



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

SPECIAL REPORT

Maryland Budget Update

House Appropriations Committee Approves Balanced Budget

Special Report
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- Budget balancing actions added by the House total \$639 million.
- \$119 million in spending cut from Governor's plan.
- Largest items are use of special funds from Medicaid and energy assistance.
- Community colleges, school systems, courts and private higher education are also hit.
- Local governments are affected by \$102 million transfer of transportation funds and \$60 million transfer of income tax revenue.
- Higher unemployment and lower revenues estimates mean more money is available from federal stimulus and state reserve fund.

HOUSE APPROPRIATIONS COMMITTEE APPROVES BALANCED BUDGET

Following a disappointing write-down in state revenue estimates, the House Appropriations Committee needed to come up with over \$500 million to balance the budget. In addition, they determined to allow new federal tax breaks for low-income earners, recipients of unemployment benefits, and new-car buyers to flow through the state income tax as well, adding \$35 million to the puzzle.

The Committee completed its balanced budget recommendation, largely through a series of transfers from special funds, cuts to local revenues and state spending cuts.

The full House of Delegates will approve the budget. The budget will then move to the State Senate, which will recommend its own version. A conference committee of Senators and Delegates will then meet to reconcile differences.

The Problem

On March 11, the Maryland Board of Revenue Estimates announced that state revenues for fiscal years 2009 and 2010 will come in \$1.1 billion below previous estimates. Governor O'Malley anticipated part of this reduction in his plan to use Federal stimulus funds. In addition to the general fund reduction, revenue from application fees for slot machine licenses will be about \$50 million less than assumed in the original budget.

In addition, the federal stimulus bill included several targeted federal income tax reductions or benefits. The House Ways and Means Committee (which has jurisdiction over tax policy) recommends allowing Maryland taxpayers to take advantage of three provisions in their state as well as their federal returns (known as "re-coupling"). These provisions affect the Earned Income Tax Credit, taxation of unemployment benefits, and a deduction for purchases of new cars.

- The federal changes increase the earned income tax credit (EITC) for families with three or more children from 40 to 45 percent of qualifying earnings. They also reduce the credits "marriage penalty" for two-income couples.
- The federal changes exempts up to \$2,400 of unemployment compensation for 2009 from federal income tax.
- They provide a federal tax deduction for the sales tax ("the 6% titling tax" in Maryland) of new domestic or foreign cars and light trucks bought within one year of the bill's date of enactment. The deduction would be available to both taxpayers who itemize their deductions and those who claim the standard deduction. Single taxpayers with income up to \$135,000 and couples with income up to \$260,000 would be eligible to claim the deduction.

By providing the corresponding tax breaks on the state income tax, Maryland loses an estimated \$35 million in revenue.

Between the General Fund revenue revisions, the loss of projected slot license fees and these federal tax effects, legislators had to find nearly an additional \$650 million in the Maryland State Budget to restore balance – even after accounting for federal stimulus aid.

The Budget Problem House Budget Compared with Governor's Stimulus Plan General Funds - \$millions	
Reduced revenues	1,162
Less reduction projected by Governor	(600)
Slot licenses	50
Federal tax provisions	35
Total	647

