Department of Finance and Administration

Legislative Impact Statement

Bill: HB1902
Bill Subtitle: TO LIMIT THE INCREASE IN GENERAL REVENUE EXPENDITURES FROM YEAR TO YEAR; AND TO CREATE A NEXUS BETWEEN THE AMOUNT OF GENERAL REVENUE EXPENDITURES AND THE GROWTH OF THE STATE DISPOSABLE PERSONAL INCOME.

Basic Change :

Sponsors: Rep. Ray and Sen. Gilmore

HB1902 limits expenditures of net general revenue available for distribution in a fiscal year (expenditures) by prohibiting expenditures from exceeding the average rate of change of the total state disposable personal income. The Secretary of the Department of Finance and Administration (DFA) is required to ensure that the expenditures do not exceed the cap. HB1902 provides a mathematical formula for calculating the average rate of change of the total state disposable personal income by using information contained in the most recent annual report from the United States Bureau of Economic Analysis.

The Secretary of DFA may authorize an expenditure exceeding the limit imposed by HB1902 only if:

- An emergency necessitated the expenditure;
- The Governor approves the expenditure; and
- The Legislative Council or Joint Budget Committee reviews the expenditure.

This limitation does not apply to:

- General revenues transferred to the Development and Enhancement Fund; and
- One-time expenditures for the settlement of claims against the state or its entities.

Revenue Impact :

None.

Taxpayer Impact :

None.

Resources Required :

None.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Expenditures of net general revenue available for distribution would not exceed the average rate of change of the total state disposable income.

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Other Comments :

None.

Legal Analysis :

HB1902 would benefit from an amendment on page 2, lines 12-14, clarifying that it is the growth or increase in expenditures that is limited by the average rate of change of the total state disposable personal income.

In order to determine the cap on expenditures, the Secretary is required to calculate the average rate of change for a fiscal year by July 15 of the preceding fiscal year. Because the Secretary cannot total the expenditures for a fiscal year until that year ends on June 30, the total of what those capped expenditures will be cannot be known until the close of the immediately preceding fiscal year. For example, the capped growth rate that will apply to FY2023 will be known on July 15, 2021. However, FY2022 must end and expenditures for FY2022 must be counted before the Secretary can determine total expenditures for FY2022. Therefore, the total dollar amount of expenditures that can occur in FY2023 will not be known until the final day of FY2022.

Net general revenue available for distribution includes general revenues distributed to agencies through the Revenue Stabilization Act (RSA) as well as general revenues distributed above RSA as surplus. The expenditures by agencies of net general revenue available for distribution generally must be made in the same fiscal year in which they are received. However, net general revenues available for distribution that are carried-forward or distributed above RSA as surplus are generally not spent in the fiscal year in which they are received. It is not clear how HB1902 applies to general revenues distributed that are not spent in the fiscal year they are received.