Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 351 (Senator Lawlah, *et al.*)
Budget and Taxation

State Budget - Spending Affordability Committee - Recommendations for Budget Reductions

This bill requires the Spending Affordability Committee (SAC) to include in its annual report recommendations for specific budget reductions to State programs if the committee recommends a level of State spending below the estimated baseline expenditure level calculated by the Department of Legislative Services (DLS). DLS must provide the committee with an estimated baseline expenditure level for the next fiscal year by October 1 of each year.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: None. Any additional workload required by the bill could be handled with existing DLS staff.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Pursuant to this legislation, the estimated baseline expenditure level means the expenditure level for a fiscal year, as estimated by DLS that is necessary to:

- maintain the same funding levels for all programs that were funded in the prior fiscal year adjusted for employee salary and benefit growth, program annualizations, inflation, caseload changes, and other nondiscretionary changes in workload;

- provide all funding mandated by State or federal law;
- fully fund the operation of facilities that are scheduled to open in the next fiscal year or that were not fully operational in the prior fiscal year; and
- fully fund all programs in which a funding shortfall has been identified, including eliminating any shortfalls from prior fiscal years.

Current Law: SAC was created in 1982 (Chapter 585 of 1982). The committee is composed of 20 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A four-member citizen advisory committee assists the committee. DLS provides staffing to the committee.

The committee's statutory responsibility is to consider spending growth in relation to growth anticipated in the State's economy and to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. In its review of the State's economy, the committee considers both income and wealth factors in developing a broad understanding of Maryland's economic position. In determining the spending limit, the committee considers economic performance, revenue estimates, and budget requirements. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. **Exhibit 1** reflects the committee's prior recommendations and legislative action on the operating budget.

Background: SAC met on February 1, 2006, and revised its recommended spending limit applicable in the 2006 session. In recognition of the upward adjustments in the official revenue estimates for fiscal 2006 and 2007, which in combination are $292 million higher than previously forecast, the committee increased the spending limit from 8.9% to 9.6%. Even with this adjustment, the Governor's proposed budget exceeds the SAC limit by $100.5 million. For purposes of spending affordability, growth in the Governor's fiscal 2007 budget totals 10.2%. To comply with the SAC limit, the budget committees will have to identify potential savings throughout the Governor's proposed budget.

Exhibit 1

Spending Affordability Committee's Prior Recommendations and Legislative Action on the Operating Budget
($ in Millions)

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**
1983	9.00%	$428.0	5.70%	$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005***	6.70%	1,037.1	6.69%	1,036.3

*2000 legislative action does not reflect $266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

**Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability.

***The committee initially approved a limit of 5.70% but raised the limit to 6.70% in January 2005.

Additional Information

Prior Introductions: None.

Cross File: HB 1195 (Delegate Madaleno, *et al.*) – Appropriations.

Information Source: Department of Legislative Services

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