

## Maryland's Budget Process Needs Reform

Maryland's governor and legislature could do a better job of setting priorities and making important investments in the state's economy and quality of life if they adopted significant changes to the annual state budgeting process. These reforms would promote greater citizen involvement, put the public good ahead of politics, and increase accountability.

Compared to many other states, Maryland is highly respected for the generally responsible manner in which it manages its finances. It has the highest possible credit rating, which means Maryland can borrow money for major improvements at lower interest rates, saving millions of dollars. Still, there are major steps state lawmakers could take to be even more effective stewards of public dollars and the public trust.

### Share the Power

Maryland should adopt a constitutional amendment giving the General Assembly greater say in key aspects of budget-making. Today's governor-dominated process, unique among the states, prohibits the General Assembly from adding money to the budget in most cases. This rule, part of the state's constitution, limits collaboration between the General Assembly and the governor.

The General Assembly regularly identifies areas of the governor's budget to reduce spending. Sometimes legislators would like to transfer these savings to other areas, such as education or healthcare. However, they cannot make the shift by themselves. The legislature can ask the governor to introduce a supplemental budget to effect the change. However, Maryland's governor is not required to act on such legislative requests. Maryland is one of only three states that limit the ability of the legislature to increase spending in this fashion. <sup>[1]</sup> Whatever happens, once the legislature passes the budget it goes into effect without any action by the governor, who does not have a veto.

Maryland created this limit on the power of the General Assembly in response to a problem that no longer exists. In 1916, the state faced large deficits and, in response, reformers won passage of an amendment to the state constitution that increased the power that the governor has over the budget.

There is a better way to share decision-making authority between the branches: A constitutional amendment that allows the Maryland legislature to add spending items to the operating budget, within certain guidelines – like maintaining the requirement that the overall budget be balanced -- and gives the governor the limited right to veto only those items increasing spending. The General Assembly could then propose more spending than the governor requests, as long as the proposed amount does not exceed available revenues or violate savings goals or other limits. <sup>[2]</sup>

The inadequacy of the state's current model was evident during the 2015 legislative session. In order to replenish the education budget that the governor significantly cut, the General Assembly put forth a bipartisan plan to restore over \$202 million in cuts to education, healthcare, and other priorities. Because of the imbalance of budget power, the governor was able to refuse to spend \$68.1 million that the legislature had fenced off specifically for education. He agreed to spend the other \$134 million. As a result, 80 percent of Maryland students are now attending schools that have fewer resources to invest in

their education. An overwhelming number of General Assembly members—and many Marylanders—disagreed with the governor’s decision.

### **Communicate Better with the Public**

The state of Maryland should produce and widely disseminate an annual report that provides the public a broad understanding of budget developments by summarizing state spending and its impact on the public, and comparing it to previous years.

One barrier to public understanding of the state budget is that the spending plan is broken down into somewhat arbitrary categories (state departments and agencies) that do not necessarily correspond to how the public understands the issues. It is easier to understand the state’s level of support for many policies that Marylanders care about when viewing spending across agencies and departments.

The state could help demystify the budget process by providing a concise synopsis of expenditures broken down by major policy category, such as Education, Health, and the Environment. The document would also include the state’s major sources of financing. Some state financial publications already use variations on this approach, including selected Department of Budget and Management and Department of Legislative Services publications, the Comptroller’s website, and the state’s Consolidated Annual Financial Report. <sup>[3]</sup> But interested citizens must be well-versed in each department to find these publications.

To make this report widely available at the lowest possible cost, the state could provide all people filing their income taxes electronically the option to provide their email address to begin receiving this annual report.

### **Give Lawmakers More Time to Act on Budget**

The governor should be required to present a proposed state budget to the legislature by January 1 of each year, so there is more time for legislators and the public to thoroughly review and act on the spending plan.

Adopting the state budget is the General Assembly’s most important policy action, as a reflection of the state’s priorities and values. Yet, for the public and the legislature, the process is a very short cycle, especially when compared to the executive branch, which has about seven months to develop a budget proposal. The governor’s proposal becomes available in mid-January, a week after the legislative session begins, with the introduction of the Budget Bill and the release of “budget books” that provide a detailed analysis of the governor’s proposed spending plan. Maryland legislators then have to work very quickly to pass a budget. The state Constitution allows only 76 days for the legislature to receive, deliberate upon, and enact a state budget. The state constitution does allow for contingencies; legislators can and do occasionally take longer than that. However, as a practical matter, this means there is little opportunity for public scrutiny or input in the budget process. <sup>[4]</sup>

Other states provide much more time for this highly complex process. For example, Colorado requires that its governor submit a budget to the legislature by November 1, even though its legislative session doesn’t begin until January and its budget is not enacted until May. <sup>[1]</sup> Maryland would benefit from a constitutional amendment requiring the submission of its budget by January 1.

### **Explain Impact of Cuts in Spending**

The governor should be required to disclose the impact that cuts in state spending will have on public services, rather than only give the dollar amount.

