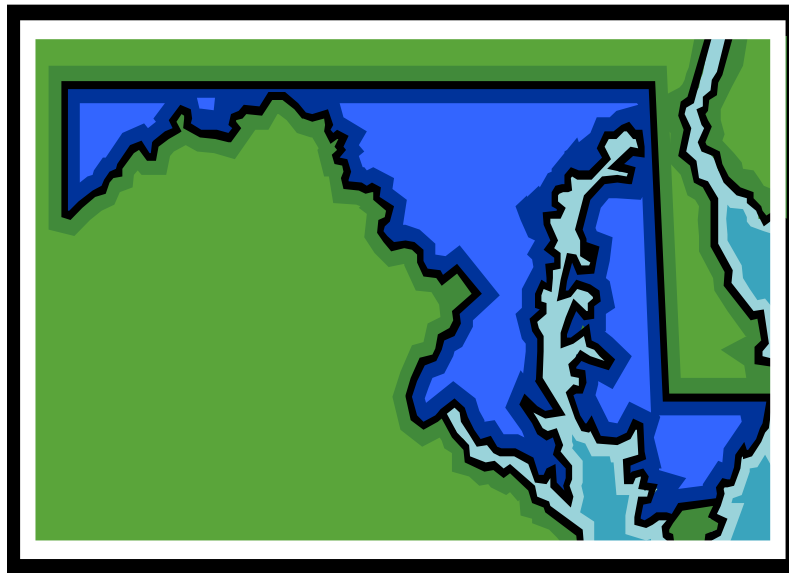




# **THE REGULAR PERSON'S GUIDE TO THE GOVERNOR'S FISCAL YEAR 2009 BUDGET**



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

**FEBRUARY 2008**

**This publication has been prepared by the Maryland Budget and Tax Policy Institute with the generous support of the Open Society Institute-Baltimore.**



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](http://www.marylandpolicy.org).

The Maryland Budget and Tax Institute gratefully acknowledges the Open Society Institute – Baltimore and the following funders, which provide general support for Institute operations, including the Ford Foundation, the Aaron Straus and Lillie Straus Foundation, the Eugene and Agnes E. Meyer Foundation, the Public Welfare Foundation, and generous individual contributors.

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# FAST BUDGET FACTS

## Proposed Budget for the State of Maryland Fiscal Year 2009

- **Size: \$31.5 billion**
  - Increase over this year: \$1.9 billion (5.9%)
  
- **3 biggest items:**

1. Health	\$8.2 billion
2. K-12 Education	\$6.4 billion
3. Transportation	\$4.1 billion
  
- **3 biggest revenues:**

1. Individual Income Tax	\$7.4 billion
2. Federal Funds	\$6.9 billion
3. Sales Tax	\$4.6 billion
  
- **3 biggest increases:**

1. Health	\$686 million (8.4%)
2. Transportation	\$327 million (8.8%)
3. K-12 Education	\$183 million (3.0%)
  
- **How is the budget balanced?**
  - \$1.2 billion in revenue authorized in the November 2007 legislative special session
  - \$500 million in net cuts from “baseline” budget levels
  - \$470 million transferred from fund balances
  
- **Budget process**
  - Introduced by the Governor January 16, 2008
  - 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 March 31, 2008
  - New budget takes effect July 1, 2008

## 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:

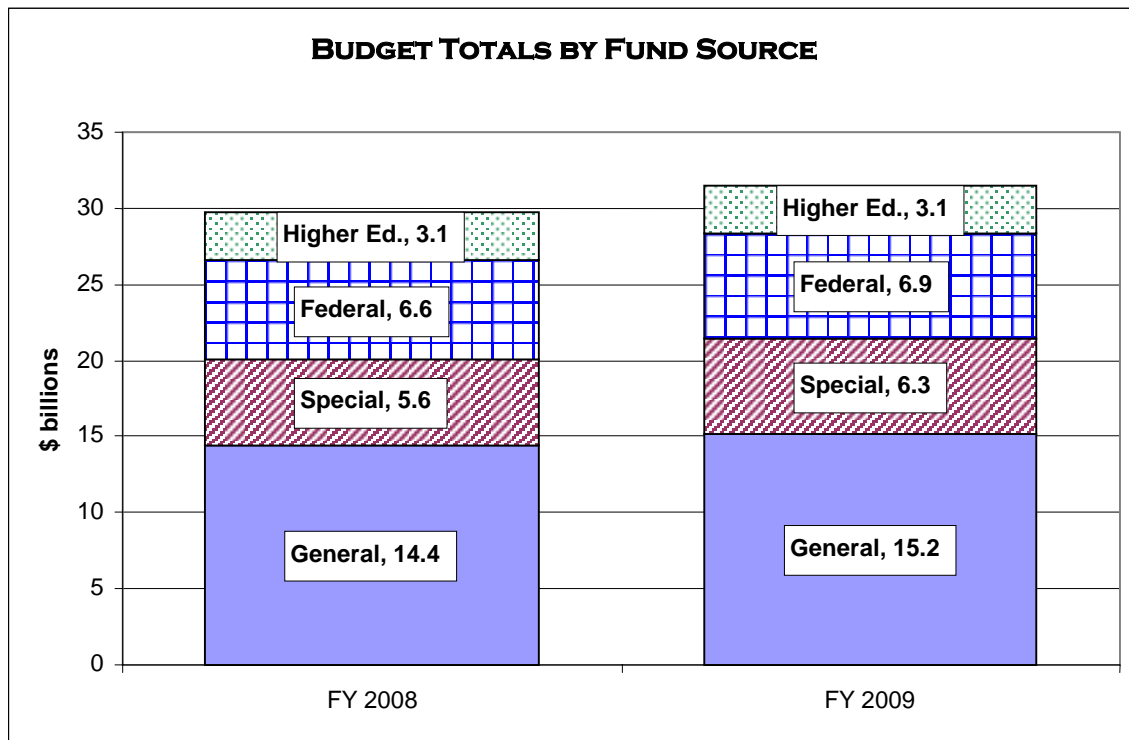
### ***Technical Notes***

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

# BUDGET OVERVIEW

## Overall Size and Growth<sup>1</sup>

- Total Budget: \$31.5 billion
  - Increase over current year: \$1.9 billion (5.9%)
- General Fund Budget: \$15.2 billion
  - Increase over current year: \$0.8 billion (5.3%)



### **General 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”), or fund sources that are restricted for specific purposes, like transportation or environmental programs (“special 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. Thus we are now in fiscal year 2008, which began July 1, 2007 and will end June 30, 2008. The legislature is considering the budget for fiscal year 2009, which begins July 1, 2008.*

## **BALANCING THE BUDGET**

Like 49 of the 50 states, Maryland is required to balance its budget. For the past several years, Maryland has been budgeting with a “structural deficit.” This means that ongoing expenses exceeded ongoing revenues. The budget has been balanced by restraining the growth of expenditures, spending down fund balances and taking advantage of one-time revenue sources and temporary savings.

### **Special Session Revenues**

#### ***\$1.2 Billion Bolsters the Budget***

As the legislature completed its work last April, the state budget was balanced through June 30, 2008. But the state continued to spend more in each year than it took in – a “structural deficit.” Governor O’Malley implemented about \$200 million in budget reductions in July to provide a “down-payment” on the structural deficit.

In the fall, the Governor developed a multi-faceted fiscal plan affecting most major sources of state revenue, as well as slowing the planned growth of public school aid. He called for a special session to consider the proposals, beginning on October 29, 2007.

The projected budget gap for fiscal year 2009 (July 2008 through June 2009) was \$1.7 billion, according to the Department of Legislative Services. The total package approved by the special session includes provisions which increase and decrease revenues, increase and decrease expenditures, and re-allocate revenues among different funds.

The revenue increases adopted by the special session added about \$1.2 billion in revenue towards the budget solution. Since some of the tax increases took effect in January 2008, the revenues collected in January through June of this fiscal year will help fund fiscal year 2009 expenses. The bulk of the new revenue comes from sales tax and tobacco tax increases.

