LARRY HOGAN
Governor

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Lieutenant Governor

Maryland
DEPARTMENT OF BUDGET AND MANAGEMENT

DAVID R. BRINKLEY
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Deputy Secretary

HOUSE BILL 1332 State Budget (Acevero, et al)

POSITION: OPPOSE

DATE: March 10, 2020

COMMITTEE: House Appropriations Committee

SUMMARY OF BILL: HB 1332 is a Constitutional Amendment that would allow the General Assembly to increase or add appropriations to the Budget Bill, not to exceed the total allowance submitted by the Governor. The Governor has the power to veto those items increased or added by the General Assembly which may be overridden by a three-fifths majority of both houses of the General Assembly. The General Assembly would have to convene an "extraordinary" session within 30 days of the Governor's veto to consider an override. The Constitutional Amendment is to be submitted to the voters for approval at the November 2020 general election.

EXPLANATION OF POSITION: The Department of Budget and Management (DBM) opposes weakening the Executive Budget System that has existed since the enactment and ratification of Section 52 of Article III of the Maryland Constitution in 1916. The rationale for the Executive Budget Amendment is that the Governor is the official best suited to preparing a comprehensive plan of expenditures because he has daily responsibility for the administration of State government. <u>Not only is the Governor in the best position to provide fiscal leadership, but he is the person that will be held singularly accountable by the electorate for the conduct of the State's financial affairs</u>.

It is important to understand the impetus for the Executive Budget Amendment. In 1915, the State faced a financial crisis when appropriations exceeded revenues by $1.5 million – total revenues were only $12 million. The legislature possessed the power to initiate appropriation measures and, in fact, legislative appropriations increased from FY 1905 to FY 1915 by 153%. For nearly a decade, the Comptroller warned the General Assembly that "demands upon the Treasury have increased greater proportionately than its revenues." Reigning in the legislature's spending power was needed to maintain a balanced budget. The purposes of the Executive Budget Amendment are as relevant in 2017 as they were in 1916.

Section 52 was revised in 1978 to allow the General Assembly to enact a statute requiring the Governor to fund a program at a particular level of funding. That mandated appropriation provision provides the legislature with significant budget authority and its use has become more prevalent in the past decade. The General Assembly's increasing reliance on mandates and entitlement spending makes it more difficult to resolve our chronic long-term structural budget deficit which has existed for more than a decade.

DBM notes that all three bond rating agencies, as recently as February 24, 2020, have positively affirmed the importance of the State's strong Executive Budget System. Moody's, Standard & Poor's, and Fitch, each cited Maryland's strong and centralized financial management and its history of conservative fiscal operations as key reasons for renewing the State's triple AAA bond rating. All three rating agencies also specifically commended the Governor's ability to make proactive adjustment to the State's budget at the Board of Public Works, when necessary. Specifically, Standard & Poor's complements Maryland's "long history of proactive financial and budget management, including frequent and timely budget adjustments to align revenues and expenditures." Similarly, Fitch comments that "financial resilience is extremely strong with a willingness to trim spending commitments in response to changing circumstances."

DBM would further note, that not all spending is alike. Specifically, the Administration is concerned that the General Assembly could reallocate funding that is mandated for one-time purposes such as the Rainy Day Fund or pension funding to ongoing expenses that create longer-term structural problems. Recent experience would suggest that there is a strong likelihood of this occurring in the future.

- For example, during the FY 2020 budget deliberations, the General Assembly reallocated funding that would be appropriated for the Rainy Day Fund and for one-time capital projects and instead required that the funding be used to support ongoing costs in the form of a 2% cost-of-living-adjustment for certain unions.
- Similarly, during the 2016 Session, the General Assembly reallocated $80 million in funding meant for the Rainy Day Fund and repurposed it for a variety of purposes, including grants to local governments, increases in physician rates, and various other grant programs. There are other instances of this occurring and there is no reason to believe that this would not continue after the enactment of a constitutional amendment.

Finally, it should be noted that the General Assembly's actions typically add to the structural budget deficit when compared to the budget introduced by the Governor.

- For instance, in FY 2019, the cumulative structural deficit for the FY 2020 through FY 2024 forecast period was more than $1 billion greater after the General Assembly enacted the budget than it was when the Governor introduced it.

Proponents of this legislation may point out that legislatures in other states have the authority to add appropriations. That statement was true in 1916 and it is true today – one century later. But no state can match the fiscal record of Maryland. Maryland has maintained its triple AAA bond rating for nearly 60 years.

For these reasons, we respectfully request an unfavorable report.

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