Department of Legislative Services
Office of Policy Analysis
Maryland General Assembly

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May 14, 2015

The Honorable Thomas V. Mike Miller, Jr.
The Honorable Michael E. Busch
Co-Chairmen, Legislative Policy Committee

Gentlemen:

Section 2-1008 of the State Government Article requires that the Department of Legislative Services (DLS) report to the Legislative Policy Committee by June 1, the extent to which the budget, as passed by the General Assembly, conforms to the recommendations of the Spending Affordability Committee.

The following is a summary of the committee's major recommendations found in its 2014 interim report with an evaluation by DLS as to the extent the budget, as enacted during the 2015 session, conforms to these recommendations.

Operating Budget

Spending Limit and Sustainability

Recommendation: The baseline projection for fiscal 2016 reflects 6.2% growth in State spending and results in an estimated structural deficit of $650 million, which is expected to increase to nearly $1.5 billion in fiscal 2020. In recognition of this outlook and the continued decline in revenue estimates put forth by the Board of Revenue Estimates in December 2014, the committee recommended that the fiscal 2016 budget as introduced and enacted resolve at least 50.0% of the general fund structural gap.

Evaluation: Actions by the Governor and the legislature reduced the general fund structural deficit relative to the fiscal 2016 baseline by $444 million, as shown in **Exhibit 1**. These actions reflect resolution of 68% of the identified structural gap, exceeding the committee's recommendation to reduce the deficit by at least 50% ($325 million), resulting in an estimated remaining structural deficit of $206 million. If the 2% across-the-board reduction, as introduced by the Administration, results in ongoing savings to the budget, the resolved portion of the general fund structural deficit would increase to 82%. **The General Assembly complied with this recommendation of the Spending Affordability Committee.**

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Exhibit 1
Spending Affordability Compliance Calculation
($ in Millions)

Target		
Estimated Structural Gap (December 2014)		-$650
Target Reduction		-325
Ongoing Revenues	$16,296	
Chesapeake and Atlantic Coastal Bays 2010 Trust Fund	-9	
Legislation	-4	
Other One-time Items	-2	
Subtotal		***$16,281***
Ongoing Spending	$16,404	
Rainy Day Fund	-50	
Tobacco Arbitration	40	
One-time Reductions	38	
2% Across-the-board Reduction	91	
Prince George's Hospital Grant	-15	
Pay-as-you-go Capital	-21	
Subtotal		***$16,487***
Amount Reduced from Structural Shortfall		**$444**
Remaining Structural Gap		**$206**

Rainy Day Fund

Recommendation: The committee recommended that the balance in the Rainy Day Fund be maintained at or above 5% of estimated revenue. This balance is essential to protect State services due to budgetary and economic uncertainty.

Evaluation: The Rainy Day Fund achieves a balance of $814.1 million in fiscal 2016, as shown in **Exhibit 2**, which equals 5% of general fund revenue. **The General Assembly complied with these recommendations of the Spending Affordability Committee.**

Exhibit 2
State Reserve Fund Activity
Fiscal 2015-2016
($ in Millions)

	Rainy Day Fund
Estimated Balances June 30, 2014	**$763.6**
Fiscal 2015 Appropriations	19.7
Board of Public Works Reduction	-4.9
Estimated Interest	7.7
Estimated Balances June 30, 2015	**$786.1**
Fiscal 2016 Appropriation	50.0
Transfer to the General Fund	-34.0
Estimated Interest	12.0
Estimated Balances June 30, 2016	**$814.1**
Percent of Revenues in Reserve	**5.0%**

Capital Budget

General Obligation Debt

Recommendation: Due to the December 2014 revenue write-down and the impact that would have on maintaining the 8% debt service to revenue limit in future years, the committee did not concur in the recommendation of the Capital Debt Affordability Committee (CDAC) that no more than $1,170 million in new general obligation (GO) bonds may be authorized at the 2015 session and that an additional $300 million be added to the GO bond authorization over the next four years of the *Capital Improvement Program* (CIP). Instead, the committee recommended that that new GO bond authorizations not exceed $1,095 million in fiscal 2016 and recommended against the inclusion of the additional $300 million in authorizations over the next four years.

Evaluation: GO debt totaling $1,068.3 million is authorized in the Maryland Consolidated Capital Bond Loan of 2015; this is offset by de-authorizations totaling $18.7 million and includes $4.6 million in Qualified Zone Academy Bonds. The total of new GO bonds is $1,045.0 million, which is $50.0 million below the Spending Affordability Committee (SAC) limit. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Higher Education Debt

Recommendation: The committee concurred in the recommendation of CDAC that $34.5 million in new academic revenue bonds may be authorized for the University System of Maryland in the 2015 session.

Evaluation: $54.5 million of new academic revenue bonds (ARB) is authorized in Chapter 471 of 2015 (House Bill 1182) for University System of Maryland projects. As introduced, the bill would have authorized $34.5 million in academic debt but was amended to provide an additional $20.0 million in fiscal 2016 to support the overall funding plan for the New Bioengineering Building at the University of Maryland, College Park. Language added to the bill expresses the intent that the additional $20.0 million authorized in the 2015 session will be deducted from the 2016 and 2017 session authorizations by $10.0 million each, thereby keeping the total amount of ARB authorizations for the five-year CIP planning level consistent with what is currently programmed in the 2015 session CIP. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and the mandatory transfers criterion recommended by the system's financial advisers. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

State Employment

Limits on Workforce Growth

Recommendation: The committee found that given the State's fiscal condition, 81,081 positions are appropriate for the delivery of State services. The fiscal 2016 budget should not exceed this maximum number of positions across all functions (including the Executive, Legislative, and Judicial branches and higher education). Agencies should make maximum use of existing vacant positions to address staffing needs. The Governor should use the budget and his authority to abolish and create positions to reallocate personnel resources as necessary to address service needs. Layoffs should be avoided as sufficient opportunities for savings should exist within the existing State workforce authorization.

Evaluation: The budget as introduced included 81,422 regular positions. The assumption of the abolition of 500 positions through a Voluntary Separation Program means the budget actually reflects 80,922 positions for spending affordability purposes. The General Assembly reduced 140 positions from the budget, for a fiscal 2016 complement of 80,782. This is 299 positions below the limit. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Concerns Regarding Revenue Revisions

Recommendation: The committee expressed concerns with the pattern of inaccuracies that has developed for estimating general fund revenues, which has hampered budgeting and contributed to budget shortfalls. To address these concerns, the committee requested that the Comptroller report to the Senate Budget and Taxation Committee, the House Ways and Means Committee, and the House Appropriations Committee before February 1, 2015, to explain the process used to track and forecast revenue collections and to identify any impediments to creating more accurate forecasts.

Evaluation: On January 27, 2015, representatives from the Office of the Comptroller briefed the Senate Budget and Taxation Committee, the House Ways and Means Committee, and the House Appropriations Committee on the process used by the Board of Revenue Estimates to forecast revenue collections and responded to inquiries from participating members. Information was provided regarding the make-up of the Board of Revenue Estimates and Revenue Monitoring Committee; the timeline for providing revenue estimates throughout the fiscal year, as well as the information available at each point of estimation; and what factors have contributed to the recent volatility in the estimates provided to SAC and the General Assembly. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Sincerely,

Warren G. Deschenaux
Director

WGD/RJR/kjl

cc: Members, Spending Affordability Committee
Secretary David R. Brinkley
Mr. Karl S. Aro