### **Spending Reductions**

#### ***Spending Plan is Half a 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 2009 baseline are as follows:

<b>ITEM</b>	<b>\$ MILLIONS</b>
Limit inflation in public school funding formulas	\$172
Revised estimate of Medicaid costs	89
Use health insurance balance for FY 2009 cost	77
Reduced general fund payment for future retiree health liability	69
Use expected bond sale premium for debt service payments	40
Eliminate electrical utility grants to counties	31
Developmental Disabilities – provider rate increase lower than estimated and savings from Rosewood Center closure	24
Mental Health – provider rate increase lower than estimated and delayed phase-out of day limits	22

Overall, the cuts are estimated at \$671 million. These are offset by an estimated \$162 million increases over the baseline. This makes for a net reduction of \$509 million.

***Amount of the Baseline Cut***

*Following the special session, various figures were quoted as the amount of reductions from the baseline needed to balance the budget. The Maryland Budget and Tax Policy Institute and the Department of Legislative Services cited the figure of \$550 million. DLS adjusted this figure to reflect \$45 million in expenditures authorized by the special session – mostly for expanded Medicaid health coverage. This brought the amount of needed reductions down to \$505 million.*

**Budget Reconciliation**

***Sometimes You’ve Got to Change the Rules***

Some of the reductions would violate existing statutory funding requirements and require authorizing legislation to be implemented. Part of this legislation was enacted by the special session, such as changes to the inflation calculation in the public school formulas (\$172 million). The reductions authorized by legislative action in the special session totaled \$328 million.

The Governor’s budget plan assumes another \$40 million in reductions that require separate legislative authorization. The Governor has also introduced a bill, known as the “Budget Reconciliation and Financing Act” (“BRFA” House Bill 101/Senate Bill 91) to make most of the necessary changes in law.

The largest of these items allows the use of a special fund related to medical malpractice insurance to pay for various health initiatives (\$21 million), and reductions in mandated increases of aid to private colleges and universities (\$5 million) and local libraries (\$3 million).

## Transfers and Balances

### ***Deficit Defied by Dipping into the Bank Account***

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) \$15.2 billion and take in \$14.7 billion. This gap of \$500 million is made up by spending down the general fund balance, transferring money from the State Reserve Fund and two other special accounts.

### **“Balance Sheet” Analysis**

Fiscal Year 2009 - General Funds - \$ millions

<u>Sources</u>		<u>Uses</u>	
Revenues	14,748	Expenditures	15,218
From 2008 General Fund Balance	293		
From Reserve Fund	125		
Transfers from Other Special Funds	52		
Total Sources	15,218	Total Uses	15,218

### ***General Fund Balance***

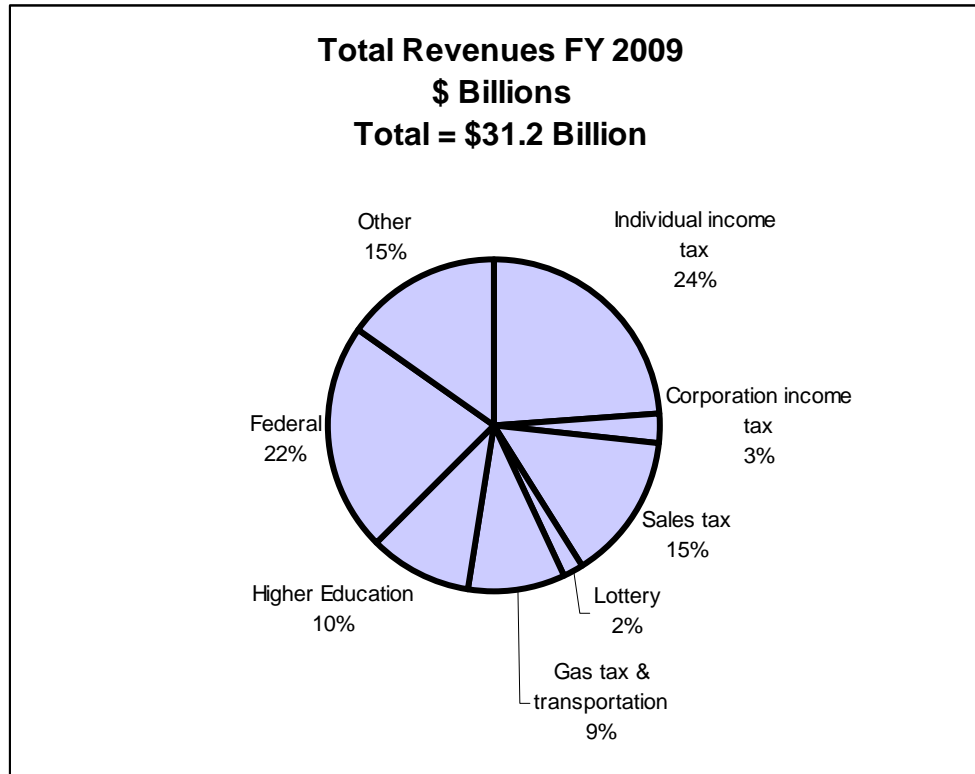
*The general fund balance is the unrestricted, unobligated amount left in the general treasury at the end of the year. It is available to help balance the next year’s budget. We can think of it as the state’s “checking account” balance.*

### ***State Reserve Fund***

*The state reserve fund 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.”*

## 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.



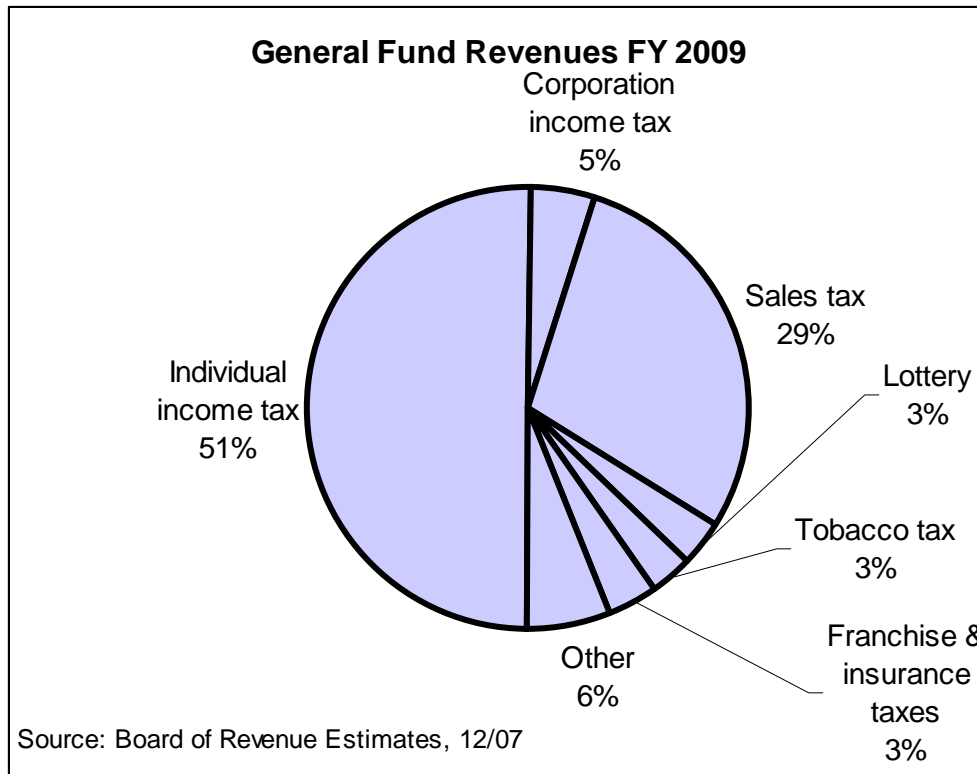
Revenue estimates are particularly important to the *general fund* budget. Maryland relies on income and sales taxes for 3/4 of its general fund revenue. Since these sources are quite sensitive to economic conditions, forecasts of the national and state economies are central to projecting revenues.

One of the most important features of the 2009 budget is the reliance on revenues raised during the 2007 special session of the legislature. As the legislature completed its work last April, the state budget was balanced through June 30, 2008. But the state continued to spend more in each year than it took in: a “structural deficit.” Governor O’Malley implemented about \$200 million in budget reductions in July to provide a “down-payment” on the structural deficit.

In the fall, he developed a multi-faceted fiscal plan affecting most major sources of state revenue, as well as slowing the planned growth of public school aid. The Governor called a special session to consider the proposals, beginning on October 29.

The projected budget gap for fiscal year 2009 (July 2008 through June 2009) was \$1.7 billion, according to the Department of Legislative Services. The total package approved by the special session includes provisions which increase and decrease revenues, increase and decrease

expenditures, and re-allocate revenues among different funds – some of them newly established. To fully close the gap, the package also relied on \$550 million of spending cutbacks.



