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HOUSE BILL 72/SENATE BILL 57

BUDGET RECONCILIATION AND FINANCING ACT OF 2015

House Appropriations Committee

March 3, 2015

Senate Budget and Taxation Committee

March 4, 2015

Testimony of

David R. Brinkley
Secretary

Chairs and members of the Committees, the Administration appreciates this opportunity to present HB 72/SB 57, the Budget Reconciliation and Financing Act of 2015 (BRFA). The Administration introduced the BRFA as part of its effort to balance the FY 2015 and 2016 budgets both on a cash and structural basis. The Administration and the Legislature are confronted with a two year budget shortfall of \$1.25 billion. As you have heard said before, one day after taking office this Administration submitted a structurally balanced budget that aligned general fund spending with general fund revenues. But creating a structurally balanced budget – something that had not been accomplished in a decade – required hard and difficult decisions.

The BRFA includes \$203.8 million of fund transfers, revenues, and reductions in FY 2015. The bulk of these actions (\$153 million) were part of the prior Administration's plan approved unanimously by the Board of Public Works in January 2015 and July 2014. In FY 2016 this Administration is proposing \$208.6 million in contingent reductions, \$53 million in revenue, and only \$4 million in fund balance transfers. This shift away from one-time actions reflects the Administration's efforts to eliminate the gimmicks that have been used in the past to balance the budget and to instead permanently rein in spending.

The Governor's FY 2016 budget reflects the Administration's commitment to education and provides record funding for K-12 as well as growth in overall investment in community colleges, independent colleges, universities and libraries. Other decisions impact the Medicaid program, the environment, local aid, and State employees. The difficult decisions that were made impact all areas of the budget.

Perhaps the most important provisions of the BRFA are those that do not impact spending immediately, but provide out year structural relief. Over 46% of the general fund budget is mandated and it is these mandates that are driving growth in the budget and ultimately creating the structural deficit. The Administration is proposing that in the future mandated appropriations in the budget grow by the lessor of the formula amount or 1% less than revenue growth. This proposal, coupled with the provision limiting growth in K-12 per-pupil funding to the rate of inflation or 1%, whichever is less, help to put the budget on the long-term path to sustainability. Total general fund savings from the BRFA exceed \$1.1 billion.

The BRFA as introduced to you, the Legislature, implements this Administration's goal to eliminate the structural deficit and to end the use of one-time actions to solve an ongoing budget problem. While there may be disagreement as to what actions the BRFA should take to achieve that end, the goal that we should all have in mind over the coming weeks is to produce a sustainable budget. As the Administration has indicated since taking office, we are working with the General Assembly and are open to alternative proposals that help us achieve a structurally balanced budget permanently.

Attached to this testimony is a brief overview of the provisions in the BRFA as well as several clarifying amendments that the Administration offers to the bill. My staff and I are happy to answer any questions you may have relating to the BRFA as proposed. Thank you for this opportunity to testify on the bill. The Governor and I look forward to the discussion and exchange of ideas that we will continue to have in the coming weeks.

