayed in two different formats. The first part of the exhibit shows the revenues according to the agency or program that primarily generates them; the second part is an alternative summary of the same revenues, shown by source.

Exhibit 19.5
Executive and Administrative Agencies Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General</u> <u>Funds</u>	<u>Special</u> <u>Funds</u>	<u>Federal</u> <u>Funds</u>	<u>Total</u>
Revenues by Agency/Program				
Department of Disabilities	\$0.1	\$0.2	\$2.4	\$2.7
Boards, Commissions, and Offices	0.2	3.0	28.9	32.1
Department of Aging	0.0	0.5	29.2	29.7
Maryland Energy Administration	0.0	27.7	20.1	47.8
Military Department	0.0	12.8	49.8	62.6
Department of Veterans Affairs	0.0	0.9	9.3	10.2
Maryland Institute for Emergency Medical Services	0.0	0.4	0.1	0.6
Maryland Department of Planning	0.0	4.1	0.9	5.0
Department of Budget and Management	0.0	11.3	0.0	11.3
Department of Information Technology	0.0	7.6	0.0	7.6
Department of General Services	0.0	3.8	1.0	4.8
Maryland Insurance Administration	0.0	27.8	0.0	27.8
Maryland Health Insurance Program	0.0	145.0	3.0	148.0
Maryland Public Television	0.2	15.5	2.1	17.8
Miscellaneous	4.0	7.7	1.6	13.3
Total	\$4.5	\$268.3	\$148.4	\$421.3
Revenues by Source				
Assistive Technology/Disability-related Grants	\$0.0	\$0.2	\$2.4	\$2.6
Filing Fees (State Ethics Commission/ Health Claims Arbitration Office)	0.0	0.4	0.0	0.4
Site Matching Funds	0.0	0.3	0.0	0.3
AmeriCorps/Related Programs	0.0	0.0	4.6	4.6
Juvenile Justice/Delinquency/Other Crime Control Programs	0.0	2.3	24.3	26.6
Federal Programs for Aging	0.0	0.0	29.2	29.2

Exhibit 19.5 (Continued)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source (Continued)				
Miscellaneous Department of Aging Fees	0.0	0.5	0.0	0.5
Energy Overcharge Restitution Fund	0.0	0.7	0.0	0.7
State Agency and Jane E. Lawton Conservation Loan Program Administration	0.0	0.1	0.0	0.1
Strategic Energy Investment Fund Maryland Energy Administration/ Department of General Services	0.0	29.4	0.0	29.4
Various Energy Conservation Grants	0.0	0.0	20.1	20.1
National Guard Bureau Operations	0.0	0.0	12.2	12.2
Military Youth Corps	0.0	0.0	1.8	1.8
Homeland Security	0.0	0.0	35.8	35.8
Armory Rentals	0.0	0.2	0.0	0.2
Emergency Medical Systems Operations Fund	0.0	0.4	0.0	0.4
Amoss Fire, Rescue, and Ambulance Fund	0.0	10.0	0.0	10.0
Volunteer Company Assistance Fund	0.0	2.2	0.0	2.2
Veterans Trust Fund	0.0	0.1	0.0	0.1
Veterans Home Domiciliary and Nursing Care Internment Fees	0.0	0.1	8.7	8.8
Internment Fees	0.0	0.6	0.7	1.3
Commercial Ambulance Licensing and Miscellaneous Fees	0.0	0.4	0.1	0.6
Department of Planning Goods and Service Fees	0.0	0.8	0.0	0.8
Property Tax Transfer	0.0	3.0	0.0	3.0
Maryland Heritage Structure Rehabilitation Tax Credit	0.0	0.1	0.0	0.1
Maryland Preservation Grants	0.0	0.0	0.9	0.9
Miscellaneous Planning Revenues	0.0	0.2	0.0	0.2
Collection Fees	0.0	11.3	0.0	11.3
Network Division User Fees	0.0	0.3	0.0	0.3
Universal Service Trust Fund	0.0	7.3	0.0	7.3
Online Surplus Property Sales	0.0	0.6	0.0	0.6

