Assessing Affordability:

An analysis of the spending affordability process prepared at the request of the Spending Affordability Committee

September 1995

Department of Fiscal Services

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Ladies:

In its December 1994 report to the Governor and the General Assembly, the Spending Affordability Committee requested the Department of Fiscal Services to prepare a study of the spending affordability process and the manner in which Maryland's spending limit is calculated. This report responds to the Committee's request.

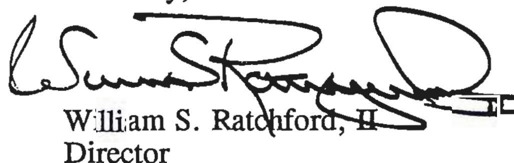
About half the states have some manner of budget limitation. Maryland's spending limit aims to keep the growth of state expenditures in line with growth in the state's economy. This state's process is unique in that spending limit is determined through a deliberative process, not by strict formula, and is advisory rather than mandatory on the Governor or the Legislature. Notwithstanding its advisory status, analysis of long term spending trends indicates that Maryland's process has been effective in restraining budgetary growth.

The limit established by the committees each December applies to appropriations to be requested in the upcoming session. These include deficiency appropriations for the current fiscal year and amounts for the following fiscal year. Budget growth is measured with reference to appropriations made at the prior session. In administering the limit, the Committee has excluded federal funds and certain higher education funds from the calculation. Likewise, PAYGO capital appropriations made through the operating budget are outside the limit. The report finds the committee's approach to calculating the limit to be workable and appropriate. Suggestions are made with respect to other aspects of the committee's process, however.

The report was prepared by David Smulski and Warren Deschenaux. The manuscript was prepared by Tammi Greim.

I trust this document will prove useful to the Committee's work.

Sincerely,



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About This Report

In its 1994 report to the Governor and the General Assembly, the Spending Affordability Committee noted that the "spending affordability process has been in effect for more than a decade. In this time the fiscal and economic dynamic has changed from one of steady annual growth to one in which growth is more moderate and less certain. In light of the changed environment, it may be appropriate for the General Assembly to re-examine the spending affordability process, including the method for measuring the budget under the spending affordability concept." To assist the committee, the Department of Fiscal Services was requested to prepare a study of the spending affordability process during the 1995 legislative interim.

This report is in response to the Committee's request. Its sections provide the following:

- Section 1 provides an overview of tax and spending limitations among the states. Limits in five states and Maryland are described.

- Section 2 assesses the impact the affordability process has had on state finances: Is the goal of the affordability process being met? What are the impacts on legislative consideration and executive implementation of the budget?

- Section 3 considers the method used to calculate Maryland's affordability limit in light of current fiscal conditions and policies.

- Section 4 looks at procedural aspects of the process, including the reporting calendar and related processes like program evaluation activities.

Section 1—Overview of Tax and Spending Limitations

At Least 24 States, Including Maryland, Have Tax or Spending Limits

In the late 1970's a budget limitation movement swept across the states. A catalyst was California's Proposition 13. Adopted by initiative in 1978, the measure rolled back property taxes and limited their increase. The law also required that new state taxes have a two-thirds majority vote in the state legislature. Today at least 24 states have expenditure or tax limitations procedures of some kind. These states are indicated in Exhibit 1.

Depending on the state, budget limits apply to revenues, appropriations, or both. The comprehensiveness of budget limits vary, as some states exclude certain types of revenues or expenditures from the calculation. The base for measuring allowable budget growth also differs. States in the west tend to reflect population and inflation measures while others are keyed to changes in personal income. To illustrate the variation in approaches, an overview of the budget limitation procedures used in five states is provided. These are: Arizona, California, Connecticut, New Jersey, and Texas. Each represents a unique approach to budget limitation.

Arizona

The appropriation of specific state revenues are limited by the state constitution to 7.12 percent of personal income. Personal income is estimated by an Economic Estimates Commission. Revenues subject to the limit include: taxes; university collections; and licenses, fees, and permits. The revenues may be for general fund or special fund purposes. Revenues exempted from the limit include:

- Interest and dividends;
- Receipts from sales, rentals, and consideration for services;
- Federal grants;
- Donations and gifts; and,
- Revenues received by the state acting as a trustee, custodian, or agent.

Spending is determined through adjusted base level appropriations, which represents general and special fund appropriations for operating and capital purposes. Adjustments are made to account for multiple year appropriations and exempted revenues. For example, funds from an increase in gas and vehicle license taxes are subtracted from the limit calculation. In addition, unappropriated and certain non-education appropriated funds are added to the base level.

Exhibit 1 - State Revenue and Expenditure Limitations

State	Adopted	Constitutional or Statutory	Limit Applies to	Nature of Limit	State	Adopted	Constitutional or Statutory	Limit Applies to	Nature of Limit
Alaska	1982	Constitutional	Appropriations	Population growth & inflation	Missouri	1980	Constitutional	Appropriations & Revenue	Ratio to personal income in 1981
Arizona	1978	Constitutional	Appropriations	7.12 percent of personal income	Montana	1981	Statutory	Appropriations	Personal income growth
California	1979	Constitutional	Appropriations	Personal income & population growth	Nevada	1979	Statutory	Appropriations	Population growth & inflation
Colorado	1992	Constitutional	Appropriations & Revenue	Population growth & inflation, tax increases require voter approval	New Jersey	1990	Statutory	Appropriations	Personal income growth
Conn.	1992	Constitutional	Appropriations	Greater of personal income or inflation	North Carolina	1991	Statutory	Appropriations	7 percent of state personal income
Florida	1994	Constitutional	Revenue	5 year average personal income growth	Oklahoma	1985	Constitutional	Appropriations	12 percent adjusted for inflation
Idaho	1980	Statutory	Appropriations	5.33 percent of personal income	Oregon	1979	Statutory	Appropriations	Personal income growth
Louisiana	1979	Statutory	Tax Revenue	Ratio to personal income in 1979	South Carolina	1980, 1984	Constitutional	Appropriations	Personal income growth
Maryland*	1982	Statutory	Appropriations	Growth of state economy	Tennessee	1978	Constitutional	Tax Revenue	Personal income growth
Mass.	1986	Statutory	Revenue	Growth of wages and salaries	Texas	1978	Constitutional	Appropriations	Personal income growth
Michigan	1978	Constitutional	Revenue	Ratio to personal income in 1979	Utah	1989	Statutory	Appropriations	Population growth & inflation
Minn.*	1994?	Statutory	State & Local Revenues income	Ratio to personal	Wash.	1993	Statutory	Appropriations & Revenue	Population growth & inflation; tax increases beyond limit need voter approval.

Source: NCSL Survey of Legislative Fiscal Officers, 1993, Updated 3/95 and Department of Fiscal Services

* Advisory

Over the years state appropriations subject to the limit have increased less than personal income. About half the budget falls under the limit. Over a 14 year period, personal income has grown by 289 percent, while limited appropriations have grown by 278 percent. The state legislature has never had to reduce appropriations to stay within the limit. Consequently, arguments in Arizona include lowering the limit to reduce state spending, or leaving it alone because state spending as a percentage of the economy has not increased.

California

Appropriations are limited by the state constitution to the prior year's appropriation adjusted for inflation and the change in population. The limit applies to state and local governments, and all elements of the calculation are spelled out in the state constitution. The constitution also provides that 50 percent of revenues in excess of the limitation be transferred to a specific fund for tax rate reversions or lower fees. All contributions to specific funds such as unemployment, reserve, retirement, trust, or other similar funds that come from taxes are subject to the limit. Disbursements from these funds are exempted, however.

Revenues and appropriations exempted from the limitation include:

- Debt service;
- Requirements to comply with federal government or court mandates;
- Legislatively qualified capital outlays; and,
- Revenues derived from gas taxes higher than nine cents per gallon, as well as, related sales and use taxes, and a portion of a weight fee on commercial vehicles.

The base year for the limitation calculation is the 1986-87 fiscal year. A special exemption in the constitution includes a special Tobacco Products Surtax Fund. Appropriations from this fund are also exempted for appropriations limitation.

