
PAYGO Overview

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

February 2005

Note: Numbers may not sum to total due to rounding.

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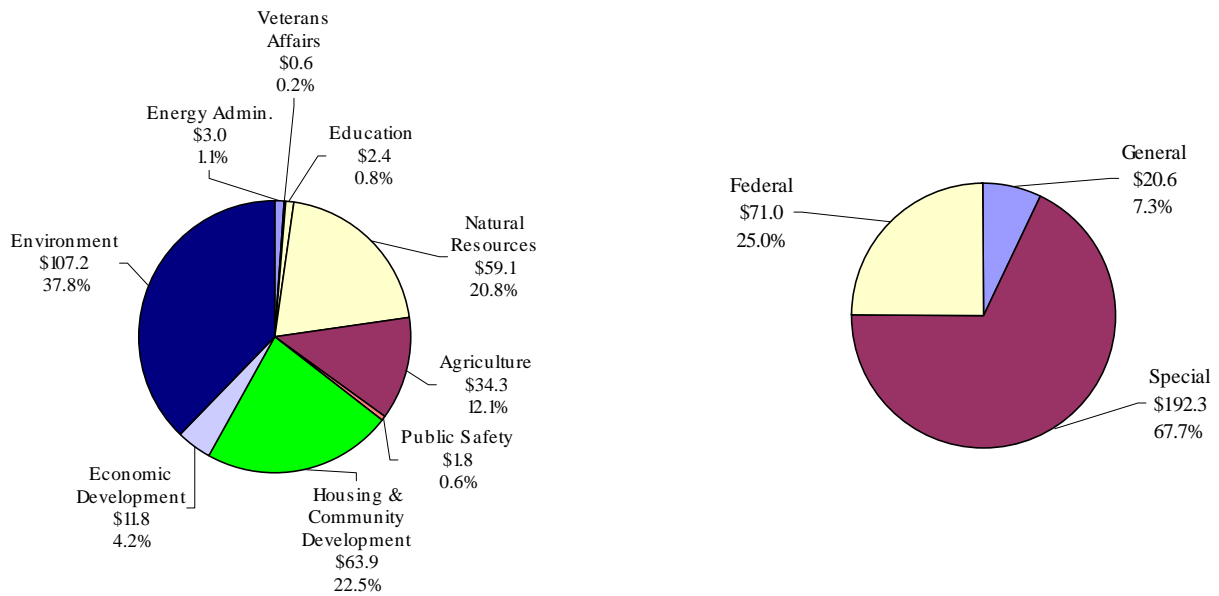
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Analysis of the FY 2006 Maryland Executive Budget, 2005

Fiscal 2006 Capital PAYGO Program

As shown in **Exhibit 1**, the Governor's proposed fiscal 2006 operating budget provides \$283.9 million to support the capital program. The four largest funding recipients include (1) the Maryland Department of the Environment (MDE), which receives an allowance of \$107.2 million, or 37.8% of total funding; (2) Department of Housing and Community Development (DHCD), which receives \$63.9 million, or 22.5% of total funds; Department of Natural Resources (DNR), which receives \$59.1 million, or 20.8% of total funds; and (4) Department of Agriculture, which receives \$34.3 million, or 12.1% of total funds.

Exhibit 1
Fiscal 2006 Capital PAYGO Program Funding Allowances
(\$ in Millions)



