Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 303 (The President)(By Request - Administration)
Budget and Taxation

Commonsense Spending Act of 2017

This Administration bill limits, beginning in fiscal 2019 and subject to specified exemptions, the amount by which a mandated appropriation may increase over the previous fiscal year's appropriation to the lesser of (1) the amount of the existing formula calculation or (2) an amount equal to 1.0% less than the reported amount of general fund revenue growth in the December report of the Board of Revenue Estimates (BRE). Specified education spending, including most mandated K-12 spending, appropriations required to be made to the Revenue Stabilization Account, and required payments of principal or interest on State debt are exempt. The General Assembly may not enact legislation that creates a new or increased level of required 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, 2017.

Fiscal Summary

State Effect: No effect in FY 2017 or 2018. Expenditures (all funds) decline by a total of $913.5 million between FY 2019 and 2022, including $659.0 million in general funds, $208.3 million in special funds, and $46.1 million in federal funds, due to limiting growth for certain mandated appropriations that would otherwise grow at a faster rate. Revenues are not affected. **This bill decreases mandated appropriations beginning in FY 2019.**

($ in millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(42.6)	(94.1)	(224.3)	(298.1)
SF Expenditure	0	(36.3)	(45.4)	(58.0)	(68.6)
FF Expenditure	0	(7.5)	(9.5)	(13.4)	(15.6)
Net Effect	$0.0	$86.4	$149.0	$295.7	$382.4

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

Local Effect: Assuming that actual annual appropriations equal mandated amounts under the bill, State aid to local governments declines by $19.5 million in FY 2019, $46.7 million in FY 2020, $120.8 million in FY 2021, and $181.3 million in FY 2022.

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

Analysis

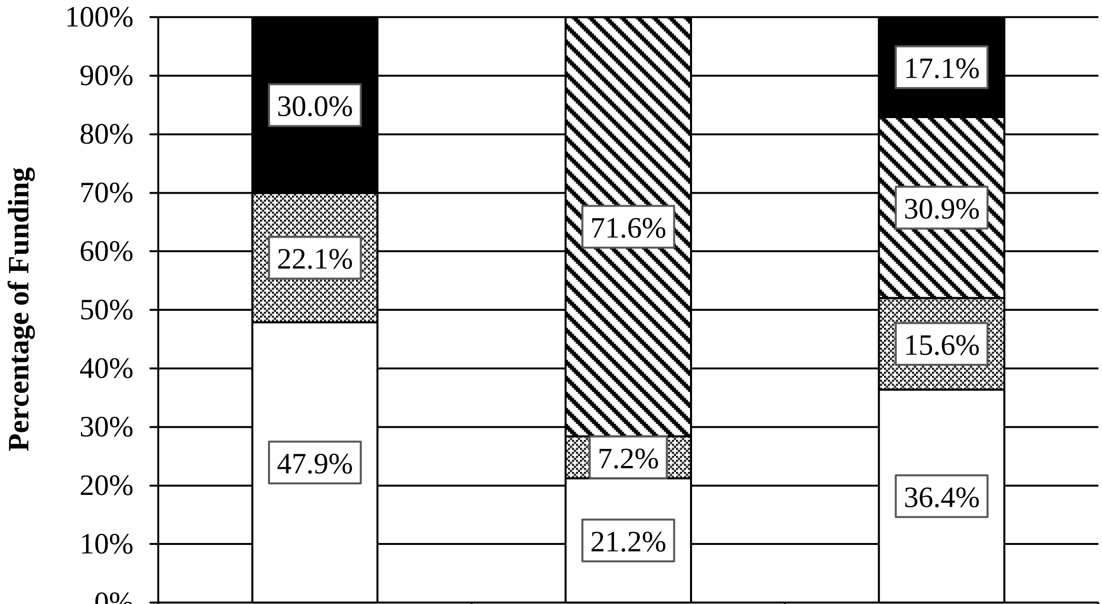
Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add spending to the budget introduced by the Governor, nor can general funds be used to restore reductions made by the General Assembly after adoption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

The General Assembly can increase or add appropriations relating to the Legislature or Judiciary. Through a supplementary appropriations bill, the General Assembly can also add expenditures if matched with new revenues. Through legislation, the General Assembly can mandate expenditures in the Executive budget for a subsequent fiscal year.

Background: DLS reported on Mandated Appropriations in the Maryland State Budget in October 2016. Altogether, proposed fiscal 2017 appropriations with a mandated amount total $11.0 billion and entitlements total an additional $4.7 billion, for a combined 52.0% of the State-sourced portion of the budget.

