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# **Overview of Maryland Budget Processes**

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**Presented to the  
Commission on Maryland's Fiscal Structure**

**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

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# Items Addressed

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- Operating budget
  - budget calendar
  - balance requirements
  - balance of powers, interesting features, and realities
  - spending affordability
- State debt
  - authorization process
  - debt affordability
  - budgeting for general obligation debt service

# Operating Budget Calendar

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## Executive

- May - June
  - budget instructions to agencies
- August 31
  - agency requests to Governor
- October - November
  - agency hearings with Governor and Chief of Staff
- November - December
  - Governor's decisions
- Mid January
  - budget introduced (7<sup>th</sup> or 10<sup>th</sup> day of session)
- February - March
  - supplemental budgets introduced
- Early April - June
  - determine final appropriations and legislative restrictions
  - closeout current budget
  - begin work on next budget

## Legislative

- August - September
  - DLS staff develop fiscal forecasts
- October - November
  - SAC meets
- December
  - SAC reports
- Mid January
  - fiscal briefing
  - budget hearings begin
- March
  - committee decisions
  - budget debate on floor of Senate and House
- Early April
  - conference committee meets
  - budget passed (83<sup>rd</sup> day of session)
- May - December
  - oversight of budget implementation

# Balance Requirements

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- The Maryland Constitution requires the budget to be balanced (Article III, Section 52). Requirement applies:
  - to the Governor when introducing the budget; and
  - to the legislature when passing the budget.
- There is no requirement that the budget be balanced at the end of the fiscal year
  - Presumed to be an executive responsibility. By statute, the Governor may reduce appropriations up to 25% with Board of Public Works approval (Section 7-213, SFP).
  - NCSL reports 37 states have such a requirement.
  - Maryland ended fiscal 1992 with a deficit of \$56.4 million.

# Maryland's Unique Balance of Powers

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- Key features favor the Governor
  - Only the Governor can initiate (or increase) executive branch budget items.
  - Legislative action on executive branch budget limited to:
    - reducing items proposed by Governor;
    - restricting funds or making items contingent;
    - authorizing the Governor to transfer funds.
- But the Legislature gets the last word
  - Governor lacks any veto authority with respect to the budget as passed.
- Devised by “Goodnow Commission” in 1916, which recommended financial and budgetary reforms designed to minimize politics and improve administration of the budget. Casts Governor as “Administrator-in-chief.”
- No other state has chosen this model, although it has some adherents at the municipal level.

# Other Fascinating Features

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- Governor can amend budget proposal at any time before final passage through a “Supplemental Budget”
  - to address oversights, costs of pending bills or emergencies – liberally applied
  - consent of legislature required
- Governor may increase appropriations after budget is passed
  - Budget bill grants authority to recognize and spend special and federal funds in excess of budget estimates.
  - Legislature reviews appropriations over \$100,000.
- Legislature can directly increase appropriations in limited circumstances
  - Budgets for Judicial and Legislative branches can be increased (or reduced) through action on the budget bill.
  - Appropriations can be increased through enactment of a “Supplementary Appropriations Bill.”
    - must be passed after budget and is limited to a single purpose
    - must pay for itself by creating a tax – no pain, no gain

# Observations Concerning the Budget Process

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- Notwithstanding aims of reformers, politics is still present in budget decision making.
- To preserve its role in setting policy, the Legislature has employed various strategies
  - to influence macro spending policy – Spending Affordability
  - to influence funding priorities
    - quid pro quo negotiation – increases cost
    - funding mandates for future – increases rigidity
    - special funding – budgets driven by attainment
- Result is a system that works, BUT compared to ideal
  - more rigid and complex
  - less transparent and accountable

