Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1339 (Delegate McKay, *et al.*)
Appropriations

State Budget - Mandated Appropriations - Reductions

This bill authorizes the Governor to reduce an appropriation that is required to be included in the budget bill for the next fiscal year by up to 1% of the mandated amount if the December report of the Board of Revenue Estimates (BRE) estimates year-over-year general fund revenue growth for the following fiscal year of less than 3%. Appropriations required by the State Constitution and appropriations to fulfill a contractual obligation to the State are exempt. BRE must include in its December, March, and September reports the estimated year-over-year general fund revenue growth for that fiscal year and the following fiscal year. **The bill takes effect June 1, 2018.**

Fiscal Summary

State Effect: No effect in FY 2018 or 2019. Expenditures (all funds) could decrease significantly in FY 2020 to the extent that estimated general fund revenue growth is below 3% and the Governor decides to reduce appropriations. Revenues are not affected. **This bill may decrease mandated appropriations in FY 2020 and future years.**

Local Effect: State aid to local governments could decrease significantly in FY 2020 and potentially in future years if estimated general fund revenue growth is less than 3%.

Small Business Effect: Minimal.

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.

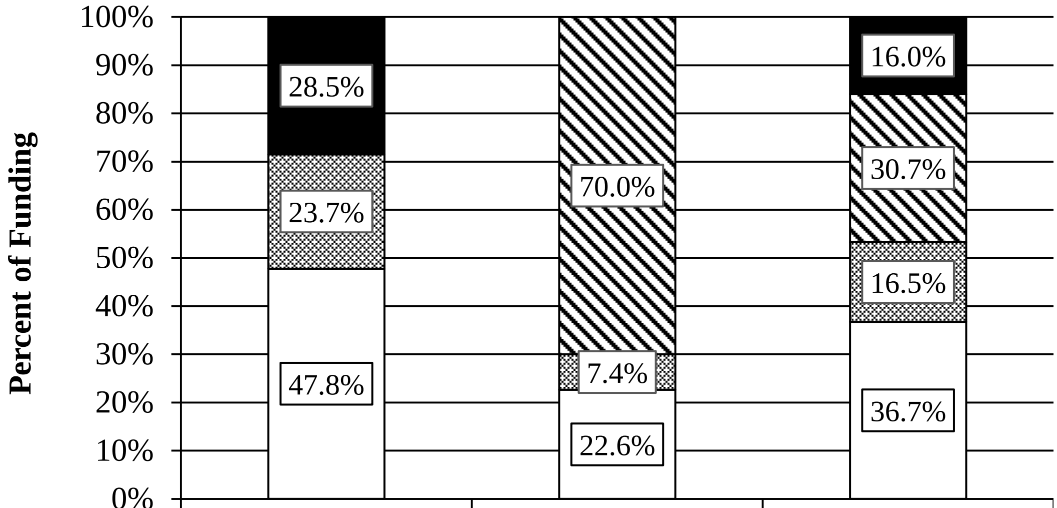
The General Assembly can increase or add appropriations relating to the Legislature or Judiciary. Through a supplementary appropriations bill, the General Assembly can also add expenditures if matched with new revenues. Through legislation, the General Assembly can mandate expenditures in the Executive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

Generally, all contracts and contract modifications that are effective in more than one fiscal year must have the following provision: "If the General Assembly fails to appropriate funds or if funds are not otherwise made available for continued performance for any fiscal period of this Contract succeeding the first fiscal period, this Contract shall be cancelled automatically as of the beginning of the fiscal year for which funds were not appropriated or otherwise made available; provided, however, that this will not affect either the State's rights or the Contractor's rights under any termination clause in this Contract. The effect of termination of the Contract hereunder will be to discharge both the Contractor and the State from future performance of the Contract, but not from their rights and obligations existing at the time of termination. The Contractor shall be reimbursed for the reasonable value of any non-recurring costs incurred but not amortized in the price of the Contract. The State shall notify the Contractor as soon as it has knowledge that funds may not be available for the continuation of this Contract for each succeeding fiscal period beyond the first."

Background: The Department of Legislative Services reported on Mandated Appropriations in the Maryland State Budget in September 2017. Altogether, proposed fiscal 2018 appropriations with a mandated amount total $11.2 billion and entitlements total an additional $5.1 billion, for a combined 53.3% of the State-sourced portion of the budget.

As seen in **Exhibit 1**, 71.5% of the fiscal 2018 general fund allowance and 30.0% of the special fund and higher education allowance are mandates or entitlements. The remaining 70.0% of the special fund and higher education allowance is dedicated for specific purposes.

Exhibit 1
Maryland State Spending from Own-source Budget
As Included in the Fiscal 2018 Allowance
($ in Millions)



	General Funds	Special and Higher Ed Funds	Total Funds
■ Nonmandated	$4,894.1	$0.0	$4,894.1
Mandated Purpose	0.0	9,403.0	9,403.0
Entitlement	4,067.5	995.9	5,063.4
□ Mandated Amount	8,203.3	3,038.8	11,242.1
Total 2018 Allowance	$17,164.8	$13,437.7	$30,602.5

Notes: Numbers may not sum to total due to rounding. Fiscal 2018 special and higher education funds exclude the general and special fund portions of current unrestricted funds. The general fund allowance total excludes $31.2 million of unspecified reversions.

Source: Governor's Budget Books, Fiscal 2018; Department of Legislative Services

Exhibit 2 illustrates that K-12 education and health programs receive 79.2% of all mandated general fund spending in the allowance, with K-12 education comprising 48.0% alone. Health, transportation, and debt service for the State's capital program account for 76.9% of all special fund mandates in the allowance.

