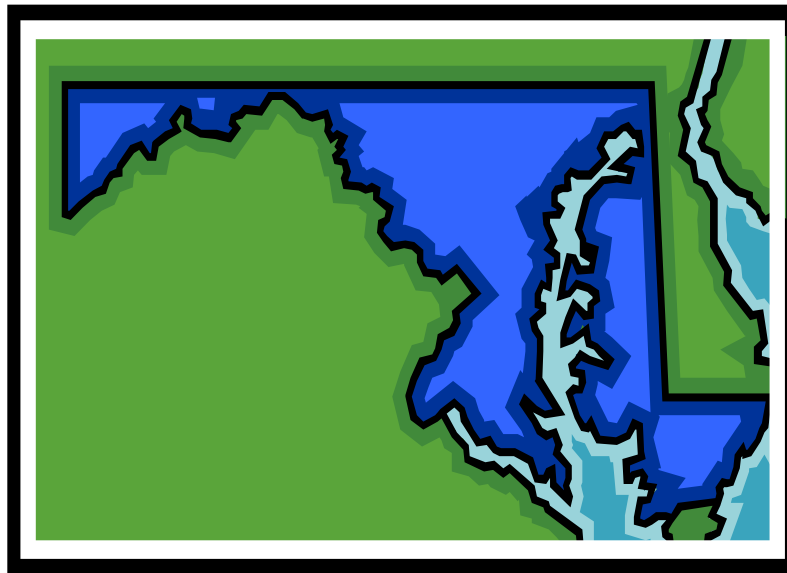




THE REGULAR PERSON'S GUIDE TO THE GOVERNOR'S FISCAL YEAR 2010 BUDGET



MARYLAND BUDGET & TAX POLICY INSTITUTE
AND
OPEN SOCIETY INSTITUTE - BALTIMORE

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The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate, and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting vulnerable populations and the important community associations that serve them. For monthly reports on current issues and additional information on the Institute, or to be added to our e-mail list, please visit our website at www.marylandpolicy.org.

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FAST BUDGET FACTS

Proposed Budget for the State of Maryland Fiscal Year 2010

- **Size: \$31.6 billion**
 - Increase over this year: \$0.7 billion (2.4%)

- **3 biggest items:**

1. Health	\$8.4 billion
2. K-12 Education	\$6.7 billion
3. Higher Education	\$5.1 billion

- **3 biggest revenues:**

1. Federal Funds	\$7.7 billion
2. Individual Income Tax	\$7.2 billion
3. Sales Tax	\$3.9 billion

- **3 biggest increases:**

1. Health	\$407 million (5.1%)
2. Higher Education	\$131 million (2.6%)
3. Human Resources	\$82 million (4.6%)

- **How is the budget balanced?**
 - \$1.1 billion in net cuts from “baseline” budget levels
 - \$710 million in transfers to the general fund from accounting reserves and special funds
 - \$350 million assumed federal stimulus aid
 - Proposals now in Congress will likely make \$3.3 to \$4.3 billion in stimulus aid available to Maryland and its local jurisdictions

- **Budget process**
 - Introduced by the Governor January 21, 2009
 - Legislature must enact balanced budget
 - Legislature may cut from the budget, but may not add
 - Governor may submit “supplemental budgets”
 - Revised revenue estimates in March
 - Legislature scheduled to complete budget April 6, 2009
 - New budget takes effect July 1, 2009

INTRODUCTION

The purpose of the “Regular Person’s Guide to the Governor’s Budget,” as the name suggests, is to provide basic, useful information about the State’s spending plan to people who normally do not “live and breathe this stuff.”

The Guide has four main sections:

1. Overview: General information about the size, contents, and major changes in the budget.
2. Subject Areas: More specific information about the seven largest state government functions, plus an “other” section for everything else.
3. Budget Process: A step-by-step reference to the state’s process for developing and approving the budget.
4. References: Additional resources that might be helpful, including a glossary of technical terms and a listing of useful Internet sites.

The trick to a document like this is to keep it simple, and still explain enough of the intricacies so as to give you a fair understanding. To help achieve this balance, we have inserted technical background where appropriate in boxes:

Technical Notes

The technical notes look like this. You can read them, or skip over them as you find useful.

The proposed 2010 budget is particularly fluid. The Governor’s budget balancing plan depends on a large number of legislative changes to permit transfers of funds or funding of various programs below statutorily mandated levels.

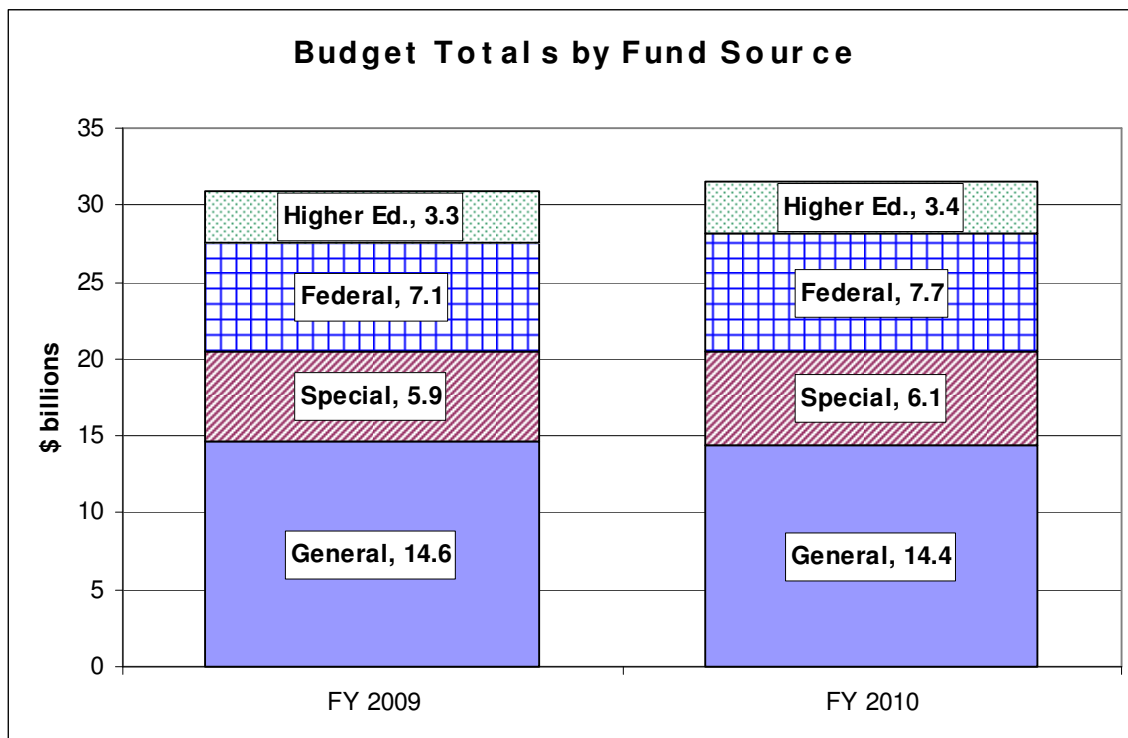
In addition, as the budget was being prepared, Congress was considering a massive economic stimulus act. The bill has now passed the Congress, and Maryland’s share of the aid is over \$4 billion. This development dramatically alters the state’s budget situation.

This report draws extensively from the “Budget Highlights” book and the detailed budget books prepared by the Department of Budget and Management (DBM), and from the “Fiscal Briefing” presented by the Department of Legislative Services (DLS) on January 26, 2009. Maryland is blessed to have highly dedicated, expert, and public-spirited analysis staffs at these agencies. MB&TPI is deeply indebted to them in being able to bring you this guide.

BUDGET OVERVIEW

Overall Size and Growth

- Total Budget: **\$31.6 billion**
 - Increase over this year: \$0.7 billion (2.4%)
- General Fund Budget: **\$14.4 billion**
 - Reduction from current year: \$0.2 billion (-1.3%)



General Funds and Other Funds

“General Funds” are the monies available for the state to use for most of its functions without restrictions. They come mostly from income and sales taxes. General funds do not include payments to the state from the federal government (“federal funds”), fund sources that are restricted for specific purposes, like transportation or environmental programs (“special funds”), or funds raised by state colleges and universities in student fees, grants, contracts and the like (“higher education funds”).

Fiscal Year

The state budgets and accounts for its finances using a “fiscal year” that begins July 1 and ends June 30. It is named for the calendar year in which it ends. We are now in fiscal year 2009, which began July 1, 2008 and will end June 30, 2009. The legislature is considering the budget for fiscal year 2010, which begins July 1, 2009.

BALANCING THE BUDGET

Like 49 of the 50 states, Maryland is required to balance its budget. In 2007, the legislature met in a special session to solve a persistent “structural deficit.” This means that ongoing expenses exceeded ongoing revenues. The deficit was addressed by restraining the growth of expenditures (especially for local school systems), spending down fund balances and taking advantage of one-time revenue sources and temporary savings. Over the long range, the plan relied on revenue from slot machine operations to keep the budget in balance after 2011.

In 2008, soon after the General Assembly passed the current budget and adjourned for the year, the national economy began to deteriorate severely. Mortgage defaults led to a crisis in the credit markets, which sent the overall national economy into a severe and lengthy recession.

The poor national economy affected income and sales taxes – Maryland’s principal sources of general revenue. Governor O’Malley announced mid-year cuts to the current budget in June and again in October. In December he implemented unpaid furloughs for state employees of 2 to 5 days.

Spending Reductions

Spending Plan is \$1.1 Billion below the Baseline

The special session solution to the structural deficit used a combination of revenue increase and spending reductions.

The Department of Legislative Services has estimated the reductions in the proposed budget compared to an estimate of “baseline” expenditures.

Baseline Budget

A spending plan used as a starting point for developing a budget, or a point of comparison for budget analysis. In the case of the DLS baseline, the estimate incorporates the cost for the upcoming fiscal year of providing current services at current levels, increases and reductions to implement statutory requirements, and funding of specific commitments.