Source: Department of Budget and Management

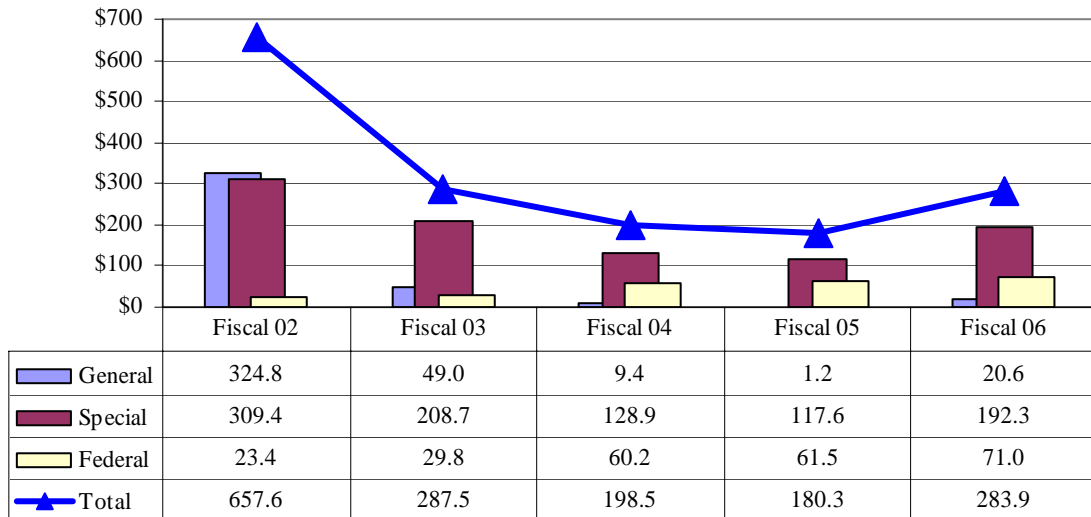
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- Over two-thirds (67.7%) of total funds, \$192.3 million, are derived from special fund sources. The special fund allowance includes \$41.1 million of transfer tax revenues budgeted for capital PAYGO program purposes and reflects the contingent transfer of \$163.3 million of these revenues to the State general fund. The proposed transfer is contingent upon legislation altering the distribution of transfer tax revenues and would continue the recent policy of diverting most of the State transfer tax revenue to the general fund. The Administration articulated its long-term plan for the distribution of transfer tax revenues in House Bill 148/Senate Bill 127 which is part of the budget reconciliation legislation. The plan calls for a gradual reduction in the percentage of transfer tax revenues that would be diverted to the general fund: 75% in fiscal 2006, 66.67% in fiscal 2007, 50% in fiscal 2008, and 25% in fiscal 2009. The plan also permanently transfer over-attainment revenue to the State general fund
- The allowance also includes \$35.3 million of special fund revenues from the Bay Restoration Fund established by Chapter 428 of 2004. The remaining funds primarily represent revolving funds from the financing programs administered by the Maryland Energy Administration (MEA), the Department of Business and Economic Development (DBED), DHCD, the Department of Agriculture, and DNR.
- As has been the case since fiscal 2003, the use of general funds to support the capital program is greatly restricted in the Governor's fiscal 2006 budget. Of the \$20.6 million included in the fiscal 2006 allowance, \$20.0 million funds the Heritage Reserve Fund. Legislation establishing this fund, Chapter 76 of 2004, requires the Governor to include in the 2006 budget bill at least \$20 million to fund historic preservation tax credits available through the Maryland Heritage Structure Rehabilitation Tax Credit Program administered by DHCD.

Fiscal 2002 through 2006 Capital PAYGO Program Funding Trends

As shown in Exhibits 2 and 3, total funding for the capital PAYGO program has declined dramatically since the onset of the recent economic downturn. From fiscal 2002 through the current fiscal 2005 budget, total PAYGO funding declined by \$477.3 million (were it not for the embargo of \$324 million of fiscal 2002 PAYGO general fund appropriations required pursuant to budget reconciliation and financing legislation of 2002, the difference between fiscal 2002 and 2005 funding would be \$801.3 million). Specific trends include the following.

Exhibit 2
Non-transportation Capital PAYGO Program
Fiscal 2002 through 2006 Appropriation
 (\$ in Millions)



Note: Fiscal 2002 PAYGO funding is adjusted to reflect the embargo and reversion of \$324 million of PAYGO general funds required by budget reconciliation and financing legislation in 2002.

