Senate Budget Committee testimony

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Chairman Enzi, Senator Sanders, my own Senator Van Hollen, Honorable members of the Committee;

Thank you for inviting me to speak to you today about Maryland's budget process and what, if anything, the federal government can learn from it.

For the record, my name is Benjamin Orr, and I am the founder and Executive Director of the Maryland Center on Economic Policy. We are a nonprofit, nonpartisan think tank that believes all Marylanders should be able to achieve their full potential in a healthy economy that offers a widely shared, rising standard of living.

My remarks today are based on the work we do to inform Maryland's decisions about budget and tax policy. They are also informed by the work of my colleagues across the country. We are part of the State Priorities Partnership, a national network of independent organizations focused on state fiscal policy, with sister organizations in 43 states, including all but four of the states represented on this committee.

I would like to begin by offering you a brief overview of Maryland's budget process. While this will come as no surprise to Senator Van Hollen, who ably served on the budget committees in Annapolis for a number of years, it may surprise many of you to hear that Maryland has perhaps the strongest executive-driven budget process in the nation. Maryland's constitution stipulates that only the governor may propose increased spending in the state budget.

So our operating budget process is as follows:

- The state's fiscal year runs from July 1 through June 30. Our FY 2020 operating budget is $46.6 billion, of which about $13.2 billion is federal funds.
- Over the summer and into the fall, the executive agencies draft their budgets and submit them to the governor for review.
- The Board of Revenue Estimates, a mix of elected and appointed officials led by professional staff, analyzes revenue trends and provides revenue estimates in September.
- In late fall the legislature, through the joint Spending Affordability Committee, sets non-binding targets for the next budget. Sometimes this is a dollar amount; sometimes it is a growth target. At other times, the committee has focused on deficit reduction targets. Often this committee also sets some sort of state employment target.
- The Board of Revenue Estimates provides updated revenue estimates in December, which drives the governor's budget choices.
- In early January the governor introduces their operating budget. Per our state constitution (and as in all but six states) this proposal must be balanced, though that may include drawing down or transferring funds.
- In Maryland, as in every other state, this balanced budget requirement only applies to the operating budget. We have a separate capital budget to fund infrastructure that relies on borrowing through the bond market. Maryland is able to borrow at a discount, due to its strong fiscal management and longstanding Triple A bond rating.
- In contrast to the federal government, all states also have a rainy day fund, which they can draw down to balance their budgets in difficult times.
- Taking turns in alternate years, the two chambers review testimony and analysis from the nonpartisan Department of Legislative Services, then discuss and debate the governor's proposal.
- The Board of Revenue Estimates gives a final update in March, on which the legislature bases its decisions.
- Again, the legislature is only allowed to make cuts to the governor's proposed budget. They can mandate funding levels for future budget years (such as the state's education funding formula), but cannot increase

spending in the budget under consideration. The use of legislative mandates does mean that you will occasionally see increases over what the governor proposes when the legislature declines to reduce a mandate as the governor requests.

- Sometimes the legislature can convince the governor to introduce a supplemental budget that includes a spending increase both branches agree to. This happens more often when the same party controls the Executive and Legislative branches.
- Our state constitution requires that the legislature pass a balanced <u>operating</u> budget by early April. If the two chambers do not come to an agreement, they must stay in an extended session until they are able to pass a balanced budget. During the extended session the budget is the only bill legislators are allowed to work on.
- Once passed, the budget goes into effect without needing the governor's signature, and the governor does not have veto powers. However, they may go to the Board of Public Works at any time and ask for budget line item modifications up to 25%. This can be an important tool during times of economic crisis or natural disaster, but is not the most democratic process. The governor sits on the three-member Board of Public Works, and therefore only needs either the Comptroller or the Treasurer to agree in order to prevail.
- In addition to the requirement to balance the operating budget, Maryland's finances also operate under a handful of additional constraints
    - Debt service must not exceed 8 percent of state revenues
    - Our Rainy Day fund must hold at least 5 percent of general fund revenues

While this process may seem messy, or unnecessarily restrictive for the legislature, Maryland policymakers have made it work for more than nine decades. We may wish for some reforms to increase budget flexibility around shared priorities, but the fact of the matter is that we've made it work. The proof is in our economic data: Maryland is one of the wealthiest states in the union, with one of the highest rates of millionaires per capita and a higher median income than almost any other state. We have for many years retained a Triple A bond rating.

Reflecting on Maryland's fiscal realities, I would like to briefly make three points.

First, given the near universal requirement that states balance their budgets annually, it is vital that Congress retain the flexibility it currently has to respond quickly to economic shifts. Specifically, states rely heavily on the federal government's ability to ramp up spending during economic downturns when states must cut spending or increase revenues to account for budget shortfalls at the same time they are facing increasing need.

States also rely on federal spending to move the needle on big policy challenges. For example, thanks to the expansion of Medicaid and the federal dollars provided, about 290,000 more Marylanders have health coverage through Medicaid, and our uninsured rate dropped from 10.1% in 2012 to 6.1% today. Although there are multiple factors at play, Medicaid expansion and federal subsidies for private insurance represent the largest chunk of that expansion.

It would have been very difficult for Maryland to make such extensive progress without the support of federal funds. Eliminating federal funds for Medicaid expansion would increase costs by more than $1.3 billion, rising to $1.5 billion by FY 2022.

Maryland has also seen declines in the rate of uncompensated care costs for people who were treated at hospitals, did not have insurance, and could not afford to pay. Maryland's Department of Legislative Services estimates that from fiscal 2013 to 2015, hospital UCC costs declined by 2.55 percentage points, equivalent to approximately $311 million.

This also means that a federal balanced budget amendment is a very bad idea. It would unnecessarily worsen recessions, and cause dramatic increases in economic pain at the state and household level even during economic expansions. States simply aren't equipped to scale up in the same way that the federal government is.

Furthermore, the fact that most states are required to balance their budgets is not an argument for a federal balanced budget requirement. Federal and state budgets are simply different. State balanced budget rules only apply to operating budgets, states have separate capital budgets, and states have rainy day reserves.

Second, credible, nonpartisan data, research, and analysis is vitally important to the budgeting process. Whether it's the Maryland Department of Legislative Services or the Congressional Budget Office, an independent source of information about revenues and expenses for policymakers is crucial to understanding the challenges and opportunities we face. While we may disagree about what course of action to take, we must be able to clearly see what the situation is. That is also why it is so vitally important that data agencies as diverse as the Census Bureau, Internal Revenue Service statistics of income division, and the Labor Department remain nonpartisan and well-funded. The information they and similar entities produce is vital to understanding demographic, economic, and other trends that influence the demand for federal investments in our nation's future.

Finally, and perhaps most importantly, something we at MDCEP emphasize at the state level is an explicit focus on how budget decisions affect people and communities. Budgets are moral documents. What are our values as a nation, and are we living up to those values? Are we protecting democracy, feeding the hungry, providing opportunity for everyone? Or are we picking winners and losers among the American public based on arbitrary or less-than-helpful factors?

Incorporating a racial, ethnic, and gender equity lens into policymaking is one way to better understand the tradeoffs involved in policymaking and to make the intentions of policy proposals clear to the American public. We have found that the public better understands budgets when we focus more on our values and the effects of our choices than the dollars involved. Have we reduced hunger, are our communities safer, are our children prepared to enter and lead the 21st century economy?

Regardless of process, how we answer those questions will determine the course of the coming decades.