California has the most complicated limit calculation of the five examples in this report. General and special fund appropriations fall under the limit calculation with less than two-thirds of state appropriations subject to the limit.

Connecticut

Appropriation growth is limited by the state constitution to either the percentage increase in personal income or the percentage increase in inflation, whichever is greater. The increase in personal income is calculated by determining the average annual increase of state personal income for the preceding five years. The increase in the national consumer price index for urban consumers for the preceding year determines inflation. Appropriations in the previous fiscal year are used as the base. Subject to the limit are all general and special fund appropriation expenditures authorized by the state legislature. The following are exempted from the spending cap:

- Expenditures of the first year only for implementing federal mandates or court orders -- subsequent years state matching funds are subject to the cap;
- Transfers to the Budget Reserve Fund;
- Expenditures for the State Employees Retirement Fund;
- Debt Service; and,
- Grants to distressed municipalities.

Connecticut's spending cap covers about four-fifths of the total budget. The system has been criticized because the current services budget is unnaturally constrained, and reductions may be required if the budget is over the cap, even though revenues may exceed expenditures. The state constitution requires that all elements of the spending cap be codified with a three-fifths majority of the state legislature. To date, definitions of personal income, inflation, and general budget expenditures remain uncodified due to the lack of the required majority.

New Jersey

Appropriation growth is limited by statute to the growth in personal income. The previous fiscal year is used as the base. Appropriations for general government operations are subject to the limit. Appropriations excluded from the limit include:

- State aid to local governments and school districts;
- Grants to individuals, and public or private agencies;
- Subsidies the state elects to provide without any clear responsibility;

- Federal funds;
- Debt service and capital projects; and,
- Appropriations from the Property Tax Relief Fund, Casino Control Fund, and Gubernatorial Elections Fund.

Growth in personal income is measured as the average increase of personal income over the four fiscal years previous to the base year. Base year appropriations are adjusted to reflect transfers or assumptions. The limit may be exceeded through a two-thirds majority vote in each legislative body, and the Governor cannot request an appropriation higher than the limit.

The limit in New Jersey basically applies to state agency operations, which amount to less than one-third of the annual appropriation. Since the Governor has the ability to liberally move funds in and out of general government operations, this amount may shrink even further. The Governor's Office computes the limit and has the authority to veto elements of the legislative appropriation to get within the statutory limit.

Texas

The increase in appropriations is limited by the state constitution to the growth in personal income. Personal income growth is defined as the estimated personal income for the next biennium divided by the estimated personal income from the current biennium. The constitution requires that the estimates be derived from personal income data from the United States Department of Commerce. Appropriations from state revenues are subject to the limit unless specific revenues are dedicated by the state constitution.

Appropriations resulting from income and sales taxes, as well as all non-tax revenues, are subject to the limit. Constitutionally dedicated revenues not subject to the limit include:

- Virtually all gas tax revenues, 25 percent of these revenues fund education;
- Twenty-five percent of all occupation taxes;
- Twenty-five percent of the oil tax; and,
- Twenty-five percent of the natural gas tax.

Federal funds are not covered by the limit. Debt service payments are covered. Capital projects are covered if their funding comes from non-dedicated revenues. In total, approximately one-half of the state budget is subject to the limit.

The state constitution requires that the Legislative Budget Board calculate the limit, subject to certification by the state comptroller. Spending may not exceed the board's estimated growth rate unless there is a majority vote in each house. Overall, appropriations in Texas have fallen within the established limit.

Exhibit 2
Features of Selected State Budget Limits

State	*Limit*	*Revenues Exempted*	*Expenditures Exempted*	*Budget Covered*
Arizona	7% of personal income	Interest and Dividends; Sales Tax; Federal Grants; Donations and Gifts; Revenues collected for other entities	None	>1/2
California	Change in population and inflation	Gas taxes greater than 9 cents/gallon and related sales and use taxes; Increase in weight fee on commercial vehicles	Debt service; Federal and court mandated requirements; Capital projects	< 2/3
Connecticut	Increase in personal income or inflation	None	First year only federal and court mandated require.; Capital appropriations to State Reserve Fund; State Employees Retirement Fund; Distressed Municipality Grants	4/5
Maryland	Growth in state economy	Federal funds	Capital PAYGO; Reserve Fund; Restricted higher ed funds; Certain other expenditures	> 2/3
New Jersey	Personal income growth	None	Local aid; State grants in aid; Unmandated subsidies; Federal funds; Debt service; Capital projects; Appropriations from the Property Tax Relief, Casino Control, and Gubernatorial Elections funds	< 1/3
Texas	Personal income growth	Gas tax revenues; 25% occupation taxes; 25% oil tax; 25% natural gas tax; Federal funds	None	1/2

Source: Department of Fiscal Services, July 1995

Maryland's Process Differs From Other States' Because It Is Advisory and Administered By a Legislative Committee

Maryland was among the states influenced by the expenditure limitation wave of the late 1970s. In the 1979 session, 22 bills were introduced to control state spending, including 16 calling for a constitutional amendment to do so. To address legislative concerns, a Special Joint Committee on Tax and Spending Limitations was formed to study the issue.

Reporting in the 1979 interim, the Committee considered the relative merits of tax and spending limits. The Committee recommended a limit on state appropriations to prevent general and special fund appropriations from increasing at a greater rate than total state personal income, and favored putting that limit in the state constitution. The Committee also recommended excluding pay-as-you-go (PAYGO) capital expenditures and debt service payments from the limit. In addition, there were recommendations concerning surplus funds, vacant personnel positions, and limits on personnel growth.

The recommendations of the Special Joint Committee were debated in the 1980 and 1981 sessions of the General Assembly. A sticking point was a concern that a constitutional amendment would be too inflexible. It was noted that the state's debt affordability process, under which an executive committee recommends annual limits for debt authorizations, was effective, although its decisions were not binding.

In 1981 the President, the Speaker, and the Chairmen of the fiscal committees proposed the following guidelines:

- Maryland's budget should grow more slowly than its economy as measured by the state's total personal income;
- Tax relief is a primary goal of the legislature;
- Management of state debt should continue through the debt affordability process; and,
- Supplemental budgets should only correct oversights, be contingent on legislation, or be for emergencies.

Subsequently, the Legislative Policy Committee created the Spending Affordability Committee, and in 1982 it was established in statute. The Committee is composed of the President of the Senate, the Speaker of the House, Majority and Minority leaders of the Senate and the House, the chairmen of the four standing fiscal committees and other members selected by the presiding officers. In recent years, the

Committee has consisted of 18 legislators and has been assisted by an advisory committee of private citizens. By statute (State Government Article, Article 2, Subtitle 10), the Committee must report to the Governor and the Legislative Policy Committee by December 1 of each year with recommendations concerning the upcoming session's budget. These recommendations include:

- A level of state spending;
- A level of new debt authorization;
- A level of state personnel;
- The use of anticipated surplus, if any; and,
- Other findings and recommendations deemed appropriate.

If the level of spending growth recommended exceeds the annual increase in relevant economic indicators, the Committee must provide an analysis as to the extent the recommendation exceeds such indicators. Similarly, if the Governor submits a budget request in excess in the amounts recommended by the Spending Affordability Committee, the Governor must explain the rationale for exceeding the recommendations. This provision also pertains to the budgets presented by the budget committees to the Senate and House of Delegates for consideration.

Unlike other state spending limit provisions, the law which establishes the Spending Affordability Committee provides only general guidance as to how the spending limit should be set. The statute sets a goal for the process "**to limit the rate of growth of state spending to a level that does not exceed the rate of growth of the state's economy**" and directs the Committee to "review in detail the status and projections of the revenues and expenditures of the state and the status and projections of the economy of the state." The Committee is to consider "economic indicators such as personal income, gross state product, or other data" in evaluating future expenditures.

Setting the Limit: The details of implementation are left to the Committee. The process of arriving at a limit has remained consistent notwithstanding lack of a statutory basis, and is similar to that first proposed by the Special Joint Committee in 1979.