Source: Department of Budget and Management

**Exhibit 3
PAYGO – All Funds
Comparison by Agency**

Fiscal 2002 through Fiscal 2006 Allowance

<u>Department</u>	<u>Fiscal 2002 Appropriation¹</u>	<u>Fiscal 2003 Appropriation²</u>	<u>Fiscal 2004 Appropriation</u>	<u>Fiscal 2005 Appropriation³</u>	<u>Fiscal 2006 Allowance</u>	<u>Change FY05-FY06</u>
Office for Individuals with Disabilities	\$1,600,000	\$0	\$0	\$0	\$0	\$0
Energy Administration	2,100,000	1,000,000	2,000,000	3,000,000	3,000,000	0
Historic St. Mary's Commission	765,000	0	0	0	0	0
Veterans Affairs	0	0	0	0	631,000	631,000
General Services	15,875,000	1,700,000	300,000	300,000	0	(300,000)
Education	85,745,000	15,936,000	2,400,000	2,400,000	2,400,000	0
Military	0	2,547,000	0	0	0	0
Canal Place	2,479,000	1,075,000	0	0	0	0
Natural Resources	114,328,300	53,034,291	14,538,000	22,313,000	59,122,796	36,809,796
Agriculture	33,345,723	23,325,374	17,515,000	27,008,000	34,256,514	7,248,514
Public Safety and Correctional Services	11,093,000	3,441,000	2,100,000	0	1,754,000	1,754,000
Higher Education	95,111,000	15,338,000	0	0	0	0
Maryland Public Broadcasting	9,817,000	0	0	0	0	0
Housing and Community Development	59,562,500	47,118,299	34,124,000	39,243,000	63,850,000	24,607,000
Business and Economic Development ⁴	30,032,436	31,486,749	25,500,000	11,750,000	11,750,000	0
Environment	129,033,000	59,550,000	72,835,000	72,733,000	107,137,000	34,404,000
Juvenile Justice	3,300,000	0	0	0	0	0
Labor, Licensing, and Regulation	2,446,000	1,400,000	0	0	0	0
Public Safety Communication System	2,900,000	0	0	400,000	0	(400,000)
State Police	1,700,000	0	0	1,000,000	0	(1,000,000)
Local Projects	15,550,000	2,500,000	0	200,000	0	(200,000)
Total Non-transportation Programs	\$616,782,959	\$259,451,713	\$171,312,000	\$180,347,000	\$283,901,310	\$103,554,310
Adjusted Non-transportation Programs	\$657,862,959	\$287,326,709	\$198,537,000	\$180,372,000	\$283,901,310	\$103,554,310

¹ Reflects the embargo/reversion of \$324 million of fiscal 2002 general fund PAYGO appropriations to the State general fund.

² Reflects the embargo/reversion of \$759,956 of fiscal 2003 general fund PAYGO appropriations to the State general fund.

³ Reflects the transfer to the general fund of 2005 transfer tax revenues, including the overattainment and the shift of many DBED financing programs and funding for the Maryland Technology Development Corporation (TEDCO) into the operating budget.

⁴ Fiscal 2003 through 2004 figures have been adjusted to reflect the shift in the manner in which many DBED and TEDCO programs are being funded in fiscal 2005.