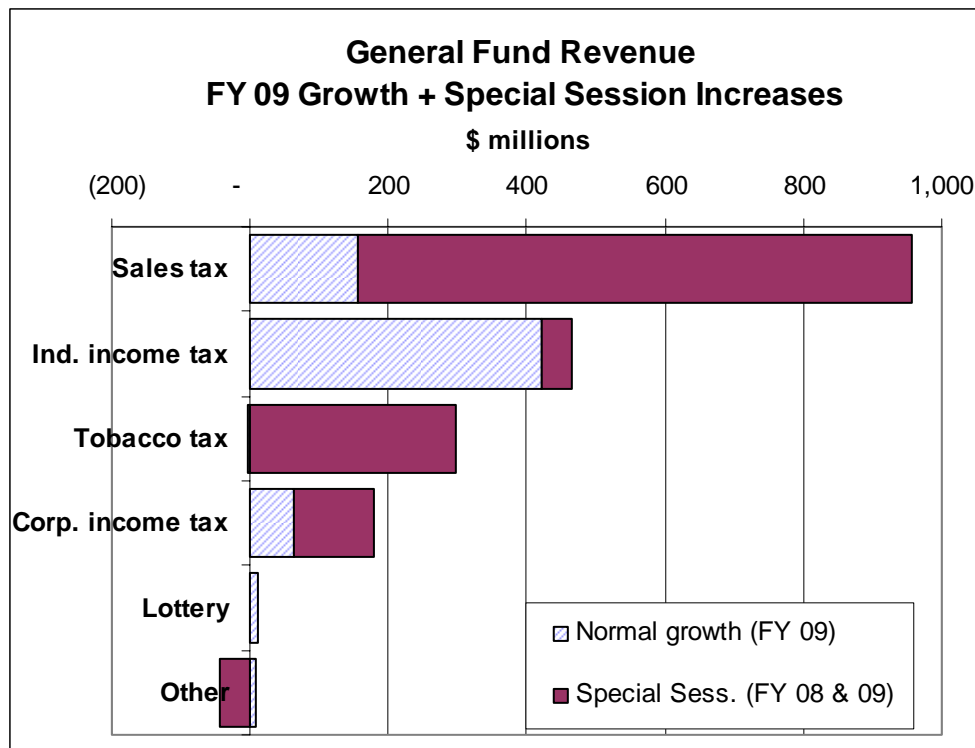
The Board of Revenue Estimates projects a slowing economy in 2008, followed by renewed growth. They are not projecting an actual recession. They identify the possibility of a downward spiral in the housing market as the most significant risk to the economy (and, therefore, the state's revenues).

The Board estimated revenue increases of 5.3% for the current year and 8.1% for the upcoming fiscal year. These estimates include the effects of revenue increases enacted by the special session. Subtracting these legislated increases, baseline growth would have been 2.2% this year and 5% next year.<sup>2</sup>

### **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.*

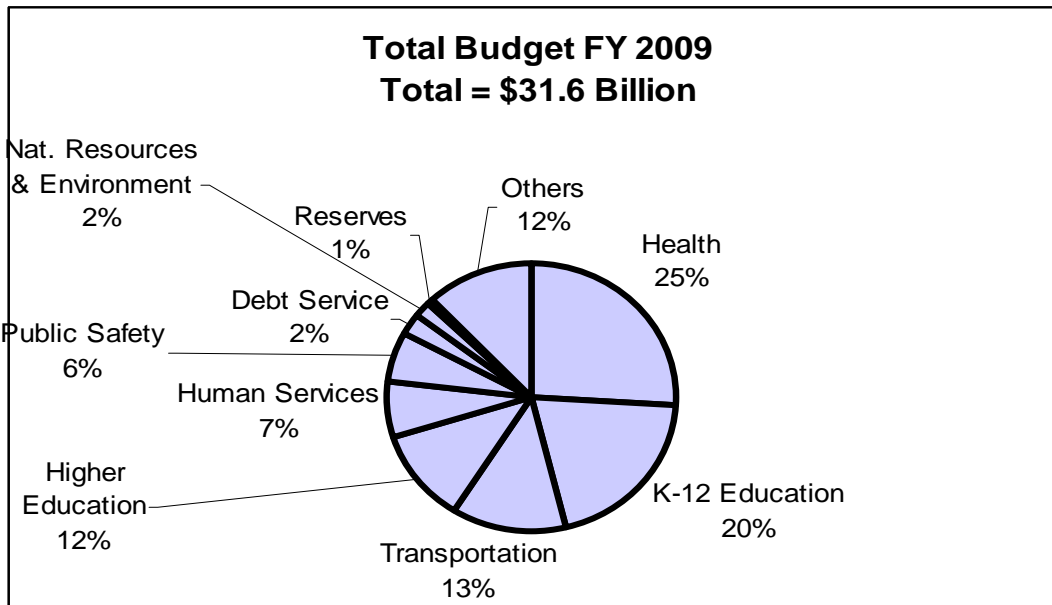


### **Special Session Revenues**

*The chart shows 18 months of revenues from special session legislation because most of the tax increases took effect in January 2008 - during fiscal year 2008. The proceeds collected during fiscal year 2008 are available to help support the fiscal year 2009 budget.*

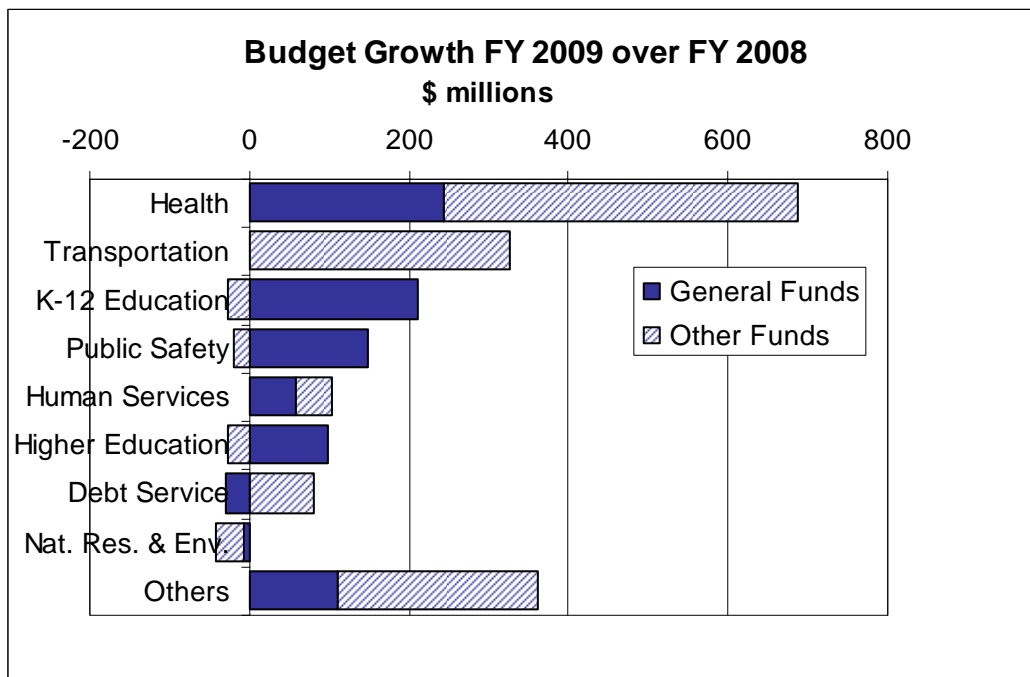
This shows that the budget is heavily reliant on the new revenues provided by special session legislation and that the sales tax and tobacco tax are by far the largest contributors to this new revenue.

## EXPENDITURES



The largest items in the state budget are health and primary and secondary education. If we add in higher education, then 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 83%. The remaining 17% covers everything else, including: environmental programs, the court system, debt payments, business development, arts and culture, and tax collection.

The *growth* in the budget is also concentrated in a few areas.



Health and transportation are easily the biggest gainers overall. Both these areas receive a lot of federal funding, and both received specific funding increases from the action of the special session. The “all other” funds for health are mostly the federal share of Medicaid. Transportation receives no general funds, and is funded entirely by dedicated taxes (like the gas tax), federal funds, and bond proceeds.