Exhibit 2
Statutorily Mandated Appropriations and Entitlements by Policy Area
Fiscal 2018 Allowance
($ in Millions)

Policy Area	GF	% of GF	SF	% of SF	Total	% of Total
Education, K-12	$5,889.2	48.0%	$522.1	12.9%	$6,411.4	39.3%
Health	3,824.2	31.2%	1,046.9	25.9%	4,871.1	29.9%
Capital Program	263.0	2.1%	975.9	24.2%	1,238.9	7.6%
Transportation	0.0	0.0%	1,080.4	26.8%	1,080.4	6.6%
Administration and Legislative	613.4	5.0%	184.8	4.6%	798.1	4.9%
Education, Postsecondary	598.8	4.9%	2.5	0.1%	601.4	3.7%
Judicial Branch	505.2	4.1%	66.4	1.6%	571.6	3.5%
Human Services	237.2	1.9%	0.0	0.0%	237.2	1.5%
Agriculture, Environment, and Natural Resources	25.2	0.2%	144.0	3.6%	169.2	1.0%
Nonspecific Aid	160.5	1.3%	2.0	0.0%	162.5	1.0%
Public Safety	83.0	0.7%	0.6	0.0%	83.6	0.5%
Economic Development and Housing	71.1	0.6%	9.1	0.2%	80.2	0.5%
Total	**$12,270.8**	**100.0%**	**$4,034.7**	**100.0%**	**$16,305.4**	**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 Comptroller's Office already calculates year-over-year general fund revenue growth in the December, March, and September BRE reports so the bill has no fiscal effect on the Comptroller's Office.

The bill limits discretionary reductions to 1% of the appropriations that are mandated by statute if the December BRE report estimates year-over-year general fund revenue growth for the following fiscal year of less than 3%. Any decrease in expenditures cannot be reliably estimated because it is unknown what future estimated general fund revenue growth will be or what new mandates the General Assembly will create in future years. In the past five years, the *estimated* revenue growth has never been below 3%, though *actual* general fund revenue growth has been. The current five-year forecast as reported in the December 2017 BRE report, though very preliminary, predicts year-over-year growth to fall below 3% once, in fiscal 2020, as shown in **Exhibit 3**.

Exhibit 3
Estimated General Fund Revenue Growth

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
General Fund Revenue Growth	3.3%	2.9%	3.6%	3.7%	3.7%

Source: Comptroller's Office; Department of Legislative Services

Assuming the general fund revenue growth in the December 2018 BRE report does not change from the December 2017 BRE report, then the Governor may reduce an appropriation by up to 1% in the fiscal 2020 budget, thereby reducing required general, special, and federal fund expenditures. 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.

Exhibit 4 illustrates savings that could be generated by the bill for fiscal 2020. As specified by the bill, it excludes appropriations that are constitutionally mandated, including K-12 education aid, compensation for constitutional officers, and debt service. If mandated appropriations in fiscal 2020 are similar to those in fiscal 2018, expenditures may, at the Governor's discretion, decline by as much as $20.9 million in fiscal 2020, including $10.9 million (52%) in general funds, $9.7 million (46%) in special funds, and $0.3 million (2%) in federal funds. Additionally, in other fiscal years that the December BRE report estimates year-over-year general fund revenue growth of less than 3%, expenditures could decrease significantly.

This estimate is based on 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; mandates for which appropriations cannot be clearly calculated in advance (*i.e.,* entitlements such as Temporary Cash Assistance and Medicaid) are excluded. This estimate assumes most contractual obligations are subject to the 1% reduction since contracts can be terminated if there is no appropriation for the contract.

Exhibit 4
Potential Savings by Fund Type and Program
Fiscal 2020
($ in Millions)

	FY 2020
General Funds	
Senator John A. Cade Funding Formula	$2.4
Disparity Grants to Counties	1.4
State Aid for Police Protection Fund	0.7
Need-based Awards	0.7
Joseph A. Sellinger Formula	0.5
Core Public Health Services Funding Formula	0.5
Other	4.7
General Funds Subtotal	*10.9*
Special Funds	
WMATA – Operating Subsidy	3.7
Local Highway User Revenue Grants	1.8
WMATA – Capital/Debt Service Subsidy	1.6
Outdoor Recreation Land Loan Program – State Share	1.0
Montgomery and Prince George's County Bus Subsidies	0.5
Other	1.2
Special Funds Subtotal	*9.7*
Federal Funds	
Other Federal Funds	0.3
Federal Funds Subtotal	*0.3*
Total	**$20.9**

WMATA: Washington Metropolitan Area Transit Authority
Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Local Fiscal Effect: Local governments are significantly affected because they receive a substantial amount of funding from mandated appropriations and entitlement programs. In fiscal 2018, local governments received $7.3 billion from mandated appropriations and entitlement programs, consisting of 44.7% of all mandated appropriations and entitlement programs. Approximately 87% of mandated appropriations and entitlement programs that are directed toward local governments would not be subject to a reduction in appropriations under the bill as a result of being a constitutional requirement. Thus, State aid to local governments could decline by as much as $9.6 million in fiscal 2020, assuming mandated appropriations in fiscal 2020 are similar to mandated appropriations in fiscal 2018. Additionally, in other fiscal years that the December BRE report estimates year-over-year general fund revenue growth of less than 3%, State aid to local governments could decrease significantly. However, the December 2017 BRE report estimates general fund revenue growth of over 3% in fiscal 2021 through 2023, so this analysis assumes reductions only occur in fiscal 2020.

Additional Information

Prior Introductions: None.

Cross File: SB 213 (Senator Waugh, *et al.*) - Budget and Taxation.

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

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