

Department of Legislative Services  
Maryland General Assembly  
2007 Special Session

FISCAL AND POLICY NOTE

House Bill 43  
Appropriations

(Delegate Schuh, *et al.*)

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Budget - Mandatory Funding and Calculations - Modifications

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This bill changes a variety of spending mandates to discretionary spending items and requires that the University System of Maryland (USM) and Morgan State University (MSU) each receive an appropriation in fiscal 2009.

The bill takes effect January 1, 2008.

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Fiscal Summary

**State Effect:** General fund expenditures could decrease significantly beginning in FY 2009 due to the relief of more than \$4.6 billion in mandated spending. However, some programs must continue to be funded at discretionary levels, and it is assumed that many of the other programs would continue as discretionary spending items. General obligation (GO) bonds could also decrease beginning in FY 2009 if less than \$5.0 million per year is provided for the library capital grants program. Revenues would not be affected.

**Local Effect:** Mandated State aid for local governments and local school systems would decrease by more than \$4.5 billion beginning in FY 2009, although much of the aid would probably continue as discretionary funding. Ocean City expenditures could increase beginning in FY 2009 to pay a greater share of the costs to cover any operating deficits of the Ocean City Convention Center (OCCC).

**Small Business Effect:** Minimal.

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## Analysis

**Bill Summary:** The mandated spending items that are altered or eliminated in the bill are described briefly below.

- The bill eliminates the mandate for disparity grants, which are distributed to counties that have a per capita net taxable income base that is less than 75% of the State average. The program is retained in statute as a discretionary aid formula.
- The mandate for electricity-generating equipment grants, which are distributed to counties to partially offset a revenue loss sustained from a 50% personal property tax exemption on electric-generating equipment, is eliminated. The program remains in statute as discretionary grants, with no required funding levels for the counties.
- The Governor annually sets the per pupil funding level that is used to calculate the following mandated State education aid formulas:
  - foundation program;
  - compensatory education formula;
  - special education formula;
  - limited English proficiency formula; and
  - guaranteed tax base formula.

In addition, the formula for the Geographic Cost of Education Index (GCEI), a discretionary education aid formula that is likewise calculated using the per pupil funding level, is altered to compute each school system's grant from the State share of the foundation program rather than both the State and local shares of the foundation program.

- The mandated funding formula for St. Mary's College of Maryland is eliminated and replaced with language that allows discretion in setting the amount of the required annual appropriation for the college.
- The mandate for the Joseph A. Sellinger formula, which provides State funding to qualifying private institutions of higher education, is eliminated. The formula remains in statute as a discretionary program.
- The mandated \$5.0 million annual funding level for library capital grants is eliminated, although the grants remain in statute with no required funding level. The grants help counties finance capital projects for local libraries.

- The required State contributions to cover 50% of operating deficits for OCCC and provide \$50,000 per year for a Capital Improvement Reserve Fund for OCCC are eliminated, although the Maryland Stadium Authority still has to contribute some funds for these purposes.
- The required funding formula for the Maryland State Arts Council, which increases annually with the projected increase in general fund revenues, is eliminated. Even so, the Governor must continue to provide an appropriation for the council, but the amount is no longer specified.
- Grants to Baltimore City from the security interest filing fees collected by the Motor Vehicle Administration are repealed.
- Required funding for the Rural Broadband Assistance Fund, which helps to establish broadband communication services in rural and underserved areas, is repealed.

**Current Law:** Funding for each of the items contained in the bill is mandatory and therefore must be included in the State budget submitted by the Governor each year.

**Background:** A September 2007 report by the Department of Legislative Services (DLS) indicated that spending for mandates and entitlements consumes more than two-thirds of the State's general fund budget in fiscal 2008, a proportion that has grown in recent years. **Exhibit 1** shows that total general fund spending has grown by approximately \$4.0 billion from fiscal 2004 to 2008, with spending for mandates and entitlements accounting for more than three-quarters of the growth.

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**Exhibit 1**  
**General Fund Spending**  
**Fiscal 2004 to 2008**  
**(\$ in Millions)**

	<u><b>FY 2004</b></u>	<u><b>FY 2008</b></u>	<u><b>FY 04 to 08 \$ Increase</b></u>	<u><b>Percent of \$ Increase</b></u>
Mandates and Entitlements	\$6,724	\$9,783	\$3,059	76.4%
Nonmandated Spending	<u>3,834</u>	<u>4,778</u>	<u>944</u>	23.6%
<b>Total</b>	<b>\$10,558</b>	<b>\$14,561</b>	<b>\$4,003</b>	

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**State Expenditures:** In total, more than \$4.6 billion in State spending that is currently mandated for fiscal 2009 would become discretionary, allowing for significantly greater flexibility in the general fund budget. The actual effect of the bill on State expenditures would ultimately depend on decisions made by the Governor and the General Assembly about appropriate State funding levels for counties, public school systems, institutions of higher education, the arts, and other State initiatives included in the bill. The programs affected by the bill and estimates of the fiscal 2009 mandated spending levels for each of the programs are shown in **Exhibit 2**.

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**Exhibit 2**  
**Mandated Spending for Programs Affected by House Bill 43**  
**Fiscal 2009**  
**(\$ in Millions)**

<u>Program</u>	<u>Estimated FY 2009 Expenditures</u>
Disparity Grants	\$115.5
Electricity-generating Equipment Grants	30.6
Education Aid	4,384.8
St. Mary's College of Maryland Formula	16.8
Sellinger Formula	62.3
Library Capital Grants	5.0
Ocean City Convention Center	1.5
Maryland State Arts Council	16.2
Security Interest Filing Fee Grants to Baltimore City	3.1
Rural Broadband Assistance Fund	<u>2.0</u>
<b>Total</b>	<b>\$4,637.7</b>

Note: With the exception of library capital grants, which are expected to be paid from GO bonds, all expenditures are assumed to be general funds.