Budget Reconciliation and Financing Act of 2015

List of Provisions

Provision	Article/ Section	Pg
Repealing language requiring the publication of a list of Abandoned Property and substituting a requirement that the list be posted online	Commercial Law § 17-311	5-6
Reducing the mandated appropriation for MARBIDCO for FY 16 through FY 24 and extending the date by which the Corporation has to be self-sufficient by 3 years (2024)	Economic Development § 10-523	7
Altering the per-pupil deflator and tying the increase to inflation and delaying the phase-in of the NTI Program funding for one year	Education § 5-202	7-9
Altering the funding for Community Colleges (Cade formula) for FY 16 and providing that funding for FY 17 and for subsequent years increase by the lessor of statutorily required funding or general fund revenue growth, less 1%.	Education § 16-305	9-13
Altering the funding for private institutions of higher education (Sellinger formula)) for FY 16 and providing that funding for FY 17 and for subsequent years increase by the lessor of statutorily required funding or general fund revenue growth, less 1%.	Education § 17-104	13-15
Delaying establishment of the Deaf Culture Digital Library by one year.	Education §23-108	16
Altering funding for the State Library Resource center, regional resource centers, the Maryland Library for the Blind and Physically Handicapped, and county public library systems (phases in the library increases mandated by Chapter 500 of 2014 over 10 years)	Education §23-205 and § 23-503	16-19
Level fund Local Health grant funding for FY 16	Health General § 2-302	19
Altering the rate increase for Community Service Providers	Health General § 7-307	19
Reducing funding for Statewide Academic Health Center Cancer Research Grants beginning FY 16	Health General § 13-1116	19-20
Repealing the mandated appropriation for the Maryland Health Benefit Exchange beginning FY 16	Insurance § 31.107.2	20
Altering the mandate for the local government Disparity Grant and freezing the grant at FY 16 levels	Local Government § 16-501	20-21
Providing that payments from the Forest or Park Reserve fund are based only on revenue derived from the sales of timber	Natural Resources § 5-212	21
Authorizing the use of funds in the Waterway Improvement Fund for administrative expenses relating to implementing the Fund	Natural Resources § 8-709	21-22
Repealing the State Police Helicopter Replacement Fund	Public Safety § 2-801	22
Altering the mandate for Local Police Aid for FY 15 and FY 16	Public Safety § 4-506	22-23

Repealing the requirement to allocate moneys to Program Open Space for transfer tax under-attainment and increasing the amount of revenue redirected to the General Fund in FY 16.	State Finance & Procurement § 7-311 and Tax-Property 13-209	23 and 25-27
Altering the mandate for the Maryland State Arts Council for FY 2016	State Finance & Procurement § 7-325	23
Altering the distribution of Short-Term Vehicle Rental Tax revenue	Tax – General § 2-1302.1	23-24
Excepting part-year residents from claiming a refund against the earned income tax credit	Tax-General § 10-704	24
Reducing the amount of tax credits that may be issued for the Film Production Activity Tax Credit	Tax General § 10-730	24
Reducing the amount of the mandated appropriation for the reserve fund of the Cybersecurity Investment Incentive Tax Credit	Tax General § 10-733	24-25
Clarifying language for the mandated appropriation to the State Highway Administration for the Watershed Implementation Plan	Transportation § 8-613.3	27
Requiring the HSCRC to adopt policies to achieve GF savings	Chapter 397 of the Acts of 2011, etc.	27-29
Altering payments to providers of nonpublic placements in FY 15 and freezing rates in FY 16	Section 2	29
Freezing payments to providers with rates set by the Interagency Rates Committee in FY 16	Section 3	29
Prohibiting merit increases and cost-of-living adjustments for State employees in FY 16	Section 4	29
Authorizing DHCD to use funds in the Housing Counseling and Foreclosure Mediation Fund for administrative expenses (moving and relocating)	Section 5	29
Authorizing the use of moneys in the MHIP Fund to fund provider reimbursements under Medicaid	Section 6	29-30
Authorizing the transfer of funds received from the repayment of loans from the Sunny Day Fund to the GF	Section 7	30
Authorizing the transfer of various fund balances to the GF for FY 2015	Section 8	30-31
Authorizing the transfer of balance of funds in the State Police Helicopter Fund for FY 15	Section 9	31
Authorizing the transfer of funds in the reserve account for State employee unemployment payments to the GF in FY 16	Section 10	31
Authorizing the funds for VLT impact aid to be allocated to the Education Trust Fund in FY 15 and FY 16	Section 11	31
Authorizing the distribution of funds from the Local Reserve Account to the GF in FY 15 and providing for the repayment of those funds in FY 16	Section 12	31
Restricting the growth of mandated appropriations by tying growth to the growth in GF revenue	Section 13	31-32
Providing for the adjustment of MCO capitation rates	Section 14	32

By: The Department of Budget and Management
(To be offered in the Appropriations Committee)

Amendments to House Bill No. 72
(First Reading File Bill)

Amendment No. 1

On page 1, in line 14, strike “calculating” and substitute “allocating”.