Source: Department of Legislative Services

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- **General Funds:** The use of PAYGO general funds to support the capital program has almost been completely eliminated as a result of the State's current fiscal situation. This trend began with the embargo of \$324 million of fiscal 2002 PAYGO general fund appropriations and reversion of these funds to the State general fund. Even with the embargo, the fiscal 2002 budget still provided \$324.8 million in general funds. In fiscal 2003, the use of general funds totaled just \$49 million and was restricted primarily for housing and economic development programs. By fiscal 2005 the use of general funds in the State's capital program was, as a matter of fiscal policy, completely eliminated.¹ Most of the DBED and the Maryland Technology Development Corporation (TEDCO) financing programs are now classified as business incentive programs and are, therefore, no longer considered capital expenditures since they do not fund typical bricks and mortar capital construction projects. Economic development programs and DHCD financing programs that do fund capital related expenditures are currently funded with general obligation (GO) bond funds in lieu of general funds. The Governor's fiscal 2006 allowance provides \$20 million to support historic preservation tax credits as required by Chapter 76 of 2004.
- **Special Funds:** A significant decline in the use of PAYGO special funds, beginning in fiscal 2003, primarily reflects the diversion of State transfer tax revenues to the general fund. These transfers were made to help balance the State's fiscal 2003 through 2005 operating budgets. Overall, an estimated \$389.3 million of transfer tax revenues, that would otherwise have funded various environment and land acquisition programs, have been redirected to the State general fund from fiscal 2003 through 2005. The fiscal 2006 allowance provides \$192.3 million in PAYGO special funds, which represents an increase of \$74.7 million over the current fiscal 2005 working appropriation. Three factors contribute to this increase: (1) the Governor's fiscal 2006 budget plan includes the contingent use of \$41.1 million in transfer tax revenues to support DNR and Department of Agriculture land acquisition programs, which is considerably more than has been budgeted the past several budgets; (2) new nutrient removal programs established by Chapter 428 of 2004 and funded by fees paid by users of wastewater treatment plants, on-site sewage disposal systems, and sewage holding tanks contributes \$35.2 million of new PAYGO special fund planned expenditures in the budget; and (3) the fiscal 2006 allowance includes \$20.0 million in PAYGO special funds derived from the State's motor fuel tax to fund DNR's Waterway Improvement Program, an increase of \$8.1 million over the fiscal 2005 working appropriation.
- **Federal Funds:** The figures shown in Exhibit 2 indicate increased federal funding for capital programs beginning with the fiscal 2004 budget. However, most of this increase represents a change in the manner in which federal funds received for the Water Quality and Drinking Water Revolving Loan Funds are accounted for and budgeted. Prior to fiscal 2004, these federal funds were labeled as special funds in the State's budget. Legislative auditors found this accounting practice problematic, and as a result, beginning with the fiscal 2004 budget, federal funds received by MDE for the Water Quality and Drinking Water Revolving Loan Funds are budgeted

¹ The fiscal 2005 budget as introduced provided no general fund support for the State's capital program; however, Supplemental Budget No.2 provided \$1.0 million to supplement the funding for the State Police Forensic Crime Laboratory project and another \$200,000 to fund a grant for the construction of a multi-purpose youth center in Wheaton.

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as federal funds. Even after this accounting adjustment is taken into consideration, the amount of federal funds directed to the State's capital program has increased in the past several budgets in part due to small annual increases in the State's allocation of federal Community Development Block Grant funds as well as increased federal funds to MDE programs.