The limit applies to the appropriations proposed in the annual budget, including any deficiency appropriations requested in the current fiscal year, and is compared to appropriations made in the preceding budget. Subject to the limit are appropriations made from state source revenues, comprising general funds, special funds and current

unrestricted funds in higher education. Excluded from the calculation are:

- Federal funds and restricted fund appropriations in higher education.

- PAYGO capital appropriations made in the operating budget. These include capital appropriations for higher education, housing, economic development, transportation and the environment.

- Contributions to the revenue stabilization account of the State Reserve Fund.

- Technical adjustments including special fund appropriations representing payments from appropriations in other agencies to avoid "double counting" (State Use Industries), local funds passed through the state budget (Local Health), and those needed to recognize changes in budget practice or maintain comparability, as when an on-budget unit goes off-budget.

The rate of increase allowed under the limit is established by vote of the legislative members of the Committee. To assist its deliberations, the Department of Fiscal Services provides a forecast relating to the state's economy, state revenues, and state budget requirements. The limit which results from the Committee's deliberations represents its judgement as to the level of spending growth which is desirable in light of the economic and fiscal circumstances anticipated in the upcoming fiscal year.

Although the budget submitted by the Governor frequently exceeds the limit proposed by the Committee, the legislature has consistently acted to bring appropriations within the limit. The limit was exceeded in fiscal 1985, as the result of adoption of a supplemental budget funded through anticipated savings in the state retirement program; the General Assembly did not reduce the budget to recognize the savings. No limit was established for the fiscal 1993 budget because legislative consensus was lacking on the appropriate budgetary response to the state fiscal crisis. The record of adherence to budget limits is reported in Appendix 1.

Section 2 — Impact of Spending Affordability

State law establishes that "**the goal of the spending affordability program is to limit the rate of growth of state spending to a level that does not exceed the rate of growth of the state's economy.**" The analysis below indicates that in the years subsequent to implementation of the law, total state spending has absorbed a smaller and more consistent share of the state economy than it did in the year's before spending affordability. Further, the legislature has had a significant role in controlling budget growth by aggressively reducing the budget. The limit also has influenced the allocation of resources with the budget and certain aspects of budget administration.

State Government's Average Share of the State's Economy Has Been Reduced Under Spending Affordability

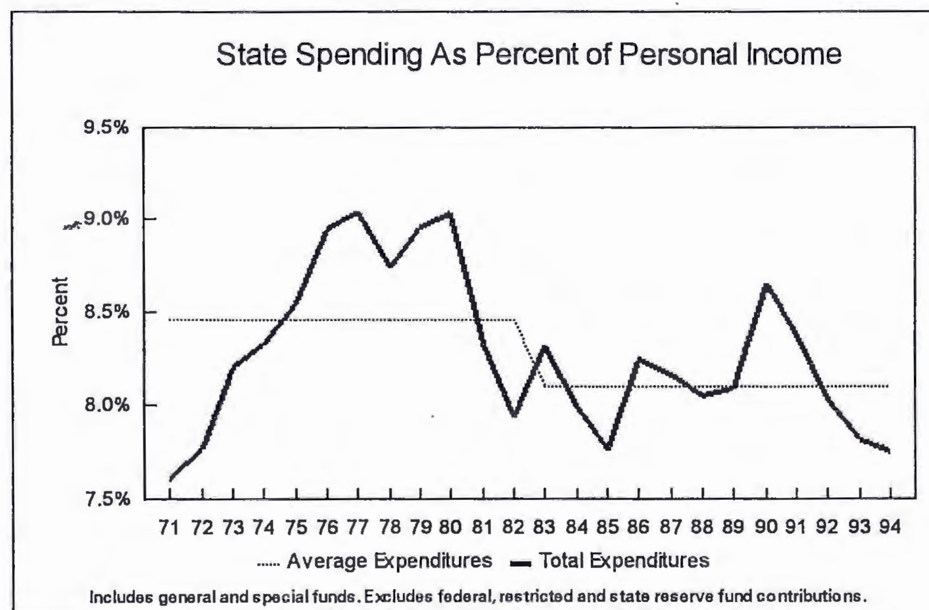
The spending affordability process was first applied to appropriations made in the fiscal 1983 budget. To determine whether the affordability process influenced the relationship of spending to the economy, data was collected for fiscal years 1971 to 1994, reflecting the 12 years prior to and following implementation of the process.

In this analysis, state spending is measured as expenditures from state-source funds including general, special and current unrestricted fund accounts. Excluded are appropriations to the state reserve fund as these typically represent additions to the balance and not current spending. Federal and current restricted funds are also excluded because the revenues supporting these expenditures are typically derived from non-state sources. This definition of spending is more comprehensive than that used in the annual calculation of spending affordability because it includes capital spending and reflects the effect of any budget amendments increasing special fund appropriations. This definition conforms more closely, however, to the common understanding of state spending and therefore provides a stricter test.

The state's economy is measured by the aggregate personal income earned in Maryland for each fiscal year. It includes earnings from wages, interest, dividends, rents, and payments to individuals through public programs. Personal income is among the economic indicators used by the Spending Affordability Committee and is specifically referenced in the Committee's authorizing statute. The statute also references gross state product as a possible economic indicator, but consistent data on this measure is not available.

Exhibit 3 demonstrates that through the late 1970s state spending increased substantially in relation to personal income, although this trend reversed at the end of the decade. Subsequent to implementation of the spending affordability process spending rates reflect a lower average level than before and varied within a more narrow range. Statistical analysis suggests that total state spending in Maryland consumed on average .35 percent less of the state's economic resources than it did prior to implementation. The different patterns before and after the affordability process was implemented suggests the process has, as intended, restrained spending increases relative to the state's economy. Further, it suggests that the share of the economy consumed by state spending has actually been reduced under the spending affordability process.

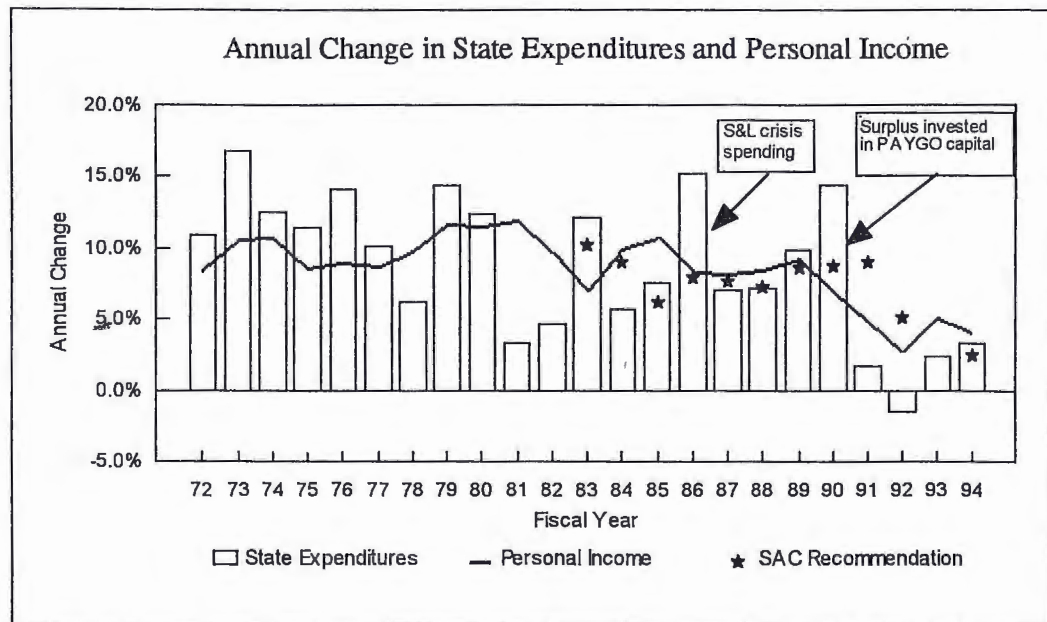
Exhibit 3



This point is further supported in Exhibit 4 which compares annual changes in state expenditures from state sources to annual changes in personal income, and the growth limits established by the Spending Affordability Committee. As can be seen in the exhibit, growth in state spending exceeded the rate of increase in personal income in eight of the 11 years preceding the process. In the years following 1982, spending grew faster than personal income in only three of 12 years.