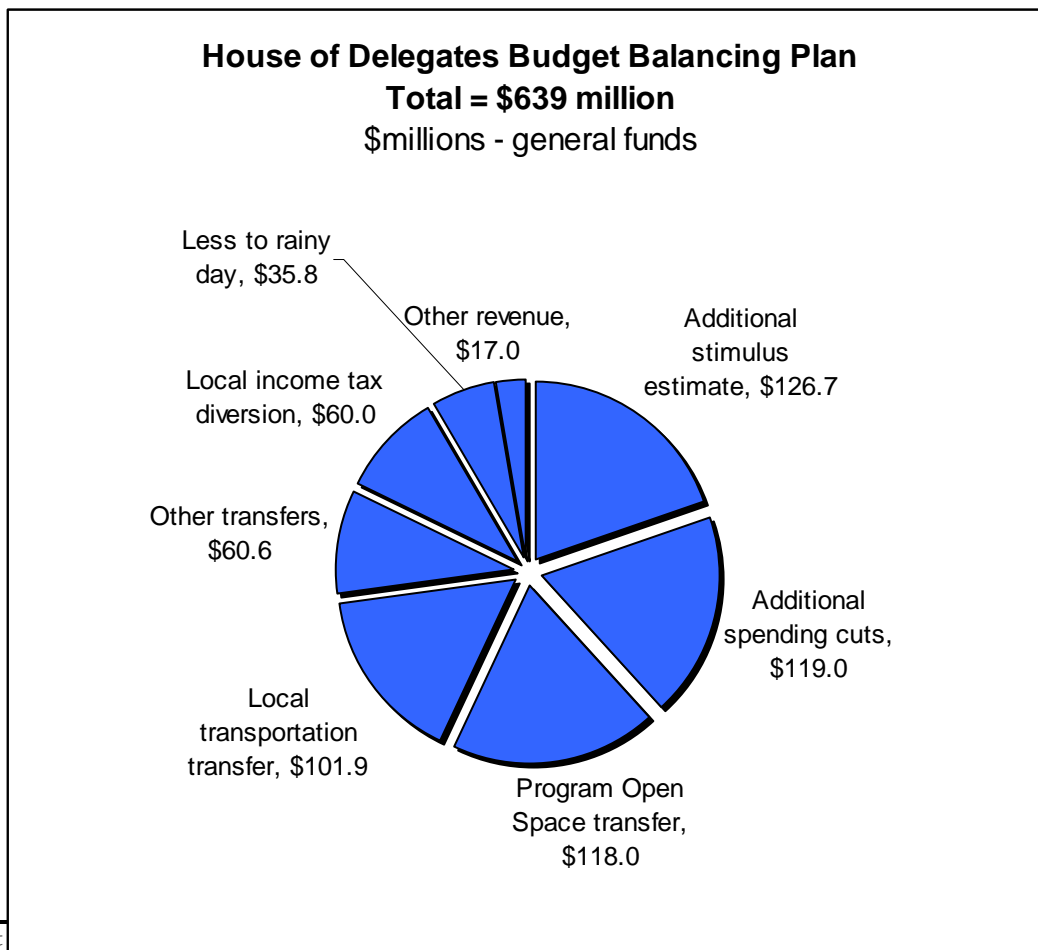
The Solution

The Appropriations Committee recommended a budget-balancing solution that relies on a combination of transfers, cuts, and other measures. The chart shows the budget-balancing approved by the Committee in excess of measures already approved by the Governor.

Silver Linings

Two pieces of the solution represent “silver linings” in otherwise dark clouds.

- Additional estimated stimulus. Recent unemployment data shifted Maryland into a category where we will receive an increased share of Medicaid expenses from the federal government. For fiscal



years 2009 and 2010 combined, the estimated increase adds \$127 million to Maryland’s federal stimulus proceeds.

- The reduction in estimated general fund revenues means that less is needed in the state reserve fund to maintain the 5% target. This allows for the withdrawal of about \$35 million.

Transfers

The Appropriations Committee proposed to use \$902 million in transfers for the 2009 and 2010 budgets, compared with \$622 million in the administration’s plan. These include two large items that were not in the administration’s budget plan.

- \$118 million would be transferred from Program Open Space and related programs, which preserve land for environmental, recreational and agricultural purposes. State bond proceeds will replace this funding.
- \$102 million in funding designated for local highway and transportation funding will transfer to the general fund.

The committee authorized several smaller transfers (\$10 million from the state unemployment compensation fund and \$5 million from the Maryland legal Services Corporation, for example), and increased the amounts of some of the fund transfers proposed by the governor (such as \$30 million from the University System of Maryland instead of \$20 million, \$28 million from the state’s reserve for worker’s compensation expenses, instead of \$18 million).

Budget Cuts

The House Appropriations Committee recommended \$486 million in budget cuts. Many of these cuts were reductions in statutory programs already recommended by the Governor. An example is a \$1.1 million reduction in the funding formula for tourism development.

