



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

SPECIAL REPORT

Maryland Budget Update

Instant Analysis

Special Report
January 22, 2009

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On January 21, Maryland Governor Martin O'Malley submitted a balanced budget for fiscal year 2010, which begins July 1, 2009.

The Governor faced a \$2.4 billion projected shortfall, caused by revenue reductions arising from the faltering national economy.

The Governor proposes to balance the budget through a combination of budget cuts, fund transfers and federal stimulus payments.

MB&TPI BUDGET UPDATE

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Budget Dimensions

- Total budget \$31.6 billion
 - 2.3% increase over this year

- General fund budget \$14.4 billion
 - 1.3% decrease from this year
 - (Excludes federal funds and legally restricted “special funds”)

Balances:

- July 1, 2008 \$487.1 million (actual)
- July 1 2009 \$424.1 million (estimated)
- July 1 2010 \$45.9 million (proposed)

How is it balanced?

- Budget cuts \$1.1 billion
- Transfers \$890 million
- Federal stimulus assumed \$350 million

Reserve fund

The budget withdraws \$210 million from the “Rainy Day Fund,” leaving it at the benchmark 5% of estimated revenues - \$733 million.

What goes up?

- State colleges and universities +\$25 million
- Public Safety and State Police +\$13 million
- Judiciary system +\$30 million

What goes down?

- Local government funding -21 million
- Medical assistance -262 million (replaced by federal assistance)
- Transfer for Inter-County Connector -65 million (replaced by bond funds)

Public Education

Direct aid to local schools goes down \$69 million. The \$137 million increase in the state payment for teachers’ retirement means that total state support for the 24 local school systems increases by \$68 million.

The Governor proposes to increase the amount local school systems pay towards special education students from their districts in non-public schools, and to reduce special “supplemental” grants. The “Geographic cost-of-education” Index, which would provide additional funds to high-cost school systems, is funded at \$38 million, about 1/3 of the recommended amount.

Health

The budget preserves existing coverage, including the recent expansion of Medicaid for low-income

parents. The planned expansion of Medicaid coverage to low-income adults without dependents would be deferred.

Most provider rates are being held at their current levels. Community providers (for example in areas on mental health, developmental disabilities and substance abuse treatment) will get a 9/10 of 1% rate increase.

State Jobs

The number of state jobs will be down 1700 compared with July 2007. The state has reduced jobs by a net amount of about 550 jobs over the course of this year. This budget abolishes another 2100 jobs, while adding 273 (mostly in higher education and the judiciary).

The budget relies on approximately 700 lay-offs – to be determined after the budget’s passage - to provide another \$30 million. Governor O’Malley has suggested that if there’s a sufficiently large federal stimulus payment, the lay-offs may be avoided.

There are no employee pay raises in the budget, and the state will not match employee’s deferred compensation contributions. The budget does not increase state employees’ health insurance expenses, a measure that had been discussed.

Spending Affordability

The legislature’s Spending Affordability Committee recommended that state spending growth not exceed 7/10 of 1%, based on the unique calculation methodology that it has always used. Under this calculation, the Governor’s budget declines by 1.57%, putting it \$472 million below the recommended maximum.

This suggests that the spending affordability limit will not be a constraining factor in this year’s budget deliberations.

An Interesting Twist - Counties to Pay for Property Assessments

The Governor did not propose for local governments to pay for a share of the cost of teachers’ retirement – a subject of much speculation. The Governor did propose that local governments pay 90% of the cost of property tax assessment, a shift of over \$36 million.

Federal Stimulus

An economic stimulus bill totaling \$825 billion is currently under consideration in Congress. The Governor assumed \$350 million in stimulus payments in the medical assistance program to help balance the budget.

Maryland’s actual payment could be much larger.

The version being reviewed by the US House Appropriations Committee contains \$192 billion of aid to state and local governments. One estimate places Maryland’s share of this aid at \$3.2 billion.

Not all of this would be available to help the state’s budget shortfall. Some of the money would be dedicated to infrastructure projects, like roads, school and water quality improvements. These will be good for Maryland’s economy, but will not help the budget gap because they come with a spending mandate.

Nevertheless, if Congress passes a stimulus bill with this level of relief, and if they do so before the legislature takes action on the budget in April, then it should be possible to restore a portion of the state budget cuts.

Revenue Estimates

The Board of Revenue Estimates revises the state's official revenue forecast one more time (in mid-March) before the legislature takes final action on the budget. As the national economy continues to worsen, these estimates may do down further yet.

The worst-case scenario is that revenue estimates take another sharp decline and Congress is not able to pass a stimulus bill in time for the state legislature to complete the budget.

5-year forecast

The Department of Budget and Management produces a five-year financial forecast as part of the Governor's budget. Many of the actions proposed to balance the 2010 budget are not on-going – use of reserve funds and federal stimulus for example. In each of the five years, the department projects a shortfall of \$500 to \$700 million. So, even when the state get through this budget session, there will be more tight budgets in the years to come.

What's Next?

For the next 11 weeks, the legislature will hold hearings, review analyses by its staff, and work to approve the budget. During this time, the Governor may introduce one or more supplemental budgets. A supplemental budget could be the mechanism for bringing additional federal stimulus aid into the budget process. April 6 is the constitutional target for the legislature to complete its work on the budget. The legislature does not always meet this target, but usually finishes the budget by the scheduled end of the legislative session, April 13 this year. The new fiscal year begins July 1, 2009.

The Regular Person's Guide to the Governor's Budget

The Maryland Budget and Tax Policy Institute's "Regular person's Guide to the Governor's Budget" will be ready in February with more in-depth information on budget highlights and low-lights.

Updates

The Institute will also provide regular updates on budget news on our web site throughout the legislative session.

Sources

Department of Budget and Management, *Maryland Budget Highlights FY 2010*, Annapolis, Maryland 2009.

Department of Legislative Services, *Quick Look at the Fiscal 2010 Budget*, Annapolis, Maryland 2009.

Federal Funds Information for States, *Estimated State Allocations of Selected Proposed House Stimulus Funds*, January 21, 2008.

About the Maryland Budget & Tax Policy Institute

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 low-income Marylanders and other vulnerable populations and the important community programs that serve them. For additional information, to be added to our e-mail list, or to make a tax-deductible contribution, please visit our website at www.marylandpolicy.org.

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