

Department of Legislative Services  
 Maryland General Assembly  
 2009 Session

FISCAL AND POLICY NOTE

House Bill 1148 (Delegate Schuh)  
 Appropriations

Operating Budget - Elimination of Inflation Adjustments

This bill eliminates required annual inflation adjustments to formulas and programs beginning in fiscal 2010.

The bill takes effect July 1, 2009.

Fiscal Summary

**State Effect:** Mandated general fund expenditures decrease by \$17.0 million in FY 2010 due to the elimination of inflation factors applied to State programs and formulas. Future year expenditure reductions reflect the compounding effect of freezing the formula levels. **This bill reduces mandated appropriations.** Revenues are not affected.

(\$ in millions)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	(17.0)	(131.2)	(210.4)	(309.0)	(435.5)
Net Effect	\$17.0	\$131.2	\$210.4	\$309.0	\$435.5

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

**Local Effect:** Direct aid for local boards of education decreases by \$16.6 million in FY 2010 and by an estimated \$402.1 million by FY 2014. Aid for local health departments decreases by \$2.0 million in FY 2011 and by an estimated \$8.5 million in FY 2014.

**Small Business Effect:** Minimal.

## Analysis

**Bill Summary:** The bill eliminates inflation factors for the following statutory formulas:

- the per pupil foundation amount used for most of the large education aid formulas and for the Maryland School for the Deaf formula;
- the student transportation formula;
- the Aging Schools Program;
- St. Mary's College of Maryland;
- local health department grants;
- the Child Abuse Medical Providers (CHAMP) Initiative; and
- the Maryland State Arts Council.

**Current Law:** The Governor must include funding for mandated formulas and programs in the budget but may propose to reduce the formula levels contingent on authorizing legislation. In addition, the Board of Public Works may reduce legislative appropriations by up to 25%, with the exception of mandated education aid formulas. To reduce spending for public primary and secondary education below required levels, legislation separate from the budget bill that adjusts the mandated levels must be approved by the General Assembly and enacted.

**Background:** A September 2007 report by the Department of Legislative Services (DLS) indicated that spending for mandates and entitlements consumed 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 grew 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 2004-2008**  
**(\$ in Millions)**

	<u>FY 2004</u>	<u>FY 2008</u>	<u>FY 2004-2008</u> <u>\$ Increase</u>	<u>Percent of</u> <u>\$ Increase</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>	

**State Expenditures:** General fund expenditures decrease by \$17.0 million in fiscal 2010 and by \$416.0 million by fiscal 2014 due to the repeal of inflation factors. Additionally, reductions in State aid to local school systems slow the growth of teachers' retirement costs, which are paid by the State on behalf of the systems. State payments for teachers' retirement are calculated using actual school system salary bases from the second prior fiscal year. Lower per pupil foundation amounts beginning in fiscal 2011, therefore, affects teachers' retirement payments beginning in fiscal 2013. The additional reductions in general fund expenditures are estimated at \$11.2 million in fiscal 2013 and \$19.5 million in fiscal 2014. The reductions attributable to each of the inflation factors deleted by the bill and the indirect impact on teacher pension costs are estimated in **Exhibit 2**.

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**Exhibit 2**  
**Estimated General Fund Reductions**  
**Fiscal 2010-2014**  
**(\$ in Thousands)**

	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b><u>FY 2012</u></b>	<b><u>FY 2013</u></b>	<b><u>FY 2014</u></b>
Per Pupil Amount*	\$0	\$104,066	\$172,934	\$249,674	\$356,704
Student Trans.	16,035	22,594	29,382	36,471	43,913
Aging Schools**	558	849	1,041	1,248	1,529
St. Mary's College	322	757	1,114	1,489	1,947
Local Health Depts.***	0	2,008	4,085	6,236	8,462
CHAMP Initiative***	0	11	24	34	46
Arts Council**	<u>87</u>	<u>897</u>	<u>1,817</u>	<u>2,658</u>	<u>3,423</u>
<b>Inflation Savings</b>	<b>\$17,002</b>	<b>\$131,181</b>	<b>\$210,397</b>	<b>\$297,810</b>	<b>\$416,022</b>
Teacher Pensions	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,236</u>	<u>19,511</u>
<b>Total Savings</b>	<b>\$17,002</b>	<b>\$131,181</b>	<b>\$210,397</b>	<b>\$309,046</b>	<b>\$435,533</b>

\*Chapter 2 of the 2007 special session froze the per pupil foundation amount for fiscal 2009 and 2010.

\*\*Does not reflect funding changes proposed in the Administration's Budget Reconciliation and Financing Act (HB 101/SB 166) or capital budget bill (HB 1021/SB167).

\*\*\*The proposed fiscal 2010 State budget does not provide inflation increases for local health departments and the CHAMP Initiative; therefore, eliminating the inflation factor has no impact in fiscal 2010.

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**Local Fiscal Effect:** Direct State aid for local school systems and health departments decreases by \$16.6 million in fiscal 2010 and by an estimated \$410.6 million in fiscal 2014, as shown in **Exhibit 3**.

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**Exhibit 3**  
**Reductions in Local Aid**  
**Fiscal 2010-2014**  
**(\$ in Thousands)**

	<u><b>FY 2010</b></u>	<u><b>FY 2011</b></u>	<u><b>FY 2012</b></u>	<u><b>FY 2013</b></u>	<u><b>FY 2014</b></u>
Direct Education Aid	\$16,593	\$127,509	\$203,357	\$287,393	\$402,146
Health Departments	<u>0</u>	<u>2,008</u>	<u>4,085</u>	<u>6,236</u>	<u>8,462</u>
<b>Local Reductions</b>	<b>\$16,593</b>	<b>\$129,516</b>	<b>\$207,442</b>	<b>\$293,629</b>	<b>\$410,608</b>

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**Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 480 (Senator Pipkin) - Budget and Taxation.

**Information Source(s):** Department of Budget and Management, Department of Health and Mental Hygiene, Department of Business and Economic Development, Maryland School for the Deaf, Maryland State Department of Education, Maryland Department of Planning, Public School Construction Program, Department of Legislative Services

**Fiscal Note History:** First Reader - March 2, 2009  
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