HB 449

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 449 (The Speaker, *et al.*) (By Request - Administration)
Appropriations

Relief From Budget Mandates

This Administration bill establishes that, notwithstanding other provisions of law and with specified exceptions, beginning in fiscal 2019, the Governor is not required to include an appropriation in the budget for any program or item in an amount that exceeds the fiscal 2018 appropriation for that item or program. This does not apply to specified funding required for State aid to public elementary and secondary education, the State's employer contribution to the State Retirement and Pension System, and any appropriations required to be made to the Revenue Stabilization Account or for principal or interest payments on State debt. It also does not apply if the revised general fund revenues estimate, as reported in the December Board of Revenue Estimates report, for the fiscal year in which the budget bill is being prepared exceeds the original estimate from the prior December, adjusted for tax law changes, by more than 2%. Regardless, the General Assembly may not enact legislation that creates a new or increased required level of funding in the annual budget bill for a specific program or item unless it also enacts legislation at that same session that reduces or repeals an equivalent amount of required funding for the same fiscal year.

The bill takes effect June 1, 2016.

Fiscal Summary

State Effect: Beginning in FY 2019, the bill likely gives the Governor authority to significantly reduce *existing* mandated expenditures, except for those exempted by the bill. The provisions related to *future* mandated appropriations may affect programs whose funding is reduced by the General Assembly to offset new mandates and/or may yield higher year-end fund balances.

Local Effect: The bill likely authorizes the Governor to significantly reduce State aid to local governments, beginning in FY 2019.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

