



Analysis of state policy choices with particular attention to their impacts on low- and moderate-income Marylanders

Budget Brief: First Look at the Governor's 2008 Budget Proposal

Newly inaugurated Governor Martin O'Malley released his proposed Fiscal Year (FY) 2008 Budget for Maryland on January 18th. (FY 2008 begins on July 1, 2007.) This brief provides a look at the highlights of the Governor's budget.¹ As more details emerge, the Maryland Budget & Tax Policy Institute will provide additional information and prepare the annual "Regular Person's Guide to the Budget." Please check www.marylandpolicy.org for these reports and other resources.

Highlights

The administration highlights the slight 2.5% increase to about \$30 billion in total spending in the FY 2008 Operating Budget. The General Fund (GF) budget, funded by state tax dollars, grows by 7.6% to more than \$15 billion. In addition, the Capital Budget funds about \$1.5 billion in capital spending, excluding transportation projects.

The administration points to increased funding for public schools consistent with the "Thornton" law, \$400 million for public school construction, and full funding for Open Space and other land preservation programs. The spending growth in the budget comes in under the Spending Affordability limit of 7.9% recommended by the General Assembly. The apparent level of spending restraint in the Governor's budget focuses attention on potential supplemental budgets as the legislative session moves along.

Although the proposal is being characterized as "conservative," spending will still exceed expected revenue collections, and a transfer of \$967 million from the state's Rainy Day Fund is proposed to finance the FY 2008 budget. The Rainy Day Fund balance shrinks from more than \$1.4 billion, or 10% of GF revenue, to \$674 million, or 5% of GF revenue. Maintaining a Rainy Day Fund balance above 5% of GF revenue plays an important role in keeping Maryland's AAA bond rating. In addition, the administration sets aside \$100 million for the future costs of retiree health care, the same as set-aside funds in the last budget.

Legislative analysts had projected a gap of more than \$400 million in the FY 2008 budget. While spending details are not clear, the budget appears to be balanced in part by eliminating some expected spending items. Like the previous administration, Governor O'Malley withholds about \$95 million for the Geographic Cost of Education Index—part of the Thornton law that is

recommended but not mandated. The administration also foregoes a planned transfer of \$53 million to the Transportation Trust Fund for the intercounty connector. As introduced, the administration's plan does not appear to address the structural budget gap. Legislative analysts estimate looming fiscal gaps of about \$1 billion a year over the next several years.

Education Budget

Following is a summary of the Governor's budget proposal for education:

K-12 Education

- State aid to public schools increases \$680 million to \$5.2 billion.
 - Legislative analysts had projected a \$805 million increase, including:
 - \$343 million for "Thornton" Phase-In;
 - \$281 million for inflationary increases, including \$210 million for inflation in "Thornton" formulas;
 - \$95 million for the Geographic Cost of Education Index (GCEI); and
 - \$78 million for retirement benefits.
- The budget funds the final year of "Thornton" Phase-In and teacher retirement.
- Despite campaign statements, the Governor's budget does not fund the GCEI, which is meant to provide additional state aid for basic educational cost differences in high-cost counties.
 - For example, GCEI allocations would have been \$29 million for Prince George's County; \$22 million for Montgomery County; and \$16 million for Baltimore City.
- The budget includes \$400 million in spending for public school construction, a \$77 million increase.

Higher Education

- Higher Education GF spending increases by 8.3% to more than \$1.1 billion.
- The administration highlights a tuition freeze in the University System of Maryland (USM) and at Morgan State University.
- Funding for Community Colleges increases 18%, or \$38 million, to \$244 million.
- Also included in the budget are:
 - \$7.4 million to boost support for USM's "premier research institutions";
 - \$7.3 million to support projected USM enrollment growth of 1,700 students;
 - A \$4.3 million increase for Morgan State University; and
 - Capital spending of \$69 million for Community Colleges and \$109 million for a Coppin State Physical Education Complex.