Exhibit 4 also indicates that the Spending Affordability Committee has been relatively successful in anticipating the rates of growth in the economy when recommending rates of growth for the budget. With the exception of 1985 and 1991, the limits on budget growth established by the Committee have corresponded closely to the actual rates of economic growth experienced by the state. Successfully anticipating the growth of the economy and adherence to the spending affordability limit in the budget process have likely contributed to stabilizing the state budget relative to the economy.

Exhibit 4



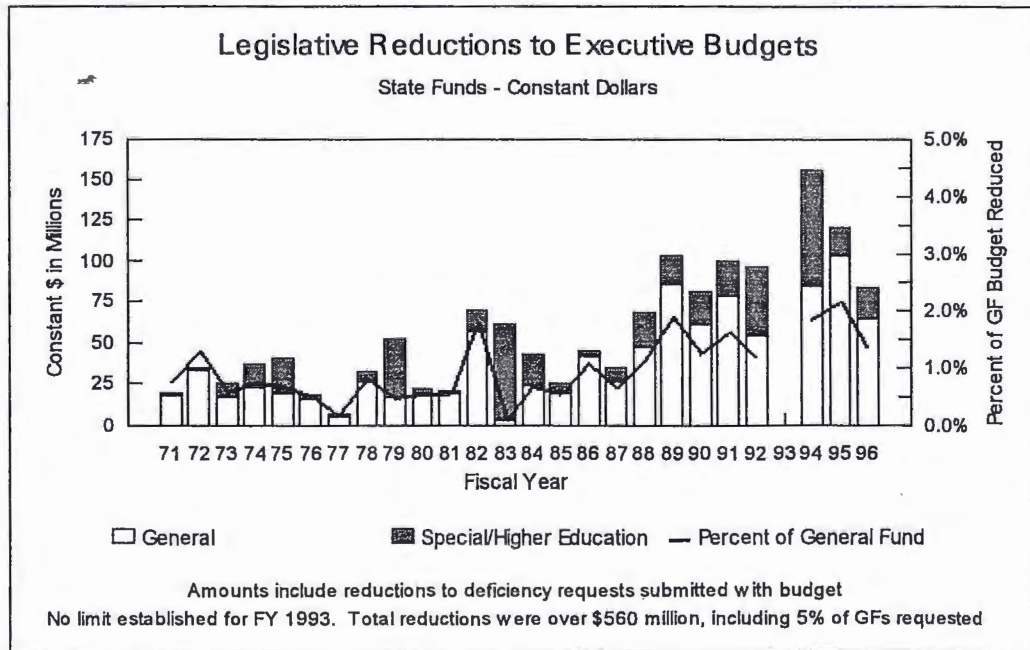
Under Spending Affordability the Legislature Has Reduced More From Executive Budgets, Particularly From the General Fund

Spending affordability is fundamentally a legislative process. As indicated earlier, Governors are not bound by the limit recommended by the legislature, and it is not unusual for the budget submitted to exceed the recommended level. As a result, it is the responsibility of the General Assembly to bring the budget within the affordability limit.

Consistent with its role, the legislature has become more aggressive in budget matters since implementation of the affordability process. Exhibit 5 shows that the amount reduced from the state funded portion of executive budgets is substantially greater after 1983 than before -- even allowing for the effects of inflation.

It also appears that the focus has shifted. In the years prior to implementation of the affordability process a substantial fraction of legislative reductions occurred in special fund accounts. Since 1983, general fund reductions have become more prevalent. In the 12 years preceding 1983, the legislature reduced executive general fund budget requests by more than 1 percent only three times. In the 13 years for which an affordability limit was established, legislative reductions exceeded 1 percent of the general fund nine times. Statistical analysis indicates that on average, the proportion of the Governor's general fund budget reduced by the legislature increased from about 1 percent to nearly 1.5 percent under spending affordability. (This calculation excludes data for fiscal 1993, when no limit was established.)

Exhibit 5



The Calculation of Spending Affordability Has Influenced the Shape of Executive Budget Submissions, and Aspects of Budget Implementation

Spending affordability is now a part of the context in which executive budgets are formulated and considered. Consequently, the elements of the spending affordability calculation -- which items are included and which are excluded -- influence the shape of executive budget submissions and aspects of budgetary administration. Certain of these impacts are described below.

Spending Affordability Has Influenced What Is Funded in the Budget

It is probably the exclusion of PAYGO capital and reserve fund appropriations which have had the greatest impact on the shape of the budget. Excluding these items means they need not compete with other spending for a place in the budget under the limit. Most recently, exclusion of contributions to the reserve fund and policy direction from the Committee facilitated the rapid replenishment of the Rainy Day Account after the fiscal crisis of the early 1990s. Ending balances grew from $0.3 million in 1992, to over $370 million by fiscal 1996. Similarly, the capital exclusion permitted the substantial general fund construction programs of fiscal years 1990 and 1991 ($208.9 million and $98.9 million, respectively), and the dramatic growth in the capital program of the Department of Transportation of the late 1980s (from expenditures of $301 million fiscal 1986 to $608 million in fiscal 1990).

Spending Affordability Encourages the Executive to Reduce Appropriations Through the Budget

A normal part of budgeting practice is to assume that some portion of funds budgeted will not be expended. For this reason, estimates of the balance of the general fund at the end of a future fiscal year, for instance, include a factor for reversions (funds appropriated which are not expended). Under this concept, savings are recognized at the end of the fiscal year when unused appropriations are reverted or canceled as part of the process of closing out the fiscal year.

The spending affordability process has accelerated savings of this type in some cases from the end of the fiscal year to mid-year through the budget bill and supplemental budgets. This effect is manifested in increasing reliance on appropriation withdrawals for the current budget year (i.e. negative deficiency appropriations) to create fund balances and room under the spending limit for other appropriations.

While the rationales for the decision to budget this way can be complex, some primarily result from the presence of the limit. A recent example includes reductions taken during the 1994 session to fiscal 1994 special fund appropriations of the state lottery and retirement agencies. This action created $7.5 million under the limit for additional general fund spending. In the absence of the spending affordability limit, the unexpended portion of these special fund appropriations would most likely have been canceled at the end of the fiscal year.

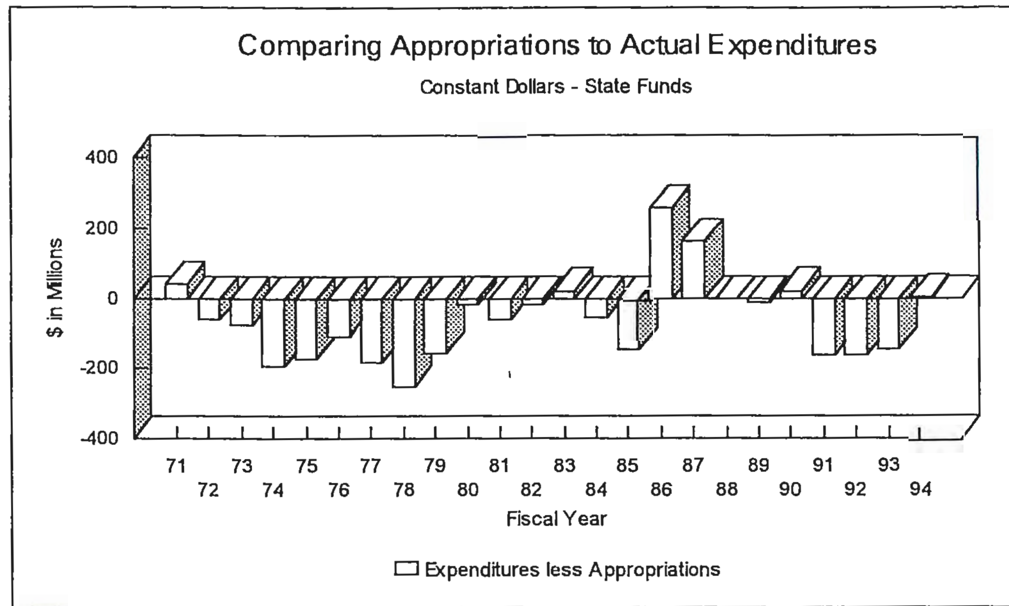
The Budget Amendment Process Permits Certain Spending to Avoid the Limit

Under state law and budget bill language, special and federal fund appropriations provided in the budget are characterized as estimates. In the event that revenues in excess of estimates are realized, appropriations may be increased by the Governor by budget amendment. However, amendments increasing special and federal fund appropriations are subject to review by the budget committees of the General Assembly before they become effective.