Focusing exclusively on general funds, health and K-12 education are the biggest gainers. The increase in K-12 education is almost entirely aid to local schools.

The reduction in “Natural Resources and Environment” relates to a drop in property transfer tax collections which fund the state’s land preservation programs.

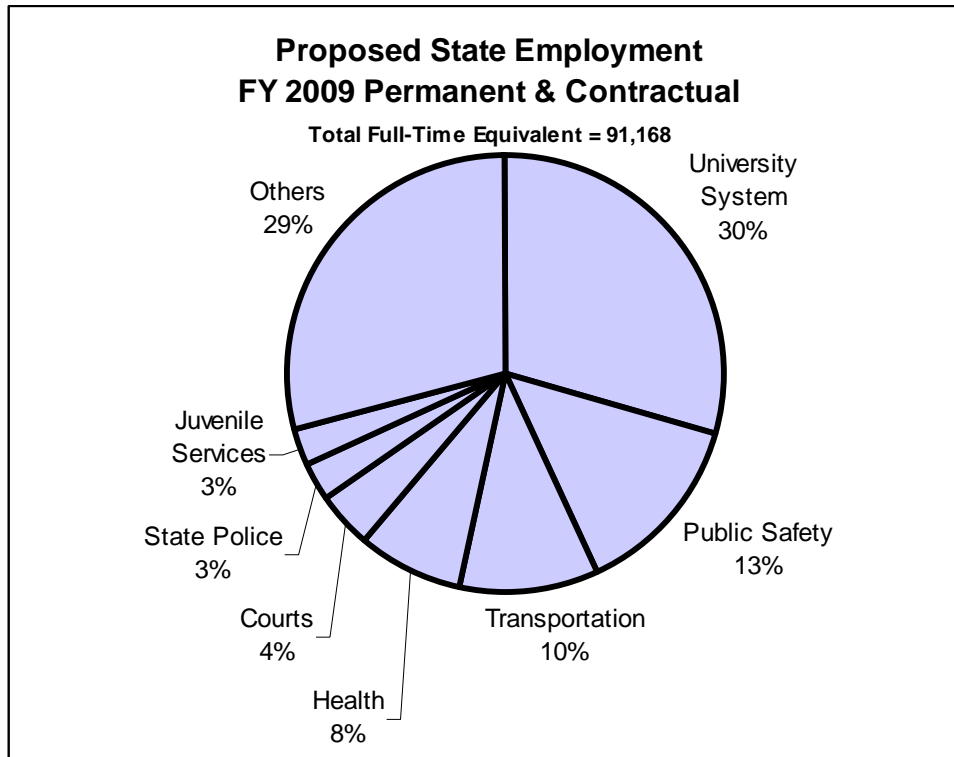
## **SPENDING AFFORDABILITY**

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 the proposed budget increases 4.12% under the “spending affordability” concept. 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 4.27%. The proposed budget is \$30.5 million under the spending affordability guideline.

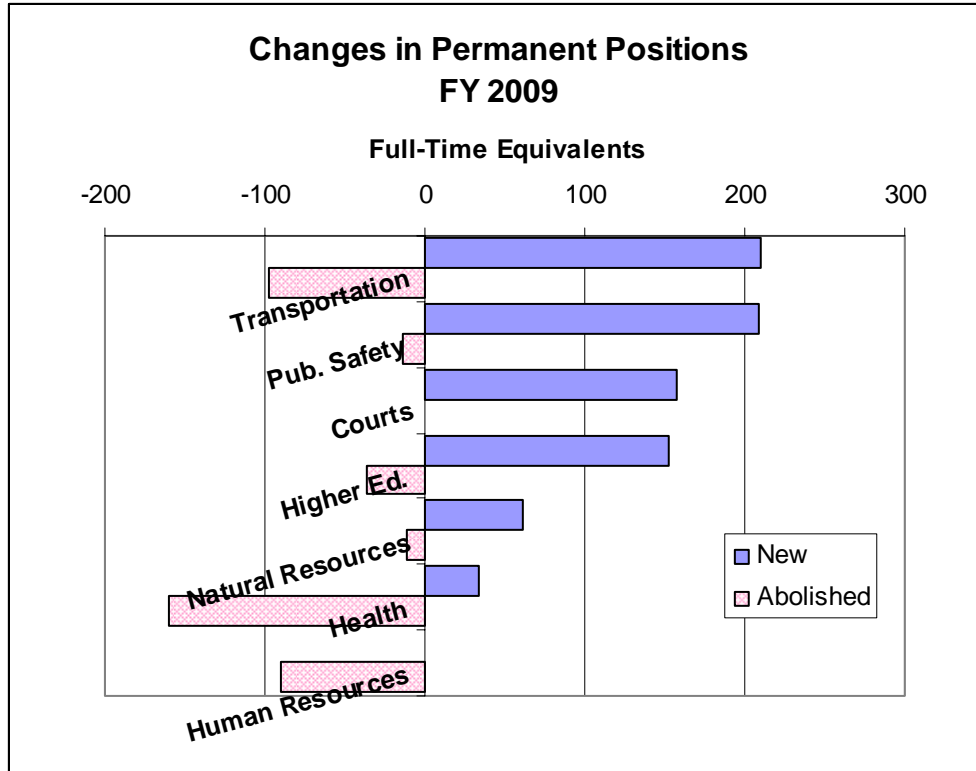
The spending affordability recommendation is not binding on the Governor or the legislature. However, the legislature tends to use it as a guide in its action on the budget. DLS’ calculation differs slightly from the Governor’s calculation of 4.09%. The legislature will use DLS’ calculation in its decision-making process.

## 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* increase of 400 permanent state employees. The special session legislation required 500 positions to be abolished. The budget abolishes 577 vacant positions. The largest numbers of abolished positions are in the health, transportation, and human services agencies. However, 975 new positions are proposed, mostly in transportation (more than offsetting the abolitions), public safety and correctional services, juvenile services and higher education.



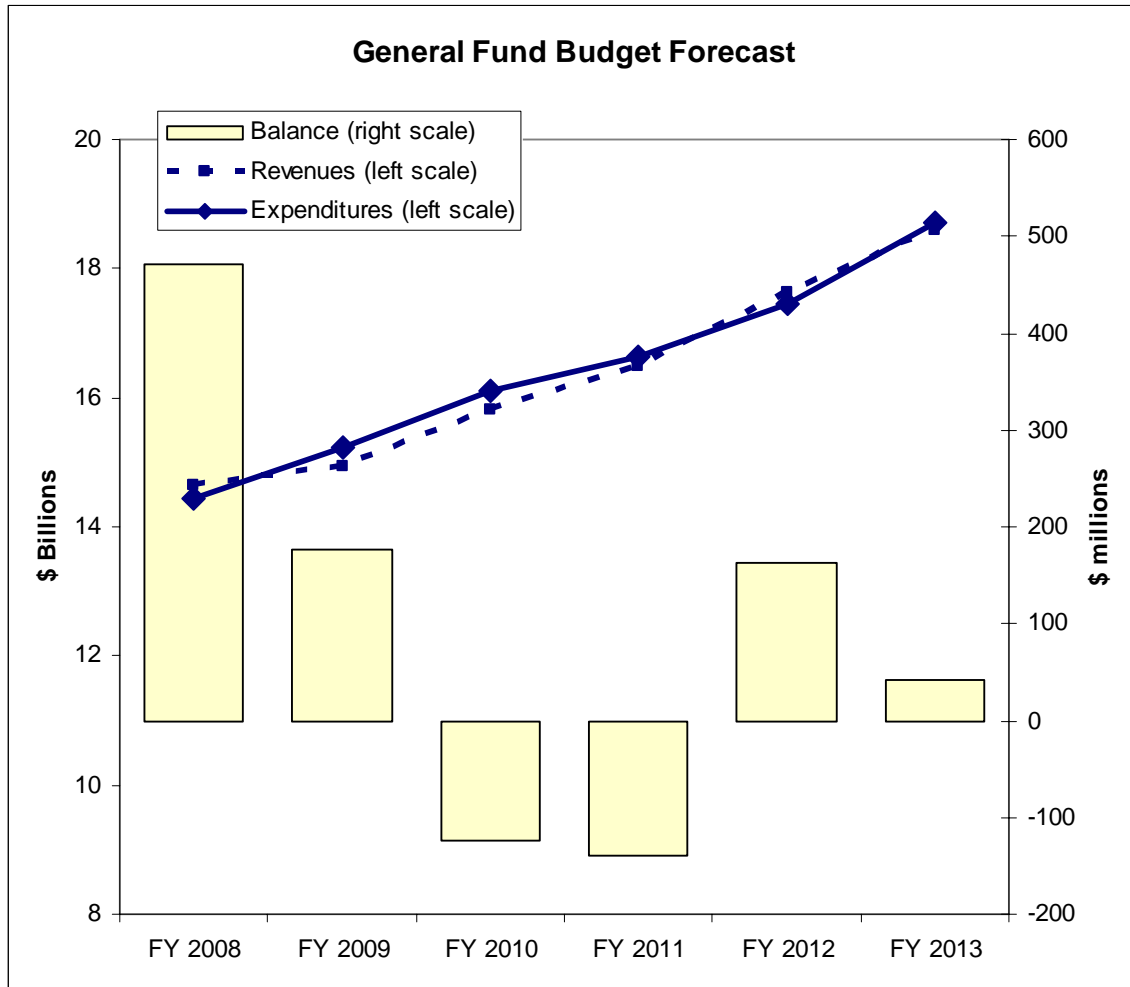
State employees would receive a 2% cost-of-living increase and the pay steps and deferred compensation benefits provided in law. There is another \$5.9 million in “Annual Salary Review” increases for state jobs that have been identified as hard to fill. These include scientists and engineers, and specific job types in various agencies.

