

Conference Committee

Report on

House Bill 40 – the Budget Bill

House Bill 753 – Taxes and Revenue

**House Bill 935 – the Budget Reconciliation and
Financing Act of 2003**

Maryland General Assembly

Annapolis, Maryland

April 5, 2003

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Summary of FY 2004 Budget As Adopted by the Conference Committee

- The budget Conference Committee adopted a \$22.4 billion budget for fiscal 2004. The budget reflects \$264 million in reductions some of which are contingent on provisions in the Budget Reconciliation Act (HB 935).
- The fiscal 2004 \$10.5 billion general fund budget approved by the Conference Committee is only \$86 million higher than the fiscal 2003 budget -- budget growth of less than 1%.
- Spending subject to spending affordability limits also grows less than 1% and is \$224 million under the 2.5% limit recommended by the Spending Affordability Committee.
- Although overall spending growth is significantly constrained State aid for the public schools grows \$206 million, an increase of 6.6%. Medicaid spending grows over 8%.
- Transfers to the general fund authorized through the Budget Reconciliation Act (HB 935) are \$416 million in fiscal 2003 and \$336 million in fiscal 2004. Most of these transfers were proposed by the Governor.
- Revenue enhancements implemented through the reconciliation act (HB 935) and HB 753 total \$291 million.
- The spending reductions, transfers, and revenues result in a fiscal 2004 fund balance of over \$30 million and the State's rainy day fund remains at 5% of general fund revenues.
- In contrast to the Administration's budget proposal there is no reliance on revenue from video lottery terminals or the rainy day fund.

Final Budget Status Status as of April 5, 2003

	<u>FY 2003</u>	<u>FY 2004</u>
Starting General Fund Balance	\$309,140,285	\$1,399,658
Revenues (2002 & 2003)		
BRE Estimated Revenues - December 2002/Tech adj	9,476,997,952	10,029,211,944
BRE Revenue Revision - March 2003	(106,132,000)	(111,887,000)
Budget Reconciliation and Financing Act of 2002	85,200,000	0
Budget Reconciliation and Financing Act of 2003 Transfers	415,881,791	336,362,668
Budget Reconciliation and Financing Act of 2003 Revenues	0	163,033,872
Other Legislation - New Revenues	0	127,915,533
Additional revenues	4,856,051	10,657,301
	\$9,876,803,794	\$10,555,294,318
 Net Transfer to the GF from the Rainy Day Fund 2002 Session	 67,971,223	 0
Subtotal Available Revenues	\$10,253,915,302	\$10,556,693,976
 Appropriations		
General Fund Appropriations Net of Rainy Day Fund	10,441,219,044	10,958,326,278
Deficiencies	76,564,589	0
Supplemental Budget No. 1	10,524,259	(179,673,639)
BPW withdrawn appropriations	(217,522,863)	(20,779,149)
BRFA withdrawn appropriations	(5,025,058)	0
Legislative Reductions/BRFA Contingent Reductions	(668,319)	(200,306,095)
Estimated agency reversions	(52,576,008)	(35,000,000)
Subtotal Appropriations	\$10,252,515,644	\$10,522,567,395
 Closing General Fund Balance	 \$1,399,658	 \$34,126,581

Budget Funding Summary
(\$ in Millions)
FY 2003

	<u>Administration</u>	<u>House</u>	<u>Senate</u>	<u>Conference</u>	<u>Difference from Admin.</u>
Budget Reconciliation					
Transfers (BRFA -- HB 935)	\$366.0	\$404.9	\$416.9	\$415.9	\$49.8
Transfer from Revenue Stabilization	106.1	106.1	6.0	0.0	(106.1)
Additional Spending Reductions	1.5	7.2	7.4	7.2	5.7
Total Actions	473.7	518.2	430.3	423.1	(50.6)
Fund Balance	\$52.0	\$96.5	\$8.6	\$1.4	(\$50.6)

FY 2004

	<u>Administration</u>	<u>House</u>	<u>Senate</u>	<u>Conference</u>	<u>Difference from Admin.</u>
Budget Reconciliation					
Fiscal 2003 Fund Balance	\$52.0	\$96.5	\$8.6	\$1.4	(\$50.6)
Property Tax Increase for Debt Service	165.8	165.8	165.8	165.8	0.0
Transfers (BRFA -- HB 935)	333.9	323.8	318.7	336.4	2.5
Video Lottery (SB 322)	165.0	0.0	15.0	0.0	(165.0)
Misc. Revenue Adjustments	0.0	0.9	0.8	2.7	2.7
Revenues (HB 753/HB 935)	135.5	259.0	268.2	290.9	155.4
Spending Reductions ¹	105.2	205.3	183.7	200.3	95.1
Total Actions	905.3	954.8	952.1	996.1	90.8
Fund Balance²	(\$6.1)	\$87.9	(\$2.7)	\$34.1	\$40.2
Est. Rainy Day Fund Balance -- 6/30/03	\$384.4	\$384.4	\$484.4	\$490.5	\$106.1

¹ Additional spending reductions under administration plan reflect \$20 million in reductions that are contingent on legislation and \$85 million assumed legislative reductions.

