

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF THE EXECUTIVE DIRECTOR
MARYLAND GENERAL ASSEMBLY

Warren G. Deschenaux
Executive Director

May 31, 2016

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 on the extent to which the budget, as passed by the General Assembly, conforms to the recommendations of the Spending Affordability Committee (SAC).

The following is a summary of the committee's major recommendations found in its 2015 interim report with an evaluation by DLS as to the extent the budget, as enacted during the 2016 session, conforms to these recommendations.

Operating Budget

Spending Limit and Sustainability

Recommendation: The baseline projection for fiscal 2017 reflected 6.7% growth in State spending. Consistent efforts to reduce the structural general fund gap, combined with favorable revenue projections, resulted in the accelerated elimination of the spending gap and a projected structural surplus for fiscal 2016 through 2018. In recognition of this outlook, the committee recommended transitioning to the more traditional method for maintaining spending affordability and proposed a growth limit of no greater than 4.85% above the amount of spending approved during the 2015 session. In addition, the committee recommended that the approved budget must continue to maintain structural balance.

Evaluation: As shown in **Exhibit 1**, actions by the Governor and the legislature result in fiscal 2017 budget growth of 4.55% on a spending affordability basis. This is approximately 30 basis points, or \$73.0 million, below the 4.85% limit recommended by the committee. Final action on the budget restricted \$80.0 million in the Rainy Day Fund for various projects and programs. Approximately \$37.1 million of the restricted funds represents expenditures that must be counted as spending toward the spending affordability calculation. The restricted funds are designated to support local school boards' pension increases, Medicaid, food assistance payments, crime prevention, arts institutions, and education institutions. The fiscal 2017 legislative appropriation provides an estimated general fund structural balance of approximately \$100.0 million. **The General Assembly complied with this recommendation of the Spending Affordability Committee.**

Exhibit 1
Spending Affordability Compliance Calculation
2016 Legislative Session
(\$ in Millions)

2015 Session Spending Affordability Appropriation	\$24,416.9
2016 Session Budget as Introduced	
Deficiencies	\$189.7
Allowance	30,396.0
Supplemental Budget No. 1	15.0
Supplemental Budget No. 2	38.0
Supplemental Budget No. 3	50.4
<i>Subtotal</i>	<i>\$30,689.1</i>
Specific Reversions	\$205.8
Back of the Bill Reductions	40.5
Total Spending As Introduced	\$30,442.8
Exclusions from the Limit in Budget as Introduced and Supplemental Budget Nos. 1, 2, and 3 (Detail Following)	
Capital and Maintenance	
Department of General Services Deferred Maintenance	\$5.5
Higher Education Facility Renewal	84.3
Pay-as-you-go (PAYGO) – General and Special Funds	411.2
PAYGO – Maryland Department of Transportation	1,731.6
Double-count	
Higher Education State and Local Grants and Contracts in Current Unrestricted Funds	18.1
Higher Education General Fund Double-count	1,390.4
Higher Education Investment Fund – Special Fund Double-count	74.8
Maryland Correctional Enterprises	60.6
Non-State Pass-through	
911 Fund	42.0
Hospital Pass-through for Uncompensated Care	150.0
Health Services Cost Review Commission Integrated Care Network	25.0
BWI MARC Garage Real Property Lease	1.2
Local Share of Retirement Administrative Costs	20.7
Higher Education Federal Fund Grants and Contracts	129.6
Property Tax Collection from Local Jurisdictions	23.0
Department of Juvenile Services/Department of Human Resources Nonpublic Placements	3.3
Election System Local Pass-through	13.6

Exhibit 1 (continued)

Enterprise Activities

Affordable Care Act Reinsurance Payments	40.1
Lottery	99.3
Maryland Aviation Administration Operations	186.5
Maryland Port Administration Operations	50.0
Department of Budget and Management Central Collection Unit	14.1

Other

State Reserve Fund	235.3
Pension Sweeper	50.0
Prior Year Deficiencies	35.9
Other Deficiencies	45.1
Subtotal	\$4,940.9

Legislative Reductions to Budget As Introduced (Spending Affordability Committee Reductions Only)

Fiscal 2015 Reductions	\$0.0
Fiscal 2016 Reductions	10.9
Subtotal	\$10.9

Additional General Assembly Spending

Grant to School Systems for Teacher Retirement Costs	-\$19.0
Increase Medicaid Physician Rate to 96% of Medicare	-14.1
State Supplement to Food Supplement Program	-1.0
Baltimore City Safe Streets Program	-1.0
Level-fund Care Coordination Grant to Baltimore City	-0.5
Fund Lead Remediation for Medicaid Children	-0.5
Other Spending	-1.0
Subtotal	-\$37.08

2016 Session Spending Affordability Appropriation

\$25,528.1

Increase	1,111.2
Percent	4.55%

2016 Session Spending Affordability Limit (4.85%)

Amount Over (Under) Limit	-\$73.0
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BWI: Baltimore/Washington International Thurgood Marshall Airport
 MARC: Maryland Area Regional Commuter

Fund Balances

Recommendation: The committee recommended that the balance in the Rainy Day Fund be maintained at or above \$1 billion unless otherwise provided by an action of the General Assembly. In addition, the committee recommended that the General Fund maintain a minimum ending balance of at least \$100 million for fiscal 2017. The committee also expressed intent that if available cash balances were to exceed \$100 million, excess funds should be used to enhance the long-term financial condition of the State and to address the State's infrastructure needs, with priority funding directed toward pay-as-you-go (PAYGO) capital projects and replenishment of the Catastrophic Event Fund.