## LONG-RANGE FORECAST

The Governor’s budget proposal includes a five-year forecast of general fund revenues and expenditures, ending with fiscal year 2013. The forecast shows revenue growth averaging 5.6% and expenditure growth averaging 5.3%. The forecast assumes that slot machines are implemented and begin generating substantial revenue in fiscal year 2012.

The budget shows Medicaid growing at an average rate of 10%, but K-12 education growing at only 3.1%.

The forecast projects deficits in fiscal years 2010 and 2011 until the assumed slot machine revenue provides the funds to fully meet expenditures.



From this forecast, we can conclude:

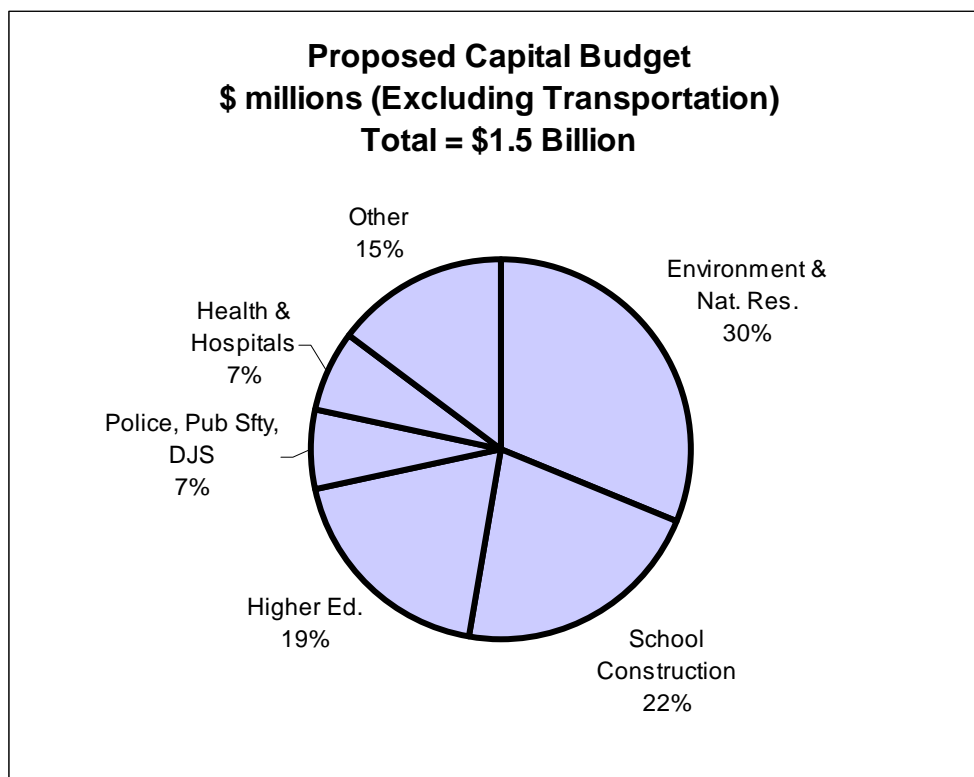
- Budget actions will be needed to balance the next two years' budgets. Spending cuts are the most likely possibility, but revenues and transfers are also options.
- Budgets will remain very tight for the foreseeable future.
- If the voters disapprove the slot machine referendum in November, it will trigger another serious financial crisis.

## 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 2009. 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 \$3.3 billion. About half, \$1.7 billion, is for transportation projects. This summary focuses on the other \$1.5 billion.



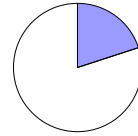
The items in Natural Resources and Environment are principally water quality programs (\$317 million), and land preservation programs like Program Open Space (\$119 million). Over \$300 million is provided for local public school construction. Higher Education projects include \$62 million for the School of Pharmacy Building at the University of Maryland, Baltimore, and \$81 million for 13 community college projects.

## SUBJECT AREAS

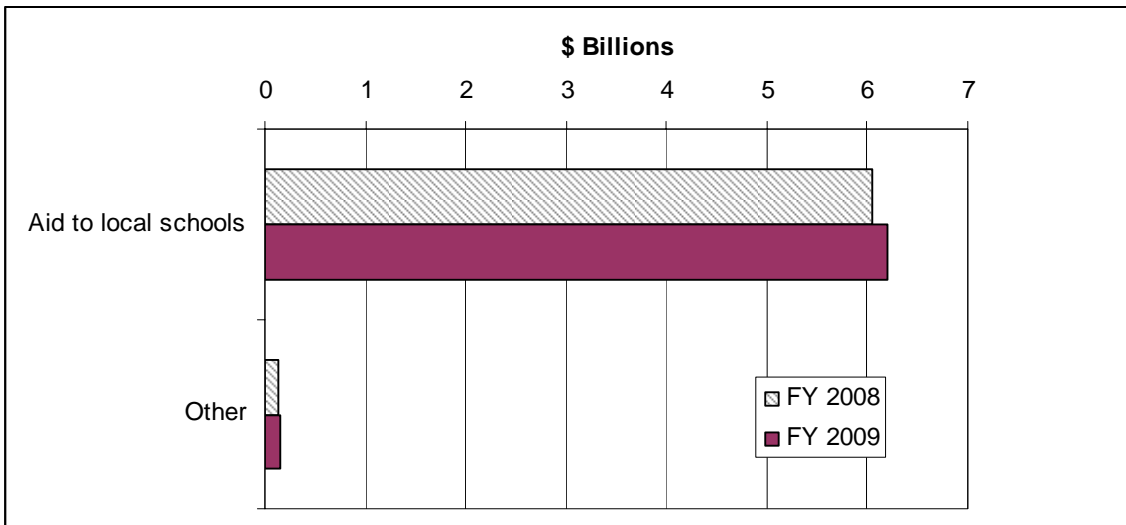
### K-12 Education

***Big Increase For Local Schools, But Less Than Half Of What They Were Due Before The Special Session Changed Funding Formulas***

“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:** \$6.4 billion
  - Increase over previous year: \$184 million (3.0%)
  - 20% of state budget
  
- **General Fund Budget:** \$5.6 billion
  - Increase over previous year: \$211 million (3.9%)



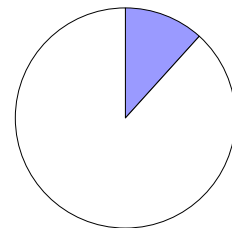
- **Highlights and Lowlights**
  - Local school aid increases \$184 million.
  - Includes \$77 million for “Geographic Cost of Education” index to compensate school systems serving high-cost localities.
  - *However*, local school aid would have been \$172 million higher without special session legislation to limit growth under the “Thornton” formulas.
  - \$2 million to begin residential school for “at-risk” youth.
  - \$2 million for education services to youth at Department of Juvenile Services Victor Cullen Center.

- **Special Effects**
  - Deficiency Appropriations – None.
  - Budget reconciliation items
    - Limits growth in aid for local libraries – saving \$3 million.
- **Capital Budget**
  - Over \$300 million for local school construction.

