

Department of Legislative Services
 Maryland General Assembly
 2019 Session

FISCAL AND POLICY NOTE
 First Reader

Senate Bill 645 (Senator Klausmeier, *et al.*)
 Budget and Taxation

Local Health Services Funding - Modifications

This bill establishes a new base level of State funding for the Core Public Health Services (CPHS) formula in fiscal 2021 at \$80,439,548, to be distributed to each municipality or subdivision in the same proportion as fiscal 2020. Beginning in fiscal 2022, funding must be the greater of the fiscal 2021 appropriation or the amount of funding provided in the preceding fiscal year adjusted for inflation as measured by the *medical care component* of the Consumer Price Index for All Urban Consumers (CPI-U) and population growth. Beginning in fiscal 2022, no subdivision may receive less State funding for CPHS than that subdivision received in fiscal 2021. The bill also repeals obsolete provisions. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: No effect in FY 2020. General fund expenditures increase by \$27.1 million in FY 2021, escalating to \$33.3 million by FY 2024, as discussed below. Revenues are not affected. **This bill increases a mandated appropriation beginning in FY 2021.**

| (\$ in millions) | FY 2020 | FY 2021 | FY 2022 | FY 2023 | FY 2024 |
|------------------|---------|----------|----------|----------|----------|
| Revenues | \$0 | \$0 | \$0 | \$0 | \$0 |
| GF Expenditure | 0 | 27.1 | 28.9 | 31.1 | 33.3 |
| Net Effect | \$0.0 | (\$27.1) | (\$28.9) | (\$31.1) | (\$33.3) |

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Revenues and expenditures for local health departments (LHDs) increase, consistent with the increase in State general fund expenditures. Although local jurisdictions are required to match this funding, most already provide more than required.

Small Business Effect: Minimal.

Analysis

Current Law: The State operating budget provides mandated funding to LHDs based on the CPHS funding formula. The formula requires that the State budget include funding that, for fiscal 2019 and each subsequent fiscal year, equals the amount of funding for the preceding fiscal year adjusted for (1) inflation, as measured by the CPI-U, for the second preceding fiscal year, calculated by the U.S. Department of Labor, and (2) population growth, as measured by the growth in the total population in the State for the second preceding fiscal year, according to the most recent statistics available through the U.S. Department of Commerce. For fiscal 2013 and each subsequent fiscal year, no subdivision may receive less than that subdivision received in fiscal 2012.

Background: Historically, the CPI-U for medical care has been higher than the CPI-U. Nationally, for fiscal 2014 through 2018, the average percent change for the CPI-U for medical care was 2.7%, and the average percent change for CPI-U was 1.4%.

State funding for the CPHS formula has been subject to numerous cost containment actions. According to the Maryland Association of Counties, LHD funding is currently 23% lower than funding provided in fiscal 2008. The Governor's proposed fiscal 2020 budget includes \$54,385,245 for CPHS, which comprises \$51.7 million in formula funding and \$2.6 million for a cost-of-living adjustment (COLA) for LHD employees; another \$1.0 million for the LHD COLA is appropriated elsewhere in the budget.

State Expenditures: General fund expenditures increase by \$27.1 million in fiscal 2021, and \$33.3 million in fiscal 2024, to provide increased funding for the CPHS formula as shown in **Exhibit 1**. The information and assumptions used to develop this estimate are stated below.

- Under current law, the CPI-U applicable to the formula is projected to be 2.5% for fiscal 2021 and 2.3% in fiscal 2022 through 2024 (based on projections from Moody's Analytics and IHS Markit).
- Under the bill, the CPI-U medical care component applicable to the formula is projected to be 3.6% for fiscal 2022, 3.9% for fiscal 2023, and 3.8% for fiscal 2024.
- Population growth is estimated to be 0.5% annually.
- Funding for fiscal 2021 is specified at \$80,439,548 under the bill.
- Under current law, formula funding for fiscal 2021 is estimated to be \$53,296,881.

Exhibit 1
Increase in General Fund Expenditures for Core Public Health Services Formula
To Provide Funding under the Bill
Fiscal 2021-2024

| <u>Formula Funding</u> | <u>FY 2021</u> | <u>FY 2022</u> | <u>FY 2023</u> | <u>FY 2024</u> |
|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Under Current Law | \$53,296,881 | \$54,789,194 | \$56,323,291 | \$57,900,344 |
| % Change | 3.0% | 2.8% | 2.8% | 2.8% |
| Under the Bill | \$80,439,548 | \$83,737,569 | \$87,422,023 | \$91,181,169 |
| % Change | n/a | 4.1% | 4.4% | 4.3% |
| Increase in Expenditures | \$27,142,667 | \$28,948,375 | \$31,098,731 | \$33,280,826 |

Source: Department of Legislative Services

Local Fiscal Effect: Local revenues and expenditures increase by a corresponding amount. In addition, matching funds are required from each local jurisdiction according to each jurisdiction’s revenue-raising ability. The Department of Legislative Services notes that most LHDs currently overmatch for these funds; thus, there is likely no immediate increase in local expenditures for the required match.

Additional Information

Prior Introductions: None.

Cross File: HB 1082 (Delegate Barron, *et al.*) - Appropriations.

Information Source(s): Maryland Association of County Health Officers; Maryland Association of Counties; Maryland Municipal League; Department of Budget and Management; Maryland Department of Health; Department of Legislative Services

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