Appropriations made in this fashion are not captured in the calculation of the spending limit, which presents an opportunity to systematically understate special fund expenditures, including higher education funds, in order to elude the limit. Indeed, the Spending Affordability Committee expressed this concern in its 1991 report.

While the possibility remains for such budget manipulations to occur, a comparison of actual spending to original appropriations indicates that, in the aggregate, state source expenditures rarely exceed the aggregate of original appropriations. Exhibit 6 reflects both the limited magnitude of aggregate increases and the fact that special fund increases in this depiction tend to be offset by general fund reversions. Significant exceptions to this pattern are apparent in fiscal years 1986 and 1987 when special fund expenditures of the Maryland Deposit Insurance Fund (MDIF) exceeded amounts originally budgeted. Funds used to resolve the savings and loan crisis were generally excluded from the affordability limit by the Committee.

Exhibit 6



Section 3 — Calculating the Limit In Maryland

Assessing the Affordability Algebra

Although the statute is silent as to methodology, the approach of the Spending Affordability Committee toward setting the spending limit has remained relatively consistent since the program began in 1983. Indeed, many of the concepts (e.g. exclusion of capital appropriations and focus on state source funds) are consistent with the recommendations of the 1979 Special Joint Committee.

In recent years, criticisms have been leveled at the affordability process. In a 1991 report prepared for the Linowes Commission, a Johns Hopkins scholar felt there was "no systematic relationship between growth in state income or current service program requirements and the recommended growth rate in spending" and that the process did not "make explicit, systematic allowance for increased needs or costs." At other times, legislators and state budget officials have questioned whether such items as mandated spending, higher education tuition and fees, special fund appropriations, and regulatory board fees should be subject to the limit.

Most recently, Governor Glendening's transition team felt the calculation to be "unnecessarily complicated," serving to "cloud public understanding of the policy goal to limit budget growth." At the same time, however, it suggested excluding costs not controlled by the legislature or the Governor (citing higher education tuition) and expenditures not affecting taxpayers (citing administration of the state employee deferred compensation program). Notwithstanding the comments or criticisms, it should be noted that the results of the spending affordability calculation have been consistent with the overall goal of limiting the growth in ongoing state spending to less than the growth in the state's economy.

This section examines the major components of the affordability calculation in light of changes in the fiscal environment of the state. Discussion will focus on two key elements: the definition of spending and the method for determining the rate of increase to be allowed. In addition to considering changed circumstances, fiscal services has examined the process from the perspectives that it should:

- be consistent with the objective of limiting state budget growth to a stable or declining share of the state economy;

- promote understanding of policy makers and the public as to its objectives and results; and,

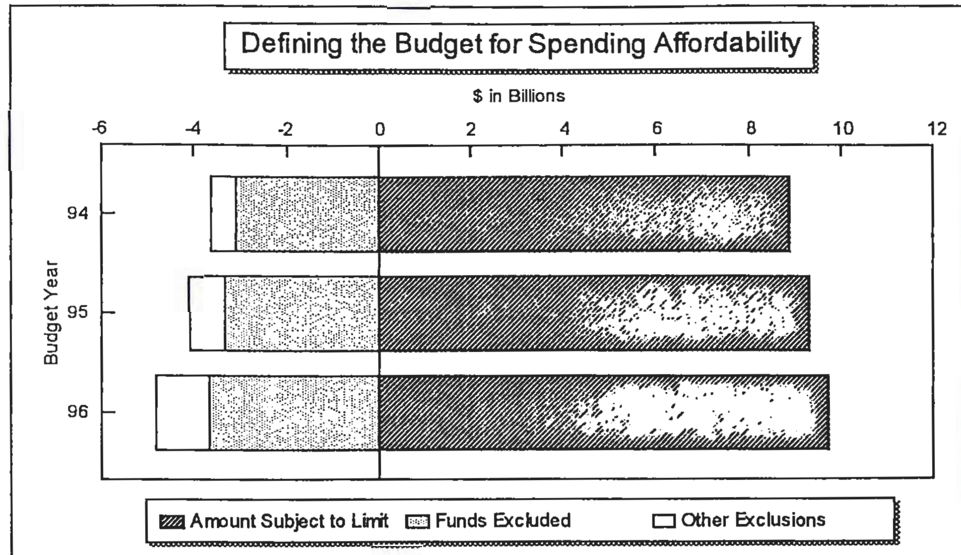
- be administratively feasible given the structure of the state budget and legislative and executive budget processes.

Appropriations Are Excluded from the Definition of Spending Based on Source of Funds or Purpose of Appropriation

As commonly understood, state spending corresponds to the total quantity of appropriations included in the Maryland State Budget. Such a formulation would be easy to understand, simple to administer, and apparently in sync with the program's objectives.

The current definition of spending under the spending affordability concept is more elaborate, however. Certain appropriations are excluded based on the source of funds or the purpose of appropriation. Exhibit 7 illustrates the adjustment process as it relates to the last three budgets and indicates the magnitudes of funds subject to or excluded from the spending limit. Appendix 2 provides a detailed description of the calculation. The following pages explore the reasoning behind the method used to calculate the spending affordability limit.

Exhibit 7



	1994	1995	% Change	1996	% Change
1. Start with total appropriations					
Current Year Deficiencies	43	100		151	
Budget Year Appropriations	12,469	13,345		14,429	
	12,512	13,445	7.5%	14,580	8.4%
2. Exclude federal funds and certain higher education revenues					
	3,087	3,328	7.8%	3,658	9.9%
State Appropriations	9,425	10,118		10,922	
3. Exclude amounts allowed for certain purposes					
Capital	434	588		747	
Reserve Fund	96	111		310	
Other/Technical	4	87		113	
	534	786	47.1%	1,170	48.9%
4. To arrive at the amount of appropriations subject to the limit					
Appropriations Limited	8,891	9,332	5.0%	9,752	4.5%
Percent of Total Budget Limited	71.1%	69.4%		66.9%	
Percent of State Approps Limited	94.3%	92.2%		89.3%	

Note: Data relates for final actions on budgets adopted at the 1993, 1994, and 1995 legislative sessions.
"Other" exclusions: $25m interfund transfer/ $32.7m local funds/$21m Medicaid reversion
$3.5m donation incentive program/$4.1m workers compensation liability/$26.8m state use

Sources: Department of Budget and Fiscal Planning, Fiscal Digest, Executive Budget
Department of Fiscal Services analysis of fiscal briefing materials and files

Source of Funds

Federal and Local Funds: Current practice is to exclude appropriations or portions of appropriations funded from federal or local government sources. These exclusions include all federal fund appropriations and local government funds passed through the state budget as special funds for support of local health departments.

The basis for this exclusion is twofold: (1) these funds are generated from non-state sources and are outside direct state control, and (2) the historical connection between concern with state spending and concern with state taxes. The notion of excluding federal funds from a spending limit can be traced back to the Special Joint Committee's 1979 recommendations and was carried forward under the affordability methodology. Since federal funds are separately identified in the budget bill, that aspect of the exclusion is simple to administer. Likewise, it is widely understood that federal fund appropriations are not related to state taxes.

For these reasons the exclusion of federal funds is supportable. Similar logic applies to the exclusion of funds derived from local government appropriations, although the administration of the exclusion is more complicated because the budget does not report these in a discrete fund account. In some instances (local social services agencies) local funds are in an "off-budget status" but for some local health departments the local funds are actually appropriated as part of the state budget.