The largest reductions from the fiscal year 2010 baseline are as follows:

Local aid – education, libraries, community colleges	238 m
State employee compensation – no raises, no deferred comp match, no payment for retiree’s health liability	201 m
Medicaid provider rate freeze – And community provider inc. limited to 9/10 of 1%	96 m
Substitute bonds for “PayGo” capital	96 m
Higher education tuition freeze continues, but funding below “baseline”	81 m
State position abolitions	60 m
Shift tax assessment & jail cost to counties	56 m

“PayGo” Capital
“Pay-as-you-go” financing for capital projects: the practice of using current revenues for capital items, rather than borrowing funds by issuing bonds. In years with budget surpluses, the state sometimes uses PAYGO to fund a larger capital program.

Budget Reconciliation

Changing the rules to balance the budget

Some of the reductions would violate existing statutory funding requirements and require authorizing legislation to be implemented.

The Governor’s budget plan assumes another \$449 million in reductions that require separate legislative authorization and \$660 million in transfers from restricted funds. The Governor has introduced a bill, known as the “Budget Reconciliation and Financing Act” (“BRFA” House Bill 101/Senate Bill 166) to make most of the necessary changes in law.

Money from piggy banks and under sofa cushions

On a 12-month basis, the budget for fiscal year 2009 is still not “structurally” balanced. Under the Governor’s plan, the state will spend (in general funds) \$14.4 billion and take in \$13.8 billion. This gap of \$600 million is made up by spending down the general fund balance, transferring money from the State Reserve Fund and other special accounts.

“Balance Sheet” Analysis

Fiscal Year 2010 - General Funds - \$ millions

<u>Sources</u>		<u>Uses</u>	
Revenues	13,766	Expenditures	14,393
From 2009 General Fund Balance	424		
From Reserve Fund	210		
Transfers from Other Special Funds	39	Remaining balance	46
Total Sources	14,439	Total Uses	14,439

General Fund Balance

The general fund balance is the unrestricted, unobligated amount left in the general treasury at the end of the year. It is available to help balance the next year’s budget. We can think of it as the state’s “checking account” balance.

State Reserve Fund

The state reserve fund (known informally as the “Rainy Day Fund”) is an account set up by state law to maintain a “cushion” against revenue shortfalls and certain other financial gaps. If the year-end general fund balance is over the estimated amount by more than \$10 million, the Governor has to add the extra amount into the fund the next year. To withdraw money from the fund, the Governor needs the legislature’s approval, either in the budget bill or in special legislation. We can think of the State Reserve Fund as the state’s “savings account.”

Unallocated Cuts Delay Some Hard Decisions

The Devil will be in the Details

The budget relies on four statewide cuts of \$85 million which would be specified in detail only after the budget is enacted.

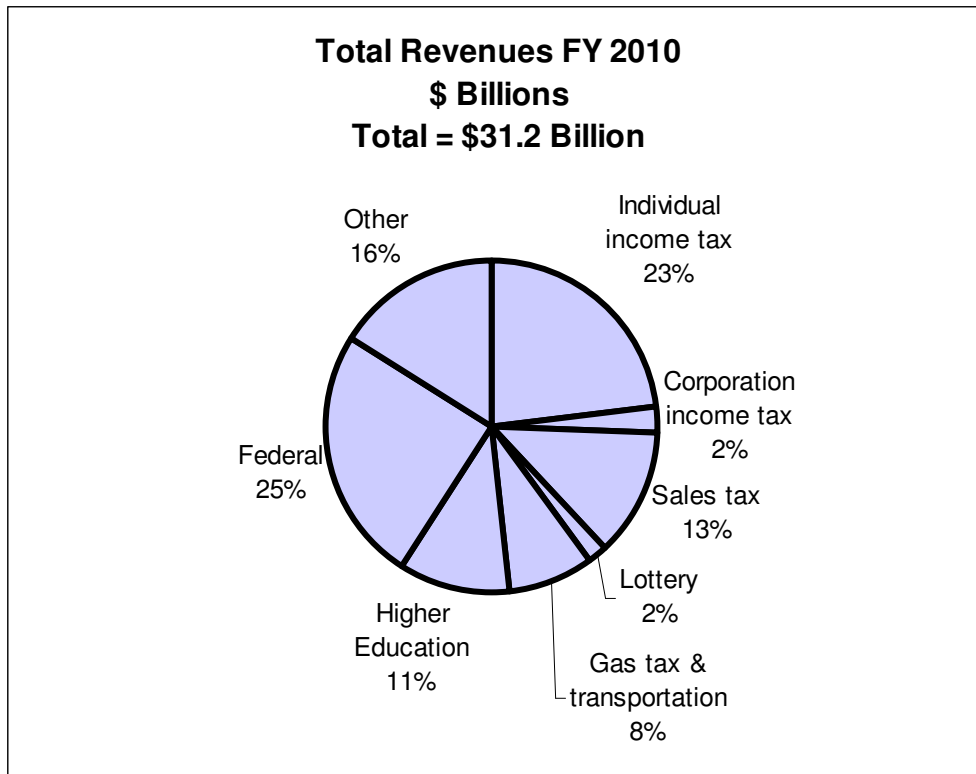
<i>Item</i>	<i>General Funds (\$millions)</i>
Abolish 1,000 vacant position	25.0
Reduce contractual positions	5.0
Renegotiate contracts	25.0
Personnel and workforce reductions	30.0
	85.0

The real-world consequences of these cuts are not clear. For example, \$215 million saved by “renegotiating contracts” evokes images of reduced funding for consulting, data processing, landscaping, or trash removal. However, the bulk of the cuts are allocated to the departments of

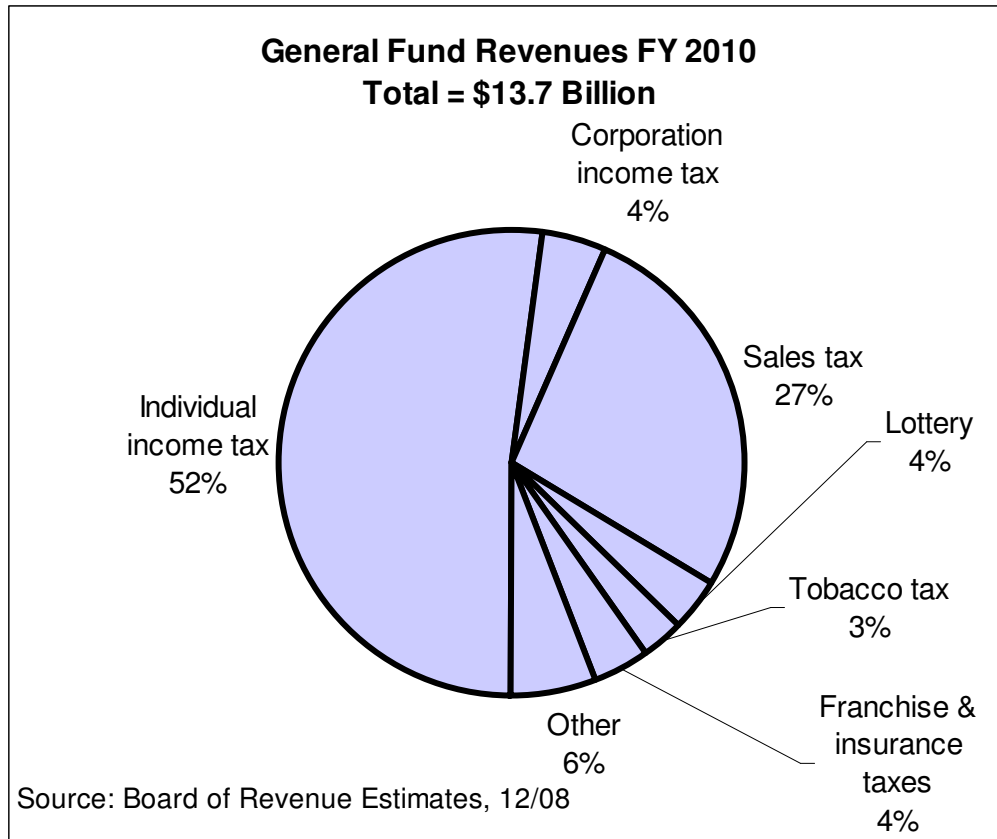
health, Human Resources, Education and Juvenile Services. This suggests that cuts will in fact hit providers of human services programs. Similarly, personnel reductions are concentrated in Public Safety, Health and Human Resources. These undesignated cuts are easy to approve in broad concept, but may become problematic in their details.

REVENUES

Overall, individual income tax and federal payments are the state's largest revenue sources. The bulk of federal funds are dedicated to health, human services, education, and transportation programs.



Revenue estimates are particularly important to the *general fund* budget. Maryland relies on income and sales taxes for 3/4 of its general fund revenue. Since these sources are quite sensitive to economic conditions, forecasts of the national and state economies are central to projecting revenues.