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It is assumed that USM and MSU would receive fiscal 2009 appropriations with or without this bill, so requiring appropriations to USM and MSU would not impact State expenditures. The change in the calculation of the GCEI formula would reduce general fund expenditures if the GCEI were funded. DLS baseline spending projections assume approximately \$40 million for the GCEI formula in fiscal 2009, \$82 million in fiscal 2010, and approximately \$140 million annually thereafter. The change in the formula

calculation would reduce these amounts by roughly 50%. However, the funding level for the GCEI would be greatly influenced by the per pupil funding level that, as specified in the bill, would be determined annually by the Governor.

**Local Revenues:** Local revenues from State aid could decrease by up to \$4.5 billion in fiscal 2009 due to the elimination of mandates on some State aid programs. Most of this funding, approximately \$4.4 billion, is mandated aid to the local school systems. It is highly unlikely that the funding would be eliminated entirely; instead, annual State aid levels would depend on the State's fiscal condition and the priorities set by the Governor and the General Assembly.

Fiscal 2009 estimates of the aid each county is expected to receive through the programs affected by the bill are shown in **Exhibit 3**. **Exhibit 4** provides fiscal 2009 projections of the individual education aid formulas that could be affected by making the annual per pupil funding amount discretionary.

**Local Expenditures:** Ocean City expenditures could increase to pay a greater share of any OCCC operating deficit. Currently, the State and Ocean City each pay 50% of the cost to cover the deficits. The State share for fiscal 2009 is estimated at \$1.5 million.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Business and Economic Development, Maryland Stadium Authority, Maryland Higher Education Commission, Department of Legislative Services

**Fiscal Note History:** First Reader - November 2, 2007  
ncs/ljm

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**Exhibit 3**  
**Estimated Fiscal 2009 Funding for State Aid Affected by House Bill 43**  
(\$ in Thousands)

<b>County</b>	<b>Disparity Grants</b>	<b>Electricity-generating Equip. Grants</b>	<b>Education Aid*</b>	<b>Library Capital Grants</b>	<b>Security Interest Filing Fee Grants</b>	<b>Total</b>
Allegany	\$6,743		\$80,007			\$86,749
Anne Arundel		\$7,820	243,481			251,301
Baltimore City	75,524	453	799,715		\$3,075	878,767
Baltimore		1,795	483,263			485,058
Calvert		6,097	80,704			86,801
Caroline	2,253		40,515			42,768
Carroll			132,837			132,837
Cecil			96,168			96,168
Charles		2,523	142,514			145,037
Dorchester	2,131	187	27,968			30,286
Frederick			196,486			196,486
Garrett	2,012	12	22,158			24,182
Harford		861	199,173			200,034
Howard			175,620			175,620
Kent			7,801			7,801
Montgomery		2,766	376,821			379,587
Prince George's	21,714	7,745	878,058			907,518
Queen Anne's			27,241			27,241
St. Mary's			86,821			86,821
Somerset	4,371		22,630			27,000
Talbot			8,771			8,771
Washington		357	135,871			136,228
Wicomico	742		105,809			106,550
Worcester			14,381			14,381
Unallocated				\$5,000		5,000
<b>Total</b>	<b>\$115,490</b>	<b>\$30,615</b>	<b>\$4,384,812</b>	<b>\$5,000</b>	<b>\$3,075</b>	<b>\$4,538,992</b>

\*See Exhibit 4 for additional detail.

**Exhibit 4**  
**Estimated Fiscal 2009 Funding for State Education Aid Affected by House Bill 43**  
**(\$ in Thousands)**

<b>County</b>	<b>Foundation Program</b>	<b>Compensatory Education</b>	<b>Limited English Proficiency</b>	<b>Special Education Formula</b>	<b>Guaranteed Tax Base</b>	<b>Total</b>
Allegany	\$46,107	\$21,858	\$54	\$5,840	\$6,148	\$80,007
Anne Arundel	180,298	40,160	4,501	18,521		243,481
Baltimore City	408,697	284,145	11,282	59,556	36,035	799,715
Baltimore	350,636	91,948	10,670	30,009		483,263
Calvert	67,604	7,167	594	5,339		80,704
Caroline	26,353	10,366	786	2,511	499	40,515
Carroll	113,782	9,373	641	9,041		132,837
Cecil	71,450	15,055	637	7,024	2,003	96,168
Charles	113,794	17,934	748	6,634	3,405	142,514
Dorchester	18,978	6,917	447	1,426	200	27,968
Frederick	160,520	18,725	4,450	12,790		196,486
Garrett	15,905	4,778		1,474		22,158
Harford	158,686	23,729	1,943	14,815		199,173
Howard	144,855	15,215	5,587	9,963		175,620
Kent	4,528	2,314	254	705		7,801
Montgomery	208,326	87,798	44,757	35,940		376,821
Prince George's	550,298	207,253	48,505	45,494	26,509	878,058
Queen Anne's	21,890	2,931	331	2,089		27,241
St. Mary's	68,132	11,668	550	6,121	350	86,821
Somerset	13,482	6,494	423	1,317	913	22,630
Talbot	4,414	3,022	519	817		8,771
Washington	95,065	28,152	1,584	8,237	2,833	135,871
Wicomico	66,319	26,823	2,080	6,075	4,512	105,809
Worcester	6,760	5,581	614	1,426		14,381
<b>Total</b>	<b>\$2,916,879</b>	<b>\$949,407</b>	<b>\$141,955</b>	<b>\$293,163</b>	<b>\$83,407</b>	<b>\$4,384,812</b>