Amendment to the Purpose paragraph

Amendment No. 2

On page 3, in line 32, strike “5-512(g)(2)” and substitute “5-512(g)(2), 5-212.1(g)(2), and 5-215(c)(1) and (2),”; on page 4, in line 13, strike “10-704(b)(2)(i)” and substitute “10-704(a), (b)(2)(i), and “(c)(2) (iii)””;

Amendments to the Function paragraph

Amendment No. 3

On page 20, in lines 26 and 30, in each instance strike the brackets and strike “(3)”; and on page 21, strike beginning with “(F)” in line 7 down through “SECTION” in line 14 and substitute “**(3) IN FISCAL YEAR 2016 AND EACH FISCAL YEAR THEREAFTER, THE TOTAL AMOUNT OF THE GRANT PROVIDED FOR EACH JURISDICTION SHALL BE AS FOLLOWS:**

- (I) ALLEGANY COUNTY - \$7,298,505**
- (II) BALTIMORE CITY - \$79,051,790**
- (III) CAROLINE COUNTY - \$2,131,782**
- (IV) CECIL COUNTY - \$299,498**
- (V) DORCHESTER COUNTY - \$2,022,690**
- (VI) GARRETT COUNTY - \$2,131,271**
- (VII) PRINCE GEORGE’S COUNTY - \$21,694,767**
- (VIII) SOMERSET COUNTY - \$4,908,167**
- (IX) WASHINGTON COUNTY - \$1,516,224**
- (X) WICOMICO COUNTY - \$6,653,843.”**

Amendment clarifies the amount of disparity grant funding each jurisdiction will receive in FY 2016 and each fiscal year thereafter.

Amendment No. 4

On page 21, after line 19, insert:

“§ 5-212.1

(g)(2) (i) Subject to subparagraph (ii) of this paragraph, each county in which any State forest or park is located shall be paid annually out of the Account:

1. If the State forest or park reserve comprises less than 10% of the total land area of the county, a sum equal to 15% of the net revenue derived from concession operations within a State forest or park located in that county; or

2. If the State forest or park reserve comprises 10% or more of the total land area of the county, a sum equal to 25% of the net revenue derived from concession operations within a State forest or park located in that county.

(ii) For fiscal years [2012 and 2013] **2015 AND 2016** only, the payments under subparagraph (i) of this subsection may not be made.

§ 5-215

(c) (1) Except as provided in paragraphs (2) and (4) of this subsection, the Department shall pay all fees collected for boat launching at Deep Creek Lake State Park, all funds collected from lake and buffer use permits, contracts, grants, and gifts as a result of the Deep Creek Lake management program, and any investment earnings of the Fund, into the Fund.

(2) (i) [At] EXCEPT AS PROVIDED IN SUBPARAGRAPH (II) OF THIS PARAGRAPH, AT the end of each quarter of the fiscal year, the Department shall pay 25% of the total revenue collected during the quarter under paragraph (1) of this subsection to the Board of County Commissioners of Garrett County.

(ii) FOR FISCAL YEARS 2015 AND 2016 ONLY, THE PAYMENTS OTHERWISE REQUIRED UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH MAY NOT BE MADE.”

Technical amendment to clarify that payment from the Forest and Park Concession Account and the Deep Creek Lake Recreation Maintenance and Management Fund are part of the reduction in payments to counties from the Forest or Park Reserve Fund in FY 2015 and FY 2016.

Amendment No. 5

On page 24, after line 8, insert:

“(a) (1) [An individual] A RESIDENT may claim a credit against the State income tax for a taxable year in the amount determined under subsection (b) of this section for earned income.

(2) [An individual] A RESIDENT may claim a credit against the county income tax for a taxable year in the amount determined under subsection (c) of this section for earned income.”; and on the same page, after line 13 insert

“(c)(2) (iii) If a county provides for a refundable county earned income credit under this paragraph, [an individual] A RESIDENT may claim a refund of the amount, if any, by which the product of multiplying the credit allowable for the taxable year under § 32 of the Internal Revenue Code by 5 times the county income tax rate for the taxable year exceeds the county income tax for the taxable year.”; and on the same page, in line 14, strike “is a nonresident or”.

The amendment will restrict the State earned income credit for all purposes only to residents of the State.