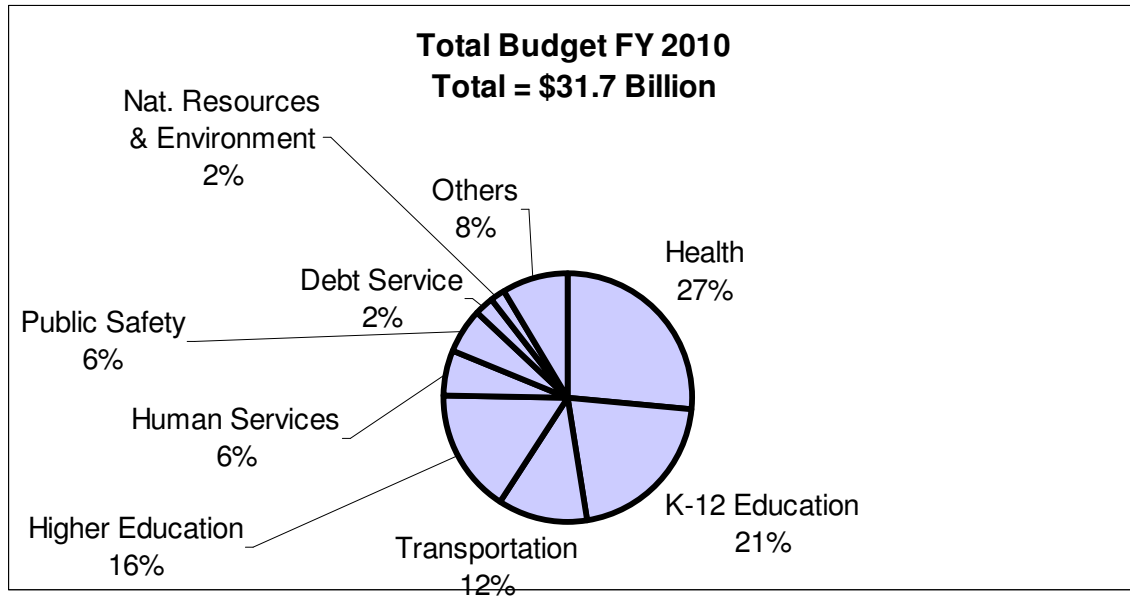
The Board of Revenue Estimates projects a bleak economic path for the state, with growth unlikely to resume until 2010 or later. The Board estimated general fund revenue increases of 0.9% for the current year and 0.5% for the upcoming fiscal year. These estimates include the effects of revenue increases enacted in 2007. Subtracting these legislated increases, baseline revenues would have been down 5.4% this year and up only 1.0% next year.

Official Revenue Estimates

In December, the Board of Revenue Estimates issues official revenue estimates for the upcoming budget. The Board consists of the Comptroller, the Treasurer and the Secretary of Budget and Management, and it is supported by a small professional staff, economists and financial professionals in various state agencies, and an Economic Advisory Panel of volunteer private-sector experts. In March, the Board updates its estimate to reflect any new factors in either economic or collection data.

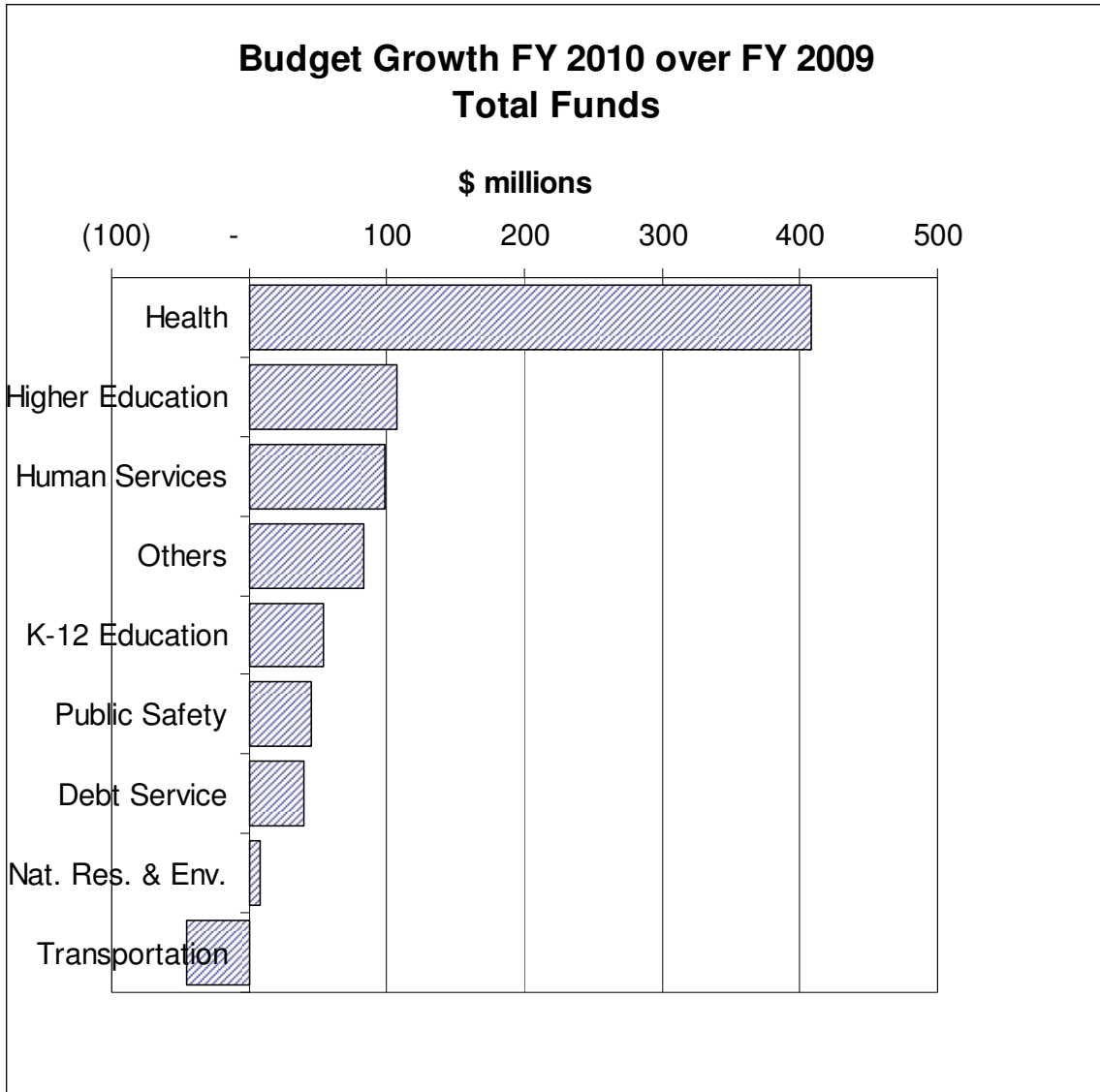
In Maryland we have a tradition of professional and fair-minded revenue estimating. If there is any bias, it is towards more conservative (i.e. safer) estimates. Unlike some states, Maryland has not had issues with political manipulation of the revenue estimates.

EXPENDITURES

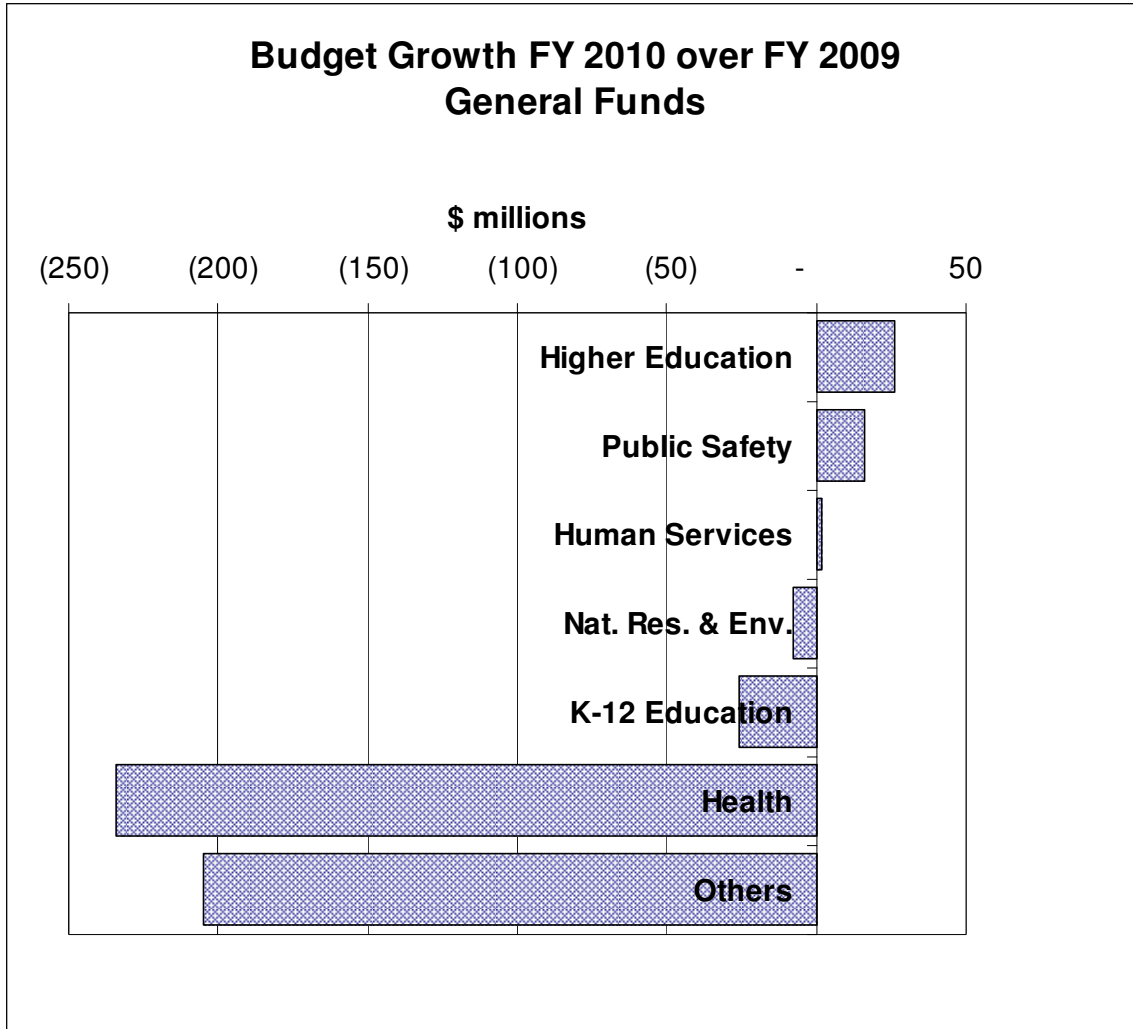


The largest items in the state budget are health and education. Health and all levels of education together comprise over half of the state budget. If we add transportation, human services and public safety then the six largest functions total 88%. The remaining 12% covers everything else, including: environmental programs, the court system, debt payments, business development, arts and culture, and tax collection.

The following chart shows the growth in the total budget, from fiscal year 2009 to 2010.