Higher Education Funds: Until 1986, higher education spending (exclusive of state appropriations) was budgeted as special or federal funds depending on the source. Since then, state operated higher education institutions have been funded through two fund accounts. "Current restricted" funds represent expenses supported by revenues provided for specific purposes. Federal research contracts are a major source of current restricted funds, as are certain other contracts, donations and endowments. "Current unrestricted" fund appropriations are derived from the state general fund appropriations, tuition, academic and dormitory fees, and other revenues of the individual schools.

Current practice under spending affordability is to exclude from the calculation all current restricted fund appropriations. This is because most funds appropriated in this account are received under federal grants or contracts. The exclusion has also been supported on policy grounds as providing institutions an incentive to increase revenues from non-state sources.

Current unrestricted fund appropriations, net of general funds appropriated to higher education institutions and federal indirect cost recoveries, are included in the definition of spending used to calculate the affordability limit. The amount involved is not trivial. In the 1995 session, higher education funds accounted for $770 million (nearly eight percent) of the $9,752 million in appropriations subject to the limit.

The rationale for including these funds has been questioned, however, on theoretical and practical grounds. It has been noted that the revenues supporting these appropriations are not derived from taxes. Nor are the various fees and charges from which they are derived directly controlled by the legislature or the Governor. Moreover, during the fiscal crisis it was noted that when general fund reductions in higher education were offset by increases in student charges, the resulting growth in current unrestricted fund appropriations put additional pressure on other appropriations subject to the limit.

These critical observations are, strictly speaking, accurate. At the same time, however, state higher education institutions are public entities, governed by statute and accountable to boards selected by the Governor, who also determines the amounts to be allowed in the budget submitted to the General Assembly. Likewise, the General Assembly retains the power to restrict or reduce appropriations.

In addition, the state does significantly influence the amount of tuition and fees by the amount of state funds provided. An increase in the level of state funds tends to lessen the rate of increase in tuition and fees. A limited increase or a decrease in state funds usually results in a greater rate of increase in tuition and fees.

Viewed in the context of its statutory purpose to limit "state spending" in relation to the state's economy these appropriations may reasonably be included under the calculation. It is important, however, to be mindful that higher education institutions have achieved a substantial level of autonomy and are seeking greater freedom from "state" systems. This issue would need to be reconsidered in the event that the movement to autonomy also moved institutional costs out of the state budget system.

Capital Appropriations: Since 1983 capital appropriations made through the operating budget (also known as PAYGO appropriations) have been excluded from the calculation of the affordability limit. Excluded are appropriations for: housing; economic development and water facility financing; purchase of open space and development rights for agricultural properties; waterway improvement; football stadium construction; public school construction; and transportation projects.

Policy rationales advanced for this exclusion are aimed to protect infrastructure investment and reduce reliance on debt financing. The 1979 Joint Committee on Tax and Expenditure Limitations recommended that capital construction spending not be limited in order to avoid diversion of construction and maintenance outlays to operating expenses. Relatedly, use of PAYGO capital appropriations has been favored as a means of reducing reliance on debt financing. Indeed, in the early 1980s, then State Treasurer William James, was advocating gradual substitution of PAYGO appropriations for debt financing. Also, because of its presumably non-recurring nature, PAYGO construction has been considered an appropriate use for unanticipated surpluses. A final aspect is that there have been peaks and valleys in capital appropriations and spending affordability was designed to limit the growth in the operating portion of the budget. The state does not have a separate capital budget but rather a mix of capital funding in the operating budget and capital projects funded in bond bills.

While these rationales retain currency, it is important to recognize that the magnitude of capital appropriations in the operating budget is considerable and in recent budgets has increased faster than other spending. In the 1995 session, $747 million in general and special fund appropriation requests were excluded from the affordability calculation. Of this amount, over 60 percent were related to the capital program of the Department of Transportation.

In the 1995 session, the General Assembly expressed interest in smoothing the pattern of capital spending, particularly in the Department of Transportation. Under current practice, PAYGO capital spending is controlled primarily by the funds available. PAYGO capital spending fluctuates with swings in the revenues and fund balances. Because revenues have tended to grow more slowly than expenses overall, the effect in transportation has been to accelerate the depletion of the transportation trust fund and the need for new taxes. Also, in the 1995 session, the General Assembly imposed a cap on capital spending in the Department of Transportation in an effort to retard this process.

While it is not clear that including PAYGO spending under the limit is warranted, it may be appropriate to provide for heightened oversight of this aspect of spending. One approach would be to revise budgetary procedures to permit a consolidated capital budget. Under this concept the state's total capital program - PAYGO and debt financing - could be considered at one time. Doing so will require a constitutional amendment, however. **More immediately, the Spending Affordability Committee may wish to closely monitor trends in PAYGO capital expenditures. Consistent with the practice adopted in the 1995 session, this oversight might include recommendations concerning the maximum debt and capital program size of the Department of Transportation.**

Reserve Funds: The State Reserve Fund consists of several separate accounts in which funds may be appropriated. Treatment of appropriations into the various reserve accounts for purposes of spending affordability varies.

Current practice excludes appropriations to the state "Revenue Stabilization" and "Citizens Tax Reduction and Fiscal Reserve" accounts. These funds exist to offset impacts of future economic downturns, state tax reductions, or federal fiscal policies attaching state finances. Appropriations to these accounts do not truly represent spending: they are additions to fund balances which are subject to statutory restrictions. As such, exclusion of appropriations for these purposes is consistent with the purpose of the affordability process.

By contrast, appropriations to the dedicated purpose account may be used for any purpose. The advantage to using this account is that the project may be achieved over a number of fiscal years, since funds appropriated to that account do not revert at the end of the fiscal year. In the past, the determination as to whether appropriations to this account count against the spending affordability limit has been governed by the underlying purpose of the appropriation. If the purpose would otherwise be charged against the affordability limit, then it has been counted as spending. This seems a sensible treatment.

Appropriations to the Economic Development Opportunities Fund (also known as the "Sunny Day" fund) may be used to provide subsidies to private businesses when an extraordinary economic impact will result. As with the dedicated purpose account, unexpended funds do not revert at the end of the fiscal year. Under current practice, these funds are excluded currently from the affordability calculation. Primarily this is because the account is similar to other economic development accounts excluded as PAYGO capital appropriations.

Other Exclusions: Through the years a variety of minor adjustments have been made in the process of calculating the limit for technical and policy reasons.

Among the technical adjustments is the exclusion of the special fund appropriation to State Use Industries. This agency employs prison inmates in making products purchased by other state agencies. Since the other agency appropriations used to purchase State Use products are already considered under the affordability calculation, there is no need to count them again.

For policy reasons, appropriations have been excluded when they have promoted sound fiscal practices without adding to ongoing costs of government. Amounts excluded on this basis have included funds appropriated to address unfunded liabilities in state employee health insurance and workers' compensation programs (to encourage addressing these issues) and a deficiency appropriation for Medicaid to be

funded from a prior year reversion (to preserve the integrity of the budget as a record of program costs). Other exclusions have included the additional funds allocated to local governments during the first year following an increase in the gasoline tax or other highway user revenue taxes and funds allocated to resolve the savings and loan crisis. Exclusions of this type sometimes have been specified in the report of the Committee and other times have arisen in the course of legislative consideration of the budget. In the end these represent legislative judgements as to items which should not be counted against the limit as a matter of fiscal policy.

The Committee's Recommendation Limits the Increase in Appropriations

Determining the appropriate rate of budget growth is the second aspect of calculating the affordability limit. This involves establishing the basis for comparison and determining the appropriate rate to apply.

Basis of Comparison: Annual budget growth is normally discussed in terms of the change from one fiscal year to the next. Unfortunately, when measuring the spending increase in a budget submitted to the General Assembly, this approach is unsatisfactory.

The problem is that the amount of current year appropriations used as the base for calculating budget growth can be altered by executive and legislative budget actions. Each budget submitted to the General Assembly includes both appropriations for the upcoming year and deficiency appropriations for the current fiscal year.

