

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
 Revised

House Bill 103
 Economic Matters

(Delegate Krebs, *et al.*)

Education, Health, and Environmental Affairs

State Board of Public Accountancy Fund

This bill establishes the State Board of Public Accountancy Fund as a special, nonlapsing fund in the Department of Labor, Licensing, and Regulation (DLLR) to cover the actual documented direct and indirect costs of the State Board of Public Accountancy.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State revenues and expenditures would not be affected in FY 2007. General fund revenues would decrease by \$465,000 in FY 2008 and special fund revenues would correspondingly increase by the same amount. General fund expenditures would decrease by \$482,400 and special fund expenditures would increase by \$465,000. Out-year expenditures reflect a 5% growth rate in operating expenses. Out-year special fund revenues assume the board would raise fees to ensure sufficient special fund revenues to cover board expenditures.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
GF Revenue	(\$465,000)	(\$465,000)	(\$465,000)	(\$465,000)	(\$465,000)
SF Revenue	465,000	523,100	523,100	588,500	588,500
GF Expenditure	(482,400)	(506,500)	(531,900)	(558,500)	(586,400)
SF Expenditure	465,000	506,500	531,900	558,500	586,400
Net Effect	\$17,400	\$58,100	\$58,100	\$123,500	\$123,500

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

Local Effect: None.

Small Business Effect: Minimal.

Analysis

Bill Summary: Beginning July 1, 2007, all fees collected by the board will be distributed into the special fund, rather than the general fund. The Secretary of Labor, Licensing, and Regulation administers the fund and the Office of Legislative Audits is required to audit the fund.

The bill eliminates specified fee amounts and fee dollar amount limits, adds a license application fee and a waiver applicant license fee to be set by the board, makes application fees nonrefundable, adds a license and permit reinstatement fee to be set by the board, and authorizes the board, beginning July 1, 2008, to set reasonable fees for its services by regulation. The fees will be based on calculations by the Secretary of Labor, Licensing, and Regulation, made in consultation with the board, of the direct and indirect costs attributable to the board. Fees will be set so as to produce funds to maintain the board. Fee amounts may not be increased annually by more than 12.5% of the existing and corresponding fees established by the board. Fee amounts currently set in statute will remain in effect until they are set by the board.

Current Law: Fees collected by the State Board of Public Accountancy are deposited in the general fund. The board is funded through an annual general fund appropriation. Discretion is given to the board to set a number of fees within limits prescribed by statute, including examination fees and renewal and reapplication fees for licenses and permits. Other fees, including initial license and permit fees, are set by statute. **Appendix 1** shows the board's current fee schedule.

Background: The State Board of Public Accountancy qualifies, licenses, and regulates individuals seeking licensure to practice as a certified public accountant and firms that offer public accounting services. The board investigates complaints against licensees as well as complaints related to unlicensed practice. The board may issue a reprimand, suspend or revoke a license, and assess a civil penalty of up to \$5,000 for violations of the law and regulations.

The fiscal 2007 State budget estimates the board will generate \$775,000 of revenue and includes an appropriation of \$532,000. Large portions of the estimated revenues and the appropriation represent revenues and expenditures attributable to Certified Public Accountant examination fees and costs that are accounted for in the Licensing Testing Fund (a special fund to which fees collected by units under DLLR for licensing examinations are paid) and do not represent general fund revenues or expenditures. Of the appropriation, \$91,900 represents the board's direct operating costs. The board's estimated overall expenditures for fiscal 2007 are projected to be \$459,500, the bulk of which, aside from the \$91,900 of direct costs included in the appropriation, are indirect costs attributable elsewhere in the State budget, primarily to the Division of Occupational

and Professional Licensing, DLLR's Office of the Secretary, and legal services. The board currently has one regular staff position in its budget. The salary of the executive director, who is also responsible for other boards, is budgeted elsewhere within DLLR.

Special-funded Boards/Commissions

Six boards and commissions under the Division of Occupational and Professional Licensing are currently special funded and the State Real Estate Commission will be special funded beginning July 1, 2006. The Boards of Architects, Certified Interior Designers, Landscape Architects, Professional Engineers, and Professional Land Surveyors became special funded June 1, 2003 as part of a pilot program where the five boards are funded by the State Occupational and Professional Licensing Design Boards' Fund, to which all their fees are directed. The boards' special fund status will end June 30, 2008, unless it is extended or made permanent by the General Assembly. The Office of Cemetery Oversight has been special funded since its creation in 1997.

License/Renewal Fees

The license fee and renewal fee limit for certified public accountants were last modified in 1998, pursuant to Chapter 735 of 1997. The license fee was reduced from \$25 to \$15 and the limit on the renewal fee set by the board was reduced from \$80 to \$40. **Exhibit 1** shows current license and renewal fees in other states in comparison to Maryland fees.

Exhibit 1

Certified Public Accountant License Issuance and Renewal Fees in the District of Columbia, Maryland, Pennsylvania, and Virginia

	<u>License Fee</u>	<u>Renewal Fee</u>
Maryland	\$15	\$40
District of Columbia	\$110	\$60
Pennsylvania	\$65	\$45
Virginia	\$24	\$24

2005 Legislation

A similar bill was introduced in 2005 as HB 1095. HB 1095 was different in that a number of the fees, including application fees, license fees, permit fees, and other fees relating to licensing and permitting were increased in the law/statute rather than being designated as set by the board as they are in this bill. Similar to this bill, however, the board was given the authority to set reasonable fees for its services after a certain date. HB 1095 also contained a requirement that this bill does not have, that any unspent funds in excess of 10% of the documented direct and indirect operational costs attributable to the board revert to the general fund at the end of each fiscal year. Special funds do not revert to the general fund under this bill.