Health is by far the biggest gainer overall. This increase reflects increases in federal funding, especially for Medicaid. The next chart focuses exclusively on general funds.



Higher education and public safety have modest gains. Higher education general funds grow 1.6% (after adjusting for the disappearance of the Higher Education Investment Fund). Public Safety-related agencies grow 1/10 of 1%. Other functions receive nearly flat or reduced funding.

Higher Education Investment Fund

The chart above shows a \$26 million increase for higher education. This represents the amount higher education institutions will receive in unrestricted state support. Looking strictly at general funds, higher education’s amount would increase by \$93million. However, most of this increase is offset by the elimination in funding from the “Higher Education Investment Fund.” The special session of 2007 established the Higher Education Investment Fund, which dedicated a share of corporation income tax revenues to higher education enhancements. The law provided that the fund would expire after one year unless the legislature acted to sustain it. This chart treats fiscal year 2009 Higher Education Investment Fund revenue as general funds for comparison purposes. Otherwise, the increase in state funding for higher education would be overstated.

FEDERAL STIMULUS

The weak national economy is generating great fiscal distress among states across the US, including Maryland. According to the Center for Budget and Policy Priorities, the combined budget gaps for the remainder of the current fiscal year and the next two years are estimated to total more than \$350 billion.

Because states cannot run deficits, they must close their shortfalls by cutting spending or raising taxes. That causes two further problems. First, their spending cuts and tax increases take money out of the economy, making the downturn even worse. Second, as states have to cut back, they cannot respond to the rising need for health care and other services that occurs when workers lose jobs or are otherwise hit by the economic downturn.

Economic recovery legislation enacted by Congress includes over \$200 billion in additional funding for state governments. Such funding would mitigate some of these budget cuts and reduce the extent of even deeper cuts over the next two years.

Maryland state and local governments stand to gain over \$4 billion. Some of these funds will help the economy, but not the state budget deficit because they will impose additional costs – like transportation projects, school construction, and other infrastructure improvements. Other elements of the package will be available to allow the state to restore services that otherwise would be cut to balance the budget. Avoiding budget cuts will also protect jobs and moderate the declines in income and purchases in the economy.

The Maryland Budget & Tax Policy Institute believes it will be important for the state to use this funding to support the economy, prevent state and local government job losses, and avoid reductions in services during the economic downturn. The state should plan to fully expend the funds on critical services and infrastructure projects with lasting value by the end of fiscal year 2011.

SPENDING AFFORDABILITY

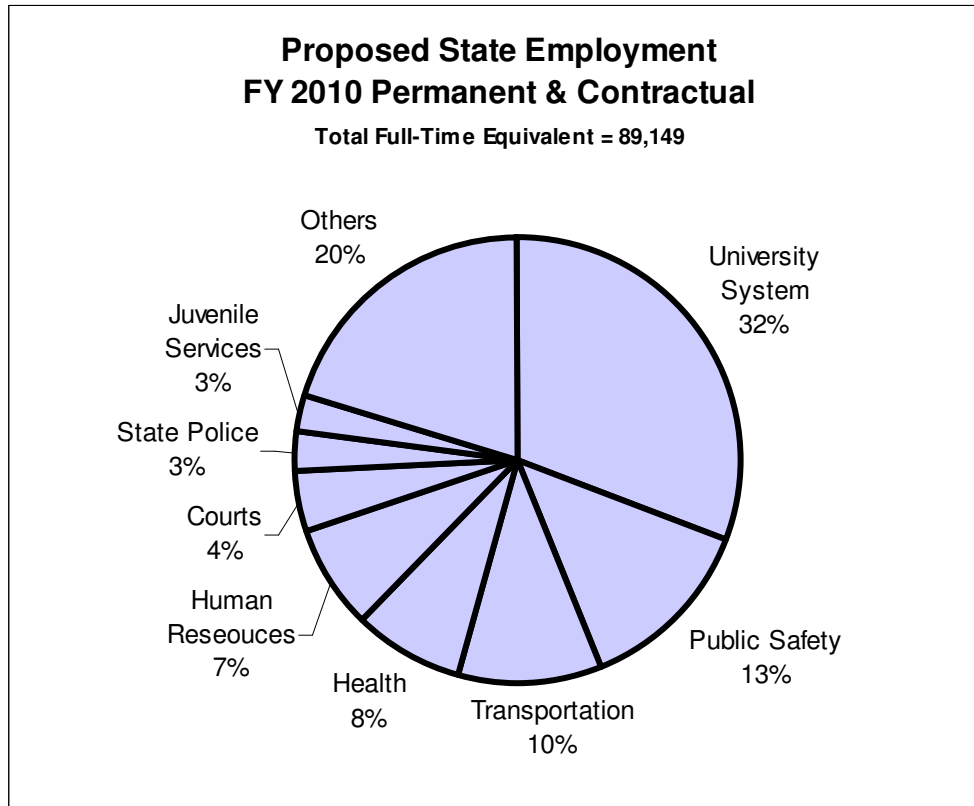
Spending Affordability is a process set out in Maryland law, whereby a legislative committee annually recommends to the Governor a limit on the amount of growth in the state budget. The Department of Legislative Services calculates that, as defined for spending affordability purposes, the proposed budget decreases by 1.52%. This differs from other calculations of the budget growth rates because the spending affordability calculation contains several adjustments to capture ongoing spending from state sources. For example, federal funds, expenditures for construction projects, and payments to reserve funds are not counted in the spending affordability calculation, but most special funds and current-year deficiency appropriations are. The Spending Affordability Committee recommended the increase be limited to 0.70%. The proposed budget is \$462 million under the spending affordability guideline.

The spending affordability recommendation is not binding on the Governor or the legislature. However, the legislature tends to use it as a guide in its action on the budget. DLS' calculation differs slightly from the Governor's calculation of -1.57%. The legislature will use DLS' calculation in its decision-making process. Given that the proposed budget is a far below the recommended

limit, the spending affordability process will likely not be a major factor in this year's budget deliberations.

STATE EMPLOYMENT

The bulk of state employees, like the bulk of state expenditures, are concentrated in a few agencies. The 10-campus University System of Maryland, the Department of Public Safety and Correctional



Services, and the Department of Transportation together employ over half of the state workforce.

The budget provides a *net* decrease of 1,162 permanent state employees. The budget abolishes 1,435 positions. The largest numbers of abolished positions are in the public safety, health, and human services agencies. However, 273 new positions are proposed, mostly in higher education institutions and state courts. Since the initiation of the statewide hiring freeze in October 2001, the state workforce has been reduced by 4,600 jobs (excluding colleges and universities).



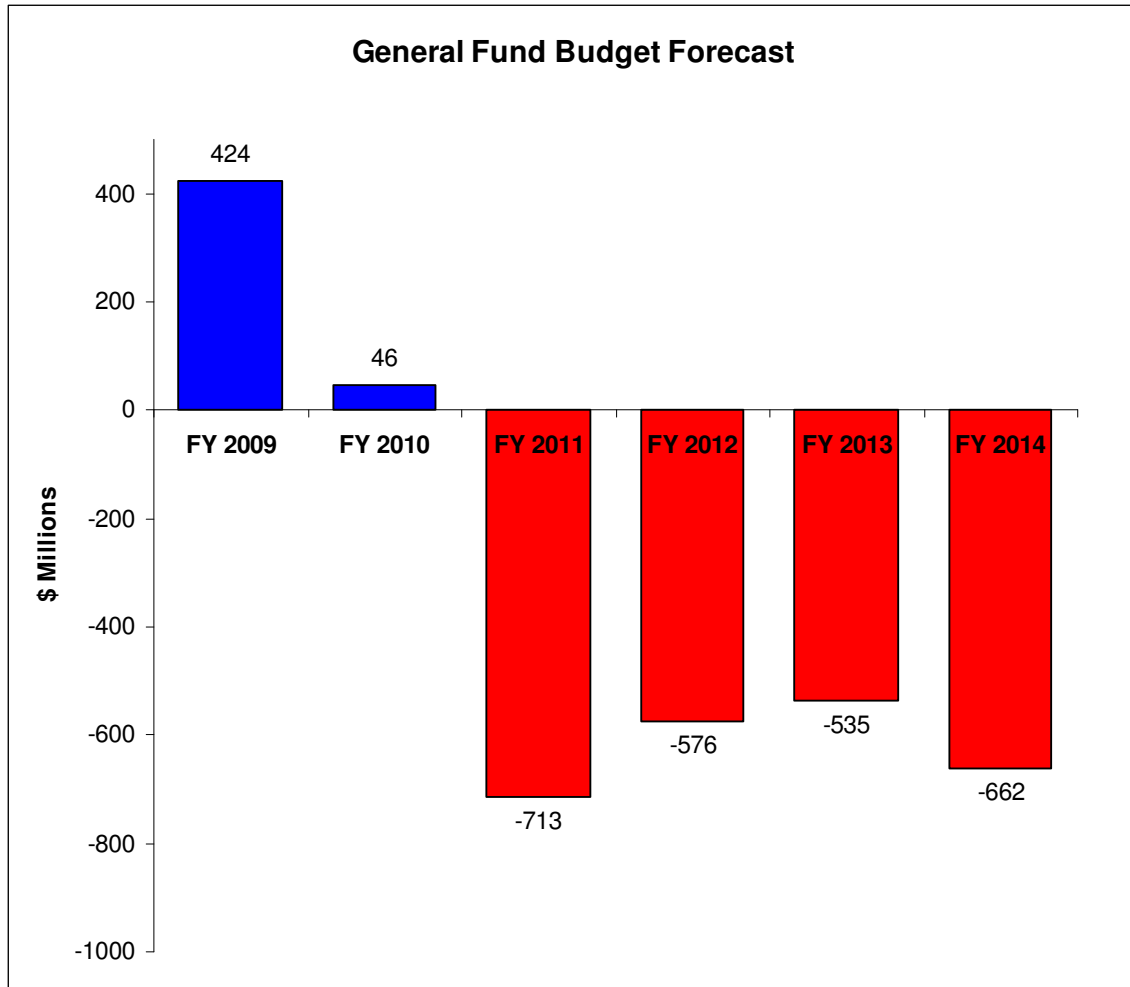
State employees would not receive a cost-of-living increase, pay steps or deferred compensation benefits provided in law.

