HB 1206

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 1206 (Delegate McMillan, *et al.*)
Ways and Means

Taxpayers' Bill of Rights

This constitutional amendment proposes several changes to State and local budgeting. First, any new State or local tax, tax rate increase, or repeal of a tax exemption must be approved by a majority of voters. Second, the maximum annual percentage change in State or local fiscal year spending cannot exceed the prior year's change in inflation plus the applicable percentage change in population adjusted for approved revenue changes. Third, the State is required to maintain a rainy day fund equal to 5% of general fund expenditures. The fund may be used only when general fund reserves are less than the prior year and the action is approved by three-quarters of the House and Senate. Fourth, if general fund revenues exceed the estimated amount of revenues for that year by at least 2%, the total amount of the excess, minus administrative expenses, must be paid to individual income taxpayers.

Fiscal Summary

State Effect: Potential significant reduction in general fund revenues and expenditures based on the above provisions. This impact would vary by year, and as a result cannot be reliably estimated. Expenditures for administrative costs would increase in any year in which a refund was issued, but would be deducted from any amount rebated.

Local Effect: Potential significant reduction in local revenues and expenditures based on the above provisions. This impact would vary by year, and as a result cannot be reliably estimated. **This bill imposes a mandate on units of local government.**

Small Business Effect: Minimal.

Analysis

Background: Since 1982, the General Assembly has employed a "spending affordability" process. The Spending Affordability Committee is composed of the President of the Senate, the Speaker of the House, majority and minority leaders of the Senate and the House, the chairmen of the four standing fiscal committees, and other members selected by the presiding officers. In recent years, the committee has consisted of 18 legislators and has been assisted by an advisory committee of private citizens.

The Department of Legislative Services prepares a "September Forecast" for the committee that contains an estimate of projected revenues and expenditures for the upcoming fiscal year. The committee reviews these projections and the status of the State economy. By statute, the committee must report to the Legislative Policy Committee by December 1 of each year with recommendations for fiscal goals for the budget to be considered at the next session of the General Assembly. This report includes the following types of recommendations:

- a level of State spending;
- a level of new debt authorization;
- a level of State personnel; and
- the use of anticipated surplus, if any.

The committee may make other appropriate findings and recommendations. By statute, if committee recommendations with respect to State spending exceed the annual increase in relevant economic indicators, the committee must provide an analysis as to the extent the recommendations exceed such indicators. Similarly, if the Governor submits a budget request in excess of the amounts recommended by the Spending Affordability Committee, the Governor must explain the rationale for exceeding the recommendations. The budget committees must also provide an explanation for any amounts exceeding Spending Affordability Committee recommendations that are presented to the Senate and House of Delegates for consideration.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. The committee has often used growth in personal income as a proximate measure of the State's economic growth and as a guide for the increase in State spending. To clarify that it is the committee's intent to coordinate the growth in appropriations with anticipated economic growth in the next fiscal year, this report relates budget growth directly to economic growth expected during the budget year.

State Fiscal Effect: The actual effect on State revenues and spending cannot be estimated and would vary each year depending on the restrictions specified in the bill.

State Spending

State spending could be impacted to the extent that spending needs exceed the spending limitations imposed by the bill. This would vary by year, and as a result cannot be reliably estimated.

Exhibit 1 shows the effect on State spending had this amendment been in effect for fiscal 2000 through 2004. In each of fiscal 2000 through 2003, actual total State spending exceeded the limits imposed by the bill. For example, in fiscal 2001 spending would have been limited to an increase of 4.4% over 2000 compared to the actual increase of 12.3% over 2000. In fiscal 2004, State spending would not have been affected by HB 1206.

Exhibit 1
State Spending and Allowable Spending under HB 1206

Fiscal Year	State Expenditures ($ in millions)	Increase over Prior Fiscal Year	Allowable Increase under HB 1206
2000	$17,868.30	7.2%	2.9%
2001	$20,064.80	12.3%	4.4%
2002	$21,443.00	6.9%	3.9%
2003	$22,454.10	4.7%	3.6%
2004	$22,547.00	0.4%	4.1%

State Revenues

Had this amendment been in effect for fiscal 1996 through 2004, rebates would have been issued in fiscal 1997, 1998, 1999, 2000, and 2001 totaling approximately $60 million, $218 million, $388 million, $532 million, and $290 million, respectively. The estimated average refund per taxpayer would range in this time period from $17 in fiscal 1997 to $152 in fiscal 2000.

State Administrative Expenditures

The Comptroller's Office would incur one-time computer programming costs of $7,400 to make adjustments to the tax processing system in order to issue refunds. In any year in which rebates were issued, costs would increase by about $1.8 million, including costs for processing time; digital storage; and 2.6 million checks, envelopes, and postage. These costs would be deducted from the total amount rebated, however.

Also, the State Treasurer charges a fee of $5.05 for each cancelled check. The Comptroller estimates that, based on other programs, about 6% of refund checks could have to be cancelled. This would increase expenditures by approximately $787,800 in any year refunds would be issued.

Local Fiscal Effect: Local spending could be impacted to the extent that spending needs exceed the spending limitations imposed by the bill. This would vary by year, and as a result cannot be reliably estimated.

Additional Information

Prior Introductions: HB 1130 of 2004, an identical bill, was not reported from the House Ways and Means Committee.

Cross File: None.

Information Source(s): Bureau of Labor Statistics, Census Bureau, Comptroller's Office, Department of Legislative Services

Fiscal Note History: First Reader - March 21, 2005
mp/hlb

Analysis by: Robert J. Rehrmann

Direct Inquiries to:
(410) 946-5510
(301) 970-5510