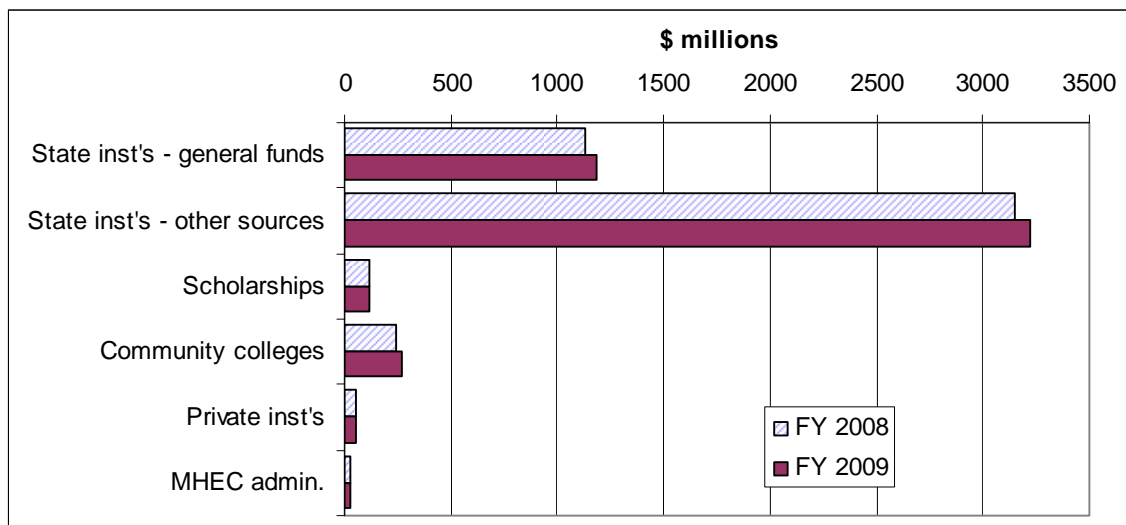
## Higher Education

### *Tuition Freeze and Bigger Enrollments*

“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:** \$3.6 billion
  - Increase over previous year: \$72 million (2.0%)
  - 12% of state budget
- **General Fund Budget:** \$1.6 billion
  - Increase over previous year: \$98 million (6.3%)



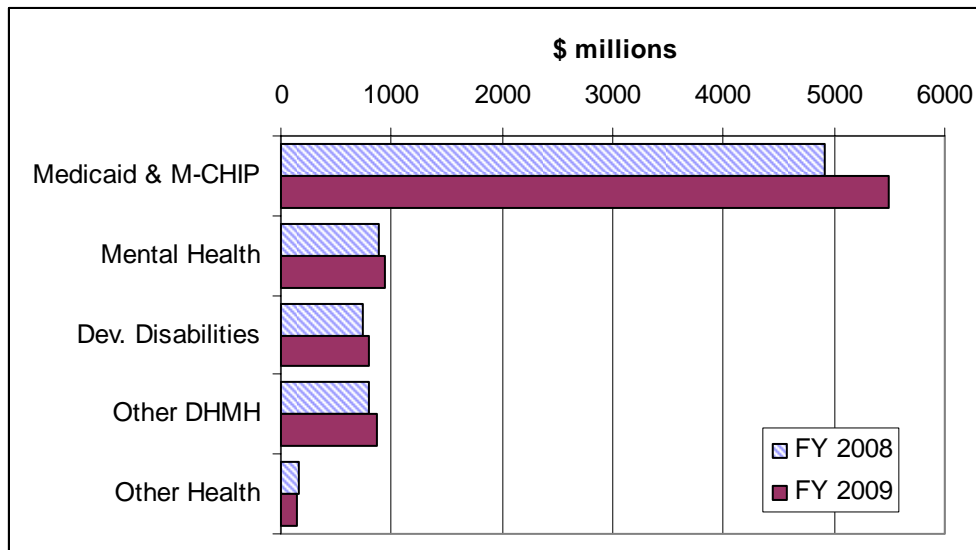
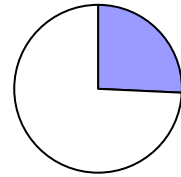
- **Highlights and lowlights**
  - In-state tuition holds at 2008 levels.
  - New “Higher Education Investment Fund” directs \$45 million from corporation income taxes to higher education.
  - Enrollment at state institutions to grow by over 2000 to 116,000.
  - \$3 million to address workforce needs of Base Realignment and Closure (“BRAC”).
  - \$150,000 increase for scholarships for Iran and Afghanistan veterans, to eliminate a waiting list.
  
- **Special Effects**
  - Deficiency Appropriations
    - \$750,000 for Baltimore City Community College land acquisition.
  - Budget reconciliation items
    - Holds aid to private universities and colleges at FY 2008 levels, saving \$6 million.
  
- **Capital Budget**
  - \$290 million for Higher Education Projects, including:
  - University System of Maryland \$181 million
    - \$62 million for UM, Baltimore Pharmacy Hall addition and renovation.
    - \$39 million for Coppin State new physical education complex.
  - Morgan State University \$14 million
    - \$8 million for campus utility upgrades.
  - St. Mary’s College \$7 million
    - \$3 million for planning replacement building for Anne Arundel Hall to house humanities programs.
  - Local Community Colleges \$81 million
    - 13 projects.
    - \$29 million for Montgomery College – Rockville Science Center .
    - \$13 million for Community College of Baltimore County – Catonsville new library.
  - Private Colleges and Universities \$8 million
    - 4 projects.
    - \$3 million for Loyola College science center.
    - \$3 million for Sojourner-Douglass College science and allied health facility.

## Health

### *Medicaid Coverage Expands For 46,000 Uninsured Residents*

“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:** \$8.2 billion
  - Increase over previous year: \$686 million (8.4%)
  - 25% of state budget
  
- **General Fund Budget:** \$3.9 billion
  - Increase over previous year: \$244 million (6.2%)

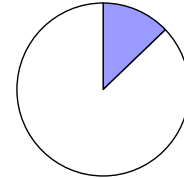


- **Highlights and lowlights**
  - Special session legislation expands Medicaid coverage to 46,000 uninsured residents.
  - The budget for Medicaid is \$89 million under the estimated baseline reflecting revised cost estimates, and delaying by six months the elimination of certain limits on the length of hospital stays.
  - Subsidies will be provided to eligible small businesses that begin providing employee health insurance.
  - \$16 million initiative to improve dental care coverage.
  - Rosewood Center, a state residential center for the developmentally disabled is slated to close by the end of the fiscal year. \$21 million is provided to place residents in community programs.
  - However, Developmental Disabilities is \$24 million under the estimated baseline cost reflecting a lower estimate of provider rate increases and the saving from closure of Rosewood Center.
  - \$5 million expansion of substance abuse treatment services.
  - \$4 million to expand mental health treatment for veterans.
  
- **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**
  - \$106 million for Health and Hospital projects, including:
  - \$48 million for State Medical Examiner new Forensic Medical Center.
  - \$22 million for community health-related facilities such as mental health services, developmental disability services, primary care clinics, and adult day care.
  - \$10 million for Johns Hopkins Medicine pediatric trauma care center.
  - \$5 million for 10 projects for community hospitals.