LONG-RANGE FORECAST

The Governor’s budget proposal includes a five-year forecast of general fund revenues and expenditures, ending with fiscal year 2014. As one-time sources run out after fiscal year 2010, the forecast shows shortfalls ranging from \$535 million to \$713 million in each year.

The forecast shows state general fund spending for K-12 education growing at only 1.3%. This growth rate is based on the projection of slot machine revenues – dedicated to education – reducing the need for general fund spending for education. The forecast assumes that slot machines are implemented and begin generating substantial revenue in fiscal year 2012. The state has now received disappointing bids for the licenses to operate slot machines at five locations. It now seems likely that gaming revenues will be substantially lower, requiring more general fund spending for public education.

The forecast shows Medicaid growing at an average rate of 12.6%, making it the fastest growing sector of the budget.

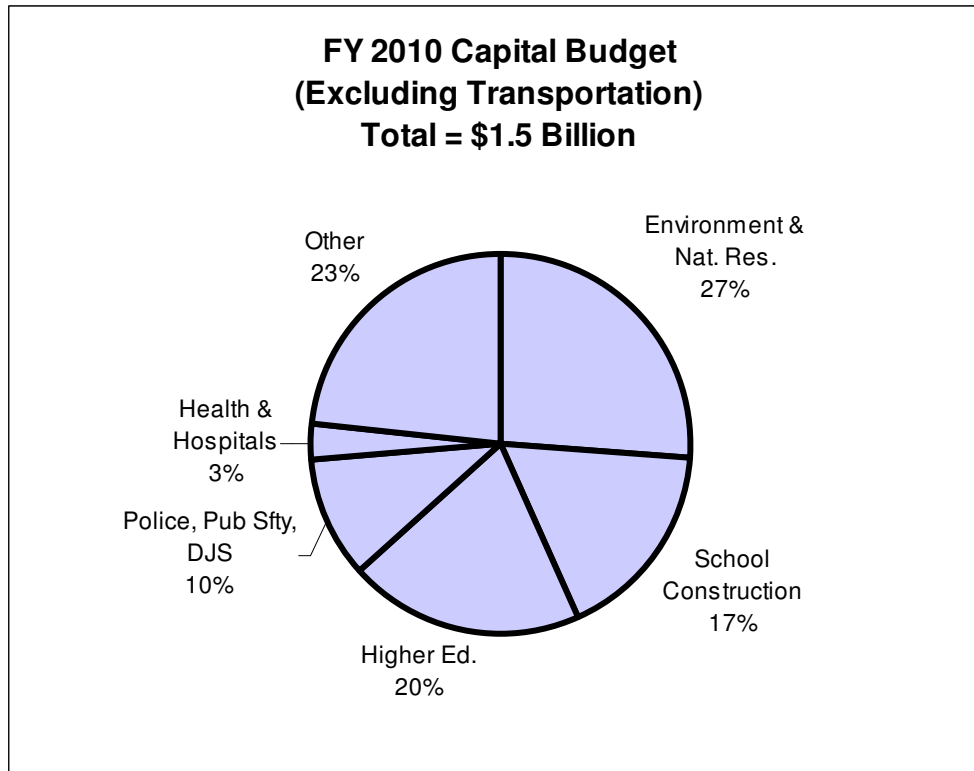


CAPITAL BUDGET

In a separate but related process to the operating budget, the legislature also will take action on a capital budget for fiscal year 2010. The capital budget funds construction projects and other expensive assets with a long life. Unlike most local governments or corporations, the state's capital budget is mostly given to other units of government or nonprofit organizations as grants or loans.

The capital budget is funded from a combination of borrowing (by authorizing the state or individual agencies to issue bonds) and current-year revenues.

Overall the capital budget totals \$3.2 billion. About half, \$1.6 billion, is for transportation projects. This summary focuses on the other \$1.5 billion.



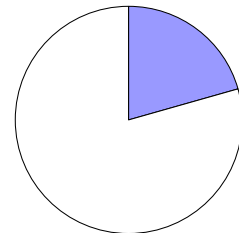
The items in Natural Resources and Environment are principally water quality programs (\$288 million), and land preservation programs like Program Open Space (\$76 million). The capital budget provides \$266 million for local public school construction. Higher Education projects include \$42 million for the Perdue School of Business Building at the Salisbury University, and \$88 million for 7 community college projects.

SUBJECT AREAS

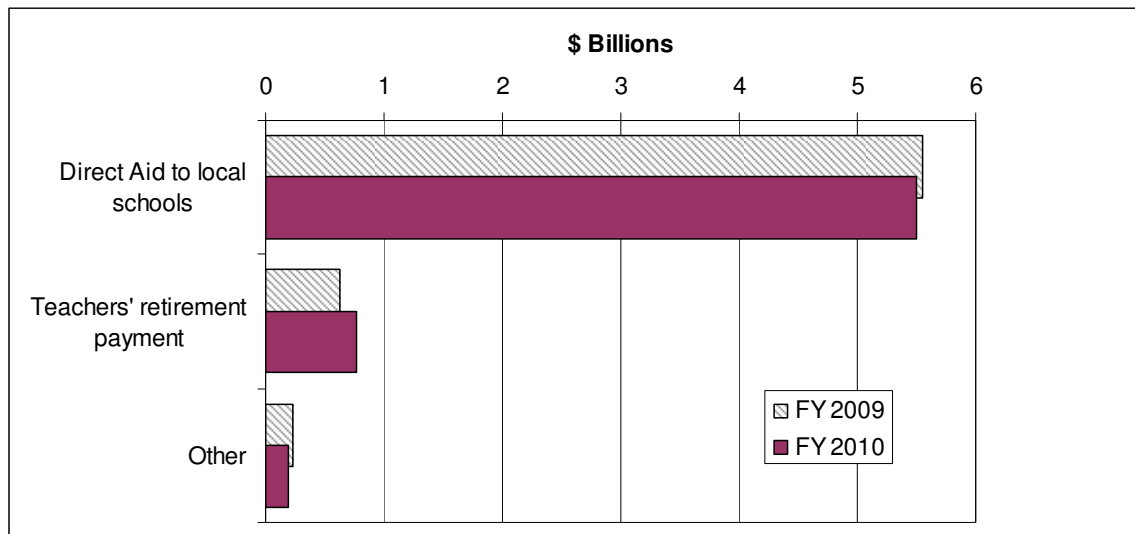
K-12 Education

State payment for teachers' pensions up – direct aid to schools down

“K-12 Education” includes aid to local public schools, State Department of Education operations (except for child care subsidies and rehabilitation services, which are included in Human Services below), the Inter-agency Committee for School Construction (including funding for improvements to aging schools), and the Maryland School for the Deaf.



- **Total Budget:** \$6.5 billion
 - Increase over previous year: \$54 million (0.8%)
 - 20% of state budget
- **General Fund Budget:** \$5.6 billion
 - Decrease from previous year: -\$26 million (-0.5%)



- **Highlights and Lowlights**

- Direct aid to local schools decreases \$69 million.
- Direct aid goes down for 16 of the state’s 24 school districts.
- State payment for teachers’ retirement increases \$140 million
- The budget assumes the passage of legislation to increase the local share of special education nonpublic placements, and reduce the supplemental grant, which would have guaranteed each district a 1% increase.
- The budget includes \$38 million for the “Geographic Cost of Education Index” to offset high-cost school systems. That is 30% of the full recommended amount.
- The budget eliminates \$9 million in incentive grants for schools.
- The federal stimulus legislation enacted by Congress will provide \$1.1 billion in aid for school systems in Maryland.

- **Special Effects**

- Deficiency Appropriations – the Department of Education has \$39 million of proposed deficiency appropriations for fiscal year 2009. \$24 million in general funds is aid to the Montgomery County Public Schools to correct an error in the fiscal year 2009 funding calculation. The school assessment program is set to receive \$8.5 million in general funds and \$936,000 on federal funds. \$3.6 million in general funds is for the Quality Teacher Incentive program. The remainder of the deficiency request is mostly additional federal funding.
- Budget reconciliation items
 - The budget reconciliation bill would allow for \$102 million in adjustments that will be subtracted from school aid programs. It appears that these cuts will need to be restored in order to comply with federal economic stimulus legislation.

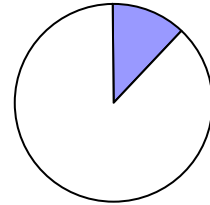
- **Capital Budget**

- Over \$266 million for local school construction.

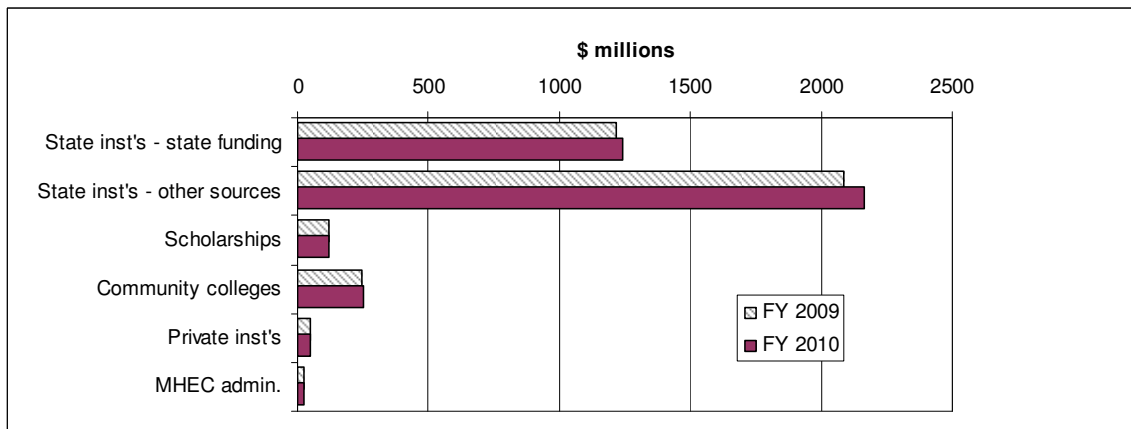
Higher Education

Tuition Freeze and Flat Budgets

“Higher Education” includes all the expenses of the state universities and colleges: both from their state appropriations and from tuition and other sources of the colleges’ own revenue. It also includes state scholarships, aid to community colleges and private colleges and universities, and the operations of the Maryland Higher Education Commission.



