

Department of Legislative Services
 Maryland General Assembly
 2004 Session

FISCAL AND POLICY NOTE

House Bill 389 (Delegate Morhaim)
 Appropriations

State Budget - Postsession Amendments to and Reductions in Appropriations for Executive Branch Programs

This bill requires the approval of the Legislative Policy Committee (LPC) before an appropriation amendment to an Executive Branch program or a reduction to an appropriation can take effect.

The bill takes effect June 1, 2004.

Fiscal Summary

State Effect: General fund expenditures for administrative costs within the Department of Legislative Services (DLS) could increase by \$47,500 in FY 2005. Future year expenditures reflect the elimination of one-time costs and inflation. Indeterminate impact on overall State expenditures due to the provisions that enable LPC to reject a reduction to an appropriation or an appropriation amendment.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	47,500	44,000	46,600	49,500	52,600
Net Effect	(\$47,500)	(\$44,000)	(\$46,600)	(\$49,500)	(\$52,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The Governor is required to submit an appropriation amendment for an Executive Branch program to LPC for its review and approval within 10 days after endorsing the amendment. Within 15 days upon receiving the appropriation amendment, LPC must take action on the amendment and notify the Governor of its decision. If LPC rejects the proposed appropriation, the amended appropriation cannot take effect. If LPC affirmatively approves or decides to take no action within the specified time period, the amended appropriation takes effect. Furthermore, the Governor must seek prior approval from the Board of Public Works (BPW) and LPC before reducing an appropriation.

Current Law: Section 7-213 of the State Finance and Procurement Article authorizes the Governor to reduce an appropriation by up to 25% with the approval of BPW. Funds may be reduced under this provision only when the Governor finds an appropriation is “unnecessary” or when the reduction results from legislative action on the budget bill. Certain restrictions are placed on this authority. The Governor may not reduce: (1) Legislative or Judicial Branch appropriations; (2) appropriations for payment of the principal or interest on State debt; (3) mandated appropriations for public schools, including the Maryland School for the Deaf and the Maryland School for the Blind; (4) the salary of a public officer during the term of office; or (5) appropriations for the salary of any nontemporary employee in the State Personnel Management System.

Section 7-209 of the State Finance and Procurement Article provides for the transfer of funds within an agency or department. Appropriation “budget” amendments to transfer funds within an agency or department are submitted to the Secretary of Budget and Management for the Governor’s approval. Funds appropriated to a department or agency may not be transferred to another department or agency unless authorized by law.

Section 24 of the Fiscal 2005 Budget Bill (SB 125/HB 200) provides certain conditions on the approval of budget amendments. Generally, a budget amendment that increases the total appropriation in any fund account by more than \$100,000 must be submitted to DLS. DLS prepares an analysis of the budget amendment and makes a recommendation on whether the amendment should be processed. This analysis is forwarded to the budget committees. The budget committees have 45 days to consider the amendment. As a course of practice, if the budget committees have a concern with an amendment, the Department of Budget and Management does not go forward with the amendment.

Background: The Governor has used the budgetary authority under Section 7-213 of the State Finance and Procurement Article several times in recent years. In fiscal 1991 through 1993, the Governor used this authority to reduce appropriations six times to address the State’s fiscal problems. This authority was also used to make reductions to

the fiscal 2002, fiscal 2003, and fiscal 2004 budgets to address shortfalls in revenue estimates. The most recent use of this authority occurred on July 30, 2003 when the Governor proposed and BPW unanimously adopted \$208.4 million in reductions to the fiscal 2004 appropriations. The board's action reduced general fund spending by about 2%. **Exhibit 1** shows the cost containment reductions by category.

Exhibit 1
Cost Containment Reductions – July 30, 2003
(\$ in millions)

<u>Category</u>	<u>Total Reductions</u>	<u>Percent of Total</u>	<u>Reduction as a Share of the Appropriation</u>
Entitlements	\$53.4	26%	3%
Higher Education	45.5	22%	5%
Local Aid	18.9	9%	1%
State Agencies	90.6	43%	2%
Total	\$208.4	100%	2%

State Fiscal Effect: The number of budget amendments to Executive Branch programs total 380 in fiscal 2002, 341 in fiscal 2003, and 108 to date in fiscal 2004. Currently, DLS budget analysts track proposed special and federal fund budget amendments over \$100,000 and submit the amendments to the Senate Budget and Taxation Committee and the House Appropriations Committee for review. The budget committees have 45 days to review and comment on the budget amendments. LPC does not review budget amendments except for those pertaining to the Dedicated Purpose Account or the Sunny Day Fund. Requiring LPC to approve budget amendments would increase departmental staff time, resulting in the need for an additional clerical position.

Accordingly, general fund expenditures within DLS could increase by \$47,500 in fiscal 2005, which reflects a 30-day start-up delay. This estimate reflects the cost of hiring one legislative assistant to administer the enhanced budget amendment process. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses as illustrated below:

Salaries and Fringe Benefits	\$40,818
Office Equipment	4,740
Ongoing Operating Expenses	<u>1,930</u>
Total FY 2005 Expenditures	\$47,488

Future year expenditures reflect: (1) salaries with 4.6% annual increases and 3% employee turnover; and (2) 1% annual increases in ongoing operating expenses.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Board of Public Works, Department of Budget and Management, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2004
ncs/ljm

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