Budget documents commonly highlight new spending initiatives and program enhancements. But they often fail to include details of how cuts will affect the state’s ability to provide services at the current level or meet growing needs. Budget cuts frequently result in inadequate funding for services Maryland families rely on, with such results as higher student-teacher ratios, reduced maintenance on roads and bridges, and long waiting lists for services crucial to families’ wellbeing.

Maryland should mandate that the governor present this information in the budget books for the coming fiscal year. Specifically, the Department of Budget and Management should add a section listing all cuts made, and to what degree reductions will affect services. For example, if the budget makes a cut in a particular agency the budget documents should make clear a) what impact the cut has on the state government workforce, and b) if the cut will affect service in any way (serving fewer people, longer wait times, larger classroom sizes, etc.).

### **A Categorical Review of Budgetary Expenditures**

There should be one or more hearings each legislative session designated to provide the General Assembly the opportunity to conduct a high-level, supplemental review of the state’s spending.

Reviewing in isolation line items that contribute to shared goals and objectives can be problematic. Currently, the legislature reviews budgetary items by agency, a system that makes it more difficult for decision-makers to develop an across-the-board understanding of the state’s finances as they relate to its policy goals. Providing legislators the opportunity to evaluate spending based on the policy areas it supports would help. This evaluation should be done in addition to the current budget process, better equipping legislators to effectively evaluate spending.

The Department of Legislative Services (DLS) could produce the information necessary for this to happen. DLS would do so by grouping all related expenditures and providing an analysis of each grouped category over time, giving legislators more insight into how spending decisions have affected services over time. Legislators should designate major policy categories such as: the environment; economic development; health; and education as the basis for evaluation.

This concept is already in practice on a small scale. One example is in the appendix of the Governor’s *Budget Highlights* document where there is a chart detailing expenses that fall within the category of “Services Provided to Children, Youth, and Families.” This summary includes spending on all services that help children, youth and families, across different departments and agencies, providing a complete picture of state efforts in this key policy area.

### **Mandating 10-Day Notice Before Board of Public Works Approves Cuts**

Requiring the Board of Public Works (BPW) to submit proposed budget cuts to the General Assembly before the board votes on them would give the public and legislators time to respond to the proposal. This will help make sure the board fully understands how the proposal will affect the services citizens rely on.

The way it works now, legislators and the public often don’t get the time needed to fully scrutinize and evaluate the impact of reductions in state spending that the BPW proposes. The BPW is a three-member body consisting of the Governor, Comptroller, and Treasurer that oversees many aspects of the state’s finances. In Maryland, the BPW is able to make significant budget cuts that affect state services, employment, and the economy with little review by legislators or the public. Normally, the board can cut individual budget items by up to 25 percent without any prior notice.

Thanks to language included in the legislation enacting this year’s budget, the Board had to provide at least 72 hours’ notice before cutting the budget that the legislature and governor approved for the fiscal

year that began July 1, 2015. But that requirement will be eliminated in the future unless the legislature acts.

Returning to the no-notice approach would make it even harder for citizens to engage in the decision-making process. Even with advance notice, the three members of the Board of Public Works have an outsized influence on Maryland's public finances and policy decisions.

Extending the notification requirement to 10 days and making it permanent, which requires a legislative vote, would be a big step in the right direction. The best policy would be to make the requirement, and to require the Board of Public Works to post the following information on its website:

- 1) The amount of the proposed reduction in both dollars and percentage values;
- 2) The fund source of the budget item that is subject to the proposed reduction;
- 3) A brief narrative summary of how the proposed reduction would affect the program the appropriation supports;
- 4) Any projected reductions in workforce as a result of the proposed reduction; and
- 5) Any recommendations with regard to the proposed reduction.

## **Conclusion**

State budgeting can seem like a complicated and obscure process to many Marylanders. Adopting the proposals in this brief would help make it more open and transparent. Not addressing these issues could threaten Maryland's future prosperity.

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<sup>[1]</sup> The Department of Legislative Services Office of Policy Analysis, "Assessment of the Maryland Budget Process." July, 2003.

<http://www.mgaleg.maryland.gov/pubs/budgetfiscal/2003rs-Assessment-of-the-Maryland-Budget-Process.pdf>

<sup>[2]</sup> Meyers, Roy and Pilkerton, Thomas, "How Can Maryland's Budget Process Be Improved," Maryland Institute for Policy Analysis and Research (MIPAR). September, 2003. <http://userpages.umbc.edu/~meyers/improveMD.pdf>

<sup>[3]</sup> Myers, Roy, Written Testimony on Senate Bill 604, "Income Tax Forms Graphical Representation of General Fund Expenditures", Given before the Senate Budget and Taxation Committee, Maryland General Assembly. March 5, 2014.

<http://userpages.umbc.edu/~meyers/taxgraphtestimony.pdf>

<sup>[4]</sup> Bogdan, Henry, Written testimony on Senate Bill 563, "State Budget Modifications – Reporting", Given before the Senate Budget and Taxation Committee, Maryland General Assembly. March 4, 2009