Update on Mandates and Mandate Reform

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

January 2009

Purpose of Presentation

- Review summary of the fiscal 2009 budget to show mandates and entitlements in the context of the overall State budget
- Describe the types of mandates and their impact on budget growth
- Describe principles for implementing mandate reform

What are Mandates and Entitlements?

- Mandates are legal requirements for the Governor to fund at a certain level, either by specifying an amount or by defining a formula

- Entitlements are legal commitments to provide benefits to all qualifying individuals or groups

- Funds with mandated purposes have statutory dedications indentifying a broad purpose, but give the Governor discretion on the specific uses

Mandates in the State Budget [1]

- In fiscal 2009, appropriations with a mandated amount or purpose total $19.6 billion, or 79%, of the State-sourced portion of the budget

- Slightly more than 66% of the fiscal 2009 general fund (GF) appropriation and 24% of the special fund (SF) and current unrestricted fund (CUF) appropriations are mandates or entitlements; these combine to total $12.4 billion

- The remaining 76% of SF and CUF are mandated for a specific purpose

[1]Additional detail is available in “Mandated Appropriations in the Maryland State Budget,” Department of Legislative Services, September 2008

Mandates in the State Budget (Cont.)

- Funding for mandated GF education aid and Medicaid programs comprises 72% of all mandated and entitlement GF spending

- Debt service (transportation and general obligation) and local highway user grants account for 63% of SF mandates

- Over 90% of mandated and entitlement GF spending goes to local governments and individuals

Mandate Growth Constrained in Recent Budgets

- The growth in mandates was curtailed by the actions of the 2007 special session so that mandates and entitlements grew at a rate of 3% vs. 9% in non-mandated growth

- Budget and statutory actions in the 2008 session further reduced the formula growth in certain mandated programs by approximately $16 million

Budget Growth Is Driven by Certain Features

- Mandates total approximately $8.8 billion in fiscal 2009
- Entitlements total approximately $3.6 billion in fiscal 2009
- Although there may not be mandated funding levels under the statute, spending for core government services such as the correctional system is not fully discretionary; non-mandated GF totals $5.2 billion in fiscal 2009

Drivers of Budget Growth

- Most entitlements and a few mandates are forced to grow by the ***growth in the underlying costs***

  – Examples are the Medical Assistance programs, social service programs, and local retirement costs

  – The cost would increase from $4.1 billion in 2009 to more than $4.5 billion in 2010 (Department of Legislative Services (DLS) baseline)

Drivers of Budget Growth (Cont.)

- There are approximately 13 formula mandates that include an ***automatic inflation adjuster***
  - Examples are Aging Schools, Thornton formulas which build off the Foundation formula (although temporarily frozen), St. Mary's College of Maryland, and the Maryland State Arts Council
  - These mandates total approximately $4.5 billion
  - The adjuster may be the Consumer Price Index, the Implicit Price Deflator, or growth in general fund revenues

Drivers of Budget Growth (Cont.)

- There are two programs which are in the midst of a ***statutory increase in their base amount***

  – Maryland Agricultural and Resource-based Industry Development Corporation and Soil Conservation Districts

- The 2010 baseline estimates growth of $1.1 million, from $10.9 million to $12.0 million

Drivers of Budget Growth (Cont.)

- There is a group of mandates where the ***underlying factors in the formula are generally increasing***
  - Factors in the calculation may include:
    - population or enrollment
    - spending on public higher education
    - the number of disabled students who need transportation to school
    - debt outstanding
    - the operating deficit of an entity where the State has committed to share costs
  - This group represents about $2.3 billion in fiscal 2009, increasing to $2.4 billion in the DLS baseline estimate

Drivers of Budget Growth (Cont.)

- Formulas may contain two elements at once
  - ***an enhancement in the formula and growth in an underlying factor***
    - The Cade Formula for Community Colleges, the formula for Baltimore City Community College, and county and regional library aid
    - estimated growth of more than $44 million for fiscal 2010
  - ***an automatic inflation adjuster and growth in an underlying factor***
    - local health services funding and education aid formulas are examples

Drivers of Budget Growth (Cont.)

- There are mandates that do not cause budget growth because they simply ***establish a specific amount of funding***

  – Examples are the salaries of constitutional officers, debt payments for Stadium Authority projects, the Fisheries Research and Development Fund, the library capital grants program, and the Maryland Tourism Board

Principles for Mandate Reform

- If the objective is to enhance budget flexibility and allow for greater responsiveness to fiscal conditions, options include:
  - repeal mandates with an absolute dollar amount
  - avoid the enactment of new mandates
  - remove automatic increases
  - freeze multi-year enhancements at current levels
  - configure formulas to capture the current cost of policy decisions ("true up"), to avoid cases where next year's funding is based on last year's decision

Principles for Mandate Reform (Cont.)

- If the objective is to establish funding priorities while ensuring that programs and policies are competing fairly for scarce resources, options include:

  – repeal mandates with an absolute dollar amount

  – remove automatic increases but require that each year's budget be not less than the prior year legislative appropriation (or some fraction of the prior year appropriation)

  – structure formulas so that funding may be reduced if underlying factors decline (eliminate floors)

  – establish a maximum funding level, but not a minimum

  – enact program mandates without creating a mandated funding level.

Principles for Mandate Reform (Cont.)

- If the objective is to ensure that over-arching policy objectives are being met, options include:
  - periodically review appropriateness of per-unit amounts and other formula factors used in calculations for policy and fiscal considerations
  - periodically review interdependent formulas to evaluate effects on each program's funding
  - include a sunset provision in all mandates, requiring evaluation before reauthorization

Addressing Mandates in the 2009 Session

- Fiscal 2010 Budget
  - The General Assembly does not always need a statutory change to reduce spending in mandated programs
  - Reductions are in effect for the budget year only
- Statutory Changes
  - To assume reductions in mandated programs to balance the budget, the Governor would need to offer legislation to amend the statute
  - Control of entitlement costs would require changes to benefits, eligibility, or cost-sharing arrangements
  - To implement multi-year or ongoing reductions
  - May be an omnibus reconciliation act and/or separate legislation on specific programs