In order to recognize the impact of deficiency appropriations, calculation of the affordability limit compares appropriations made in the last session of the General Assembly to those proposed at the current session. For example, at the 1995 session (at which the fiscal 1996 budget was adopted) the affordability calculation compared appropriations made at the 1994 session (fiscal 1994 deficiencies and those for fiscal 1995) to those to be made in the 1995 session (fiscal 1995 deficiencies and those for fiscal 1996).

The price of the current approach is some confusion. Growth calculations under the affordability process are not the same as those computed on a fiscal year basis. However, excluding deficiencies from the calculation would neglect a sometimes sizeable portion of the total appropriations proposed during a session. If this spending is to be recognized, then it appears the current approach is appropriate.

Determining the rate of growth: What distinguishes Maryland's process most from other state's spending limitations is that Spending Affordability does not prescribe a formula for setting the spending limit. Instead, the Committee is directed by law to take into account relevant economic and fiscal considerations in determining the

amount spending may grow. As a result of this, and the fact that the limit is not mandatory, some compilations of states subject to spending limits do not include Maryland.

As indicated in Exhibit 4, the process of establishing a limit which relates changes in spending to changes in the state's economy has worked reasonably well. With some exceptions, the rates of growth which have resulted from the Committee's recommendation have tracked well with the actual growth in the economy overall.

An alternative to this approach would be to fix state spending as a percentage of growth in the economy. The problem is that economic data are either historical or forecasted. To tie a future budget to prior growth in the economy is appropriate only if conditions will not change. Likewise utilizing a forecast as a reference point hinges the outcome on the quality of the forecast itself.

The deliberative process of the Committee has successfully mirrored the direction of the economy for the most part. Moreover, the nature of the process permits the Committee to exercise judgement in determining the appropriate level of spending. Debate in the Committee considers both fiscal and broader public policy concerns, providing an avenue for integrating them into the legislative fiscal plan for the following session. Although intrinsic to the Committee process, as was noted in one critique, these broader interests are not formally included in the Committee's charge, however. **The Committee's authorizing statute could be amended to direct the Committee to consider such matters as the impact of demographic trends on the budget, federal/state and state/local financing issues, and longer term fiscal planning.**

Presentation of the Committee's recommended growth factor could be modified to more clearly express its effect, however. It has been the practice of the Committee in its report to express its allowed rate of growth as a ratio of prior year's growth in personal income. When the economy was expected to grow faster than it had in the prior year, a factor greater than one was applied to the prior year's growth rate to determine the limit for the next budget. Similarly, when the economy was expected to grow more slowly than it had, a factor of less than one was applied. **It is recommended that this practice be modified to simply reflect the desired rate of increase.**

Section 4 - Process Issues

As mentioned earlier, the Spending Affordability Committee's statute has not significantly changed since its inception in 1982. While this process has been viewed as successful, members of the Committee have debated the efficiency of certain requirements of the law. Additionally, specific aspects of the law have never been implemented.

Other Recommendations

In addition to recommendations concerning state spending, the Committee is required by law to make recommendations concerning:

- new debt authorization;
- state personnel levels;
- use of surpluses; and,
- other appropriate findings and recommendations.

New Debt Authorization: Recommendations concerning new debt authorization are typically based on fiscal service's evaluation of the recommendations of the executive Capital Debt Affordability Committee. This evaluation is contained in the report "Effect of Long Term Debt of the Financial Condition of the State" which is prepared annually. Although the Spending Affordability Committee is charged with making a recommendation on this topic, by custom the full report is presented to the Joint Budget and Audit Committee. Because the membership of that Committee substantially overlaps that of the Spending Affordability Committee, the Spending Affordability Committee receives a capsulized presentation. **In the interest of efficiency, the General Assembly may wish to consider transferring responsibility for oversight of this issue to the Spending Affordability Committee since it is responsible for formally recommending a legislative policy respecting the debt program.**

State Personnel Levels: Each year, the Committee makes recommendations concerning the level of state employment. Typically this has centered on controlling growth in budgeted positions in the state agencies; contract employment was not addressed. However, in its 1995 report the Committee made recommendations relating to contract employment, although a numerical ceiling was not established. Control of contract positions is currently limited by the absence of consistently reported data in the state budget system. However, data will be reported for most categories of contract employment beginning with the 1997 budget. Further, the Financial Management Information System is expected to permit a level of position control for

contract employment not now possible. **In future reports the Committee should continue recommendations relating to the level of contract as well as regular employees consistent with the increasing ability of the state to account for contract employee levels.**

Surplus: In years when a sizeable surplus is available for appropriation, the Committee has made recommendations as to how that surplus should be applied. These recommendations have had the effect of steering spending from on going purposes to PAYGO and reserve accounts. **In light of the high degree of fiscal uncertainty facing the state in the near future, it is recommended that to the extent surpluses are realized, priority be given to the revenue stabilization and fiscal reserve accounts. It is also recommended that the Committee's proposals for use of surplus be submitted for legislative consideration.**

Reporting Date

Statute requires that the Committee report on or before December 1 to the Legislative Policy Committee. This date precedes that on which the Board of Revenue Estimates reports its official revenue estimates for the current and upcoming fiscal year.

In recent years the Committee has preferred to defer its final recommendations until after the board's estimates are issued. Doing so gives the Committee a better opportunity to anticipate the funds available to the Governor in shaping the budget. However, deferral of the Committee's recommendations until mid-December will lessen their impact on the executive budget formulation process. The Committee may wish to consider whether the availability of additional revenue data is more important than guidance provided to the executive branch. In no event should the reporting date be later than December 15.

Program Evaluation Provisions

The spending affordability statute provides:

> Before June 1, the Legislative Policy Committee shall select units or programs that should be subject to legislative review, and assign the units and programs to an appropriate Committee for review and recommendations during that interim.

Although codified with provisions setting the Committee's role and duties, the statute does not specify the role of the Spending Affordability Committee in its implementation. Similar language relating to the Legislative Policy Committee is included in the "Program Evaluation Act" (also known as the sunset law).

Program evaluation can be a useful tool in determining the efficiency and effectiveness of state operations. To date no evaluation has resulted, however. In light of this, it can be argued that the provision should be deleted from the code. As an alternative, however, **the legislature may wish to consider augmenting this provision to have the Spending Affordability Committee recommend to the Legislative Policy Committee government policies, programs or activities in need of special review.**

Concluding Observations

Maryland is one of a number of states which has adopted a form of expenditure or revenue limitation. The spending affordability process used here is distinguished from that applied in most other states by its reliance on the judgement of a legislative body to determine the limitation in lieu of a strict formula to establish a spending ceiling.

Notwithstanding the discretion given to the Spending Affordability Committee, there is evidence that the process has been effective in controlling budget growth. It has also strengthened the role of the legislature as guardian of the public purse.

The spending affordability limit covers only state source spending. However, certain state source appropriations, primarily spending in the operating budget for capital purposes and additions to reserve funds, are not counted under the limit. The spending affordability limit seeks to limit the growth of ongoing state spending below the rate of growth in the economy. Appropriations for capital purposes and additions to the reserve funds have been excluded from the spending limit. If higher education institutions become "state aided" institutions with a state grant and no direct state control, then tuition and fees could be excluded from the limit.

Certain other aspects of implementation could be revised to improve the process. The report deadline could be modified. Items to be considered by the Committee in setting the limit might be broadened. Presentation of budget changes used in legislative deliberations might better explain the relationship of the spending affordability budget to the total budget.

Overall, this report concludes that the basic concepts used in the process are sound. However, evolution in the fiscal environment and legislative practice may make it appropriate to make some adjustments to the law which governs the process and the manner in which it is implemented. The spending affordability process has been effective in limiting state spending, particularly in times of significant economic growth. It can also serve to guide budget decision-making in an era of slow economic growth and constraints on government spending.

