MARYLAND
DEPARTMENT OF
BUDGET & MANAGEMENT

LARRY HOGAN
Governor

BOYD K. RUTHERFORD
Lieutenant Governor

DAVID R. BRINKLEY
Secretary

MARC L. NICOLE
Deputy Secretary

July 1, 2017

The Honorable Edward J. Kasemeyer
Chair, Senate Budget and Taxation Committee
3 West, Miller State Building
Annapolis, Maryland 21401-1911

The Honorable Roger Manno
Chair, Spending Affordability Committee
Room 102, James Senate Office Building
Annapolis, Maryland 21401-1911

The Honorable Maggie McIntosh
Chair, House Appropriations Committee
Room 121, House Office Building
Annapolis, Maryland 21401-1911

The Honorable Benjamin S. Barnes
Chair, Spending Affordability Committee
Room 151, House Office Building
Annapolis, Maryland 21401-1911

RE: Joint Chairmen's Report, Page 43 – Report that Addresses the Structural Deficit

Dear Committee Chairs:

Pursuant to the 2017 Joint Chairmen's Report, Page 43, the Department of Budget and Management (DBM) would like to advise you that the Administration's response to your request will be submitted as part of the fiscal year 2019 budget proposal on Wednesday January 17, 2018. We believe that the July 1 deadline for the submission of this report conflicts with the executive budget process established under Maryland's Constitution.

DBM wants to assure the members of the General Assembly of the Administration's very strong commitment to solving the State's structural budget deficit. The Administration has submitted three budgets, each of which has significantly improved the State's short and long-term fiscal position compared to the estimates prepared by the Department of Legislative Services in December prior to the budget submission. In fact, for fiscal year 2017, the Governor submitted a budget that was not just structurally balanced in fiscal year 2017, but through the entire five-year forecast period.

For three consecutive years, Governor Hogan has sought to implement reforms to help ensure that the budget remained in balance into the future. Specifically, the Governor has proposed limiting the size of the State's capital budget to $995 million a year to help slow runaway debt service. The Governor also proposed legislation to limit growth in mandated spending to a more manageable level that could be supported within the State's existing revenue sources. The legislation also proposed that existing mandates should be repealed or reduced when new mandates were enacted. Altogether, these reforms would save the State hundreds of millions per year in future fiscal years.

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Unfortunately, the General Assembly has not shown any interest in passing budgets or legislation that improves the State's long-term fiscal fortunes. In both fiscal years 2016 and 2017, the General Assembly passed budgets using one-time resources (such as the Rainy Day Fund) to support on-going spending, which exacerbated the structural deficit in the out-years. Not only has the General Assembly not enacted mandate relief, but it has enacted new legislation that significantly increases mandated spending in future fiscal years. For instance, legislation enacted at the 2016 Session increased mandated spending for fiscal year 2018 by more than $150 million. The cost of the new spending over the next four fiscal years exceeded $500 million. Finally, the General Assembly has also not seen fit to limit the level of annual debt authorizations, exceeding the amount proposed by the Governor in two of three years. This increases the State's future debt service costs; the fastest growing expenditure in the out-year forecast.

The process of achieving long-term structural balance is not an easy one; it requires a disciplined multi-year approach to making difficult budget decisions. It is especially important in this time of modest economic growth and fiscal uncertainty at the federal level. Not addressing this important issue could imperil the State of Maryland's "triple AAA" bond rating. We need to look no further than the State of Virginia, which was recently given a negative outlook of their "AAA" rating by Standard & Poor's because of a "recent pattern of structural imbalance." The Administration is hopeful that the General Assembly will see this as an opportunity to establish a collaborative dialogue about solving the State's long-term structural budget imbalance.

Sincerely,

David R. Brinkley
Secretary

cc: Members of the Senate Budget and Taxation Committee
Members of the House Committee on Appropriations
Members of the Spending Affordability Committee
Mr. Warren Deschenaux, Executive Director, Department of Legislative Services
Mr. Sam Malhotra, Chief of Staff, Governor's Office
Mr. Christopher Shank, Governor's Chief Legislative Officer
Ms. Cathy Kramer, Department of Legislative Services
Ms. Sarah Albert, Department of Legislative Services