Evaluation: Final legislative action resulted in an estimated closing general fund balance of \$364.6 million in fiscal 2017, which is above the minimum balance of \$100.0 million recommended by the committee. The Rainy Day Fund achieves a balance of \$1,001.8 million in fiscal 2017, as shown in **Exhibit 2**, accounting for \$80.0 million in restricted funding for legislative priorities. The estimated fiscal 2017 closing balance equals 5.9% of estimated general fund revenue. Consistent with the direction provided by the committee, the Governor's budget also included a \$10.0 million general fund deficiency appropriation to the Catastrophic Event Fund and \$46.2 million in PAYGO capital appropriations in a supplemental budget. Actions taken by the General Assembly restricted PAYGO funding for projects that are not eligible for tax-exempt debt. **The General Assembly complied with these recommendations of the Spending Affordability Committee.**

Exhibit 2
State Reserve Fund Activity
Fiscal 2016-2017
(\$ in Millions)

	<u>Rainy Day Fund</u>
Estimated Balances June 30, 2015	\$773.5
Fiscal 2016 Appropriations	50.0
Estimated Interest	8.1
Estimated Balances June 30, 2016	\$831.5
Fiscal 2017 Appropriation	\$155.4
Restricted for Legislative Initiatives	80.0
Expenditure for Legislative Initiatives	-80.0
Estimated Interest	14.9
Estimated Balances June 30, 2017	\$1,001.8
Percent of Revenues in Reserve	5.9%

Capital Budget

General Obligation Debt

Recommendation: Due to concerns regarding the potential for diminished purchasing power within the capital program, the committee did not concur in the recommendation of the Capital Debt Affordability Committee (CDAC) to freeze general obligation (GO) bond authorizations at \$995 million each year through fiscal 2025. Instead, the committee recommended that new GO bond authorizations not exceed \$1,055 million in fiscal 2017 and that out-year annual authorization be allowed to increase by no more than 1%, in order to ensure that capital spending does not outpace State property tax revenues.

Evaluation: New GO debt totaling \$1,005.1 million is authorized in the Maryland Consolidated Capital Bond Loan of 2016. This is offset by de-authorizations totaling \$10.1 million for a total of new GO bonds of \$995.0 million, which is \$60.0 million below the SAC limit. An additional \$4.7 million in Qualified Zone Academy Bonds, which is full faith and credit debt of the State but not counted in the SAC limit, is authorized in separate legislation. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Higher Education Debt

Recommendation: The committee recommended authorizing \$24.5 million in new academic revenue bonds for the University System of Maryland in the 2016 session.

Evaluation: \$24.5 million of new academic revenue bonds is authorized in Chapter 61 of 2016 (Senate Bill 280) for University System of Maryland projects. **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, 80,831 positions are appropriate for the delivery of State services. The fiscal 2017 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 fiscal 2017 State workforce complement is 80,331 regular positions. This includes the legislative reduction of 3 positions within the Judiciary and the across-the-board action included in the budget as introduced (Section 20) to eliminate 657 positions from

Executive Branch agencies, to be allocated by the Administration by July 1, 2016. The final complement is 500 positions below the limit. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Pension Funding

Recommendation: The committee confirmed that pension funding, like other costs of compensation, is subject to the spending affordability limit; however, the committee also recommended that any funds, up to \$50 million, appropriated under the statutory “sweeper” provision be excluded from the spending limit, as the unappropriated balance used to fulfill the provision is not paid from current revenue and does not represent a necessarily recurring expense.

Evaluation: Fiscal 2017 pension costs include the full actuarial payment, a statutorily required \$75 million supplemental contribution, an additional \$50 million required based on the unappropriated surplus from the fiscal 2015 closeout, and an additional \$25 million provided by the Governor. The 4.55% spending affordability growth rate does not reflect the \$50 million from the unappropriated surplus. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Transportation

Capital Planning and Funding Concerns

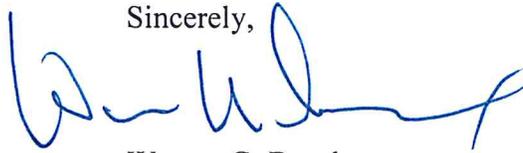
Recommendation: The committee expressed concerns with the major shift in priorities expressed in the draft fiscal 2016 to 2021 *Consolidated Transportation Program* (CTP) and the potential for over-committing the Transportation Trust Fund (TTF) due to overly optimistic assumptions regarding the Maryland Department of Transportation’s (MDOT) ability to constrain operating expenditures. To address these concerns, the committee requested that the Administration provide an explanation for how projects are incorporated into the CTP and revise its TTF forecast to more accurately reflect historical spending.

Evaluation: The legislature acted during the 2016 session to address the committee’s transportation concerns. Chapter 36 of 2016 establishes (1) State transportation goals and (2) measures that must be used to evaluate whether and to what extent certain transportation projects meet the State transportation goals. It also requires MDOT to develop a project-based scoring system using the goals and measures and update the State’s 2014 Transportation Plan to reflect the Act’s goals and measures. Committee narrative was also adopted expressing the intent

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of the budget committees that future TTF forecasts reflect operating expense growth using an average rate of increase based on the five most recently completed fiscal years. **The General Assembly complied with the recommendation of the Spending Affordability Committee.**

Sincerely,



Warren G. Deschenaux
Executive Director

WGD/RJR/kjl

cc: Members, Spending Affordability Committee
Secretary David R. Brinkley