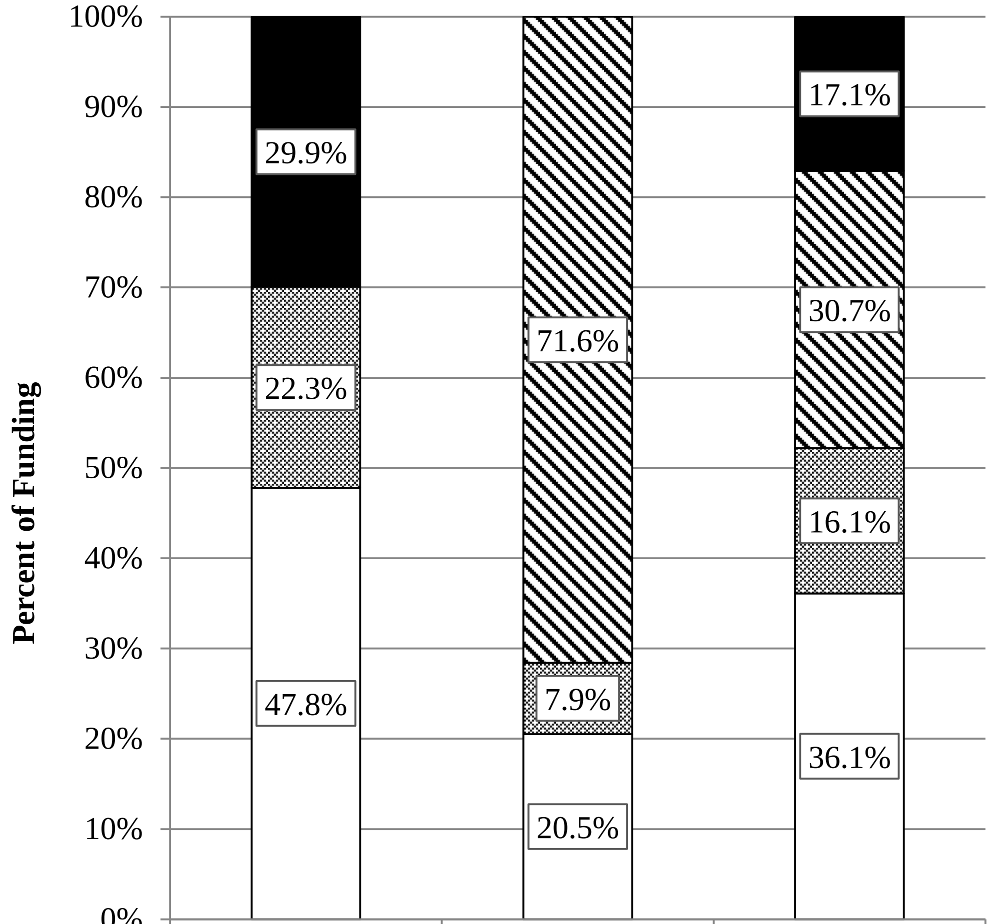
Analysis

Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add spending to the budget introduced by the Governor, nor can general funds be used to restore reductions made by the General Assembly after adoption of the budget, except through an approved deficiency appropriation in the following year's budget.

The General Assembly can increase or add an appropriations item relating to the legislature or Judiciary. In addition, through a supplementary appropriations bill, the General Assembly can add expenditures if matched with new revenues. Through legislation, the General Assembly can also mandate expenditures in the executive budget for a subsequent fiscal year.

Background: The Department of Legislative Services reported on Mandated Appropriations in the Maryland State Budget in December 2015. Altogether, proposed fiscal 2016 appropriations with a mandated amount total $10.5 billion and entitlements total an additional $4.7 billion, for a combined 52.2% of the State-sourced portion of the budget. As seen in **Exhibit 1**, 70.1% of the fiscal 2016 general fund allowance and 28.4% of the special fund and higher education allowance are mandates or entitlements. The remaining 71.6% of the special fund and higher education allowance is dedicated for specific purposes.

Exhibit 1
Maryland State Spending from Own-source Budget
($ in Millions)



	General Funds	Special and Higher Ed Funds	Total Funds
■ Nonmandated	$4,963.1	$0.0	$4,963.1
Mandated Purpose	0.0	8,935.8	8,935.8
Entitlement	3,692.3	982.2	4,674.5
□ Mandated Amount	7,927.5	2,561.4	10,488.9
Total 2016 Allowance	$16,582.9	$12,479.4	$29,062.3

Source: Governor’s Budget Books, Fiscal 2016; Department of Legislative Services

The Board of Revenue Estimates publishes revenue estimates every December that provide actual revenues for the fiscal year that ended the previous July and a preliminary estimate of revenues for the fiscal year about to begin the following July. For the current fiscal year, the published report provides a *revised* estimate of revenues (from the previous December's preliminary estimate) based on fiscal-year-to-date collected revenues. As **Exhibit 2** shows, in recent years, the difference between the *preliminary* estimate for each fiscal year and the *revised* estimate for the same fiscal year has exceeded the 2.0% threshold established by the bill only once in the four most recent fiscal years. A more extensive analysis found that the difference has exceeded the 2.0% threshold only eight times since 1997.

Exhibit 2
Preliminary vs. Revised Revenue Estimates
Fiscal 2013-2016
($ in Thousands)

	FY 2013	FY 2014	FY 2015	FY 2016
Preliminary	$14,423,040	$15,351,176	$16,005,344	$16,245,199
Revised	$15,034,956	$15,230,562	$15,691,892	$16,435,279
Difference	**4.24%**	**-0.79%**	**-1.96%**	**1.17%**

Source: Board of Revenue Estimates; Department of Legislative Services

State Expenditures: The Board of Revenue Estimates has to maintain a separate accounting system to account for tax law changes when forecasting general fund revenues. Since the Comptroller's Bureau of Revenue Estimates maintains a baseline for most tax types, it can account for tax law changes with existing resources.

If the Board of Revenue Estimates' revised general fund revenue estimate for the fiscal year during which the budget is prepared (which is released in December of that fiscal year) does not exceed by at least 2% the estimate for the same fiscal year prepared the previous December, the bill authorizes the Governor to make significant reductions to mandated expenditures. Based on the approximately 150 mandated appropriations and entitlements in the State budget in fiscal 2016, 86 mandated appropriations could be subject to reduced appropriations under the bill, beginning in fiscal 2019 if general fund revenue do not exceed the bill's threshold. (The remaining mandates are exempt from the bill's provisions.)