Exhibit 19.5 (Continued)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Source (Continued)				
Commercial Lease Space and Misc. Revenue	0.0	0.7	1.0	1.7
Health Care Regulatory Fund	0.0	1.5	0.0	1.5
Insurance Regulation Fund	0.0	26.3	0.0	26.3
Maryland Health Insurance Plan	0.0	126.7	0.0	126.7
Federal High Risk Pool Grants	0.0	0.0	3.0	3.0
Senior Prescription Drug Program	0.0	18.3	0.0	18.3
Viewer Support	0.0	5.8	0.0	5.8
Corporate Support	0.0	3.5	0.0	3.5
Corporation for Public Broadcasting and Community Service Grants	0.0	3.5	0.0	3.5
Program Royalties and Other Contributions and Grants	0.0	0.7	2.1	2.8
Maryland Public Television Interest and Misc. Income	0.0	2.0	0.0	2.0
Miscellaneous	4.5	7.7	1.6	13.8
Total	\$4.5	\$268.3	\$148.4	\$421.3

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

Source: *Fiscal 2011 State Budget Books*

Department of Disabilities

The Department of Disabilities (formerly the Office for Individuals with Disabilities) examines public and private programs and services for disabled citizens in order to provide assistance and coordination. One of the programs administered by the department is the Assistive Technology Loan Program, which is financed with a nonlapsing off-budget fund of approximately \$4.3 million. The program enables the purchase of assistive technology by individuals who would not otherwise qualify for traditional credit. Interest on the fund is used by the department as a special fund to pay for the costs of administering the program. In fiscal 2011, the Department of Disabilities expects to use \$193,400 of interest from the Assistive Technology Loan Fund for this purpose.

The department anticipates receiving \$2.4 million in federal funds in fiscal 2011 available from (1) the Medicaid Infrastructure Grant, formerly administered by the Department of Health and Mental Hygiene (\$993,800); (2) the Developmental Disabilities Basic Support Grant, to support activities of the Developmental Disabilities Council (\$991,300); and (3) the Assistive Technology Grant (\$479,700).

Sections of the Maryland Annotated Code

Human Services Article, Title 7

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Boards, Commissions, and Offices

Lobbying fees and fines collected by the State Ethics Commission and filing fees collected by the Health Claims Alternative Dispute Resolution Office are anticipated to generate a total of \$358,600 in special funds in fiscal 2011.

The Governor's Office of Community Initiatives will receive \$4.6 million in federal funds under the AmeriCorps program and other related federal programs. An additional \$300,000 in special funds is expected in matching funds from placement sites for AmeriCorps volunteers.

The Governor's Office of Crime Control and Prevention will receive \$24.3 million in federal funds from the following programs: (1) sexual assault services; (2) Juvenile Accountability Block Grant; (3) safe havens for children; (4) Juvenile Delinquency Prevention Formula Grants; (5) Title V – Delinquency Prevention Program; (6) State justice statistics program; (7) National Institute of Justice Research Project Grants; (8) Violence Against Women Formula Grants; (9) Violence Against Women Grants – Recovery Act; (10) residential substance abuse treatment for State prisoners; (11) Bulletproof Vest Partnership Program; (12) Project Safe Neighborhood; (13) Underage Drinking Block Grant; (14) Edward Byrne Memorial Justice Assistance Grant; (15) Edward Byrne Memorial Justice Assistance Grant – Recovery Act; and (16) Children's Justice Grants.

The Governor's Office of Crime Control and Prevention is also expected to receive special fund income of \$2.3 million in fiscal 2011 from the Victims of Crime Fund, Victim and Witness Protection and Relocation Fund, Legal Services for Victims Fund, and the School Bus Safety Fund.

Sections of the Maryland Annotated Code

Generally, State Government Article

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Maryland Department of Aging

The Maryland Department of Aging will receive federal funds totaling \$29.2 million in fiscal 2011, of which \$10.8 million will be used to provide nutritious meals, nutrition education, and other nutrition services to individuals over age 60. Federal grants of \$5.8 million will be used to implement comprehensive and coordinated community-based systems of support service for older individuals, including services provided at multipurpose senior centers. The Nation Family Caregiver Support Program will provide \$2.5 million in federal funds. Federal funds of \$1.8 million will be used to purchase certain food items and to cover the costs of administering the food distribution and exchange program.