# Spending Affordability Process

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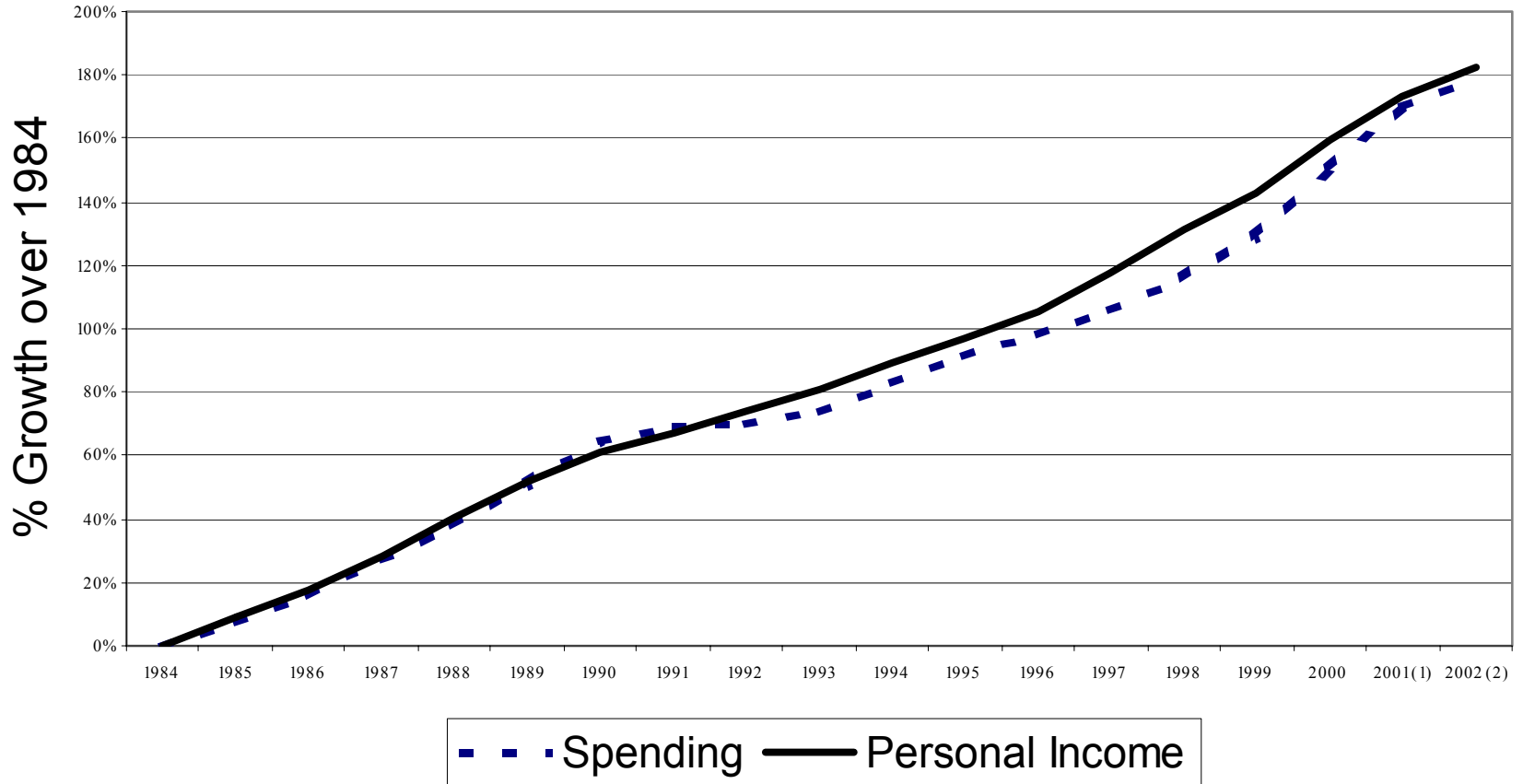
- Created by statute in 1982 as an alternative to a Constitutional “Proposition 13” type formula spending or revenue limit
  - intent to keep growth in State spending in line with that of the economy
  - 18 legislative members and four citizen advisors
- Makes recommendations concerning
  - operating spending
  - State debt
  - State personnel
  - use of surplus funds
- Recommendations are not binding, but deviation must be explained by Governor and budget committees.
- Sometimes ignored by Governor but generally enforced by Legislature.

# Spending Affordability Methodology

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- Limit applied to ongoing spending from State sources for governmental purposes.
- Excludes:
  - federal funds and restricted funds;
  - capital funding to reduce debt or accelerate planned projects; and
  - enterprise activities (airport and port).
- Accounting has evolved to address changing circumstances.