² The budget plans developed by the Administration and the Senate initially had a positive fund balance. Subsequent downward revisions in revenue estimates account for the negative fund balances shown here.

Operating Budget Affordability Limit

(\$ in Millions)

<u>Funds</u>	<u>2002 Session</u>	<u>2003 Session</u>	<u>\$ Change</u>	<u>% Change</u>
General	\$10,558.2	\$10,421.5	-\$136.7	-1.29%
Special	2,492.6	2,605.8	113.2	4.54%
Higher Education	<u>1,276.0</u>	<u>1,433.6</u>	<u>157.6</u>	<u>12.35%</u>
SAC Growth	\$14,326.8	\$14,460.9	\$134.1	0.94%
SAC Limit	\$14,326.8	\$14,685.0	\$358.2	2.50%

Fiscal Note

Summary of the Budget Bill -- House Bill 40

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Education Funds</u>	<u>Total Funds</u>
Governor's Request:					
FY 2003 Deficiency Budget	\$76,564,589	\$0	\$5,032,000	\$0	\$81,596,589
FY 2004 Budget	<u>10,902,547,129</u> (1)	<u>3,775,336,038</u> (2)	<u>5,497,450,290</u>	<u>2,461,351,905</u>	<u>22,636,685,362</u>
Original Budget Request	\$10,979,111,718	\$3,775,336,038	\$5,502,482,290	\$2,461,351,905	\$22,718,281,951
Supplemental Budget No. 1:					
FY 2003 Deficiency Budget	\$10,524,259	\$0	\$0	\$0	\$10,524,259
FY 2004 Budget	<u>-179,673,639</u>	<u>194,671,951</u>	<u>0</u>	<u>0</u>	<u>14,998,312</u>
	-\$169,149,380	\$194,671,951	\$0	\$0	\$25,522,571
Budget Reconciliation and Financing Act of 2003:					
FY 2003 Withdrawn Appropriations	<u>-\$5,025,058</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>-\$5,025,058</u>
Total BRFA Actions	-\$5,025,058	\$0	\$0	\$0	-\$5,025,058
Conference Committee Reductions:					
FY 2003 Deficiency Budget	-\$668,319	\$0	\$0	\$0	-\$668,319
FY 2004 Budget	-158,867,571	-34,465,167	-35,270,960	0	-228,603,698
FY 2004 Contingent Reductions	<u>-41,438,524</u> (3)	<u>6,350,000</u>	<u>0</u>	<u>0</u>	<u>-35,088,524</u>
Total Reductions	-\$200,974,414	-\$28,115,167	-\$35,270,960	\$0	-\$264,360,541
Appropriations:					
FY 2003 Deficiency Budget	\$81,395,471	\$0	\$5,032,000	\$0	\$86,427,471
FY 2004 Budget	<u>10,522,567,395</u>	<u>3,941,892,822</u>	<u>5,462,179,330</u>	<u>2,461,351,905</u>	<u>22,387,991,452</u>
Total Appropriation	\$10,603,962,866	\$3,941,892,822	\$5,467,211,330	\$2,461,351,905	\$22,474,418,923

(1) Reflects general fund reversions of \$35 million and an across-the-board reduction of \$12 million in telecommunications as submitted by the Governor in the original bill. In addition, language in the bill as introduced made \$15.8 million in reductions for community colleges, BCCC, and Aid to Non-Public Colleges and Universities contingent on the withdrawal of funds from higher education in fiscal 2003. That contingency was satisfied and the reductions are reflected. Finally, Supplemental Budget No. 1 amended contingent language in the original bill to implement a \$5 million reduction in the Maryland After School Opportunity Fund.

(2) Reflects special fund contingent reductions as submitted by the Governor in the original budget bill. Includes \$61.5 million from program open space, \$14.7 from the agricultural land preservation program, \$2.0 million from the Racing Redevelopment Fund, and \$102.4 from local highway user revenues.

