SB 293

Department of Legislative Services

Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 293 (The President, *et al.*) (By Request - Administration)
Budget and Taxation

Commonsense Spending Act of 2018

This Administration bill limits, beginning in fiscal 2020 and subject to specified exemptions, the amount by which a mandated appropriation may increase over the previous fiscal year's appropriation to the lesser of (1) the amount of the existing formula calculation or (2) an amount equal to 1.0% less than the reported amount of general fund revenue growth in the December report of the Board of Revenue Estimates (BRE). The General Assembly may not enact legislation that creates a new or increased level of required funding in the annual budget bill for a specific program or item unless it also enacts legislation at that same session that reduces or repeals an equivalent amount of required funding for the same fiscal year. **The bill takes effect June 1, 2018.**

Fiscal Summary

State Effect: No effect in FY 2018 or 2019. Expenditures (all funds) decline by a total of $535.3 million between FY 2020 and 2023, including $495.1 million in general funds and $40.2 million in special funds. Revenues are not affected. **This bill decreases mandated appropriations beginning in FY 2020.**

($ in millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	(36.3)	(109.3)	(151.3)	(198.1)
SF Expenditure	0	(4.7)	(8.4)	(12.2)	(15.0)
Net Effect	$0.0	$41.0	$117.7	$163.4	$213.1

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

Local Effect: State aid to local governments declines by $11.9 million in FY 2020, $49.2 million in FY 2021, $83.9 million in FY 2022, and $122.8 million in FY 2023.

Small Business Effect: The Administration has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services (DLS) concurs with this assessment.

Analysis

Bill Summary: Specified education spending, including most mandated K-12 spending, appropriations required to be made to the Revenue Stabilization Account, required payments of principal or interest on State debt, and required payments for the State's employer contribution to the State Retirement and Pension System are exempt from the limit on mandated appropriation growth.

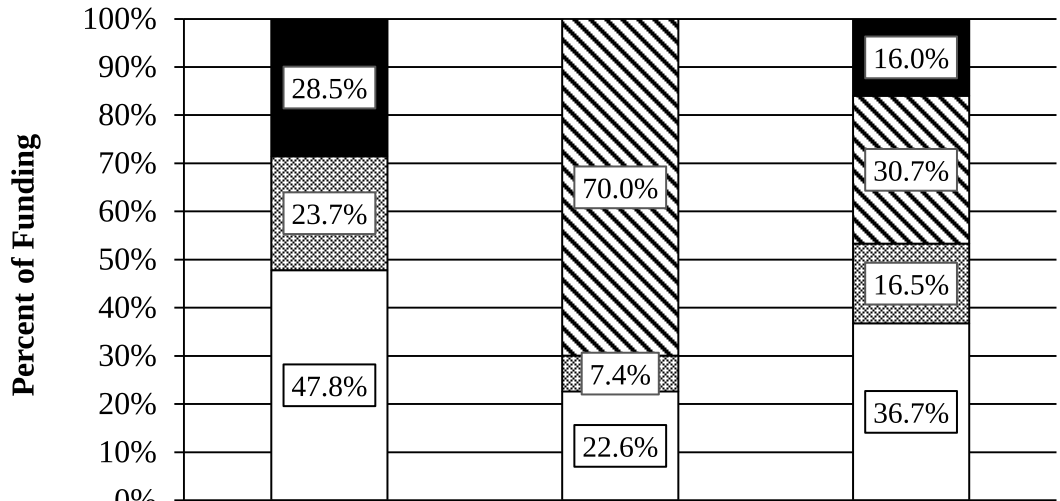
Current Law: The Maryland Constitution requires the Governor to submit, and the General Assembly to pass, a balanced budget. The General Assembly cannot add spending to the budget introduced by the Governor, nor can general funds be used to restore reductions made by the General Assembly after adoption of the budget, except through an approved deficiency appropriation in the following year's budget.

The General Assembly can increase or add appropriations relating to the Legislature or Judiciary. Through a supplementary appropriations bill, the General Assembly can also add expenditures if matched with new revenues. Through legislation, the General Assembly can mandate expenditures in the Executive budget for a subsequent fiscal year.

Background: DLS reported on Mandated Appropriations in the Maryland State Budget in September 2017. Altogether, proposed fiscal 2018 appropriations with a mandated amount total $11.2 billion and entitlements total an additional $5.1 billion, for a combined 53.3% of the State-sourced portion of the budget.

As seen in **Exhibit 1**, 71.5% of the fiscal 2018 general fund allowance and 30.0% of the special fund and higher education allowance are mandates or entitlements. The remaining 70.0% of the special fund and higher education allowance is dedicated for specific purposes.

Exhibit 1
Maryland State Spending from Own-source Budget
As Included in the Fiscal 2018 Allowance
($ in Millions)



	General Funds	Special and Higher Ed Funds	Total Funds
■ Nonmandated	$4,894.1	$0.0	$4,894.1
◪ Mandated Purpose	0.0	9,403.0	9,403.0
▩ Entitlement	4,067.5	995.9	5,063.4
□ Mandated Amount	8,203.3	3,038.8	11,242.1
Total 2018 Allowance	$17,164.8	$13,437.7	$30,602.5

Notes: Numbers may not sum to total due to rounding. Fiscal 2018 special and higher education funds exclude the general and special fund portions of current unrestricted funds. The general fund allowance total excludes $31.2 million of unspecified reversions.