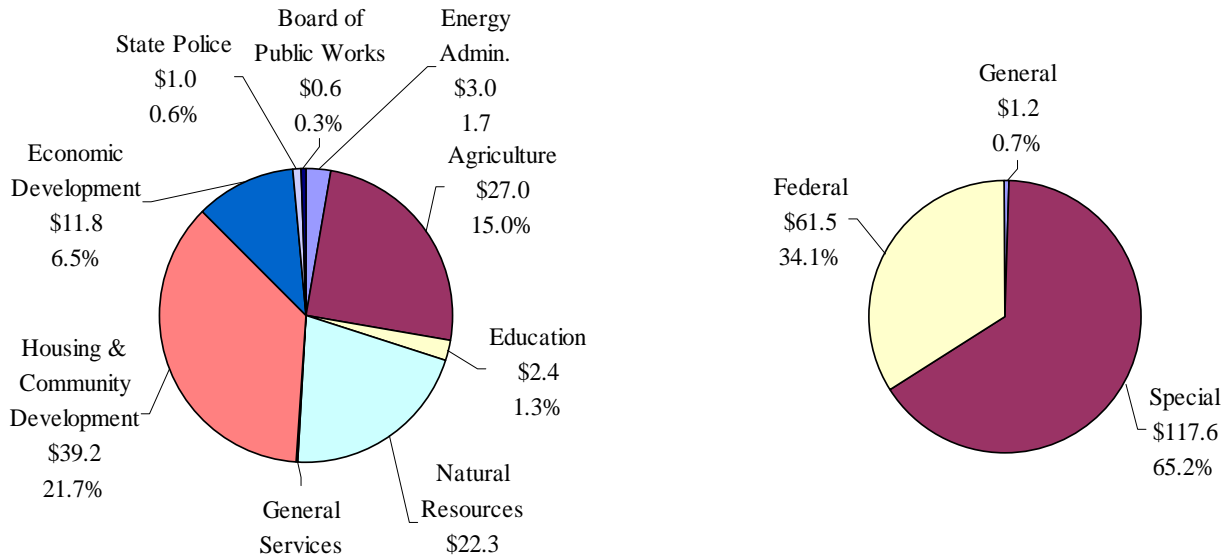
- **Capital PAYGO Program Supplemented with General Obligation Bond Funds:** The Capital Debt Affordability Committee (CDAC) substantially increased the level of authorized GO bonds for fiscal 2003 and 2004 to accommodate the funding of projects that had been scheduled to receive PAYGO general funds. This replacement funding was completed in the fiscal 2004 budget, and annual GO authorizations were supposed to return to levels recommended in prior CDAC reports. This would have resulted in a \$555 million GO authorization level for fiscal 2005 and \$570 million for fiscal 2006. CDAC, however, in its September 2003 report, recommended increasing the amount of GO debt authorized for fiscal 2005 through 2009 by \$100 million annually to continue the replacement funding for projects and programs affected by the elimination of PAYGO general funds and the diversion of transfer tax revenues to the State general fund. This GO replacement funding totaled \$66.0 million in fiscal 2005 of which \$42.4 replaced planned general funds and \$23.6 replaced diverted transfer tax revenues. For fiscal 2006 approximately \$53.3 million in GO funds replace planned general fund expenditures.

Comparison of Fiscal 2006 and Fiscal 2005 Capital PAYGO Program

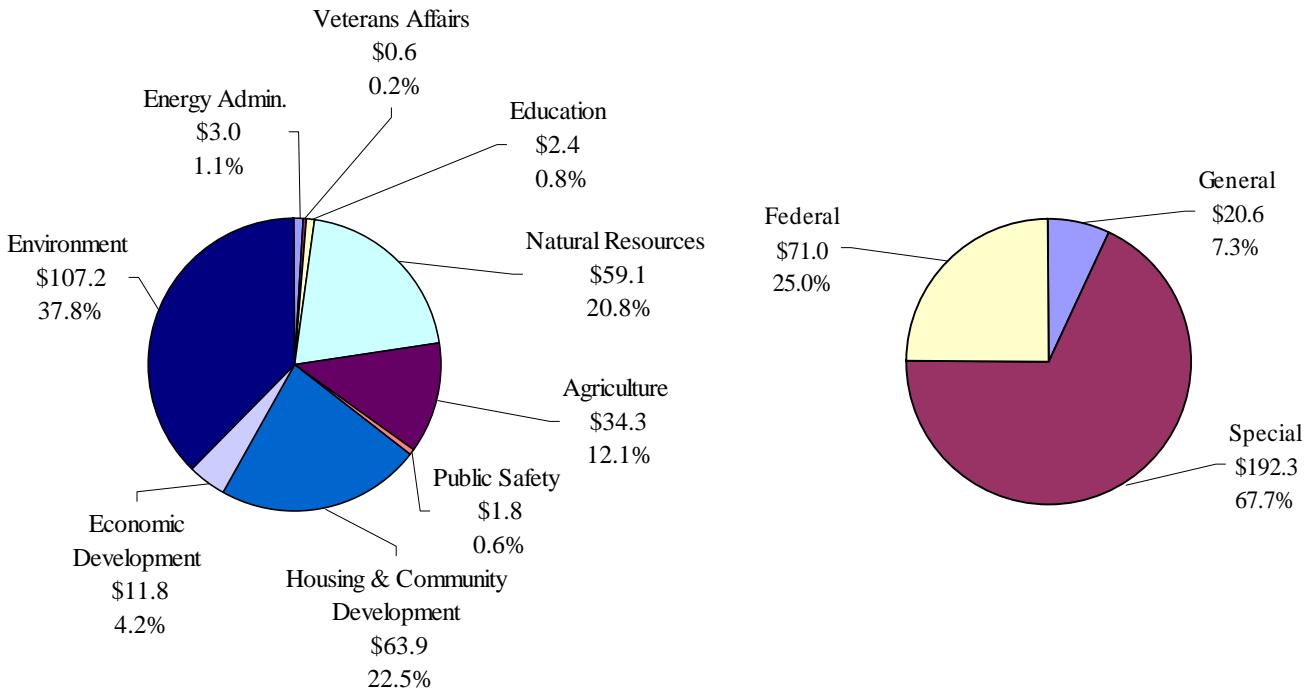
The Governor's proposed operating budget for fiscal 2006 provides \$283.9 million in combined general, special, and federal funds to support the State's capital program. This represents a \$103.5 million, or 57.3%, increase in total funds over the fiscal 2005 working appropriation. **Exhibit 4** provides a comparison of the fiscal 2005 and proposed fiscal 2006 capital PAYGO funding levels.