The department anticipates receiving \$4.0 million in federal funds under the Medicaid waiver program for home care services and assisted living for low-income seniors as an alternative to nursing homes. Approximately \$1.6 million is anticipated in federal funds from the Community Service Employment Program to provide part-time work opportunities in community service activities for unemployed low-income persons who are 55 years of age and older. Funding for prevention of elder abuse and neglect is nearly \$500,000. Several miscellaneous federal grants for the department will total \$2.1 million.

Registration fees for continuing care programs will bring in about \$374,400 in special funds.

Sections of the Maryland Annotated Code

Generally, Article 70B

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Maryland Energy Administration

The Maryland Energy Administration expects special fund revenues of \$27.7 million in fiscal 2011. The majority of these funds will be drawn from the Strategic Energy Investment Fund, which is composed primarily of revenue received from quarterly Regional Greenhouse Gas Initiative auctions of carbon dioxide emission allowances. The first auction was held in September 2008, and the auctions are ongoing. In fiscal 2011, the Maryland Energy Administration expects to receive \$26.9 million in special funds from the Strategic Energy Investment Fund.

The Maryland Energy Administration will also receive \$716,000 from the Energy Overcharge Restitution Trust Fund in fiscal 2011. The remaining special funds in the agency will be generated from repayments to the Jane E. Lawton Conservation Loan Program (\$59,800) and the State Agency Loan Program (\$30,000) that are used to pay the costs of administering these programs.

The administration anticipates receiving \$480,900 as part of ongoing federal fund revenues, primarily from the State Energy Program.

The Maryland Energy Administration received a variety of federal grants from the American Recovery and Reinvestment Act of 2009, with the largest grant from the State Energy Program funds. In fiscal 2011, the agency expects approximately \$19.6 million of the American Recovery and Reinvestment Act funds to be available for use, more than half of which is from the State Energy Program Grant (approximately \$10.8 million). Other grants will be used for activities including rebates for the purchase of energy efficient appliances and local government energy efficiency improvements and technical assistance with those projects.

Sections of the Maryland Annotated Code

State Government Article, Sections 9-2001 through 9-2008

State Government Article, Sections 9-20B-01 through 9-20B-12

Legislative Handbook Series Cross-reference

Chapter 17 – Environment, Agriculture, Natural Resources, and Energy of this handbook for a discussion of the Regional Greenhouse Gas Initiative.

Volume II – Government Services in Maryland

Military Department

The Military Department is charged with maintaining a highly trained National Guard within the State that can be called upon in a time of emergency. Federal funds of \$12.2 million will be received as an operating subsidy from the National Guard Bureau in fiscal 2011. An additional \$1.8 million in federal funds will be received to support the Military Youth Corps. The Military Department also expects \$35.8 million in federal funds to support homeland security programs of the Maryland Emergency Management Agency.

The Maryland Emergency Management Agency also expects to receive \$12.6 million in special funds from the following revenue sources: (1) William H. Amoss Fire, Rescue, and Ambulance Fund; (2) Maryland Emergency Medical System Operations Fund; and (3) the Volunteer Company Assistance Fund. Additional special funds of \$174,000 are expected from armory rentals.

Sections of the Maryland Annotated Code

Generally, Public Safety Article, Titles 13 and 14; Generally, Article 16A

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of Veterans Affairs

The Department of Veterans Affairs operates the Charlotte Hall Veterans Home in St. Mary's County. The home provides domiciliary and comprehensive care to veterans who are unable to care for themselves or need skilled nursing care. Federal funds totaling \$8.7 million in fiscal 2011 will be used for services and the institutional operations of the Charlotte Hall Veterans Home. Approximately \$14,000 in special funds is expected for fiscal 2011 from gifts and bequests for the home.

The department will also receive \$652,500 in federal funds for interment of veterans and special funds of \$633,000 for interment of dependents in State veterans' cemeteries. Finally, the department will receive \$100,000 in special funds from the Maryland Veterans Trust Fund in fiscal 2011, which consists of gifts and grants received by the department. Money from the fund may be used to make grants and loans to veterans and their families, support public and private programs that service veterans in the State, or support Charlotte Hall Veterans Home.

Sections of the Maryland Annotated Code

Generally, State Government Article, Title 9, Subtitle 9

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Maryland Institute for Emergency Medical Services Systems

The Maryland Institute for Emergency Medical Services Systems expects about \$440,000 in special funds in fiscal 2011 from licensing commercial ambulances and other miscellaneous fees. The primary source of funding for the institute is the Emergency Medical System Operations Fund, which is funded from a \$22 biennial surcharge on motor vehicle registrations. The institute also will receive \$130,000 in fiscal 2011 in federal funds to provide emergency medical services for children and to improve trauma care in rural areas.