(3) \$41.4 million in general fund appropriations in the budget bill are contingent on reductions in the Budget Reconciliation and Financing Act of 2003. This includes \$30,565,078 for the Teacher's Salary Challenge program, \$1,225,000 for circuit court rent costs, \$1,350,000 reflecting 25% local contributions for law clerk salaries, \$5,000,000 for increased land records fees to support the Judiciary operating budget, reductions of \$133,000 and \$700,000 for actions on the Medicaid program, and \$2,465,446 for local contributions toward the cost of the State Police Crime Lab.

General Fund Budget Reductions
House Bill 40
Fiscal 2004
(\$ in Millions)

	<u>House</u>	<u>Senate</u>	<u>Conf. Com.</u>
<u>Local Aid</u>			
Reduce Disparity Grants Provided Above Formula Requirement	\$5.0	\$0.0	\$5.0
Reduce Police Aid to Recover 30% of State Crime Lab Costs from Counties*	2.5	0.0	2.5
Prosecution of Gun Offenses/Criminal Caseload Management -- Baltimore City	0.0	1.0	0.0
Reduce Local Aid Through Property Tax Credit	0.0	0.0	10.0
Education Aid Formula Revisions -- New Enrollment Data	6.3	5.2	5.2
Teacher's Salary Challenge -- Accelerate Funding Phase-Out*	15.3	30.6	30.6
School Performance Recognition Awards (50% Reduction)	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>
	\$30.5	\$38.1	\$54.6
<u>Entitlements</u>			
Medicaid			
Nursing Home Reimbursements -- Continue Fiscal 2003 Cost Containment	\$5.3	\$5.3	\$5.3
Reduce Funding for Managed Care Rates	4.0	2.0	3.0
Delete Increase for Medical Day Care and Home Health Care Providers	0.8	0.0	0.0
Scale Back Expansion of Waiver for Older Adults	1.8	2.4	1.8
Maryland Community Choices Medicaid Waiver (use prior year funds)	1.6	1.6	1.6
Maryland Children's Health Insurance Program	3.8	4.3	3.8
Medbank Program -- Fund with Health Choice Performance Incentive Fund	2.0	1.2	1.2
Pursue Supplemental Drug Rebates/Require More Prior Authorizations	0.0	2.0	0.0
Reduce Funding for Pharmacy Reimbursements to Reflect Higher Discount	2.2	2.2	2.2
Extend Pharmacy Co-Payments to Managed Care Enrollees*	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
	\$22.2	\$21.7	\$19.6
<u>Higher Education</u>			
Reduction in General Fund Support for USM and Morgan St. Mary's College	\$39.4	\$2.1	\$5.0
	0.7	0.0	0.1
Private Donation Incentive Program -- Updated Information	0.4	0.4	0.4
Limit Increase in HBCU Enhancement Funds	0.0	1.0	0.5
No New HOPE Scholarships Except for Teachers	0.8	0.8	0.8
Private Colleges and Universities	<u>15.0</u>	<u>10.1</u>	<u>11.0</u>
	\$56.3	\$14.4	\$17.8
<u>State Agencies</u>			
Position Reductions/Turnover	\$20.0	\$20.0	\$20.0
Cell Phone Savings -- Across the Budget	0.3	0.5	0.3
Discontinue Council on Management and Productivity	0.2	0.2	0.2
Eliminate Deferred Compensation Match for FY 2004	9.2	9.2	9.2
No Transfers to Trans. Trust Fund for Free Employee Mass Transit Services	1.4	1.4	1.4
Require Local 25% Local Match for Circuit Court Law Clerks*	0.0	1.4	1.4
Reduce State Subsidy of Maryland Legal Services Corporation	0.6	1.2	0.9
Increase Land Record Surcharge from \$15 to \$20 and Save General Funds*	5.0	5.0	5.0
Delay Rent Payments for Clerks of Court Office Space*	1.2	1.2	1.2