Of the 86 mandated appropriations subject to the bill, 27 mandated appropriations could be limited or reduced by the Governor. The remaining 59 mandates do not fluctuate from year to year, or do not fluctuate by much, and, as such, would not be significantly affected by the bill. **Exhibit 3** shows the savings that could be generated if the Governor elected to reduce or restrict appropriations for these items, by fund type and program for fiscal 2019 through 2021. Only mandates where an appropriation is required by statute with a clearly prescribed dollar amount or objective basis from which funding can easily be computed *and* which are subject to inflationary growth adjustments are included; mandates for which appropriations cannot be clearly calculated in advance (*i.e.,* entitlements such as Temporary Cash Assistance and Medicaid) are excluded.

Exhibit 3
Potential Savings by Fund Type and Program
Fiscal 2019-2021
($ in Millions)

	FY 2019	FY 2020	FY 2021
General Funds			
Dedicated Purpose Accounts	$50.0	$1.0	$72.3
Senator John A. Cade Formula	26.0	53.7	98.9
Disparity Grants to Counties	4.3	7.6	10.9
Joseph A. Sellinger Formula	4.1	8.6	37.8
DDA Community Services Providers Reimbursement Rate	19.5	19.5	19.5
Need-based Awards	2.2	4.5	6.8
Core Public Health Services Funding Formula	1.5	3.3	5.1
Baltimore City Community College	0.5	3.4	7.4
Other	3.1	6.2	9.7
General Funds Subtotal	**$111.2**	**$107.8**	**$268.4**
Special Funds			
Outdoor Recreation Land Loan Program	$93.8	$102.0	$109.7
Washington Metropolitan Area Transit Authority	4.0	33.0	48.0
Local Highway User Revenue Grants	4.0	5.0	8.0
Special Funds Subtotal	**$101.8**	**$140.0**	**$165.7**
Total	**$212.9**	**$247.8**	**$434.1**

DDA: Developmental Disabilities Administration

Source: Department of Legislative Services

The Department of Legislative Services notes that the bill establishes fiscal 2018 funding levels as the minimum threshold for all future funding. To the extent that mandated appropriations are funded for several years, the bill's provisions could result in even more severe cuts to some programs in future years if the Governor elects to fund them at fiscal 2018 levels.

Additionally, prohibiting the General Assembly from enacting legislation that creates a new or increased required level of funding in the annual budget bill for a specific program or item, unless it also enacts legislation at that same session that reduces or repeals an equivalent amount of required funding, could significantly impede the General Assembly's ability to pass legislation with State mandates. Absent the bill, a new mandated appropriation results either in the Governor having to reduce appropriations in another area of the budget in order to maintain a balanced budget or in a lower fund balance if no such reductions are made. Under the bill, the General Assembly would be required to specify the area for reduced appropriations and would be limited only to other mandated appropriations rather than the entire budget. This would ensure that any anticipated fund balance, if any, would be realized.

Local Fiscal Effect: If the revenue growth conditions in the bill are not attained, local governments could be significantly affected as they receive a substantial amount of funding from mandated appropriations and entitlement programs. In fiscal 2016, local governments received $6.8 billion from mandated appropriations and entitlement programs, consisting of 45.0% of all mandated appropriations and entitlement programs. If appropriations, with some exceptions, could not exceed fiscal 2018 appropriation amounts, local governments would receive $63.4 million less in State aid in fiscal 2019, $101.1 million less in fiscal 2020, and $158.6 million less in fiscal 2021.

Additional Comments: The bill applies to many funding formulas and mandated appropriations across the State budget; however, the provision is uncodified and, if enacted, will not be reflected in statute. This does not provide clarity or transparency regarding affected mandated funding formulas and appropriations in future years.

Additional Information

Prior Introductions: None.

Cross File: SB 375 (The President, *et al.*) (By Request - Administration) - Budget and Taxation.

Information Source(s): Comptroller's Office, Governor's Office, Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2016
md/mcr

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Relief from Budget Mandates

BILL NUMBER: SB375/HB449

PREPARED BY: Aaron Barker, DBM Staff Economist

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X__ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

___ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Limiting growth in mandatory appropriations would not have a significant impact on Maryland small businesses.