**Exhibit 4
Fiscal 2005 and 2006 Capital PAYGO**

Fiscal 2005



Fiscal 2006



Source: Department of Budget and Management

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Exhibit 5 provides a comparison of the fiscal 2005 working appropriation and fiscal 2006 allowance for each department and each program receiving capital PAYGO funds. Significant adjustments include:

- **Maryland Energy Administration:** The fiscal 2006 allowance level funds, at \$3.0 million in special funds, MEA grant and loan programs that fund energy conservation projects. However, the allowance seeks to resurrect the Energy Efficiency and Economic Development Loan Program (EEEDLP) with the intent of providing low interest loans to industrial and commercial businesses to fund energy conservation projects. The fiscal 2006 allowance provides EEEDLP with \$500,000 in special funds from the Energy Overcharge Restitution Fund but reduces by \$500,000 the planned funding for MEA's State Agency Loan Program, which provides loans to State agencies to implement energy conservation projects.
- **Department of Veterans Affairs:** The fiscal 2006 allowance provides the department with \$631,000 in PAYGO general funds to fund design costs related to the planned expansion of the Cheltenham and Crownsville veterans' cemeteries. The department has applied for federal grant funds from the United States Department of Veterans Affairs to expand the burial capacity of the two cemeteries. Ultimately, the projects will be 100% federally funded for eligible expenses; however, the State is required to provide design fees upfront for which federal reimbursement is expected to be forthcoming.
- **Department of General Services:** The fiscal 2006 allowance eliminates \$300,000 in special funds for facility maintenance. These funds have come from federal lease payments for the use of the Woodstock Job Corps Center. DGS has advised that it intends to execute a new lease that would allow for the use of the facility for \$1 but would require the federal Department of the Interior to fund all maintenance costs for the facility.
- **Department of Natural Resources:** Funding for DNR programs increases by \$36.8 million. Specific adjustments include the following.
 - Program Open Space (POS) receives \$22.5 million of which \$18.5 is special funds derived from transfer tax revenues, and \$4.0 million comes from federal funds. Since the fiscal 2005 budget funded POS almost exclusively with GO funds – \$15 million of GO funds and \$2.0 million in federal funds for a total of \$17 million – the impact on the capital PAYGO program is \$20.5 million of additional funds.
 - The Rural Legacy Program, which received only GO funds in the fiscal 2005 budget, receives \$9.9 million in special funds derived from transfer tax revenues.
 - The Waterway Improvement Program receives \$20.5 million which is \$8.1 million more than what is funded in the fiscal 2005 budget.