- **Total Budget:** \$3.8 billion
 - Increase over previous year: \$107 million (2.9%)
 - 12% of state budget
- **General Fund Budget:** \$1.7 billion
 - Increase over previous year: \$93 million (5.9%)
 - This increase reflects the “sunset” in 2010 of the higher education investment fund, established by the special session of 2007. If we compare 2010 general funds to 2009 general funds *plus* higher education investment funds, the increase in state appropriation is only \$24 million (1.6%).



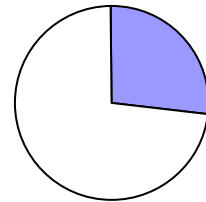
- **Highlights and lowlights**
 - In-state tuition holds at 2006-07 levels.
 - Fees will increase to produce cost increases of up to 2% at most campuses.
 - Enrollment at state institutions to grow by only 0.7% to 112,000.
 - Student financial aid, aid to private colleges and universities, and direct aid to community colleges are all approximately flat-funded with no growth over this year.
- **Special Effects**
 - Deficiency Appropriations
 - \$164,000 in general funds to the Maryland Higher Education Commission’s administrative budget to cover the costs on ongoing litigation.
 - Budget reconciliation items

- Holds aid to private universities and colleges at FY 2009 levels, saving \$16 million.
 - Holds direct aid to community colleges at FY 2009 levels, saving \$15 million.
 - Defers \$265,000 in donation incentive grant payments to state institutions and community colleges.
- **Capital Budget**
 - \$316 million for Higher Education Projects, including:
 - University System of Maryland \$172 million
 - \$54 million for Salisbury new Perdue School of Business building.
 - \$35 million for Towson new College of Liberal Arts complex.
 - \$34 million for Bowie State new arts building.
 - Morgan State University \$50 million
 - \$27 million for new Center for Build Environment and Infrastructure Studies.
 - St. Mary’s College \$1.6 million for planning of a replacement academic building.
 - Community Colleges \$87 million
 - 14 projects.
 - \$32 million for Montgomery College – Germantown Bioscience Center.
 - \$24 million for Prince George’s Community College new Center for Health Studies.
 - Private Colleges and Universities \$8 million
 - 3 projects.
 - \$2.75 million for Baltimore International College Culinary Arts Center.
 - \$3 million for College of Notre Dame pharmacy school.
 - \$2.25 million for Capitol College Innovation and Leadership Institute.

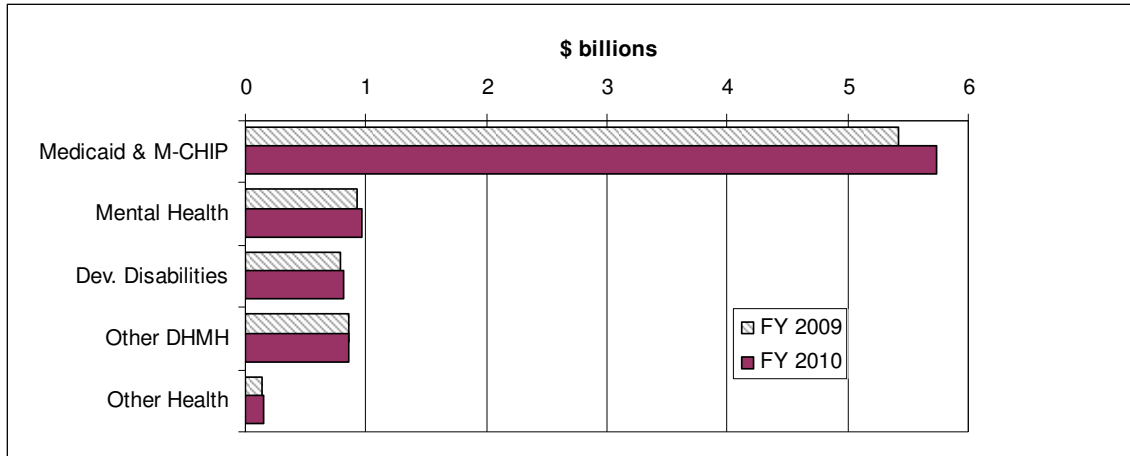
Health

Medicaid Expansion “Deferred” – Federal Funding Increases Assumed

“Health” consists mostly of the state Department of Health and Mental Hygiene (DHMH). DHMH includes the “Medicaid” Medical Assistance and Maryland Children’s Health Insurance (M-CHIP) programs for low-income residents, state institutions and community services for mental health and developmental disabilities, public health and aid to local health departments, and treatment and system planning for AIDS, substance abuse, and other health-related problems. The “health” category also includes the Maryland Veterans’ Home, state aid for the University of Maryland Medical Systems, and two programs in the Maryland Insurance Administration: the Maryland Health Insurance Program (MHIP) and Rate Stabilization Fund.



- **Total Budget:** \$8.5 billion
 - Increase over previous year: \$408 million (4.8%)
 - 27% of state budget
- **General Fund Budget:** \$3.5 billion
 - Decrease from previous year: -\$234 million (-6.2%)



- **Highlights and lowlights**

- The budget assumes \$350 million in extra federal assistance for the Medicaid program. Based on legislation passed by the US Congress, this aid could actually total at least \$1.6 billion.
- No cuts to Medicaid or Children’s Health eligibility or provider rates.
- Most categories of provider rates are held at current levels. Community-based services increase 0.9% and residential mental health services increase 3%.
- The planned expansion of Medicaid coverage to 30,000 childless adults in July 2009 is deferred indefinitely.
- Funding for cancer research will be reduced by \$5.4 million and for tobacco use cessation and prevention programs by \$13.8 million.
- The budget calls for the elimination of over 275 net positions from DHMH (of these 241 are related to the closure of Rosewood Center in Baltimore County).
- The Department’s workforce for 2010 will be 38% below its level of 20 years ago in 1990. This decrease is the result of downsizing of State facilities and consolidating campuses.
- Waiting lists grow for state health services. Over 18,000 children and adults are on the waiting list for developmental disability services. Waiting lists for community residential mental health services in Baltimore City average 7 months. The budget provides no significant increases to reduce these waiting lists.

- **Special Effects**

- Deficiency Appropriations
 - \$12.9 million to reflect increased estimates of federal funding.
 - \$0.6 million for provider payments.
- Budget reconciliation items
 - Authorize use of Rate Stabilization Fund for Medicaid expansion and dental coverage expansion. The Rate Stabilization Fund was created to assist with physicians’ malpractice insurance costs.

- **Capital Budget**

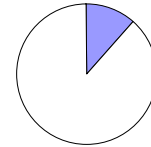
- \$54 million for Health and Hospital projects, including:
- \$2.5 million for life safety renovations at state mental health facilities.

- \$8.4 million for community health-related facilities such as mental health services, developmental disability services, primary care clinics, and adult day care.
- \$17 million for Johns Hopkins Medicine pediatric trauma care center and cardiovascular and critical care tower.
- \$5 million for 9 projects for community hospitals.

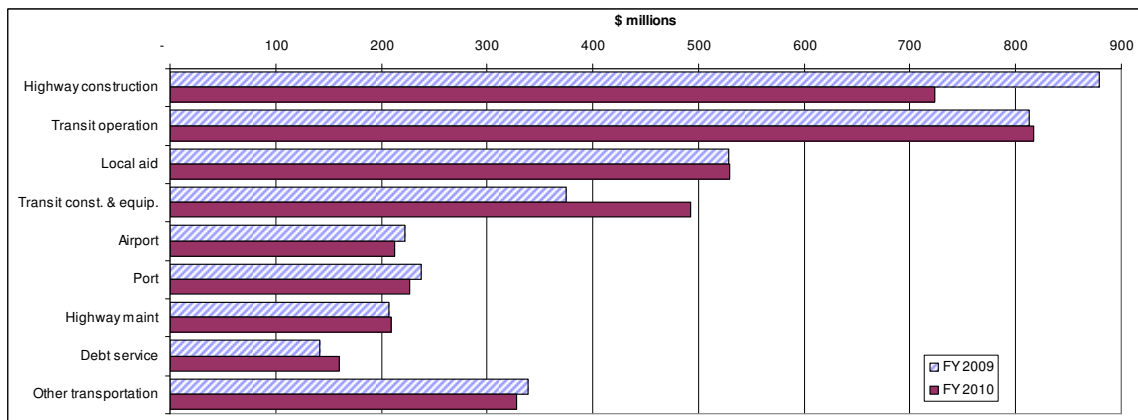
Transportation

Funding for Highways and Mass Transit is down

“Transportation” consists of the Maryland Department of Transportation. The Department includes the state highway program, mass transit, BWI Thurgood Marshall Airport, the Port of Baltimore and local aid for transportation programs. The Department of Transportation operates entirely on special funds dedicated to transportation, and federal funds. A share of the state sales tax is dedicated to Transportation beginning in fiscal year 2009, in addition to the Department’s traditional sources, such as gas tax and vehicle title fees. Also unlike other state agencies, the Department of Transportation’s budget includes the expenditure of bond funds issued by the Department for construction projects.



- **Total Budget:** \$3.7 billion
 - Reduction from previous year: -\$46 million (1.2%)
 - 12% of state budget



- **Highlights and Lowlights**
 - Most transportation functions are flat or declining. This reflects the poor performance of gas tax, vehicle titling tax and federal transportation funds in a recessionary economy.
 - Transit operation and debt service payments show notable increases.
 - Proposed federal stimulus legislation includes \$700 million in highway and transit funding for Maryland.
- **Special Effects**
 - Deficiency Appropriations
 - None.

