Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

Senate Bill 963 (Senator Greenip, *et al.*)
Budget and Taxation

Taxpayers' Bill of Rights

This constitutional amendment proposes several changes to State and local budgeting. First, any new State or local tax, tax rate increase, or repeal of a tax exemption must be approved by a majority of voters. Second, State spending and revenues (except those from federal funds and other exceptions) would be limited as specified by the amendment. Third, the State is required to maintain a rainy day fund equal to 5% of general fund expenditures. Fourth, the bill limits the use of the rainy day fund and all other State special funds. Fifth, if at any point a specified amount of money is in the rainy day fund, it is to be returned to individual taxpayers through a temporary rate reduction in the tax year that begins in the next fiscal year.

Fiscal Summary

State Effect: If adopted, potential significant reduction in general fund revenues and expenditures based on the above provisions. This impact would vary by year, and as a result cannot be reliably estimated.

Local Effect: If adopted, potential significant reduction in local revenues and expenditures based on the above provisions. This impact would vary by year, and as a result cannot be reliably estimated. **This bill imposes a mandate on units of local government.**

Small Business Effect: Minimal.

Analysis

Bill Summary: The constitutional amendment proposes several changes to State and local budgeting. The proposed amendment restricts the amount of State spending in a fiscal year, except: (1) State debt payments; (2) monies appropriated for tax relief; and (3) appropriations funded by: (a) the federal government; (b) unemployment and disability funds; (c) discretionary user charges; (d) permanent endowments, trust funds, or pension funds; or (e) gifts or bequests.

The maximum annual percentage change in State spending cannot exceed the prior year's change in inflation plus the applicable percentage change in population adjusted for approved revenue changes.

The limit on State revenues (except those from sources listed above) is limited to:

- if total State revenue in the prior fiscal year is greater than total State revenue for the next fiscal year, the lessor of total revenue in the previous fiscal year or the limit on total State revenue for the prior fiscal year, plus inflation and change in population; or
- if the total State revenue in the prior fiscal year is less than the total State revenue for the next fiscal year, the limit on total State revenue for the most recent fiscal year for which the total State revenue exceeded the total State revenue for the prior fiscal year.

The State is required to maintain a rainy day fund equal to 5% of general fund expenditures and can only transfer rainy day funds to the general fund in the amount (if any) by which general fund revenues for the prior fiscal year exceed the estimated general fund revenues for the fiscal year. If, after this transfer, the balance of the rainy day fund exceeds 7% of the estimated general fund revenues for the upcoming fiscal year, the amount in the fund in excess of 5% is to be returned to individual taxpayers through a temporary rate reduction in the tax year that begins in the next fiscal year. Except for these transfers, funds may not be transferred from any special fund to the general fund, and appropriations may not be made for special funds that supplant general fund appropriations; or, if not made, would necessitate a general fund appropriation.

The State may not impose on local governments any part of the costs of a new or expanded program or services, unless a specific appropriation is made to cover local governments' costs.

Background: Since 1982, the General Assembly has employed a "spending affordability" process. The Spending Affordability 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.

The Department of Legislative Services prepares a "September Forecast" for the committee that contains an estimate of projected revenues and expenditures for the upcoming fiscal year. The committee reviews these projections and the status of the State economy. By statute, the committee must report to the Legislative Policy Committee by December 1 of each year with recommendations for fiscal goals for the budget to be considered at the next session of the General Assembly. This report includes the following types of recommendations:

- a level of State spending;
- a level of new debt authorization;
- a level of State personnel; and
- the use of anticipated surplus, if any.

The committee may make other appropriate findings and recommendations. By statute, if committee recommendations with respect to State spending exceed the annual increase in relevant economic indicators, the committee must provide an analysis as to the extent the recommendations exceed such indicators. Similarly, if the Governor submits a budget request in excess of the amounts recommended by the Spending Affordability Committee, the Governor must explain the rationale for exceeding the recommendations. The budget committees must also provide an explanation for any amounts exceeding Spending Affordability Committee recommendations that are presented to the Senate and House of Delegates for consideration.

The committee's primary responsibility is 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. The committee has often used growth in personal income as a proximate measure of the State's economic growth and as a guide for the increase in State spending. To clarify that it is the committee's intent to coordinate the growth in appropriations with anticipated economic growth in the next fiscal year, this report relates budget growth directly to economic growth expected during the budget year.

State Fiscal Effect: The actual effect on State revenues and spending cannot be estimated and would vary each year depending on the restrictions specified in the bill.

State Spending

State spending could be impacted to the extent that spending needs exceed the spending limitations imposed by the bill. This would vary by year, and as a result cannot be reliably estimated.

Exhibit 1 shows the changes in total State spending (including funds excluded from the bill) and the increase that would be allowed by the Taxpayers' Bill of Rights.

Exhibit 1
State Spending and Allowable Spending under SB 963

Fiscal Year	State Expenditures ($ in Millions)	Increase over Prior Fiscal Year	Allowable Increase under SB 963
2000	$17,868.3	7.2%	2.9%
2001	20,064.8	12.3%	4.4%
2002	21,443.0	6.9%	3.9%
2003	22,454.1	4.7%	3.6%
2004	22,547.0	0.4%	4.1%
2005	24,045.1	6.6%	3.8%

State Revenues

State revenues could be impacted to the extent that revenue needs exceed the spending limitations imposed by the bill. This would vary by year, and as a result cannot be reliably estimated.

Local Fiscal Effect: Local spending could be impacted to the extent that spending needs exceed the spending limitations imposed by the bill and local governments are fully reimbursed for the costs of new or expanded programs or services. This would vary by year, and as a result cannot be reliably estimated.

Additional Information

Prior Introductions: Similar bills were introduced in the 2004 and 2005 sessions. HB 1206 of 2005 received an unfavorable report from the House Ways and Means Committee. HB 1130 of 2004 was not reported from the House Ways and Means

Committee. SB 601 of 2004 received an unfavorable report from the Senate Budget and Taxation Committee.

Cross File: HB 1444 (Delegate McMillian, *et al.*) – Ways and Means.

Information Source(s): Bureau of Labor Statistics, U.S. Census Bureau, Comptroller's Office, Department of Legislative Services

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