Amendment No. 6

On page 25, in line 20, strike “AND”; and in line 24, strike “APPLIED” and substitute “**APPLIED; AND (IV) FISCAL YEAR 2015 TRANSFER TAX REVENUE IN EXCESS OF \$174,541,000 MAY BE TRANSFERRED BY BUDGET AMENDMENT IN FISCAL YEARS 2015 AND 2016 TO BE USED FOR:**

1. ADMINISTRATIVE EXPENSES RELATED TO LAND ACQUISITION FOR PROGRAM OPEN SPACE;

2. CRITICAL MAINTENANCE PROJECTS IN THE DEPARTMENT OF NATURAL RESOURCES;

3. NATURAL RESOURCES DEVELOPMENT FUND PROJECTS IN THE DEPARTMENT OF NATURAL RESOURCES, AND

4. REPLACING GENERAL FUND APPROPRIATIONS IN THE MARYLAND PARK SERVICE.

Amendment clarifies how transfer tax revenue over attainment will be allocated.

Amendment No. 7

On pages 28, strike beginning with “LEAST:” in line 28 down through “(II)” in line 30 and substitute “**LEAST**”; in line 32, strike “EACH”; in the same line, after “YEAR” insert “**2016,**”; in line 31, after “(2)”, insert “**(1)**”; strike beginning with “ENACT” in line 33 down through “YEAR” in line 35 and substitute “**NO LATER THAN SEPTEMBER, 1, 2015, SUBMIT AN ALTERNATIVE PLAN FOR GENERAL FUND SAVINGS TO THE DEPARTMENT OF HEALTH AND MENTAL HYGIENE AND THE DEPARTMENT OF BUDGET AND MANAGEMENT FOR APPROVAL.**

(II) THE SAVINGS UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH, WHEN COMBINED WITH THE SAVINGS UNDER PARAGRAPH (1) OF THIS SUBSECTION, SHALL ACHIEVE A TOTAL GENERAL FUND SAVINGS TO THE MEDICAID PROGRAM OF AT LEAST \$16,700,000 IN FISCAL YEAR 2016.”; on pages 28 and 29, strike beginning with “If” in line 36 on page 28 down through “(4)” in line 3 on page 29.

This amendment removes the requirement that the HSCRC obtain certain savings in FY 2015 and clarifies how the FY 2016 savings will be achieved.

Amendment No. 8

On page 30, in lines 1 and 2, strike beginning with “(1)” in line 1 down through “programs” in line 2 and substitute “**(1) \$55,000,000; or (2) The estimated percentage of the fund balance that was obtained from payers other than the federal Medicare program or the federal portion of the Medicaid program.**”.

This amendment increases the amount from the MHIP fund that may be used for Medicaid from \$45 to \$55 million in FY 2015 as an alternative to a provision that would have obtained \$8.0 million from hospitals through uncompensated care or other measures.

Amendment No. 9

On page 31, in line 2, strike “and”; and in line 4, strike “Article” and insert “Article:
\$209,000 of the funds in the Maryland Heritage Areas Authority Financing Fund established
under § 13-1114 of the Financial Institutions Article; and
\$58,000 of the funds in the Sustainable Communities Tax Credit Reserve Fund established
under § 5A-303 of the State Finance and Procurement Article.”

The amendment is to permit fund balance transfers that were assumed in the July 2014 Board of Public Works action.

Amendment No. 10

On page 31, in line 3, strike “\$1,000,000” and substitute “\$500,000”; and in line 10, strike “Fund” and substitute “Fund: (a)”; and in line 12, strike “employees” and substitute “employees; and (b) \$500,000 of the funds in the Spinal Cord Injury Research Trust Fund established under § 13-1406 of the Health-General Article”.

This amendment spreads the transfer from the Spinal Cord Injury Research Trust Fund over two fiscal years.

Amendment No. 11

On page 32, in line 4, after “Article;” strike “or”; in line 6, after “Article” insert “or (3) payments on the principal of or interest on State debt”.

This amendment exempts State debt service from the limits on mandate growth.

Amendment No. 12

On page 32, in line 7, after “2015,” insert “Managed Care Organizations with insufficient loss ratios for calendar year 2014 shall reimburse”; on the same page strike beginning with “shall” in line 8 down through “including” in line 9; and in line 10, strike “adjustments” and substitute “reimbursements”; and in line 15, strike “adjustment” and substitute “reimbursement”.

Technical amendment to clarify how early payments will be received by the State from Managed Care Organizations in FY 2015 for the Medical Loss Ratio.