Source: Governor’s Budget Books, Fiscal 2018; Department of Legislative Services

Exhibit 2 illustrates that K-12 education and health programs receive 79.2% of all mandated general fund spending in the allowance, with K-12 education comprising 48.0% alone. Health, transportation, and debt service for the State’s capital program account for 76.9% of all special fund mandates in the allowance.

Exhibit 2
Statutorily Mandated Appropriations and Entitlements by Policy Area
Fiscal 2018 Allowance
($ in Millions)

Policy Area	GF	% of GF	SF	% of SF	Total	% of Total
Education, K-12	$5,889.2	48.0%	$522.1	12.9%	$6,411.4	39.3%
Health	3,824.2	31.2%	1,046.9	25.9%	4,871.1	29.9%
Capital Program	263.0	2.1%	975.9	24.2%	1,238.9	7.6%
Transportation	0.0	0.0%	1,080.4	26.8%	1,080.4	6.6%
Administration and Legislative	613.4	5.0%	184.8	4.6%	798.1	4.9%
Education, Postsecondary	598.8	4.9%	2.5	0.1%	601.4	3.7%
Judicial Branch	505.2	4.1%	66.4	1.6%	571.6	3.5%
Human Services	237.2	1.9%	0.0	0.0%	237.2	1.5%
Agriculture, Environment, and Natural Resources	25.2	0.2%	144.0	3.6%	169.2	1.0%
Nonspecific Aid	160.5	1.3%	2.0	0.0%	162.5	1.0%
Public Safety	83.0	0.7%	0.6	0.0%	83.6	0.5%
Economic Development and Housing	71.1	0.6%	9.1	0.2%	80.2	0.5%
Total	**$12,270.8**	**100.0%**	**$4,034.7**	**100.0%**	**$16,305.4**	**100.0%**

GF: general fund
SF: special fund

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

State Expenditures: The bill limits the growth in the amount of appropriations that are mandated by statute; under the bill, the Governor retains the authority to include appropriations in the budget that exceed a mandated amount. This analysis generally assumes that annual appropriations equal the mandated amount, subject to the bill's limitations. To the extent that the Governor elects to include more than a mandated amount in any given year or for any given line item, the bill's effect on State expenditures is moderated.

Required general and special fund expenditures decrease beginning in fiscal 2020 due to the ability to limit growth for certain mandated appropriations that would otherwise grow at a faster rate.

Expenditures decline by a total of $535.3 million between fiscal 2020 and 2023, including $495.1 million (92%) in general funds and $40.2 million (8%) in special funds. Actual savings may be less than estimated if the Governor elects to fund a program above the required level. This estimate is based on the following information and assumptions:

- Only mandates where an appropriation is required by statute with a clearly prescribed dollar amount or an objective basis from which funding can easily be computed and are subject to inflationary growth adjustments are included.
- Growth in mandated appropriations is limited to 1.9% in fiscal 2020, 2.6% in fiscal 2021, 2.7% in fiscal 2022, and 2.7% in fiscal 2023, based on one percentage point less than the December 2017 BRE estimates of general fund growth for those years.
- Mandates that begin after fiscal 2019 are not altered in the first year of the mandate (*i.e.*, mandated repayments of $33.0 million to the Dedicated Purpose Account for funds previously borrowed from the Local Income Tax Reserve Account, which begin in fiscal 2021).
- General fund revenue growth has been less than 1% twice in the past 15 years. It is unclear whether mandated appropriations would be required to decrease or remain at the prior year's appropriation if general fund revenue growth was less than 1%.

Exhibit 3 illustrates the savings generated by the bill. Many State mandates are not expected to be impacted by the bill because they are exempt from the bill or they are currently forecast to grow at a rate less than general fund revenues minus 1%. Based on the approximately 187 mandated appropriations and entitlements in the State budget in fiscal 2018, 117 mandated appropriations are subject to reduced appropriations under the bill, beginning in fiscal 2020. (The remaining mandates are exempt from the bill's provisions.) Of the 117 mandated appropriations subject to the bill, 28 mandated appropriations could be limited or reduced by the Governor because their growth is projected to exceed the bill's limit. The remaining 89 mandates are not expected to grow by an amount equal to 1.0% less than the reported amount of general fund revenue growth in the December BRE report.

Exhibit 3
Impact on Total Expenditures by Fund Type and Program
Fiscal 2020-2023
($ in Millions)

Mandate Name	**FY 2020**	**FY 2021**	**FY 2022**	**FY 2023**
General Funds				
Senator John A. Cade Formula	($9.6)	($44.4)	($77.1)	($115.6)
Joseph A. Sellinger Formula	(4.4)	(31.9)	(35.0)	(38.2)
HOPE and Treatment Act	(9.3)	(12.1)	(12.1)	(12.1)
P-Tech Grants	(0.5)	(1.6)	(2.9)	(4.0)
St. Mary's College of Maryland	(1.2)	(2.3)	(3.5)	(4.8)
Maryland State Arts Council	(1.2)	(2.5)	(3.9)	(5.3)
University of Maryland Strategic Partnership	(5.8)	(9.5)	(9.1)	(8.8)
Baltimore City Community College	-	-	(2.8)	(5.3)
College Affordability Act	(2.9)	(2.7)	(2.5)	(2.3)
Other	(1.6)	(2.5)	(2.4)	(1.8)
General Fund Subtotal	*(36.3)*	*(109.3)*	*(151.3)*	*(198.1)*
Special Funds				
Washington Metropolitan Area Transit Authority Operating Subsidy	(4.1)	(5.4)	(7.2)	(8.7)
Outdoor Recreation Land Loan Program – State Share	-	(1.6)	(3.0)	(4.0)
Montgomery and Prince George's Counties Bus Service Operating Subsidies	(0.6)	(0.8)	(1.1)	(1.3)
Outdoor Recreation Land Loan Program – Local Share	-	(0.5)	(1.0)	(1.0)
Special Fund Subtotal	*(4.7)*	*(8.4)*	*(12.2)*	*(15.0)*
Total	**($41.0)**	**($117.7)**	**($163.4)**	**($213.1)**

Note: Numbers may not sum due to rounding. Other includes funding to Core Public Health Services formula, public libraries, Seed School of Maryland, senatorial and delegate scholarships, Virginia-Maryland Regional College of Veterinary Medicine, aid to community colleges (small college grants), Maryland Library for the Blind and Physically Handicapped, Maryland Public Broadcasting Commission, Maryland Stadium Authority, and child abuse and neglect centers of excellence initiative.

Source: Department of Legislative Services

Additionally, prohibiting the General Assembly from enacting legislation that creates a new or increased required level of funding in the annual budget bill for a specific program or item, unless it also enacts legislation at that same session that reduces or repeals an equivalent amount of required funding, could significantly impede the General Assembly's ability to pass legislation with State mandates. Absent the bill, a new mandated appropriation results either in the Governor having to reduce appropriations in another area of the budget in order to maintain a balanced budget or in a lower fund balance if no such reductions are made. Under the bill, the General Assembly would be required to specify the area for reduced appropriations and would be limited only to other mandated appropriations rather than the entire budget. This would ensure that the anticipated fund balance, if any, would be realized.

Local Fiscal Effect: Local governments are significantly affected because they receive a substantial amount of funding from mandated appropriations and entitlement programs. In fiscal 2018, local governments received $7.3 billion from mandated appropriations and entitlement programs, consisting of 44.7% of all mandated appropriations and entitlement programs. Thus, State aid to local governments declines by $11.9 million in fiscal 2020, $49.2 million in fiscal 2021, $83.9 million in fiscal 2022, and $122.8 million in fiscal 2023.

Additional Comments: The bill applies to many funding formulas and mandated appropriations across the State budget; however, the provisions are uncodified and, if enacted, will not be reflected in statute. This does not provide clarity or transparency regarding impacted mandated funding formulas and appropriations in future years.

The bill limits growth in mandated spending to the lesser of the existing formula calculation or an amount equal to 1% less than the reported amount of general fund revenue in the December BRE report. This analysis assumes that the growth limit relative to the BRE report is intended to be one percentage point lower and not 1%. For example, the growth limit for fiscal 2020, estimated at 2.9%, is assumed to limit mandated spending to the lesser of the growth in a formula or 1.9% even though the bill technically requires a 1% or 0.287% percentage point reduction, to a growth limit of 2.87%.

The provisions of the bill that prohibit the legislature from "enacting" legislation to create a new required level of funding without "enacting" legislation to reduce or repeal an equal amount of required spending for the same fiscal year are not reflective of the legislative process. Per the Maryland constitution, the legislature "passes" legislation which is then presented to the Governor for signature or veto. A bill is not "enacted" until it is (1) signed into law by the Governor; (2) vetoed by the Governor and returned to the legislature wherein a three-fifths vote would override the veto; or (3) is not signed or objected to by the Governor within 6 days of presentment during the legislative session, or within 30 days of presentment after the end of the session.

This note differs, slightly, from the estimate of mandate relief savings from a similar provision in House Bill 161/Senate Bill 187, the Budget Reconciliation and Financing Act

(BRFA) as this note does not take into account other changes to current law incorporated in the BRFA.

Additional Information

Prior Introductions: A similar bill, SB 303 of 2017, received a hearing in the Senate Budget and Taxation Committee, but no further action was taken. Its cross file, HB 420 of 2017, received an unfavorable report from the House Appropriations Committee.

Cross File: HB 348 (The Speaker, *et al.*) (By Request - Administration) - Appropriations.

Information Source(s): Comptroller's Office; Department of Budget and Management; Board of Public Works; Department of Legislative Services

Fiscal Note History: First Reader - February 20, 2018
md/mcr

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: **Commonsense Spending Act of 2018**

BILL NUMBER: SB0293/HB0348

PREPARED BY: Governor's Legislative Office

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_X_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

____ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS