

Department of Legislative Services
Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 42 (The Speaker)(By Request - Department of Legislative Services)

Rules and Executive Nominations

State Government - Consumer Price Index - Revised Statutory References

This bill replaces specified obsolete references to the Consumer Price Index (CPI) for the Washington-Baltimore Metropolitan Area with references to CPI for the Washington Metropolitan Area. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: The bill is not anticipated to materially affect State finances or operations, as discussed below.

Local Effect: The bill is not anticipated to materially affect local government finances or operations, as discussed below.

Small Business Effect: Minimal.

Analysis

Bill Summary: Specified obsolete references to CPI for the Washington-Baltimore Metropolitan Area are replaced with references to CPI for the Washington Metropolitan Area. Updated *geographic* references continue to use the same CPI measurement, either CPI for All Urban Consumers (CPI-U) or CPI for Urban Wage Earners and Clerical Workers (CPI-W). The references affected, in the order that they appear in the bill, are:

- the CPI-W that can be considered by a mediator-arbiter panel during part of the collective bargaining process for employees of the Housing Opportunities Commission of Montgomery County;

- the CPI-U that the Housing Opportunities Commission of Montgomery County must use when adjusting the cost threshold that triggers certain actions related to a service contract;
- the medical care component of CPI-U used to establish limits on the rate of growth in the authorized copayments or coinsurances on specified covered specialty drugs each year;
- the CPI-U determined by the Department of Commerce and reported to the Workers' Compensation Commission for purposes of determining annual cost of living adjustments for specified workers' compensation claim payments;
- the CPI-W that can be considered by a mediator-arbiter panel during part of the collective bargaining process for employees of the Maryland-National Capital Park and Planning Commission (M-NCPPC);
- the CPI-U that M-NCPPC must use when adjusting the cost threshold that triggers certain actions related to a service contract;
- the CPI-W that may be considered by a mediator-arbiter panel during part of the collective bargaining process for employees of the Washington Suburban Sanitary Commission;
- the CPI-U that the Department of Housing and Community Development must use to adjust maximum fees allowed to be charged by condominium councils of unit owners and homeowners associations for specified information; and
- the CPI-U that the Department of Labor, Licensing, and Regulation must use to annually determine wage rates under the State's living wage law.

Current Law/Background: The references to CPI altered by the bill use the Washington-Baltimore Metropolitan Area for their respective calculations, considerations, or determinations. These references were made obsolete by changes made by the federal Bureau of Labor Statistics (BLS) to the CPI calculation process that split the Washington-Baltimore area into Washington-Arlington-Wilmington and Baltimore-Columbia-Towson. Chapter 10 of 2018 (the Budget Reconciliation and Financing Act) required the Department of Legislative Services to review and identify statutory references affected by this change and make recommendations regarding the appropriate inflationary measure to use in each instance. The bill incorporates those recommendations.

CPI is a measure of the average change in prices over time of goods and services purchased by households. CPIs are based on the prices of food, clothing, shelter, fuels, transportation fares, charges for doctors' and dental services, drugs, and other goods and services that people buy for day-to-day living. BLS publishes CPIs for two population groups, CPI-U and CPI-W. CPI-U covers about 93% of the U.S. population. CPI-W is a subset of CPI-U and covers about 29% of the U.S. population.

As shown in **Exhibit 1**, historic CPI growth rates have been similar between the previous (Washington-Baltimore) region and the new (Washington) region. November 2017 is the last month for which data is available for the previous region. There are slight variations (less than one-tenth of one percentage point), which may fluctuate based on the time period chosen.

Exhibit 1
Historical CPI Average Annual Growth Rates, By Region
through November 2017

	Washington-Baltimore (Current Law)		Washington (The Bill)	
	<u>5-year</u>	<u>10-year</u>	<u>5-year</u>	<u>10-year</u>
CPI-U	1.25%	1.65%	1.20%	1.60%
CPI-U (Medical Care Only)	2.82%	3.21%	2.87%	3.14%
CPI-W	1.15%	1.68%	1.09%	1.64%

CPI: Consumer Price Index

CPI-U: Consumer Price Index for All Urban Consumers

CPI-W: Consumer Price Index for Urban Wage Earners and Clerical Workers

Source: Bureau of Labor Statistics

State/Local Fiscal Effect: Historic CPI growth rates have been similar between the previous (Washington-Baltimore) region and the new (Washington) region under the bill. Assuming this trend is maintained, the bill is not anticipated to materially affect State or local finances or operations. If one or more CPI measurements significantly diverge in future years, State and/or local finances are affected to the extent of the divergence, although the overall effect is likely minimal.

Small Business Effect: Some provisions that alter the various CPI measurements potentially affect small businesses, such as the CPI-U used to determine wages under the State’s living wage law. However, as CPI for the Washington-Baltimore region as a whole has historically been similar to the Washington region used by the bill, the effect on any particular small business is likely minimal.

Additional Information

Prior Introductions: None.

Cross File: SB 94 (The President)(By Request - Department of Legislative Services) - Budget and Taxation.

Information Source(s): Department of Commerce; Department of Housing and Community Development; Department of Labor, Licensing, and Regulation; Maryland Insurance Administration; Chesapeake Employers' Insurance Company; Montgomery County; Washington Suburban Sanitary Commission; U.S. Department of Labor (Bureau of Labor Statistics); Department of Legislative Services

Fiscal Note History: First Reader - January 21, 2019
mag/mcr

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