Exhibit 5
Non-transportation PAYGO Program Funding Comparison
Fiscal 2005 and 2006
(\$ in Thousands)

<u>Department Project</u>	<u>Fiscal 2005 Appropriation</u>				<u>Fiscal 2006 Allowance</u>				<u>Fiscal 2005 - 2006 Change</u>
	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Total</u>	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Total</u>	
Energy Administration									
State Agency Loan Program	\$0	\$1,500	\$0	\$1,500	\$0	\$1,000	\$0	\$1,000	(\$500)
Community Energy Loan Program	0	1,500	0	1,500	0	1,500	0	1,500	0
Energy Efficiency Loan Program	0	0	0	0	0	500	0	500	500
Subtotal	\$0	\$3,000	\$0	\$3,000	\$0	\$3,000	\$0	\$3,000	\$0
Veterans Affairs									
Cemetery Expansions	0	0	0	0	631	0	0	631	631
Subtotal	\$0	\$0	\$0	\$0	\$631	\$0	\$0	\$631	\$631
General Services									
Capital Facilities Renewal	0	300	0	300	0	0	0	0	0
Subtotal	\$0	\$300	\$0	\$300	\$0	\$0	\$0	\$0	(\$300)
Education									
Public School Construction Program	0	2,400	0	2,400	0	2,400	0	2,400	0
Subtotal	\$0	\$2,400	\$0	\$2,400	\$0	\$2,400	\$0	\$2,400	\$0
Natural Resources									
Ocean City Beach Maintenance – Local Share	0	1,000	0	1,000	0	1,000	0	1,000	0
POS Capital Development Projects	0	5,363	0	5,363	0	4,659	0	4,659	(704)
POS Land Acquisition and Local Program	0	1,000	2,000	3,000	0	28,464	4,000	32,464	29,464
Waterway Improvement Program	0	11,950	500	12,450	0	20,000	500	20,500	8,050
Shore Erosion Control Loan Program	0	500	0	500	0	500	0	500	0
Subtotal	\$0	\$19,813	\$2,500	\$22,313	\$0	\$54,623	\$4,500	\$59,123	\$36,810
Agriculture									
Agricultural Land Preservation Program	0	17,780	4,575	22,355	0	24,731	5,000	29,731	7,376
Tobacco Transition Program	0	4,653	0	4,653	0	4,525	0	4,525	(128)
Subtotal	\$0	\$22,433	\$4,575	\$27,008	\$0	\$29,256	5,000	\$34,256	\$7,248
Public Safety and Correctional Services									
Miscellaneous Projects	0	0	0	0	0	1,754	0	1,754	1,754
Subtotal	\$0	\$0	\$0	\$0	\$0	\$1,754	\$0	\$1,754	\$1,754