Sections of the Maryland Annotated Code

Education Article, Section 13-503 and Transportation Article, Section 13-954

Legislative Handbook Series Cross-reference

Chapter 10 – Transportation Revenues of this handbook for a discussion of the surcharge on motor vehicle registrations.

Volume II – Government Services in Maryland

Maryland Department of Planning

The Maryland Department of Planning anticipates special fund collections of \$1.1 million in fiscal 2011 from fees collected on goods and services provided and from revenues associated with several historical and cultural programs. The Maryland Department of Planning anticipates approximately \$294,800 in special fund revenues in fiscal 2011 from the sale of socio-economic, cultural, and geographic land use data and computerized property maps and \$100,000 in fee revenue associated with the Maryland Heritage Structure Rehabilitation Tax Credit Program. Approximately \$495,800 is also anticipated in special funds from fees charged by the Jefferson Patterson Park and Museum for various activities, approximately \$154,600 from donations to the Maryland Historical Trust Board's Preservation Fund, and \$58,100 from various small revenue

sources. The above estimate excludes PAYGO revolving loan fund revenue attributable to the Maryland Historical Trust Revolving Loan Fund and \$3.0 million in property transfer tax revenue expected for the Maryland Department of Planning's Maryland Heritage Areas Program in fiscal 2011.

The department also expects approximately \$915,400 in federal fund income in fiscal 2011, which includes approximately \$770,200 from the U.S. Department of the Interior for historic preservation projects and \$145,200 from the U.S. Department of Defense for the same purpose.

Sections of the Maryland Annotated Code

State Finance and Procurement Article, Section 5-304

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of Budget and Management

The Central Collection Unit collects delinquent debt (other than overdue taxes) that is owed to various State agencies. For some agencies, including nonbudgeted agencies, collections are returned to the agency after deduction of a collection fee, which may not exceed 20% of the outstanding principal and interest. All fees collected are credited to the Central Collection Fund, which is a continuing, nonlapsing fund. Special funds of \$11.3 million are expected in fiscal 2011 from these fees.

Sections of the Maryland Annotated Code

State Finance and Procurement Article, Sections 3-301 through 3-306

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Department of Information Technology

The Department of Information Technology is projected to receive special fund appropriations totaling \$7.3 million in fiscal 2011 from public telephone utilities for the Universal Service Trust Fund. This fund supports the Telecommunications Access of Maryland program which provides relay services, telecommunications device for the deaf equipment, and outreach services for deaf individuals. Revenues are generated through a monthly surcharge on telephone lines.

The department's Network Division is responsible for maintaining a high-speed telecommunications network. The division is reimbursed by the users of the system. These users include local government agencies, such as the circuit courts, which are budgeted as special funds. The fiscal 2011 budget anticipates approximately \$300,000 in special funds in fiscal 2011.

Sections of the Maryland Annotated Code

State Finance and Procurement Article, Sections 3A-501 through 3A-506

General Services

The Department of General Services is projected to receive \$593,000 in special funds from online sales of State and federal surplus tangible personal property. Special funds of \$661,000 are expected from the lease of commercial space, rental income, and other miscellaneous revenues. The department will also receive \$2.5 million in special funds from the Strategic Energy Investment Fund.

The department will also receive federal funds of approximately \$1 million from the Medical Assistance Program for rent charges in fiscal 2011.

Sections of the Maryland Annotated Code

State Finance and Procurement Article, Sections 4-504 through 4-508

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Maryland Insurance Administration

The Maryland Insurance Administration expects a total of \$27.8 million in special funds in fiscal 2011. Approximately \$26.3 million is from the Insurance Regulatory Fund assessments on insurance companies subject to administration regulation and \$1.5 million is from the Health Care Regulatory Fund assessments on health care benefit plans.