Appendix 1

SPENDING AFFORDABILITY COMMITTEE RECOMMENDATIONS TO THE GOVERNOR AND THE LEGISLATIVE POLICY COMMITTEE

	Committee Recommendation			Legislative Action	
Fiscal Year	*Growth Rate*	*Basis of Calculation*	*Amount (In Millions)*	*Growth Rate*	*Amount (In Millions)*
1983	10.18%	90% of growth in personal income	$431.9	9.62%	$412.8
1984	9.00%	80% of growth in personal income	428.0	5.70%	269.8
1985	6.15%	102% of growth in personal income	326.7	8.38%	402.0
1986	8.00%	120% of growth in personal income	407.2	7.93%	404.6
1987	7.70%	75% of growth in personal income	421.5	7.31%	402.2
1988	7.28%	90% of growth in personal income	430.2	7.27%	429.9
1989	8.58%	3-year avg. of growth in personal income	557.5	8.54%	552.9
1990	8.79%	100% of growth in personal income	618.9	8.78%	618.2
1991	9.00%	100% of growth in personal income	691.6	8.98%	689.7
1992	5.14%	60% of growth in personal income	421.8	5.00%	410.0
1993		No recommendation		10.00%	823.3
1994	2.50%	85% of growth in personal income	216.7	2.48%	215.0
1995	5.00%	107.6% of growth in personal income	443.2	5.00%	443.2
1996	4.50%		420.0	4.50%	420.0

Appendix 2

SPENDING AFFORDABILITY

Goals of Spending Affordability

To limit/control the rate of growth of ongoing state spending to a level that does not exceed the rate of growth of the state's economy. Growth in Maryland personal income has been determined to be the best indicator of the growth of the state's economy. The control of state spending is exercised through the budgetary process as well as through legislative oversight and program review.

Calculation of Spending Affordability

These items are included in the calculation of spending affordability:

- All general fund, special fund, and higher education current unrestricted appropriations subject to the exclusions set forth below.
- Deficiency appropriations are included with the subsequent year's appropriation (i.e. fiscal 1994 deficiency appropriations were included with the fiscal 1995 budget).

These items are excluded from the calculation of spending affordability:

- Federal fund appropriation.
- Higher education restricted fund appropriations.
- Appropriations to the Revenue Stabilization Account (Rainy Day Fund) of the State Reserve Fund.
- Appropriations for capital projects on a pay-as-you-go (PAYGO) basis or financed by debt. These appropriations include but shall not be limited to:

  1. PAYGO appropriations in the Board of Public Works.
  2. Appropriations for transportation capital programs. An adjustment is made to the capital appropriations for the State Highway Administration for the allocation of administrative overhead and equipment service costs (currently objects .15 and .16 in the State Highway Administration budget presentation). This adjustment provides a consistent application for all transportation modal administrations.

3. Appropriations for natural resources and agricultural capital programs such as Program Open Space, Waterway Improvement, Shore Erosion, and Agricultural Land Preservation.

4. Appropriations for capital projects at the state universities and colleges.

5. Appropriations for housing programs that represent capital assets such as Rental Housing, Single-family Housing, Housing Rehabilitation, Elderly Housing, and Group Homes.

6. Appropriations for economic development programs that involve capital assets such as MILA, MICRF, MSBDFA, MIDFA, Economic Development Opportunities Fund, and Day Care Facilities.

7. Appropriation for water quality programs.

8. Appropriations to the Maryland Stadium Authority which have been placed in the construction reserve for a football stadium.

- It is recognized that determining what constitutes a capital project in some instances will involve a judgmental decision. Routine maintenance is not a capital project, nor is a minor building modification. Inclusion of an appropriation in object 14 (land and structure) is not per se a basis for capital exclusion.

- The special fund appropriation for State Use Industries. This generally represents payments from appropriations in other agencies and inclusion would have the effect of double counting.

- The special fund appropriation for Local Health. This represents funds that are not actually expended by the state but that are just passed through the state budget.

Special circumstances for the calculation of Spending Affordability:

- Special fund or current unrestricted fund budget amendments are generally not added into the base year for the calculation. This is not done because these amendments vary from year to year as to when they are processed and how large they are. The one exception made to this rule is for special funds appropriated from the Dedicated Purpose Account for Developmental Disabilities. These funds are added to the base for the purpose of computing the affordability limit.

- Appropriations to the Dedicated Purpose Account of the State Reserve Fund are not excluded solely because of the placement in the fund. The exclusion from spending affordability is determined by the nature of the appropriation.

- Appropriations for agencies that go off-budget are adjusted to ensure comparability (i.e. the previous year's appropriation is deducted from the base for the purpose of computing the affordability limit).

- Appropriations withdrawn by the Governor via budget amendment under the Governor's authority to reduce up to 25% of an appropriation is deducted from the base for the purpose of computing the affordability limit.

- Additional local transportation funds appropriated contingent on a revenue measure are excluded for the purpose of computing the affordability limit in the year which they are appropriated. In subsequent years these funds are included for the purpose of computing the affordability limit.

- Other technical or comparability adjustments: for example, in fiscal 1995 an addition was made to the base to reflect the Maryland Institute for Emergency Medical Systems (MIEMS) becoming a special fund agency. Prior to this time, MIEMS had been excluded from the affordability limit because it was funded with current restricted appropriations.

Appendix 3
Summary of Data Used in Analysis
($ in millions)

Year	Personal Income	% Chg PI	State Expn less SRF	% Chg Expend	Expenditures As Pct of PI Annual	Pre/Post	Approps Less SRF	% Chg Approps
1971	18,442	8.55%	1,404.5		7.6%	8.5%	1,389.1	
1972	20,012	8.51%	1,556.3	10.8%	7.8%	8.5%	1,580.7	13.8%
1973	22,148	10.68%	1,817.0	16.7%	8.2%	8.5%	1,850.5	17.1%
1974	24,535	10.78%	2,044.1	12.5%	8.3%	8.5%	2,135.4	15.4%
1975	26,639	8.58%	2,278.1	11.4%	8.6%	8.5%	2,366.0	10.8%
1976	29,045	9.03%	2,599.2	14.1%	8.9%	8.5%	2,657.9	12.3%
1977	31,599	8.79%	2,859.7	10.0%	9.1%	8.5%	2,968.0	11.7%
1978	34,713	9.86%	3,038.7	6.3%	8.8%	8.5%	3,197.7	7.7%
1979	38,769	11.68%	3,474.7	14.3%	9.0%	8.5%	3,581.2	12.0%
1980	43,229	11.51%	3,904.1	12.4%	9.0%	8.5%	3,917.9	9.4%
1981	48,405	11.97%	4,032.3	3.3%	8.3%	8.5%	4,085.8	4.3%
1982	53,098	9.69%	4,219.7	4.6%	7.9%	8.5%	4,238.8	3.7%
1983	56,853	7.07%	4,730.3	12.1%	8.3%	8.1%	4,708.6	11.1%
1984	62,531	9.99%	4,999.1	5.7%	8.0%	8.1%	5,055.4	7.4%
1985	69,223	10.70%	5,374.5	7.5%	7.8%	8.1%	5,527.8	9.3%
1986	75,026	8.38%	6,190.4	15.2%	8.3%	8.1%	5,907.8	6.9%
1987	81,155	8.17%	6,624.8	7.0%	8.2%	8.1%	6,429.7	8.8%
1988	88,052	8.50%	7,095.0	7.1%	8.1%	8.1%	7,095.9	10.4%
1989	96,212	9.27%	7,789.8	9.8%	8.1%	8.1%	7,785.1	9.7%
1990	102,906	6.96%	8,904.3	14.3%	8.7%	8.1%	8,876.8	14.0%
1991	107,926	4.88%	9,049.7	1.6%	8.4%	8.1%	9,268.1	4.4%
1992	110,903	2.76%	8,908.1	-1.6%	8.0%	8.1%	9,129.2	-1.5%
1993	116,570	5.11%	9,114.9	2.3%	7.8%	8.1%	9,320.7	2.1%
1994	121,394	4.14%	9,415.7	3.3%	7.8%	8.1%	9,408.3	0.9%

Sources: Supplemental Financial Data of the Comptroller, 1971-1992
Maryland State Budget, U. S. Department of Commerce