SENATE BILL 30 State Finance and Procurement-Appropriation Reductions (Elfreth)

POSITION: OPPOSE

DATE: January 21, 2021

COMMITTEE: Senate Budget & Taxation

SUMMARY OF BILL: SB 30 limits the Governor's authority, subject to Board of Public Works (BPW) approval, to reduce the operating budget by restricting budget reductions to 25% of any line item, rather than 25% of any appropriation. Before the BPW can approve the reductions, the Department of Budget and Management (DBM) is required to publish the list of reductions on the BPW's website and likewise provide notice to the General Assembly (Legislative Policy Committee, Senate Budget and Taxation Committee and House Appropriation Committee), which the bill lengthens from three to 10 business days.

EXPLANATION: DBM opposes the legislation because it: (i) makes more difficult the already challenging task of making mid-year budget reductions that result from an unforeseen and rapidly declining economy; and (ii) unnecessarily delays the effective date of the budget reductions, which are generally less painful the earlier in the fiscal year they occur.

10-Day Advance Notice. DBM opposes the 10-day advance notice provision, as it did in 2016 (HB 368/SB 370). The 10-day advance notice exacerbates an already limited amount of time that DBM has to assess the State's deteriorating fiscal situation, develop the BPW item, and obtain BPW approval for a budgetary reduction. There is not always the luxury of long lead times to determine the budgetary action needed, develop the agenda item, and appear on the BPW's meeting agenda.

DBM acted expeditiously to comply with the FY 2016 Budget Bill language to provide this notice to the BPW within 72 hours (or three days) and agreed to the amended version of 2016 legislation that codified the three working day notice. Since that time, DBM has taken midyear budget reductions to the BPW on June 22, 2016, November 2, 2016, September 6, 2017, May 20, 2020 and July 1, 2020. We are unaware of any circumstance where insufficient notice created concerns.

In fact, $205.2 million of the $610.3 in FY 2021 budget reductions posted in advance of the July 1, 2020 BPW meeting were rejected by members of the BPW before the formal meeting and were, therefore, withdrawn by DBM. Various constituencies were able to weigh in on the proposed reductions and garnered BPW support to reject the budget reductions. Further, it is always within the prerogative of the BPW to delay action on any Board item to solicit additional information and input. It is important to note that the Administration discusses proposed reductions with Board members in advance of the three-day posting deadline. These meetings with the members before the July 1, 2020 meeting resulted in an additional $141 million in reductions that were never proposed and, therefore, not posted. These actions demonstrate the current process is working.

25% Reduction for Any Line Item in the Operating Budget. Except for specific appropriations (such as debt service, education aid to public schools, and the Legislative and Judicial branches of government), the Governor is currently authorized with BPW approval to reduce up to 25% of any agency's appropriation. The bill restricts that authority to 25% reduction for any line item in the operating budget.

The impact of this change will force DBM to make a greater number of smaller reductions, rather than more substantial reductions to fewer programs. For example, DBM may choose to eliminate or delay implementation of a new program by reducing 100% of the funding in the mid-year reduction because the program has not yet become operational and there is no existing reliance on the funding or service. This bill would prevent that option and force DBM to make (up to) 25% reductions in multiple other critical programs that are currently operational.

Suffice it to say, budget reductions occur because they are necessary; not because they are desirable. DBM takes seriously its unique responsibility to analyze the totality of the $43 billion Budget and makes every effort to minimize the negative impact of budget reductions on the programs and services provided for the benefit of Maryland residents. Bond rating agencies value the fact that Maryland has the unique ability to expeditiously address budgetary shortfalls and it would not be prudent to diminish the State's flexibility.

For these reasons, DBM respectfully requests an unfavorable report.

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