Sections of the Maryland Annotated Code

Insurance Article, Sections 2-101 through 2-215

Legislative Handbook Series Cross-reference

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Maryland Health Insurance Program

As of October 1, 2008, the Maryland Health Insurance Program became an independent State agency and no longer organizationally part of the Maryland Insurance Administration. The Maryland Health Insurance Program expects to receive just over \$145.0 million in special fund revenue in fiscal 2011. Of this, \$126.7 million is revenue generated by a 1% hospital assessment that is dedicated to the State's high-risk pool program or Maryland Health Insurance Plan. The remaining \$18.3 million supports the Senior Prescription Drug Assistance Program and is derived from a portion of the revenue contributed to the State by CareFirst equal to that company's exemption from the 2% premium tax paid by other health insurance companies, plus an additional \$4.0 million provided by CareFirst that is statutorily required to fund coverage gap assistance.

Federal fund grant assistance of \$3 million is also available in fiscal 2011 to the Maryland Health Insurance Plan, specifically from the Grant to States for the Operation of Qualified High-risk Pools.

Sections of the Maryland Annotated Code

Insurance Article, Sections 14-501 through 14-515

Legislative Handbook Series Cross-reference

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Maryland Public Television

Viewer support contributions are projected at \$5.8 million (special funds) in fiscal 2011 as a result of solicitations made to the public in viewing areas.

Special fund revenues of \$3.5 million are expected from corporate sponsorship. Local and national corporations or charitable foundations provide both one-time and ongoing general support grants to acquire or produce programming.

The nonprofit Corporation for Public Broadcasting receives federal funds and makes awards in four ways: direct operating grants, program purchases and underwriting of original programming, equipment replacement, and special underwriting of specific programming. Maryland Public Television accounts for these funds as special funds, and it expects \$3.5 million in fiscal 2011. Other federal grants total \$2.1 million for fiscal 2011.

Program royalties and other contributions are expected to generate special funds of \$500,000, and additional grants amount to \$200,000. The two major types of royalties include (1) sales of written material such as study guides, books, and program transcripts; and (2) distribution and sales of television programs. Production costs are recouped by marketing television programs produced by the station to other public television stations and foreign programmers.

Maryland Public Television also expects special funds of \$2 million in interest income and other miscellaneous revenues that will be used to support its general operations.

Sections of the Maryland Annotated Code

Education Article, Title 24, Subtitle 2

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Miscellaneous

The executive and administrative control agencies also receive revenues from various miscellaneous sources. These sources, which are projected to generate a total of \$13.7 million in fiscal 2011, are listed in Exhibit 19.6.

Exhibit 19.6
Executive and Administrative Agencies
Miscellaneous Revenue Estimates
Fiscal 2011
(\$ in Millions)

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Revenues by Agency				
Department of Disabilities	\$0.1	\$0	\$0	\$0.1
Maryland Public Television	0.2	0	0	0.2
Executive – Boards, Commissions, and Offices	0.2	0	0	0.2
Secretary of State	2.0	0.3	0	2.3
Historic St. Mary's Commission	0	0.7	0	0.7
Governor's Office for Children	0	0	0.9	0.9
Commission on Human Relations	0	0	0.7	0.7
Military Department	0	0	0	0
State Archives		6.0	0	6.0
Canal Place Preservation and Development Authority – Rent Income	0	0.5	0	0.5
Office of Administrative Hearings	2.0	0.1	0	2.1
Total	\$4.5	\$7.6	\$1.6	\$13.7

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

Source: *Fiscal 2011 State Budget Books*

Retirement

Maryland State Retirement Agency

The Maryland State Retirement Agency's fiscal 2011 operations will be funded with special fund revenues of \$25.7 million, which are funded from the State Retirement and Pensions Systems' \$33.7 billion estimated fiscal 2010 ending fund balance.

Sections of the Maryland Annotated Code

State Personnel and Pensions Article, Sections 21-101 to 21-604

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume V – Maryland State Personnel, Pensions, and Procurement

Board of Trustees of the Maryland Teachers' and State Employees' Supplemental Retirement Plans

Special fund revenues of \$1.5 million are expected in fiscal 2011 from participants in the supplemental retirement plans for the implementation, maintenance, and administration of the plans. These special fund revenues cover all of the plans' expenses.

Sections of the Maryland Annotated Code

State Personnel and Pensions Article, Titles 21, 22, and 23

Legislative Handbook Series Cross-reference

Volume II – Government Services in Maryland

Volume V – Maryland State Personnel, Pensions, and Procurement

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