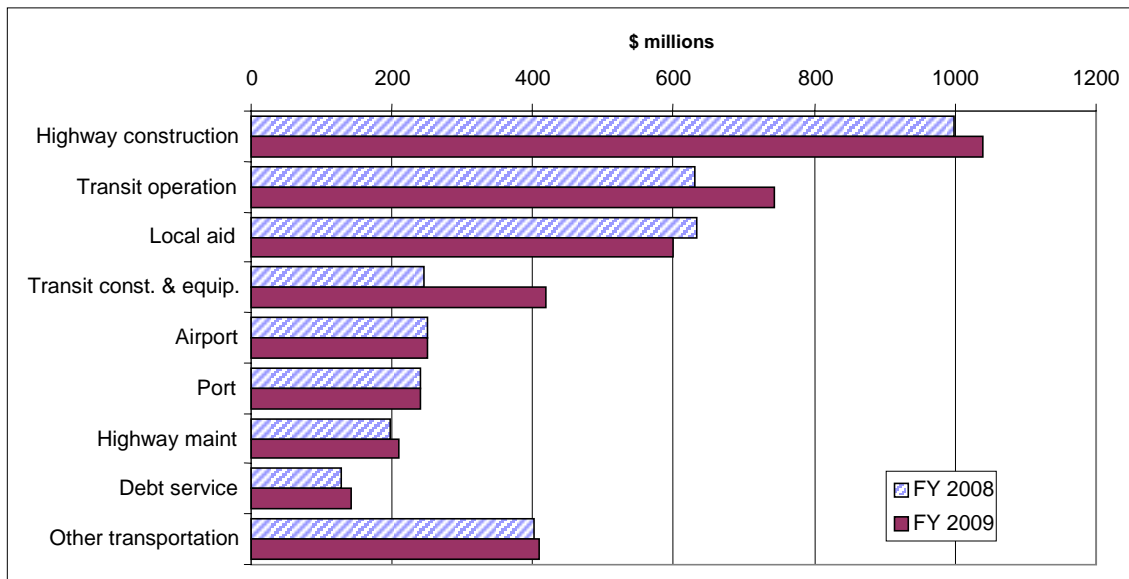
## Transportation

### *Funding for Highways and Mass Transit*

“Transportation” consists of the Maryland Department of Transportation. The Department includes the state highway program, mass transit, BWI 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. For the first time, a share of the state sales tax is dedicated to Transportation 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:** \$4.1 billion
  - Increase over previous year: \$324 million (8.8%)
  - 9% of state budget



- **Highlights and Lowlights**

- Transit expansion to include additional MARC commuter rail trips, expanded commuter bus service to Washington, and increased bus service and Light Rail trips in the Baltimore area.
- \$5 million added to highway maintenance.
- Airport and Port of Baltimore operations level-funded with the current year.

- **Special Effects**

- Deficiency Appropriations
  - \$22.3 million for transit operations.
- Budget reconciliation items
  - None.

- **Capital Budget**

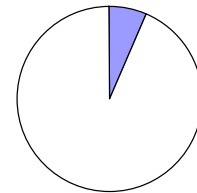
- \$1.1 billion in highway projects, including \$29 million towards the Wilson Bridge replacement and \$22 million for state route 4 in Prince George’s County.
- \$531 million for transit improvements, including \$27 million for improvements to MARC commuter rail lines, \$11.3 million for overhauls of MTA light rail cars, and \$173 million for Maryland’s share of Washington METRO projects.

## Human Services

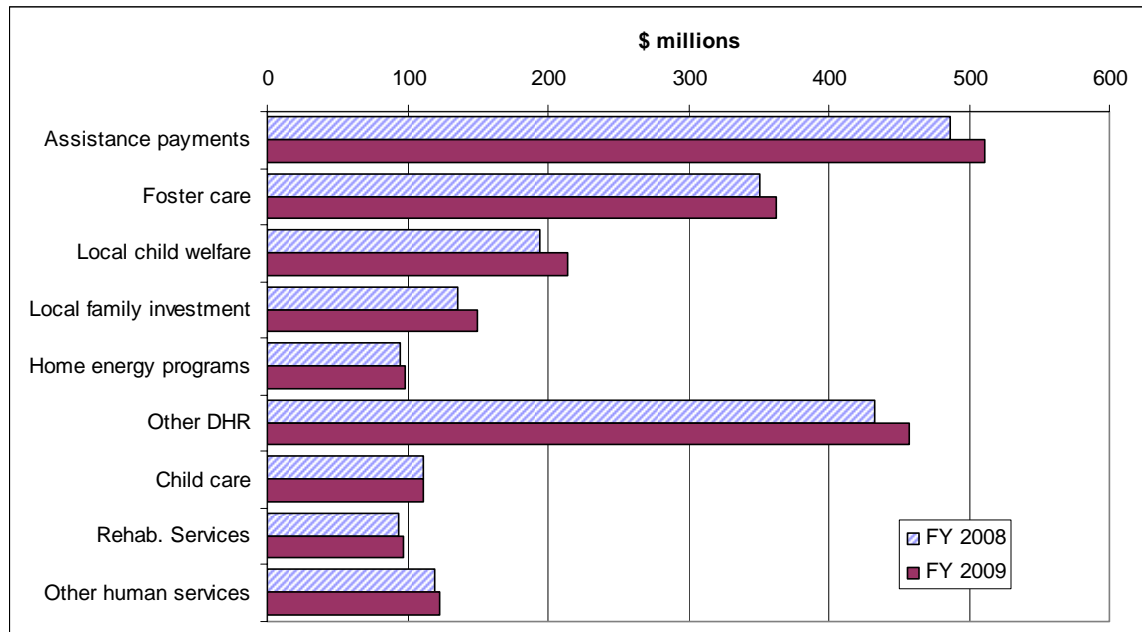
### *Only Modest Increases for Human Service Programs*

“Human Services” includes programs operated by the Department of Human Resources 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: \$104 million (4.9%)
  - 7% of state budget



- **General Fund Budget:** \$746 million
  - Increase over previous year: \$57 million (7.6%)



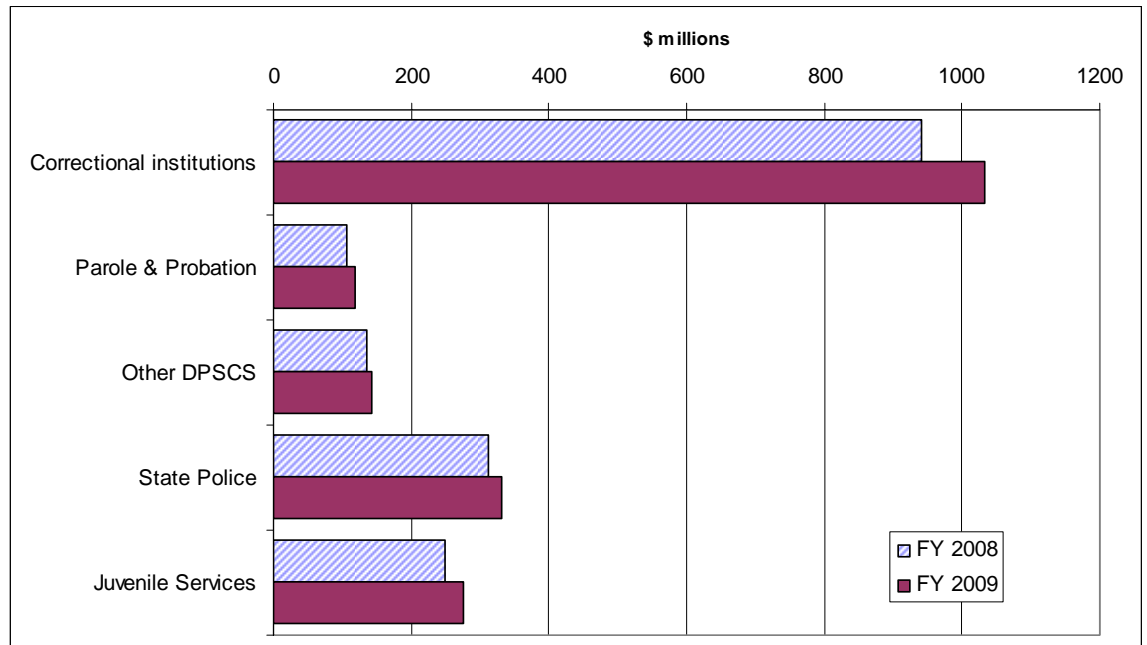
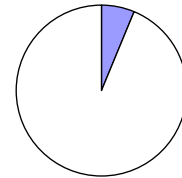
- **Highlights and lowlights**
  - Human services mostly increases at modest rates to cover caseloads, cost inflation, and employee salary increases.
  - \$1.2 million for a “mobile crisis team” to provide foster care children with 24-hour access to crisis services.
  - \$3.2 million increase to provide full-year funding for the Baltimore City Health Suite and Family-centered Practice training.
  - A \$3.2 million increase for the Maryland Department of Education Division of Rehabilitation Services is designed to reduce waiting lists for services.
  - State funding for foster care payments were \$15 million below the estimated baseline to reflect a projected improvement in federal fund attainment (state funds decline \$6 million from the current year, federal funds increase \$18 million).
  
- **Special Effects**
  - Deficiency Appropriations
    - \$10 million for energy assistance to low-income households (50% state, 50% federal).
    - \$1.5 million for information technology expenses.
    - \$1.6 million to reflect new or increase federal grants.
  - Budget reconciliation items
    - None.