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<u>Department Project</u>	<u>Fiscal 2005 Appropriation</u>				<u>Fiscal 2006 Allowance</u>				<u>Fiscal 2005 - 2006 Change</u>
	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Total</u>	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Total</u>	
Housing and Community Development									
Md. Heritage Structure Reserve Fund	0	0	0	0	20,000	0	0	0	20,000
Rental Housing Programs	0	4,247	5,544	9,791	0	7,605	5,850	13,455	3,664
Special Loan Programs	0	7,350	1,200	8,550	0	5,250	2,300	7,550	(1,000)
Community Development Block Grant	0	0	10,000	10,000	0	0	10,000	10,000	0
Homeownership Programs	0	4,511	100	4,611	0	6,295	100	6,395	1,784
Neighborhood Business Development Program	0	6,091	0	6,091	0	6,000	0	6,000	(91)
Maryland Historical Trust Revolving Loan Fund	0	200	0	200	0	450	0	450	250
Subtotal	\$0	\$22,399	\$16,844	\$39,243	\$20,000	\$25,600	\$18,250	\$63,850	\$24,607
Business and Economic Development									
Md. Econ. Development Assistance Fund ¹	0	11,750	0	11,750	0	11,750	0	11,750	0
Subtotal	\$0	\$11,750	\$0	\$11,750	\$0	\$11,750	\$0	\$11,750	\$0
Environment									
Water Quality Revolving Loan Fund	0	32,840	30,753	63,593	0	25,814	36,568	62,382	(1,211)
Drinking Water Revolving Loan Fund	0	2,687	6,453	9,140	0	2,819	6,686	9,505	365
Enhanced Nutrient Removal	0	0	0	0	0	30,000	0	30,000	30,000
Sewer Rehabilitation	0	0	0	0	0	5,000	0	5,000	5,000
Septic System Upgrade	0	0	0	0	0	250	0	250	250
Subtotal	\$0	\$35,527	\$37,206	\$72,733	\$0	\$63,883	\$43,254	\$107,173	\$34,404
State Police									
Forensic Science Laboratory	1,000	0	0	1,000	0	0	0	0	(1,000)
Subtotal	\$1,000	\$0	\$0	\$1,000	\$0	\$0	\$0	\$0	(\$1,000)
Board of Public Works									
Public Safety Communication System	0	0	400	400	0	0	0	0	(400)
Wheaton Multi-Purpose Youth Center	200	0	0	0	0	0	0	0	(200)
Subtotal	\$200	\$0	\$400	\$600	\$0	\$0	\$0	\$0	(\$600)
Total	\$1,200	\$117,622	\$61,525	\$180,347	\$20,631	\$192,266	\$71,004	\$283,901	\$103,554

¹The fiscal 2004 PAYGO appropriation included additional funds for DBED financing programs and TEDCO, which moved to the operating budget in the fiscal 2005 budget.

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- **Department of Agriculture:** The department's Agriculture Land Preservation Program receives \$29.7 million in the fiscal 2006 operating budget allowance, which is \$7.4 million more than what is budgeted in fiscal 2005. However, since the program also received \$5.0 million of GO funding in fiscal 2005, the amount of total funding increase is closer to \$2.4 million.
- **Department of Public Safety and Correctional Services:** The fiscal 2006 allowance includes special funds in the amount of \$1,754,000 to fund the planning, construction, and capital equipping of an addition to the State Use Industries Warehouse at the Maryland Correctional Institute in Hagerstown. The available fund balance from the State Use Industries Fund provides the source of the special fund allowance.
- **Department of Housing and Community Development:** DHCD administers a number of grant and loan programs to facilitate the development of rental housing and improve homeownership opportunities for low- and medium-income households. Fluctuations in the amount of special and federal funds available to these revolving loan accounts result in an aggregate increase of \$4.6 million over what is funded in the fiscal 2005 budget. Chapter 76 of 2004 requires the Governor's budget at least \$20 million in fiscal 2006 to fund historic preservation tax credits available through the Maryland Heritage Structure Rehabilitation Tax Credit Program administered by DHCD. This mandate is funded with general funds in the allowance.
- **Department of the Environment:** New nutrient removal programs (established by Chapter 428 of 2004 and funded by fees paid by users of wastewater treatment plants, on-site sewage disposal systems, and sewage holding tanks) contribute an additional \$35.2 million of PAYGO special funds to the fiscal 2006 budget. Adjustment to the level of special and federal funds for MDE's Water Quality Revolving Loan Fund Program result in an aggregate funding reduction of \$1.2 million as proposed in the fiscal 2006 budget.
- **Other Funding Adjustments:** The fiscal 2005 budget provided \$1.0 million in general funds through a supplemental budget to fund construction cost increases for the State Police Forensic Science Crime Laboratory and \$200,000 in general funds as a grant for the construction of the Wheaton Multi-Purpose Youth Center. These funds were of a one-time nature. Finally, the fiscal 2005 budget included \$400,000 in federal funds for the Public Safety Communication System whereas the fiscal 2006 allowance provides no capital PAYGO funds for the development and installation of this system.

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