	<u>House</u>	<u>Senate</u>	<u>Conf. Com.</u>
Fund IT Projects in Judiciary with Special Funds	1.1	1.1	1.1
Other Reductions to Judiciary Budget	3.8	5.5	5.5
Reduce Funds for Final Payment for Fixed Wing Aircraft	2.8	2.8	2.8
Fund Larger Share of State Police Aviation Division from EMS Fund	1.9	1.9	1.9
Scale Back Governor's \$3.5 million DJJ Initiative	1.5	1.5	1.5
Delay MSDE Takeover of Hickey School Education Program	2.7	6.5	6.5
Eliminate Funding for Break-the-Cycle & Evening Reporting Centers (DJJ)	1.5	1.1	1.5
Reduce Funding for New Programming at Victor Cullen (DJJ)	1.9	1.9	1.9
Reduce Funding for DDA Wage Initiative from \$11.1 million to \$10 million	1.1	1.1	1.1
Reduce Funding for Expansion of DDA Community Services	3.0	0.0	3.0
Substance Abuse Treatment Outcomes Partnership -- Level Fund	5.6	5.6	5.6
Core Service Agencies That Coordinate Mental Health Services	1.5	3.0	2.3
Reduce Fatherhood and Responsible Choices (nonmarital birth) Initiatives	0.5	1.0	0.5
Reduce Funding for Local Management Board Administration	3.8	3.8	3.8
Reduce Office for Children, Youth, and Families Administrative Expenses	0.6	1.0	1.0
Sexually Transmitted Disease Program	0.3	0.3	0.3
Women, Infants, & Children Program (WIC) -- Federal Funds Sufficient	0.8	0.8	0.8
Reduce Funding for State Assisted Living Subsidy Program	0.4	0.8	0.8
Scale Back Contract with Towson University for Cash Assistance Forecasts	0.7	0.4	0.7
Use Affordable Housing Fund to Fund Rental Assistance & Self-Help Programs	1.8	2.8	2.3
Eliminate Mediation and Conciliation Program (DLLR)	0.2	0.2	0.2
Other Reductions	<u>10.1</u>	<u>12.9</u>	<u>11.4</u>
	\$85.3	\$95.9	\$95.7
<u>Grants</u>			
Cover Crop Program -- Reduce Funding	\$0.3	\$0.4	\$0.4
Eliminate Funding for Conservation Reserve Bonus Payments	1.3	1.0	1.3
Susquehanna River Basin Compact -- 25% Reduction	0.0	0.1	0.0
Baltimore City Lead Enforcement Grant	0.1	0.0	0.1
Reduce Neighborhood Grants -- Drug & Alcohol Abuse (GOCCP Grants)	0.9	0.4	0.7
Special Olympics & Best Buddies International (DDA)	0.3	0.0	0.2
State Aided Institutions -- Reduce Funding	0.5	1.0	0.8
Rural Development Program Grants (Board of Public Works)	0.1	0.0	0.1
Reduce Funding for Technology Development Corporation (TEDCO)	0.0	0.3	0.0
Reduce Various DBED Grants	0.4	1.1	0.6
Arts Council	3.0	4.6	3.5
Eliminate Funds for Russian Immigrant Program (DLLR)	0.0	0.2	0.0
UMB Wellmobile Program (Board of Public Works)	0.0	0.3	0.0
Fund Firemen's Association Emergency Grants through EMS Fund*	<u>0.0</u>	<u>0.4</u>	<u>0.4</u>
	\$6.9	\$9.7	\$8.1
<u>PAYGO Capital</u>			
Economic Development Capital Grants -- Includes \$3 mil. from Sunny Day	\$3.8	\$3.9	\$4.3
Lead Hazard Abatement -- Baltimore City (Supplemental Budget #1)	<u>0.4</u>	<u>0.0</u>	<u>0.2</u>
	\$4.2	\$3.9	\$4.5
Total	\$205.3	\$183.6	\$200.3

*Contingent on language in the Budget Reconciliation and Financing Act (HB 935)

General Fund Taxes and Revenues HB 935 and HB 753

(\$ in Millions)

	<u>House</u>	<u>Senate</u>	<u>Conf. Com.</u>
Withhold from Proceeds of Sales of Real Estate by Nonresidents	\$10.0	\$10.0	\$10.0
Withholding Taxes Be Remitted Per Accelerated Filing Schedule	6.5	6.5	6.5
Streamline Bank Attachment Process	10.0	10.0	10.0
Expand License Clearances	10.0	10.0	10.0
Permit Direct Salary Attachment for Other Taxes	1.5	1.5	1.5
Increase Safe Harbor	5.0	5.0	5.0
Withholding from Out-of-state Contractors	3.5	3.0	3.0
Limit Withholding Exemptions of Tax Delinquents	1.0	1.0	1.0
Electronic Fund Transfer Threshold from \$20,000 to \$10,000	0.7	0.7	0.7
Advance Sales Tax Due Date by One Day	0.3	0.3	0.3
Require Withholding Against Racetrack Winnings	0.2	0.2	0.2
Less Reduction for Tax Compliance Overlap	-4.8	-4.8	-4.8
Subtotal Tax Compliance/Administrative Items (HB 935)	\$43.8	\$43.3	\$43.3
Corporate Filing Fees	125.7	47.7	59.4
10% Corporate Income Tax Surcharge (Three Years)	0.0	33.4	44.0
Cap Heritage Tax Credit for Commercial Properties	0.0	22.8	3.4
Eliminate Graduated Withholding -- One Time Effect	0.0	52.0	52.0
Vital Records Fees	4.4	4.4	4.4
Vehicle ID Cards -- Alcoholic Beverage Transport	1.2	0.5	0.5
Corporate Tax Changes to Address Tax Avoidance	35.0	5.0	35.0
HMO/MCO Subject to 2% Premium Tax	48.9	48.9	48.9
Increase Tobacco Tax Rate for Products Other Than Cigarettes	0.0	10.2	0.0
Grand Total Revenues (HB 935 & HB 753)	\$259.0	\$268.2	\$290.9