As seen in **Exhibit 1**, 70.0% of the fiscal 2017 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
Fiscal 2017 Allowance
($ in Millions)



	General Funds	Special and Higher Ed Funds	Total Funds
■ Nonmandated	$5,156.1	$0.0	$5,156.1
Mandated Purpose	0.0	9,336.2	9,336.2
Entitlement	3,790.2	934.5	4,724.8
□ Mandated Amount	8,213.0	2,768.4	10,981.5
Total 2017 Allowance	$17,159.3	$13,039.1	$30,198.5

Note: Numbers may not sum to total due to rounding. Fiscal 2017 special and higher education funds exclude the general and special fund portions of current unrestricted funds. General fund allowance total excludes $30 million of unspecified reversions.

Source: Governor's Budget Books, fiscal 2017; Department of Legislative Services

Exhibit 2 illustrates that K-12 education support and health programs receive 79.2% of all mandated and entitlement general fund spending in the fiscal 2017 allowance, with K-12 education comprising 49.5% alone. Health, transportation, and debt service account for 78.4% of all special fund mandates in the allowance. The bill's provisions limiting the growth of mandated appropriations does not apply to K-12 education, debt service, and the Revenue Stabilization Account. K-12 education mandates are estimated to total $5.8 billion in fiscal 2019 and $6.4 billion in fiscal 2022, and debt service payments are estimated to total $1.3 billion in fiscal 2019 and $1.4 billion in fiscal 2022. If the mandates specifically excluded from the bill were subject to the bill's provisions, the amount of mandates covered under the bill would increase from $3.6 billion to $10.7 billion in fiscal 2019 and from $4.1 billion to $11.9 billion in fiscal 2022.

Exhibit 2
Statutorily Mandated Appropriations and Entitlements by Policy Area
Fiscal 2017 Allowance
($ in Millions)

Policy Area	GF	% of GF	SF	% of SF	Total	% of Total
Education, K-12	$5,939.3	49.5%	$458.8	12.4%	$6,398.2	40.7%
Health	3,561.5	29.7%	992.2	26.8%	4,553.7	29.0%
Debt Service	283.0	2.4%	1,202.6	32.5%	1,485.6	9.5%
Transportation	0.0	0.0%	709.3	19.2%	709.3	4.5%
Administration and Legislative	645.4	5.4%	179.6	4.8%	824.9	5.3%
Education, Postsecondary	528.4	4.4%	2.5	0.1%	531.0	3.4%
Judiciary	484.1	4.0%	59.3	1.6%	543.4	3.5%
Human Services	234.2	2.0%	0.0	0.0%	234.2	1.5%
Nonspecific Aid	166.4	1.4%	1.0	0.0%	167.4	1.1%
Public Safety	78.3	0.7%	0.6	0.0%	78.8	0.5%
Agriculture, Environment, and Natural Resources	22.0	0.2%	88.0	2.4%	110.0	0.7%
Economic Development and Housing	60.8	0.5%	9.0	0.2%	69.8	0.4%
Total	**$12,003.3**	**100.0%**	**$3,703.0**	**100.0%**	**$15,706.2**	**100.0%**

GF: general fund
SF: special fund

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

Source: Department of Legislative Services

State Expenditures: The bill limits the growth in the amount of appropriations that are mandated by statute; under the bill, the Governor retains the authority to include appropriations in the budget that exceed a mandated amount. This analysis generally assumes that annual appropriations equal the mandated amount, subject to the bill's limitations. To the extent that the Governor elects to include more than a mandated amount in any given year or for any given line item, the bill's effect on State expenditures is moderated.

Required general, special, and federal fund expenditures decrease beginning in fiscal 2019 due to the limitations placed on the growth of mandated appropriations that would otherwise grow at a faster rate.

Expenditures decline by a total of $913.5 million between fiscal 2019 and 2022, including $659.0 million (72.1%) in general funds, $208.3 million (22.8%) in special funds, and $46.1 million (5.0%) in federal funds. Actual savings may be less than estimated if the Governor elects to fund a program above the required level. This estimate is based on the following information and assumptions:

- Only mandates where an appropriation is required by statute with a clearly prescribed dollar amount or an objective basis from which funding can easily be computed and 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.
- Growth in mandated appropriations is limited to 2.2% in fiscal 2019, 2.6% in fiscal 2020, 2.7% in fiscal 2021, and 2.8% in fiscal 2022, based on one percentage point less than the December 2016 BRE estimates of general fund growth for those years.
- Mandates that begin after fiscal 2018 are not altered in the first year of the mandate (*i.e.*, mandated repayments of $33.0 million to the Dedicated Purpose Account for funds previously borrowed from the Local Income Tax Reserve Account, which begin in fiscal 2021).
- Actuarially required retirement contributions are included in the analysis as they are not excluded under the legislation and can be calculated in advance.
- The estimate does not account for mandated repayments to the Program Open Space Fund, and other funds, that the Governor must repay due to diverting transfer tax funds in previous years.
- Constitutional mandates, such as funding for the Judicial and Legislative Branches, are excluded.
- General fund revenue growth has been less than 1.0% twice in the past 20 years. It is unclear whether mandated appropriations would be required to decrease or remain at the prior year's appropriation if general fund revenue growth were less than 1.0%.