- Budget reconciliation items
 - Permits the general fund payments for the Inter-County Connector highway project in fiscal years 2009 (\$63 million) and 2010 (\$75 million) to be made instead from state bond proceeds.

- **Capital Budget**

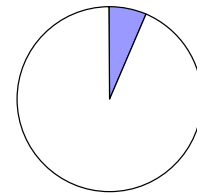
- \$739 million for highway construction includes \$16 million for the Baltimore Beltway interchange with Charles Street in Baltimore County and \$14 million to complete the Wilson Bridge project on the Capitol Beltway.
- In fiscal year 2010, an estimated \$663 million will be expended on the Inter-County Connector (ICC) highway project in Montgomery and Prince George’s counties. This spending is budgeted in the Maryland Transportation Authority, which is not part of the state Department of Transportation budget. \$75 million – originally slated to come from state general funds – will come instead from proceeds of state bond sales (as will \$63 million due from fiscal year 2009).
- \$493 million in transit improvements include \$53 million for improvements at the Silver Spring Transit Center and \$68 million to replace MTA buses serving central Maryland.

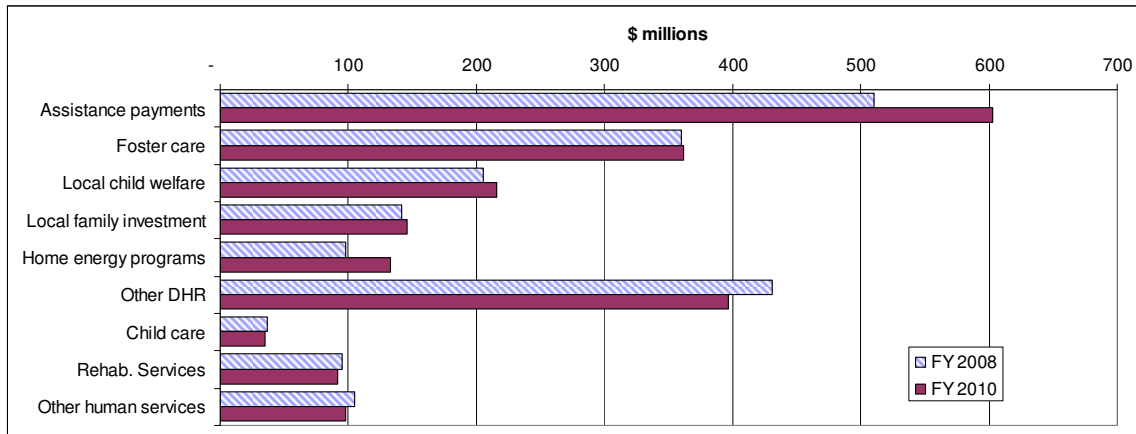
Human Services

Increases for food stamps, energy assistance - Jobs cut in already-understaffed social service offices.

“Human Services” includes programs operated by the Department of Human Resources (DHR) and local Departments of Social Services, including public assistance, foster care, and child welfare. In this category, we also include childcare subsidies, rehabilitative services provided through the State Department of Education, family and children’s services funded through the Children’s Cabinet Interagency Fund, and the Governor’s Office for Children and programs funded by the Department of Aging and Department of Disabilities.

- **Total Budget:** \$2.1 billion
 - Increase over previous year: \$98 million (4.7%)
 - 7% of state budget
- **General Fund Budget:** \$659 million
 - Increase over previous year: -0 (0%)





- **Highlights and lowlights**

- Federal “food stamp” funding (now known officially as the Supplemental Nutrition Assistance Program) increases \$86 million, reflecting increased caseloads and a higher weekly benefit level. A family of four can now receive up to \$588 per month in benefits (which comes to only \$1.63 per person per meal).
- Home energy assistance programs increase \$35 million, reflecting the Governor’s efforts to provide assistance to more of the eligible households in the deteriorating economy. \$18 million is provided from the Strategic Energy Investment Fund, funded from the proceeds of the auction of carbon licenses.
- The budget calls for the Department to eliminate at least 253 positions. The Maryland Budget & Tax Policy Institute is concerned that low staffing levels in local social service offices and support functions is already making it too difficult for eligible Marylanders to receive benefits on a timely and accurate basis. Further reductions to the Department of Human Resources workforce will exacerbate a bad situation.
- To contain costs in the current year, the Department of Human Resources has frozen enrollments in three programs of aid for elderly and disabled adults: Social Services for Adults, In-Home Aides and project Home.
- Given the severity of the economic downturn, the budget likely underestimates the cost of assistance programs in DHR.
- Federal stimulus legislation under consideration in Congress would provide Maryland over \$90 million for social services and “safety net” programs such as foster care, energy assistance, and homelessness prevention.

- **Special Effects**

- Deficiency Appropriations
 - \$8.75 million for information technology expenses. Of this amount, \$4.46 million is federal funds and \$4.29 million is state funds.
 - \$7.8 million to provide for increases caseloads in foster care. \$5.1 million is state funding and \$2.6 million is federal funding.
 - \$3.6 million in funds from carbon license auction proceeds will increase home energy assistance.
 - \$328,000 to reflect a new federal grants
- Budget reconciliation items

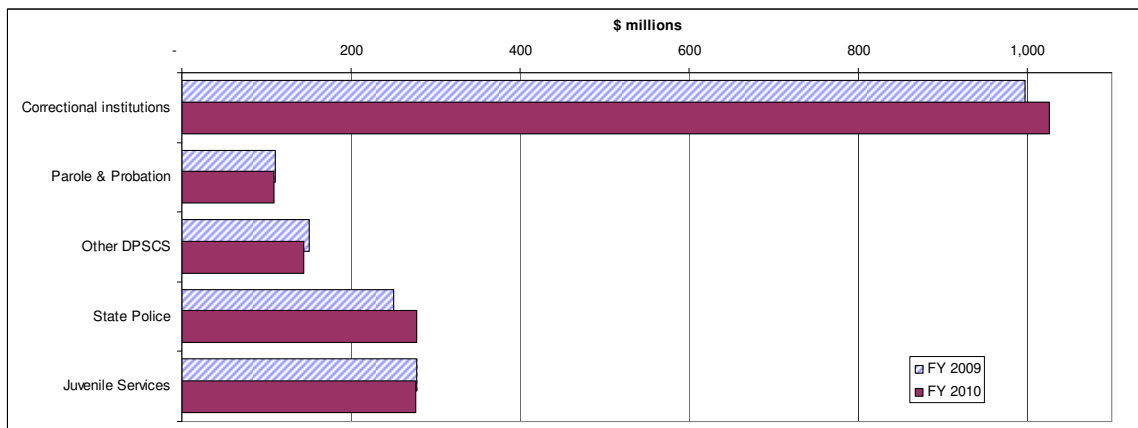
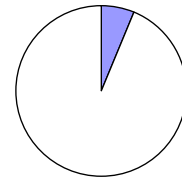
- Legislation to level-fund group home rates would save \$5.5 million.
- \$36 million in energy assistance payments would be funded from carbon license auction proceeds rather than state general funds.

Public Safety

Prisons and police see modest growth

“Public Safety” includes the Department of Public Safety and Correctional Services (DPSCS), the Department of State Police (DSP) and the Department of Juvenile Services (DJS). DPSCS operates the state prisons and the Baltimore City Detention Center and the state’s adult parole and probation system. DJS includes case management, community supervision, juvenile detention, and residential facilities for delinquent youth committed by the courts.

- **Total Budget:** \$1.8 billion
 - Increase over previous year: \$45 million (2.5%)
 - 6% of state budget
- **General Fund Budget:** \$1.5 billion
 - Increase over previous year: \$16 million (0.1%)



- **Highlights and Lowlights**
 - Corrections institutions increase \$28 million (about 3%); principally reflecting increases in personnel expenses.
 - The administration intends to save \$8 million in overtime by having correctional officers serve 12-hour shifts, rather than 8-hour shifts.
 - A \$27 million 11.8% increase in State Police funding is primarily in state police field operations.
 - The budget would eliminate at least 383 positions in Public Safety, 25 in Juvenile Services and 21 in State Police.
 - The congressional economic stimulus bill includes \$64 million to Maryland relating to justice, crime prevention and law enforcement.
- **Special Effects**
 - Deficiency Appropriations

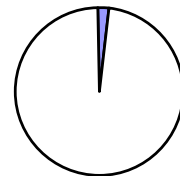
- Juvenile Services: \$11 million including staff overtime, payments for private providers, and to offset an overestimate of federal funding in the current budget.
 - Public Safety and Correctional Services: \$15 million including overtime, energy and raw food costs in correctional institutions.
 - Budget reconciliation items
 - Division of Correction to save \$8 million in overtime costs by allowing 12-hour shifts.
 - Reduces local jail operating aid payments by \$6 million.
 - Drunk Driver Monitor Program fee increase to save \$1.4 million in general funds.
- **Capital Budget**
 - \$73 million for DPSCS, including \$23 million for a 560-bed minimum security compound in Anne Arundel County (the first phase of a 46-million, 1120-bed project) and \$12 million towards a 103-million youth detention center in Baltimore City, for minors who are under the jurisdiction of the adult Division of Corrections.
 - \$23 million for 3 local jail projects.
 - \$56 million for State Police, including \$40 million to replace two Med-Evac helicopters, and \$15 million for a new State Police barrack and garage in Hagerstown.
 - \$7 million for Juvenile Services including \$4 million to acquire a site in Baltimore City for a 48-bed juvenile treatment center and \$2.5 million for design of a replacement detention center in Prince George’s County.

Natural Resources and Environment

Water Quality Programs Increase

“Natural Resources and Environment” includes the Department of Natural Resources (DNR) and Maryland Department of the Environment (MDE). DNR includes the state park and forest operations, Program Open Space land preservation program, and the Natural Resources Police. MDE includes programs that monitor and regulate air and water quality and hazardous substances, and provide assistance to business and communities in controlling pollutions.

