

Department of Legislative Services  
Maryland General Assembly  
2019 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

Senate Bill 94

(The President)(By Request - Department of Legislative Services)

Budget and Taxation

Rules and Executive Nominations

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State Government - Consumer Price Index - Revised Statutory References

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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.**

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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.

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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-U used to adjust the per pupil foundation amount, which is used to determine State aid to local public schools;
- the transportation component of CPI-U used to determine State support for public school student transportation;
- 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 two separate areas: Washington-Arlington-Alexandria and Baltimore-Columbia-Towson.

### *CPI and Historic Growth Rates*

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

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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 Metropolitan Area and the new Washington Metropolitan Area under the bill. November 2017 is the last month for which data is available for the previous area. There are slight variations (less than one-tenth of one percentage point), which may fluctuate based on the time period chosen.

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

	<b>Washington-Baltimore (Current Law)</b>		<b>Washington (The Bill)</b>	
	<u><b>5-year</b></u>	<u><b>10-year</b></u>	<u><b>5-year</b></u>	<u><b>10-year</b></u>
CPI-U	1.25%	1.65%	1.20%	1.60%
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

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*Determination of an Appropriate Inflation Index*

Chapter 10 of 2018 (the Budget Reconciliation and Financing Act), required the Department of Legislative Services (DLS), the Maryland State Department of Education, and the Department of Budget and Management to jointly determine the appropriate regional CPI to be used in place of the discontinued Washington-Baltimore Metropolitan Area CPI in order to calculate the State Foundation Program formula and the student transportation formula for fiscal 2020 funding. The departments agreed that it was best to use the Washington Metropolitan Area CPI. The Commission on Innovation and Excellence in Education (the “Kirwan Commission”) was likewise required to recommend a permanent replacement in its subsequent report to the Governor and the General Assembly. The commission recommended that the Washington Metropolitan Area CPI measure be used after fiscal 2020 as well.

Separate from the issue of State aid to education, Chapter 10 also required DLS 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.

### *State Aid to Education*

The great majority of direct State aid to public schools (excluding teachers' retirement) is determined by funding formulas found in Title 5, Subtitle 2 of the Education Article. Together, with some more recent enactments, these funding formulas were set forth in the Bridge to Excellence in Public Schools Act (Chapter 288 of 2002). Two of the State education aid formulas use measures of regional CPI in the calculation: the Foundation Program formula and student transportation formula. The regional CPI is defined in statute as CPI-U for the Washington-Baltimore Metropolitan Area.

The foundation formula annually inflates the target per pupil funding amount by the *lesser* of the increase in (1) the implicit price deflator for State and local government expenditures for the second prior fiscal year; (2) the regional CPI for the second prior fiscal year; or (3) 5%. For the student transportation formula, the base grant is increased by the growth in the regional CPI for private transportation as of July of the preceding fiscal year, subject to the limitation that it cannot be less than 1% or more than 8%.

**State/Local Fiscal Effect:** Historic CPI growth rates have been similar between the previous Washington-Baltimore Metropolitan Area and the new Washington Metropolitan Area 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. Except for State aid to education, any overall effect is minimal.

Since State aid to education is more than \$6.5 billion annually, even a small difference in a funding formula's inflation rate has the potential to increase or decrease State spending/local revenues, in absolute terms, by a substantial amount. However, in the context of the overall amount of funding, the effect is likely not significant. Regardless, since the previous CPI no longer exists, a precise estimate of the effect, if any, cannot be made. It is also possible that, absent the bill, the Washington Metropolitan Area CPI would have continued to be used as the successor index for purposes of State aid to education, as it is in fiscal 2020. Under that assumption, the bill merely codifies existing practice.

**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.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 42 (The Speaker)(By Request - Department of Legislative Services) - Rules and Executive Nominations.

**Information Source(s):** Department of Commerce; Maryland State Department of Education; 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

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