## Public Safety

### *New Correctional Institutions and Crime Control Initiatives*

“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:** \$1.9 billion
  - Increase over previous year: \$129 million (7.3%)
  - 6% of state budget
- **General Fund Budget:** \$1.6 billion
  - Increase over previous year: \$149 million (10.0%)



- **Highlights and Lowlights**

- \$13.5 million and 156 new positions in the Division of Correction to staff and operate new housing units at the North Branch Correctional Institution in Western Maryland. The facility's capacity increases from 512 to 748.
- \$8 million increase in inmate medical expenses.
- \$3.1 million and 53 new positions for the Division of Parole and Probation to implement a High Risk Offender Supervision Program.
- \$1.3 million for the State Police to improve collection and analysis of DNA samples.
- The budget for DJS' Victor Cullen Academy, a 48-bed treatment center in Frederick County, increases \$3.2 million to reflect a full year of operation in fiscal year 2009.
- \$650,000 to expand the "Operation Safe Kids" monitoring program for high-risk youth in Baltimore City and introduce it in Prince George's County.
- 5 new positions to replace contractual positions in DJS facilities.
- DJS will initiate a Global Positioning System- (GPS-) based monitoring of high-risk offenders in Baltimore City, at a cost of \$0.9 million.
- Also in DJS, a \$13.2 million increase for private provider payments and \$4.8 million increase for staff overtime to reflect actual expenditure trends.

- **Special Effects**

- Deficiency Appropriations
  - Juvenile Services: \$27 million including staff overtime, payments for private providers, and start-up costs of the re-opened Victor Cullen Academy in Frederick County.
  - Public Safety and Correctional Services: \$12 million including overtime costs, survivors' death benefits.
  - State Police: \$1.4 million for unanticipated facility maintenance and utility costs incurred in fiscal year 2007.
- Budget reconciliation items
  - Division of Correction to save \$8 million in overtime costs by allowing 12-hour shifts.
  - Drunk Driver Monitor program fee increase to save \$1.4 million in general funds.

- **Capital Budget**

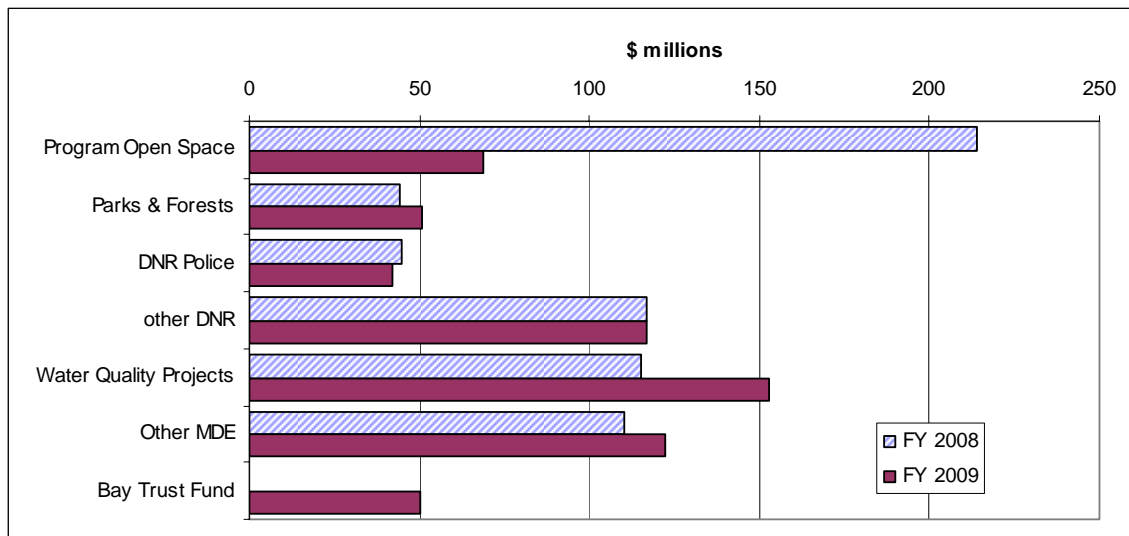
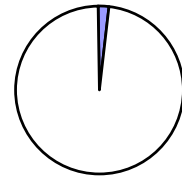
- \$23 million for DPSCS, including \$13 million for new housing and support services space at the Maryland Correctional Training Center in Washington County; and \$5.5 million for design of a new 800-bed Women's Detention Center in Baltimore City.
- \$20 million for 5 local jail projects.
- \$51 million for State Police, including \$34 million to replace three Med-Evac helicopters, and \$15 million for a new State Police barrack and garage in Hagerstown.
- \$5 million for Juvenile Services for design of a replacement detention center and a new treatment facility in Prince George's County.

## Natural Resources and Environment

### *Program Open Space Declines with Loss of Real Estate Transfer Tax Revenue*

“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. In Fiscal year 2009, the category includes the \$50 million Chesapeake Bay 2010 Trust Fund, which is temporarily budgeted in the Department of Budget and Management. This fund will be used for programs to restore the Bay and its tributaries. Funding will be transferred to the proper implementing agencies.

- **Total Budget:** \$604 million
  - Decrease from previous year: -\$41 million (-6.4%)
  - 2% of state budget
  
- **General Fund Budget:** \$114 million
  - Decrease from previous year: -\$8 million (-6.6%)



- **Highlights and Lowlights**

- Program Open Space, Maryland's signature program for preservation of land for environmental and recreational purposes, declines by \$145 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.
- State park budgets increase \$4 million with 58 new positions. Funds will be used to replace equipment and improve park infrastructure, as well as increasing park management, recreational and educational 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 greenhouse gases and energy conservation. These include the Maryland Energy Administration's and Department of General Services' efforts to reduce energy usage at state facilities, Maryland Transit Administration's purchase of hybrid-electric buses, and the Department of Housing and Community Development's funding for low-income home weatherization assistance.

- **Special Effects**

- Deficiency Appropriations
  - Department of natural Resources: \$4 million. Includes \$2 million for Natural Resources Police boating safety programs and drug trafficking enforcement, and \$700,000 for fisheries programs.
  - Department of the Environment: \$6 million, mostly reflecting increased federal funding for safe drinking water projects.
- Budget reconciliation items
  - Special session action allowed \$17 million in Program Open Space funds to be used for state park and forest operations.

- **Capital Budget**

- \$474 million for environmental programs in the largest component of the capital budget.
- MDE includes \$317 million in water quality programs.
- Program Open Space and other land preservation programs total \$119 million.

## BUDGET PROCESS<sup>3</sup>

- 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 Senate's 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 90<sup>th</sup> day of the session (April 7 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 2009 began in the summer of 2007. The following chart summarizes the budget timetable.

	Executive Branch	Legislative Branch
Summer 2007	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 <sup>th</sup> 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 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.
March 31 <sup>st</sup> (83 <sup>rd</sup> day of session)		Constitutional target for final legislative action on operating 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 2009 begins	
June 30, 2009	Fiscal year 2009 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.

**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 2008, which began July 1, 2007 and will end June 30, 2008. The legislature is considering the budget for fiscal year 2009, which begins July 1, 2008.

**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](http://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](http://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](http://www.gov.state.md.us)

- Press releases
- Information on Governor’s initiatives

### **Comptroller of Maryland**

[www.comp.state.md.us](http://www.comp.state.md.us)

Click on “Financial Reports” for:

- Official Revenue Estimates

### **Maryland.gov**

[www.maryland.gov](http://www.maryland.gov)

- Official State Web Site

### **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](http://www.marylandpolicy.org)

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

## REFERENCES

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<sup>1</sup> 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 21, 2008. Data drawn directly from these sources will not be specifically referenced. Otherwise, this report would be riddled with footnotes referencing those sources. Maryland is blessed to have highly dedicated, expert, and public-spirited analysis staffs at these agencies. I am deeply indebted to them in being able to bring you this guide.

<sup>2</sup> Report of the Maryland Board of Revenue Estimates on Estimated Maryland Revenues – Fiscal years Ending June 30, 2008 and June 30, 2009. December 13, 2007.

<sup>3</sup> Much material in this section is drawn from *Maryland’s Budget Process: Legislative Handbook Series Volume IV 2006*, Annapolis: Department of Legislative Services.