Health Budget

Following are highlights of the Governor's budget proposal for health care:

- \$40 million to increase rates for Medicaid-participating physicians;
- \$40 million to “improve Maryland’s hospital and community health facilities”;
- \$25 million to increase provider rates for community-based mental health and developmentally disabled services;
- \$25 million in state funds for stem cell research, a \$10 million increase;
- \$6 million to restore health coverage to pregnant women and children who are legal immigrants. The administration estimates that health care will be restored to 3,000 children; and
- \$3 million to reduce infant mortality through the Babies Born Healthy Initiative.
- Also of note:
 - The administration highlights \$14 million to provide prescription drug assistance to 39,000 low-income Medicare beneficiaries.
 - The Nurse Support Program gets \$9 million to boost the number of nurses.
 - \$7.6 million will fund services for developmentally disabled youth who are transitioning from public school programs.
 - The administration highlights \$5 million to expand substance abuse treatment.

Public Safety Budget

The FY 2008 budget provides roughly \$1.4 to \$1.5 billion in Public Safety funding, including:

- \$32.6 million for a new medium security correctional facility in Hagerstown;
- \$6.7 million to fund 155 new correctional officer positions and \$6.1 million for security cameras and other safety equipment;
- \$6.3 million for higher death benefits for Public Safety Officers and members of the military serving in Iraq or Afghanistan;
- \$2.3 million to prevent vehicle theft;
- \$2 million to enhance supervision of sex offenders;
- \$1.3 million for “non-residential community-based sex offender treatment,” to be funded in the Department of Juvenile Services (DJS) budget;
- \$1.1 million for behavioral health assessments and substance abuse treatment in the DJS budget; and
- \$1.4 million in additional spending for State Police, including \$892,000 to purchase new handguns and \$519,000 to improve DNA testing.

Business and Economic Development Budget

The FY 2008 budget proposal includes:

- \$70 million for business development, including \$20 million for small or minority businesses;
- \$16 million for the Maryland Arts Council;
- \$10 million to support technology development:
 - \$5 million in capital spending for the East Baltimore Biotechnology Park; and
 - \$5 million for incubator programs and other technology development/transfer programs.
- \$6 million for capital funding for the Neighborhood Business Redevelopment Program; and
- \$4 million to extend DLS service to Eastern Shore communities and allocates \$2 million to the Sunny Day Fund.

Environment, Natural Resources, and Agriculture Budget

Highlights of these parts of the budget include:

- \$122.8 million in spending for the Chesapeake Bay:
 - \$98 million for removal of nutrients produced by wastewater treatment plants;
 - \$8.8 million for the Cover Crop program;
 - \$6 million for septic system upgrades and \$5 million for sewer system upgrades; and
 - \$5 million for the Agricultural Cost Share Program.
- The administration points to \$273 million for Open Space and Land Preservation:
 - \$177 million to “fully fund” Program Open Space;
 - \$70 million for Agricultural Land Preservation; and
 - \$26 million for the Rural Legacy program.
- Other funds for agricultural communities include \$10 million for soil conservation; \$10 million for the Tobacco Transition Program; and \$3 million for Maryland Agricultural and Resource-based Industry Development Corporation.

Transportation Budget

The Governor’s budget provides about \$1.6 billion for transportation projects, including:

- \$1 billion in spending for highway projects;
- \$323 million for Public Transit projects;
- \$124 million to improve the Port of Baltimore; and
- \$119 million for airport projects.

The Governor highlights a commitment to undertake a comprehensive review of Maryland's Transportation Trust Fund and has said that it will be used only for transportation. However, in this budget, the administration eliminated a planned transfer of \$53 million from the GF to the Transportation Trust Fund for the intercounty connector, stating that the funds are not necessary this year, and that the action will not delay the project.

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Endnote:

¹ A press release dated January 18, 2007, from the Office of the Governor is available at <http://governor.maryland.gov/011807.html>. A Budget Highlights document from the Office of the Governor is available at <http://governor.maryland.gov/index.htm>.

About the Maryland Budget & Tax Policy Institute

The Maryland Budget & 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 programs that serve them. For additional information on the Institute, to be added to our e-mail list, or to make a tax-deductible donation, please visit our website at www.marylandpolicy.org.

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