**Transfers to the General Fund
Budget Reconciliation and Financing Act (HB 935)**

(\$ in Millions)

<u>Fiscal 2003</u>	<u>Admin. Proposal</u>	<u>House</u>	<u>Senate</u>	<u>Conf. Com.</u>
Program Open Space -- Transfer Tax Overattainment	\$38.7	\$38.7	\$38.7	\$38.7
Program Open Space -- Unexpended balances	3.0	3.0	3.0	3.0
Maryland Heritage Areas Authority	0.0	0.0	0.0	0.0
Maryland Agricultural Land Preservation Fund	10.0	18.8	18.8	18.8
Waterway Improvement Fund	8.0	8.0	8.0	8.0
Business and Economic Development Capital Funds				
MD Competitive Advantage Fund (MCAFF)	0.5	0.5	0.5	0.5
MD Small Business Development Fund (MSBDFA)	1.0	1.0	1.0	1.0
MD Economic Assistance Authority Fund (MEDAAF)	2.0	4.0	4.0	4.0
Enterprise Investment Fund	2.0	2.0	2.0	2.0
Smart Growth Econ. Dev. Infrastructure Fund (One MD)	2.6	2.6	2.6	2.6
Sunny Day Fund	0.0	10.0	10.0	10.0
Housing and Community Development Capital Funds				
Home Ownership Programs Fund	2.0	2.0	2.0	2.0
Maryland Housing Fund		10.0	10.0	10.0
Transportation Trust Fund	150.0	150.0	160.0	160.0
Highway User Revenues (Transportation) Overattainment	17.9	17.9	17.9	17.9
Injured Workers' Insurance Reserve	75.0	75.0	75.0	75.0
University System of Maryland	29.0	29.0	29.0	29.0
Information Technology -- Major Projects Fund	10.2	23.6	23.6	23.6
911 Emergency Number Fund	5.0	0.0	0.0	0.0
State Use Industries	2.0	2.0	2.0	2.0
Cigarette Restitution Fund	1.4	1.4	1.4	1.4
Dedicated Purpose Fund	0.9	0.9	0.9	0.9
Racing Commission	1.7	1.7	1.7	1.7
Adjustment to Planned Transfer from Racing Redev. Fund	(1.5)	(1.5)	(1.5)	(1.5)
Health Choice Performance Incentive Fund	1.7	0.0	0.0	0.0
Health Board Balances	0.0	0.0	2.1	1.0
Universal Service Trust Fund	3.0	3.0	3.0	3.0
Vehicle Theft Prevention Fund	<u>0.0</u>	<u>1.3</u>	<u>1.3</u>	<u>1.3</u>
Subtotal	366.0	404.9	416.9	415.9
 <u>Fiscal 2004</u>				
Transportation Trust Fund*	150.0	150.0	144.9	162.6
Local Share of Highway User Revenues	102.4	102.4	102.4	102.4
Transfer Tax Revenues to General Fund	55.6	55.6	55.6	55.6
Waterway Improvement Fund	10.0	11.0	11.0	11.0
Lottery Unclaimed Prize Fund	10.0	0.0	0.0	0.0
Maryland Automobile Insurance Fund	3.0	0.0	0.0	0.0
State Use Industries	2.0	2.0	2.0	2.0
Affordable Housing Trust	0.5	0.0	0.0	0.0
MD Higher Education Supplemental Loan Authority	0.0	1.0	1.0	1.0
Racing Commission	0.4	0.2	0.4	0.4
Vehicle Theft Prevention Fund	<u>0.0</u>	<u>1.6</u>	<u>1.4</u>	<u>1.4</u>
Subtotal	333.9	323.8	318.7	336.4
Total Transfers	\$699.9	\$728.7	\$735.6	\$752.2

*\$154.9 million of the transfer authorized under HB 935. The remaining \$7.7 million authorized in HB 735.