# Growth in Spending under Spending Affordability



- (1) This is the 2001 session SAC appropriation utilizing the new method for calculating the SAC limit.  
(2) Personal income for CY 2002 has been estimated by the Department of Legislative Services.

# Capital Debt Authorization Process

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- Similarities to operating budget
  - subject to an affordability limit process
  - executive/legislative decision schedules are similar
- Major differences
  - Capital Improvement Plan (CIP)
    - 5-year plan
    - constrained by debt affordability assumptions
  - Balance of powers
    - Legislature can initiate projects
    - Governor has line-item veto
- General obligation debt
  - limited to 15-year term
  - State property tax statutorily dedicated to pay debt service

# Capital Debt Affordability

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- Committee established in 1978 to curtail growth in State debt
- Consists of Treasurer (chair), Comptroller, DBM, MDOT and citizen appointed by Governor
- Each September it recommends limits on:
  - net new general obligation debt to be authorized at the next session; and
  - academic revenue bonds.
- Affordability criteria concern “tax supported debt” :
  - debt outstanding should not exceed 3.2% of MD personal income; and
  - debt service should not exceed 8% of tax revenues
- General obligation limit of \$740m provisionally authorized for 2003 session, and \$40m for academic revenue bonds

# Debt Affordability Committee Forecast

## September 2002

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	<b>Debt Service</b>			<b>Debt Outstanding</b>		
	(\$ in Millions)			(\$ in Millions)		
	Total Debt <u>Service</u>	Total Tax <u>Revenues</u>	<u>Ratio</u>	Debt <u>Outstanding</u>	MD Personal <u>Income</u>	<u>Ratio</u>
2002	666.3	11,489.7	5.80	4,726.1	194,625	2.43
2003	699.8	11,802.9	5.93	5,324.9	203,967	2.61
2004	758.8	12,348.5	6.15	5,824.7	214,165	2.72
2005	811.7	12,834.3	6.32	6,056.4	225,516	2.69
2006	836.6	13,348.5	6.27	6,036.5	236,792	2.55
2007	853.4	13,870.0	6.15	6,528.7	248,632	2.63
2008	890.5	14,451.1	6.16	6,817.4	261,063	2.61

# Budgeting for General Obligation Debt Service

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- Constitution requires pledge of an annual tax to repayment. Tax need not be levied if other funds are budgeted. (Article III, Section 34)
- Statute (and bond bills) dedicate State property tax to debt service. (Section 8-143, SFP)
- State property tax rate set by Board of Public Works by May 1 based on:
  - total estimated debt service in coming year; and
  - current funds appropriated to debt service.
- Appropriations have been sufficient to keep the tax rate stable since 1982 at equivalent of 8.4 cents/\$100 value.
- Annuity Bond Fund established to collect revenues and appropriations.

# Budgeting for the Annuity Bond Fund

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	Actual <u>FY 2001</u>	Actual <u>FY 2002</u>	Appropriation <u>FY 2003</u>
Special Fund Income			
Balance Beginning of Fiscal Year	\$8,220,847	\$10,178,753	\$14,040,453
Property Taxes			
Receipts	257,100,413	269,908,802	281,669,795
Interest and Penalties	1,231,784	1,703,632	1,200,000
Other Repayments	3,063,570	3,852,147	2,915,520
Miscellaneous Receipts	1,434,052	396,088	311,201
Prior Year's Discount	-84,297	-8,053	-14,716
Bond Premium/Accrued Interest	5,790,153	19,608,119	30,515,851
Transfer to Reserve	-10,178,753	-14,040,453	-13,702,621
<b>Subtotal Special Funds</b>	<b>\$266,577,769</b>	<b>\$291,599,035</b>	<b>\$316,935,483</b>
General Fund Support			
Approp. directly to Annuity Bond Fund	106,000,000	103,094,800	90,500,000
Budgeted in MSDE (RA.02.45)	98,291,560	100,522,850	89,862,347
<b>Subtotal General Funds</b>	<b>\$204,291,560</b>	<b>\$203,617,650</b>	<b>\$180,362,347</b>
<b>Total Funds -- Debt Service</b>	<b>\$470,869,329</b>	<b>\$495,216,685</b>	<b>\$497,297,830</b>