- **Total Budget:** \$5658million
 - Decrease from previous year: -\$18 million (-3.1%)
 - 2% of state budget
- **General Fund Budget:** \$95 million
 - Decrease from previous year: -\$10 million (-10%)



- **Highlights and Lowlights**

- Program Open Space, Maryland's signature program for preservation of land for environmental and recreational purposes, declines by \$28 million to \$38 million. The program is funded from state real estate transfer payments. With the downturn in the housing market, this dedicated revenue source has been severely reduced. In fiscal year 2008, before the effects of the real estate market collapse, the program totaled \$210 million.
- New funding for Chesapeake Bay water quality provides a \$23 million increase in DNR watershed services.
- Department of the Environment expenditures for water quality improvements increase \$38 million.
- In addition to funding for agencies in this category, the Governor highlights funding in other areas related to environmental quality, smart growth and energy conservation. These include the transit-oriented development projects in the Department of Transportation, funding for cover crops in the Department of Agriculture and Maryland Energy Administration's and Department of General Services' efforts to reduce energy usage at state facilities.
- The economic stimulus bill enacted in Congress includes over \$188 million for Maryland in environmental and energy conservation programs.

- **Special Effects**

- Deficiency Appropriations
 - Department of Natural Resources: \$10 million. \$8.6 million in federal funds include funding for land acquisition and the Natural Resources Police. The remainder is special funds, mostly in Natural Resources Police.
- Budget reconciliation items
 - General fund requirement to waterway improvement projects reduced \$1.8 million, plus DNR is authorized to spend \$750 million in Waterway Improvement Special Funds for administrative costs.
 - Eliminates \$1.9 million in payments in-lieu-of-taxes to local governments where state parks are located.

- **Capital Budget**

- \$408 million for environmental programs in the largest component of the capital budget.
- MDE includes \$281 million in water quality programs.
- Program Open Space and other land preservation programs total \$76 million. Funding for these programs peaked at over \$360 million in fiscal year 2007.
- Maintenance and improvement projects at parks and forests total \$15 million. The largest item, \$13.3 million, is for a visitor center and site improvements at Harriet Tubman Underground Railroad State Park in Dorchester County.

BUDGET PROCESS

- The state constitution requires a balanced budget.
 - The Governor must present a balanced budget to the legislature and the legislature must enact a balanced budget.
- Maryland is the only state where the legislature, in most cases, cannot add to the budget proposed by the Governor.
 - The legislature may reduce the amounts proposed by the Governor, and may restrict the use of funds.
- The House of Delegates and Senate take turns each year in initiating action on the budget bill.
 - This year, it is the House of Delegates' turn to take action first.
- The budget is referred to the Senate Budget and Taxation Committee and the House Committee on Appropriations.
- The Governor may propose any number of “supplemental” budgets after introducing the initial budget and before the legislature takes final action.
 - The balanced budget requirement applies to proposed supplemental budgets.
- The budget bill becomes law upon passage by both houses of the legislature. It does not require the Governor's signature.
 - There is no veto power or item veto of the budget bill.
- If the budget is not passed by the 90th day of the session (April 13 this year), the Governor proclaims an “extended session” and no other business may be conducted except to complete action on the budget.
- The capital budget (bond authorizations) is a completely different process from the operating budget.
 - The legislature has much more flexibility with the capital budget.

Timetable

Maryland's budget process is a year-round activity. The budget process for fiscal year 2010 began in the summer of 2008. The following chart summarizes the budget timetable.

	Executive Branch	Legislative Branch
Summer 2008	Department of Budget and Management (DBM) sends budget instructions and request targets to agencies. Agencies prepare budget requests.	Special studies and oversight activities
August - September	Agencies submit budget requests to DBM.	
Fall	DBM, the Governor, and Governor's staff meets with agencies to review budget requests.	Spending Affordability Committee meets to review state economy and finances. Department of Legislative Services (DLS) prepares "baseline budget" for forecasting and comparison purposes.
December	Board of Revenue Estimates issues official revenue estimates. Governor makes final budget decisions. DBM prepares budget for printing.	Spending Affordability Committee issues recommendation. As budgets are finalized, DLS begins review and analysis.
January 16 (8 th day of legislative session)	Governor submits balanced budget to legislature	

	Executive Branch	Legislative Branch
January - March	State agencies and DBM respond to issues and recommendations from DLS analysis and answer legislators' questions about budget and programs. Governor may introduce supplemental budgets.	DLS completes detailed analysis of each agency budget. Senate and House Subcommittees hold hearings. Subcommittees and committees make decisions on budget actions. Committees report recommendations to the Senate and House. Each House passes its version of the budget. A conference committee of Senators and Delegates resolve differences.
April 6 (83 rd day of session)		Constitutional target for final legislative action on operating budget.
April 13 (90 th day of session)		Final day of regular session. If the budget is not passed by this date the Governor proclaims an "extended session" and no other business may be conducted except to complete action on the budget.
April-June	DBM revises detailed data to reflect legislative action. Comptroller sets up state's accounts for new fiscal year.	Budget Committees issue "Joint Chairmen's Report" ("JCR"), which explains legislative action and requests various reports and other information from state agencies.
July 1	Fiscal year 2010 begins	
June 30, 2010	Fiscal year 2010 ends	

BUDGET GLOSSARY

Appropriation – A legal authorization to expend government funds.

Allowance – A budget amount proposed by the Governor for the legislature’s consideration. In most cases, the legislature may reduce but may not add to the allowance.

Budget – A spending plan including sources and uses of funds.

Capital Budget – The plan of proposed expenditures for construction projects, purchase of real property and major equipment, and other long-lasting assets. In Maryland State Government, an item usually must cost at least \$100,000 and have a useful life of 15 years to be considered a capital item. The state may issue bonds to borrow funds to finance capital items.

Budget Reconciliation and Financing Act (BRFA) – Separate legislation considered in conjunction with the budget to make changes in statutes to permit adjustments in appropriations or to help finance expenditures. BRFA provisions may authorize the transfer of dedicated fund balances to the general fund, reduce the amounts of funding mandates, or allow dedicated funds to be used for new purposes, for example.

Deficiency Appropriation – An amount included in the budget bill to supplement the appropriation for the current year. Deficiency appropriations are typically used to provide funds for programs that are projected to exceed their budget estimates, or to authorize the expenditure of federal or special funds that were underestimated at the time the original budget was enacted. The fiscal year 2010 budget bill includes deficiency appropriations for fiscal year 2009.

Federal Fund (FF) – Amounts paid to the State by the federal government, almost always for specific uses. Federal aid for Medicaid and transportation projects are two large examples.

Fiscal Year (FY) – The time period a budget is in effect. The state budgets and accounts for its finances using a “fiscal year” that begins July 1 and ends June 30. It is named for the calendar year in which it ends. Thus we are now in fiscal year 2009, which began July 1, 2008 and will end June 30, 2009. The legislature is considering the budget for fiscal year 2010, which begins July 1, 2009.

General Fund (GF) - The monies available for the state to use for most of its functions without restrictions. They come mostly from income and sales taxes. General funds do not include payments to the state from the federal government (“federal funds”), or fund sources that are restricted for specific purposes, like transportation or environmental programs (“special funds”).

Higher Education Fund – The state colleges and universities use a different set of fund names from other agencies. Higher education funds are divided into “current unrestricted” (CUF) and “current restricted” (CRF). “Current Unrestricted Funds” are most of the institutions’ revenue sources. They include the state appropriation, tuition and student fees, and revenues from residence halls, dining services, and athletics. “Current Restricted Funds” are those whose use is restricted by law or by the donor. It is mostly research grants, and donations made for specified purposes.

Operating budget – The budget for ongoing operations, as distinct from the “capital budget.” The balanced budget requirement applies to the operating budget.

PAYGO – “Pay-as-you-go” financing for capital projects: the practice of using current revenues for capital items, rather than borrowing funds by issuing bonds. In years with budget surpluses, the state sometimes uses PAYGO to fund a larger capital program.

Special Fund (SF) - Fund sources that are restricted for specific purposes, like transportation or environmental programs.

Spending Affordability – A process set out in Maryland law, whereby a legislative committee annually recommends to the Governor a limit on the amount of growth in the state budget. The calculation of the growth rate for spending affordability purposes differs from other calculations of the budget growth rates because the spending affordability calculation contains several adjustments to capture ongoing spending from state sources. For example, federal funds, expenditures for construction projects, and payments to reserve funds are not counted in the spending affordability calculation, but most special funds and current-year deficiency appropriations are. The spending affordability recommendation is not binding on the Governor or the legislature. However, the legislature tends to use it as a guide in its action on the budget.

Structural balance, structural deficit – The difference between ongoing revenues and on-going expenditures during a fiscal year. If on-going expenditures exceed on-going revenues, the state is in a structural deficit. The state can have a structural deficit but still have a constitutionally-balanced budget because of an adequate beginning fund balance to absorb the difference, or because of the use of fund transfers or other temporary revenues.

USEFUL WEBSITES

Department of Budget and Management

www.dbm.state.md.us

Click on “Public” then “Budget” for:

- Official budget documents
- Agency testimony at budget hearings
- “Fiscal Digest” - information on final budget after enactment

Maryland General Assembly

www.mlis.state.md.us

Click on “Budget Documents” for:

- Budget Bill
- Fiscal Briefing
- Budget Analyses
- Joint Chairmen’s Reports

Click on “Hearing Schedule” for:

- Budget hearing schedule.

Governor of Maryland

www.gov.state.md.us

- Press releases
- Information on Governor’s initiatives

Comptroller of Maryland

www.comp.state.md.us

Under “News and Publications,” click on “Financial Reports” for:

- Official Revenue Estimates

Maryland.gov

www.maryland.gov

- Official State Web Site

Maryland State Archives - Maryland Manual

<http://www.msa.md.gov>

Click on “Maryland Manual On-Line” for:

- General Information on state agencies and officials

Maryland Budget and Tax Policy Institute

www.marylandpolicy.org

- Accurate, timely and useful information regarding Maryland’s budget, its state programs, and their effects on regular persons.

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