State Fiscal Effect: The bill changes the State Board of Public Accountancy from a general funded entity to a special funded entity. Because the bill takes effect July 1, 2007, there would be no effect on State revenues or expenditures in fiscal 2007. Beginning in fiscal 2008, all revenues from license fees would be deposited into the State Board of Public Accountancy Fund established by the bill to cover the direct and indirect costs of the board. General fund revenues would decrease by an estimated \$465,000 in fiscal 2008 and special fund revenues would increase by the same amount. Board revenues have fluctuated somewhat in the past but have been relatively consistent since fiscal 2003, as shown in **Exhibit 1**. Revenues are assumed to be \$465,000 in fiscal 2008 based on the relatively consistent, but slightly upward, trend of revenue generation since fiscal 2003. DLLR advises it has no reason to believe the volume of licensing would increase or decrease significantly in future years; therefore, it is assumed in out-years, absent the bill, revenues would remain at \$465,000 annually.

Exhibit 1
Board General Fund Revenues
Fiscal 2002 - 2005

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
General Fund Revenues	\$406,000	\$448,000	\$451,000	\$464,000

General fund expenditures would decrease by roughly \$482,400 assuming general fund expenditures in the budget areas within DLLR that currently absorb the board's indirect costs are adjusted to no longer account for those costs. Special fund expenditures would increase by \$465,000, reflecting the fact that the board would need to control expenditures, that otherwise are estimated to be \$482,400, to ensure it could cover its costs with the revenues available to it. The fiscal 2008 general fund expenditure decrease

of \$482,400 is an estimate based on board direct and indirect expenditures for fiscal 2007 (\$459,500), assuming a 5% growth rate in operating expenses.

DLLR advises it cannot accurately predict expenditures in future years, but that a 5% growth rate would be a reasonable assumption. DLLR does not have accurate accounting of total direct and indirect expenditures of the board prior to fiscal 2004, primarily due to the board being a general fund agency and there not being a reason to account for indirect costs which were not part of the board’s annual budget preparation. However, in fiscal 2004, DLLR calculated the total direct and indirect expenditures of the board to have been \$424,000 and in fiscal 2005, \$459,000 – roughly an 8% increase. DLLR has estimated fiscal 2007 direct and indirect expenditures will be about \$459,500 based on the expenditures in fiscal 2005 and accounting for expected increases and decreases. DLLR advises that the estimated increases in salary and other expenditures between fiscal 2005 and 2007 were offset in its calculations by a decrease in expenditures due to one-time computer-related costs incurred in fiscal 2005.

Out-year general and special fund expenditures reflect a 5% growth rate. It is assumed special fund expenditures in fiscal 2009 would reflect a 5% increase from the amount estimated would be spent by the board in fiscal 2008 (\$482,400) if the board did not need to control expenditures to spend within the revenues generated.

Beginning in fiscal 2009, DLLR advises fees could conceivably be increased annually if needed to cover expenditures and provide for program enhancements. *For illustrative purposes, Exhibit 2* shows projected revenues and expenditures of the State Board of Public Accountancy Fund, assuming fees are raised by the maximum amount of 12.5% every *two years* (rather than every year as would be allowed), the number of licenses renewed each year remains constant, and expenditures increase by 5% annually.

Exhibit 2
Projected State Board of Public Accountancy Fund
Revenues and Expenditures

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Starting Balance	\$0	\$0	\$16,600	\$7,800	\$37,800
SF Revenue	465,000	523,100	523,100	588,500	588,500
SF Expenditures	465,000	*506,500	531,900	558,500	586,400
Ending Balance	\$0	\$16,600	\$7,800	\$37,800	\$39,900

*Special fund expenditures in fiscal 2009 reflect a 5% increase from the amount estimated would be spent by the board in fiscal 2008 (\$482,400) if the board did not need to control expenditures to spend within the revenues generated.

Limit on Fee Increases

The 12.5% limit on fee increases limits the board's ability to enhance services to an extent; however, annual fee increases should allow the board to increase revenues to phase in enhancements in the out-years. Under the assumptions made in Exhibit 2, a position or portion of a position could be added in fiscal 2011, but if fees were increased every year instead of every two years, that position or portion of a position could be added in fiscal 2010. However, rather than having stability in fee amounts, fees would continue to increase on a regular basis to keep pace with growth in ongoing costs and allow for any enhancement of services to licensees.

Additional Information

Prior Introductions: HB 1095, a similar bill, was introduced in 2005. The House Economic Matters Committee held a hearing on the bill, yet no further action was taken.

Cross File: None.

Information Source(s): Department Legislative Services (Office of Legislative Audits); Department of Labor, Licensing, and Regulation; Department of Legislative Services

Fiscal Note History: First Reader - February 8, 2006
ncs/ljm Revised - House Third Reader - April 3, 2006
Revised - Enrolled Bill - May 1, 2006

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Appendix 1
Current Fee Schedule for the State Board of Public Accountancy

Licenses

Examination Fees

Application Review	\$40
Auditing and Attestation	\$178
Business Environment and Concepts	\$130
Financial Accounting and Reporting	\$166
Regulation	\$142

Individual CPA License – Active

Original First Time	\$15
Renewal	\$40
Reinstatement Fee	\$60

Reciprocal License/Documentation

Initial Application	\$50
Fee After Approval	\$15

Individual CPA License – Inactive

First Time	\$20
Renewal	\$20
Late Fee	\$20

Transfer of Grade

Initial Application	\$25
Fee After Approval	\$15

Limited License – Individual

Application Fee	\$25
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Permits

Initial Application

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25

Permit Fee After Approval

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25

Limited Permit – Application Fee

Corporation	\$25
Limited Liability Company	\$25
Limited Liability Partnership	\$25
Partnership	\$25