Exhibit 3 illustrates the savings generated by the bill. Many State mandates are not expected to be affected by the bill because they are exempt from the bill or they are currently forecast to grow at a rate less than general fund revenues minus 1.0%. Based on the approximately 175 mandated appropriations and entitlements in the State budget in fiscal 2017, 110 mandated appropriations are subject to reduced appropriations under the bill, beginning in fiscal 2019. (The remaining mandates are exempt from the bill's provisions.) Of the 110 mandated appropriations subject to the bill, 31 mandated appropriations could be limited or reduced by the Governor because their growth is projected to exceed the bill's limit. The remaining 79 mandates are not expected to grow by an amount equal to 1.0% less than the reported amount of general fund revenue growth in the December BRE report.

Exhibit 3
Impact on Total Expenditures by Fund Type and Program
Fiscal 2019-2022
($ in Millions)

	FY 2019	FY 2020	FY 2021	FY 2022
General Fund				
DDA Reimbursement to Community Services Providers	($7.6)	($7.8)	($7.9)	($8.1)
Joseph A. Sellinger Formula	(3.1)	(6.2)	(33.8)	(36.6)
Senator John A. Cade Formula	(7.1)	(26.8)	(61.3)	(98.9)
Preschool Development Grants	(3.6)	-	-	-
University of Maryland Strategic Partnership	(5.9)	(11.7)	(15.6)	(15.6)
College Affordability Act	(1.9)	(4.8)	(4.8)	(4.8)
Disparity Grants to Counties	-	(2.4)	(2.4)	(2.5)
Aid for Local Employees Retirement	-	(8.3)	(44.7)	(62.5)
State Retirement Contribution	(9.7)	(22.7)	(47.8)	(61.4)
Other	(3.7)	(3.3)	(5.9)	(7.8)
General Fund Subtotal	*(42.6)*	*(94.1)*	*(224.3)*	*(298.1)*
Special Funds				
Washington Metropolitan Area Transit Authority Operating Subsidy	(1.0)	(1.0)	(1.0)	(1.0)
Outdoor Recreation Land Loan Program – State Share	(26.3)	(29.5)	(31.9)	(33.9)
Outdoor Recreation Land Loan Program – Local Share	(5.5)	(6.5)	(7.4)	(10.9)
State Retirement Contribution	(3.6)	(8.4)	(17.7)	(22.7)
Special Fund Subtotal	*(36.3)*	*(45.4)*	*(58.0)*	*(68.6)*

	FY 2019	FY 2020	FY 2021	FY 2022
Federal Funds				
DDA Reimbursement to Community Services Providers	(6.0)	(6.1)	(6.2)	(6.4)
State Retirement Contribution	(1.5)	(3.4)	(7.2)	(9.3)
Federal Funds Subtotal	*(7.5)*	*(9.5)*	*(13.4)*	*(15.6)*
Total	**($86.4)**	**($149.0)**	**($295.7)**	**($382.4)**

DDA: Developmental Disabilities Administration ESOL: English for Speakers of Other Languages

Note: Numbers may not sum due to rounding. Other includes funding to public libraries, Maryland State Arts Council, Virginia-Maryland Regional College of Veterinary Medicine, Core Public Health Services formula, State Library Resource Centers, St. Mary's College of Maryland, Pathways in Technology Early College High School Grants, Maryland Library for the Blind and Physically Handicapped, aid to community colleges (small college grants, ESOL grants, and retirement contributions), and the Maryland Stadium Authority.

Source: Department of Legislative Services

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 the anticipated fund balance, if any, would be realized.

Local Fiscal Effect: Local governments are significantly affected as they receive a substantial amount of funding from mandated appropriations and entitlement programs. In fiscal 2017, local governments received $7.2 billion from mandated appropriations and entitlement programs, consisting of 45.9% of all mandated appropriations and entitlement programs. Thus, State aid to local governments declines by $19.5 million in fiscal 2019, $46.7 million in fiscal 2020, $120.8 million in fiscal 2021, and $181.3 million in fiscal 2022.

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

This note differs, slightly, from the estimate of mandate relief savings from a similar provision in House Bill 152/Senate Bill 172, the Budget Reconciliation and Financing Act (BRFA) as this note does not take into account other changes to current law incorporated in the BRFA.

Additional Information

Prior Introductions: None.

Cross File: HB 420 (The Speaker)(By Request - Administration) - Appropriations.

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

Fiscal Note History: First Reader - February 28, 2017
mm/mcr

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Commonsense Spending Act of 2017

BILL NUMBER: HB420/SB303

PREPARED BY: Governor's Legislative Office
(Dept./Agency/GLO)

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

X WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

OR

_____ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS