

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

House Bill 530
Appropriations

(Delegate Bates, *et al.*)

Limit on Growth in State Spending

This proposed amendment to the Maryland Constitution limits the annual growth of State spending, subject to specified exemptions, to the sum of the annual inflation rate and the annual change in State population. Exemptions from the limit include federal funds; debt service payments; unemployment compensation; disability payments; appropriations for tax relief; and appropriations funded by discretionary user fees, permanent endowments, trust funds, pension funds, gifts, and bequests. The spending limit could be overridden by a two-thirds vote of both houses of the General Assembly.

Fiscal Summary

State Effect: If the proposed constitutional amendment is approved by the General Assembly and the voters, State budget growth would be subject to the limit.

Local Effect: Local boards of elections could notify qualified voters about this constitutional amendment using existing resources.

Small Business Effect: None.

Analysis

Current Law: There are no constitutional or statutory restrictions on the growth of State spending. The Spending Affordability Committee (SAC), authorized in statute, is charged with reviewing revenue and expenditure projections, the overall status of the State's economy, and indicators such as personal income and gross State product. Based on its review and no later than December 1 of each year, SAC must recommend to the

Governor and the Legislative Policy Committee, among other things, a level of State spending for the upcoming fiscal year. In assembling the proposed budget, the Governor is not bound by SAC's recommendation.

Background: The Department of Budget and Management projects that general fund expenditures will increase by an annual average of 5.3% from fiscal 2009 to 2013, and that higher education expenditures will increase by an annual average of 3.4%.

Exhibit 1 shows the annual changes in State spending, exclusive of federal funds, since fiscal 2002. **Exhibit 2** shows the CPI-W and State population data since 2002.

Exhibit 1
State Funds Expenditures
Fiscal 2002-2009

<u>Fiscal Year</u>	<u>State Expenditures</u> <u>(\$ in Millions)</u>	<u>% Change</u>
2002 (actual)	\$16,605.2	5.6%
2003 (actual)	17,080.5	2.9
2004 (actual)	16,701.7	-2.2
2005 (actual)	18,188.1	8.9
2006 (actual)	19,967.7	9.8
2007 (actual)	22,393.0	12.1
2008 (working)	23,179.7	3.5
2009 (proposed)	24,637.4	6.3
Average Annual Increase		5.8%

Note: State funds include all general, special, and higher education expenditures.

Source: Department of Legislative Services

Exhibit 2
CPI-W and State Population Growth,
Fiscal 2002-2008

<u>Fiscal Year</u>	<u>CPI-W</u>	<u>Annual % Change</u>	<u>State Population</u>	<u>Annual % Change</u>
2002	111.5	2.3%	5,374,956	1.2%
2003	114.6	2.8	5,433,822	1.1
2004	117.5	2.5	5,494,136	1.1
2005	121.6	3.5	5,537,662	0.8
2006	126.5	4.0	5,573,163	0.6
2007	130.8	3.4	5,602,017	0.5
2008	NA	NA	5,618,344	0.3
Average Annual Increase		3.2%		0.7%

Sources: Bureau of Labor Statistics (CPI-W for all urban consumers); U.S. Census Bureau (July 1 current population estimates); Department of Legislative Services

State Fiscal Effect: As shown in Exhibit 1, the Governor’s proposed fiscal 2009 budget includes \$24.6 billion in State funds, including general, special, and higher education funds. That figure includes \$744.8 million for debt service and \$423.1 million for disability benefits, both of which are exempt from the growth limitation in this bill. Other expenditures exempted from the growth limitation are presumed to be negligible (*e.g.*, \$1.1 million for unemployment compensation and approximately \$4.1 million in endowment income for the University System of Maryland). Retiree benefits for State retirees paid out of the pension trust fund are nonbudgeted expenses. Therefore, the proposed budget includes approximately \$23.4 billion in nonexempt expenditures.

If this constitutional amendment is approved, and if current trends continue, fiscal 2010 nonexempt spending would be limited to a growth rate of approximately 3.9%, or \$912.6 million. This is significantly below the average annual increase of 5.8% experienced over the last seven years, but greater than the overall growth in State spending observed in three of those years (2003, 2004, and 2008).

Local Fiscal Effect: The Maryland Constitution requires that proposed amendments to the constitution be publicized either (1) in at least two newspapers in each county, if available, and in at least three newspapers in Baltimore City once a week for four weeks

immediately preceding the general election; or (2) by order of the Governor in a manner provided by law. State law requires local boards of elections to publicize proposed amendments to the constitution either in newspapers or on specimen ballots; local boards of elections are responsible for the costs associated with these requirements. It is anticipated that the fiscal 2009 budgets of local election boards will contain funding for notifying qualified voters about proposed constitutional amendments for the 2008 general election in newspapers or on specimen ballots.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Department of Legislative Services

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mll/rhh

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