

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 1268  
Appropriations

(Delegate Impallaria, *et al.*)

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Budget - Limits on Growth of State Spending

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This proposed amendment to the Maryland Constitution would freeze State spending at the fiscal 2009 level for five years and at succeeding five-year intervals thereafter. Federal fund appropriations would be exempt from the freeze. Every five years, beginning in fiscal 2014, State spending could increase by up to the sum of inflation over the preceding five years and the aggregate percentage growth in State population. Inflation would be calculated using the Consumer Price Index for the Washington-Baltimore Metropolitan Area (CPI-W), and population increases would be determined by the U.S. Bureau of the Census.

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Fiscal Summary

**State Effect:** If the proposed constitutional amendment is approved by the General Assembly and the voters, State budget growth would be subject to the limit.

**Local Effect:** Local boards of elections could notify qualified voters about this constitutional amendment using existing resources.

**Small Business Effect:** None.

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Analysis

**Current Law:** There are no constitutional or statutory restrictions on the growth of State spending. The Spending Affordability Committee (SAC), authorized in statute, is charged with reviewing revenue and expenditure projections, the overall status of the State's economy, and indicators such as personal income and gross State product. Based

on its review and no later than December 1 of each year, SAC must recommend to the Governor and the Legislative Policy Committee, among other things, a level of State spending for the upcoming fiscal year. In assembling the proposed budget, the Governor is not bound by SAC's recommendation.

**Background:** The Department of Budget and Management projects that general fund expenditures will increase by an annual average of 5.3% from fiscal 2009 to 2013, and that higher education expenditures will increase by an annual average of 3.4%.

**Exhibit 1** shows the annual changes in State spending, exclusive of federal funds, since 2002. **Exhibit 2** shows the CPI-W and State population data since 2002.

**Exhibit 1  
State Funds Expenditures  
Fiscal 2002-2009**

<u>Fiscal Year</u>	<u>State Expenditures (\$ in Millions)</u>	<u>% Change</u>
2002 (actual)	\$16,605.2	5.6%
2003 (actual)	17,080.5	2.9
2004 (actual)	16,701.7	-2.2
2005 (actual)	18,188.1	8.9
2006 (actual)	19,967.7	9.8
2007 (actual)	22,393.0	12.1
2008 (working)	23,179.7	3.5
2009 (proposed)	24,637.4	6.3
<b>Average Annual Increase</b>		<b>5.8%</b>
<b>Five-year Increase (2002-2007)</b>		<b>34.9%</b>

Note: State funds include all general, special, and higher education expenditures.

Source: Department of Legislative Services

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**Exhibit 2**  
**CPI-W and State Population Growth,**  
**Fiscal 2002-2008**

<u>Fiscal Year</u>	<u>CPI-W</u>	<u>Annual % Change</u>	<u>State Population</u>	<u>Annual % Change</u>
2002	111.5	2.3%	5,374,956	1.2%
2003	114.6	2.8	5,433,822	1.1
2004	117.5	2.5	5,494,136	1.1
2005	121.6	3.5	5,537,662	0.8
2006	126.5	4.0	5,573,163	0.6
2007	130.8	3.4	5,602,017	0.5
2008	NA	NA	5,618,344	0.3
<b>Average Annual Increase</b>		<b>3.2%</b>		<b>0.7%</b>
<b>Five-year Increase (2002-2007)</b>		<b>17.3%</b>		<b>4.2%</b>

Sources: Bureau of Labor Statistics (CPI-W for all urban consumers); U.S. Census Bureau (July 1 current population estimates); Department of Legislative Services

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**State Fiscal Effect:** Assuming this constitutional amendment had been in effect in 2002, the State budget would have been frozen at fiscal 2002 levels for the next five years. In total, fiscal 2007 spending would have been limited to an increase of 21.5% over fiscal 2002 levels, resulting in total State spending of \$20.2 billion, compared with actual spending of \$22.4 billion, a difference of \$2.2 billion.

Assuming the same rates of growth apply for CPI-W, State population, and State spending for the period from fiscal 2009 to 2014, State spending would be significantly curtailed. Instead of growing by 5.8% annually and reaching a projected level of \$32.6 billion in fiscal 2014, State spending would be frozen at fiscal 2009 levels (projected to be \$24.6 billion) until fiscal 2014, and then increase to \$29.9 billion in fiscal 2014, a difference of \$2.7 billion.

**Local Fiscal Effect:** The Maryland Constitution requires that proposed amendments to the constitution be publicized either (1) in at least two newspapers in each county, if available, and in at least three newspapers in Baltimore City once a week for four weeks immediately preceding the general election; or (2) by order of the Governor in a manner provided by law. State law requires local boards of elections to publicize proposed

amendments to the constitution either in newspapers or on specimen ballots; local boards of elections are responsible for the costs associated with these requirements. It is anticipated that the fiscal 2009 budgets of local election boards will contain funding for notifying qualified voters about proposed constitutional amendments for the 2008 general election in newspapers or on specimen ballots.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Budget and Management, Department of Legislative Services

**Fiscal Note History:** First Reader - February 27, 2008  
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