Here are the largest of the reductions approved by the committee:

Item	Millions
Use special fund balances for Medicaid expenses	\$53.5
Use carbon license revenues for low-income energy assistance	35.6
Reduce local community college formula	35.1
Recover in FY 2010 funding erroneously provided to school systems in FY 2009	30.8
Operating cuts in judicial system	25.2
Reduce funding for private colleges and universities	20.6

There were several dramatic actions that the committee considered but rejected: a permanent 1% reduction in state salary levels, a requirement for higher-income counties to subsidize the “disparity grant” which distributes \$121 million for low-income counties, a requirement for counties to fund the costs of property assessment.

Local Government Impacts

Several of the Appropriations Committee actions hit local governments hard.

- The committee transfers \$60 million from local income tax proceeds to the state general fund. The amounts are allocated among counties according to the amount of income tax proceeds (with wealthier counties giving more) and tax effort (with counties with higher tax rates giving less). Committee leaders explained that they first considered reducing one of more categorical grant programs. They chose this method for exacting a contribution from local governments because it would maximize local governments' administrative flexibility in how to manage the cuts and would not single out one or two jurisdictions for disproportionately large cuts.
- As indicated above, the House plan transfers \$101 million in local transportation revenues to the state. This loss could be offset by federal stimulus funding for roads and transit.

Is the safety net safe?

In general, the Appropriations Committee made a strong effort to avoid harming "social safety net" programs. The budget plan preserves the first phase of expansion of Medicaid eligibility (to low-income parents) and does not reduce benefits in the major programs of income support, child care, and related areas. The Committee avoided damaging cuts to mental health funding. The budget probably does not include increases in most programs sufficient to meet demands that will increase in the poor economy, and it may be necessary to address shortfalls with deficiency appropriations next year.

There are a few areas in which the Maryland Budget and Tax Policy Institute has concerns about the effects of the House budget actions.

2-1-1 – The budget eliminates a \$449,000 state grant for 2-1-1 Maryland operations. Although not a direct service provider, the 2-1-1 telephone system facilitates the referral of people in need with the appropriate services. As the economy continues to deteriorate, a strong, professional, accessible information and referral service is more even more important.

Head Start – The Committee eliminated Head Start/Early Head Start State Supplemental Grants and reduced the Child Care Subsidy reduced citing availability of federal stimulus dollars. The state grants fund only those things that the federal money does not. For example, state-funded summer and extended day programs that help keep parents in the workplace. Expanded and enhanced quality services make demonstrated improvements in low-income children's school readiness and success in school.

Adult Services – The Department of Human Resources has frozen enrollment to three programs of social services for low-income, elderly or disabled adults. These programs frequently provide services that allow individuals to remain in their homes and avoid placement in an institution. As unmet needs for these services build, more seniors and disabled adults will be unnecessarily thrown into institutions at a greater cost than the support programs. The Maryland legislature lacks the authority to add funding for programs omitted by the Governor, so the Committee had no opportunity to rectify this problem. The Maryland Budget and Tax Policy Institute is hopeful that the Governor can provide this funding in a supplemental budget before the budget process concludes.

"Black-box cuts" – The budget plan contains a number of statewide reductions that will be allocated after final passage of the budget.

Item	General Funds (\$millions)
Abolish 1,000 vacant position	25.0
Reduce contractual positions	5.0
Renegotiate contracts	25.0
	55.0

The real-world consequences of these cuts may have serious effects on services. For example, \$25 million saved by “renegotiating contracts” evokes images of reduced funding for consulting, data processing, landscaping, or trash removal. However, the budget allocates the bulk of the cuts 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.

Social services workforce – The Maryland Budget and Tax Policy Institute and other advocates remain alarmed about the inadequacy of the workforce in state and local social services agencies to meet increasing needs for benefits in the current economic failure. The state must relax its hiring constraints in this area, and use categorical stimulus funds to re-staff social services offices and related functions.

Next Steps

State budget-watchers expect a supplemental budget from the Governor before the Senate takes action on the budget. This budget would recognize federal stimulus aid and restore selected funding cut from the original budget by the Governor. The House action pre-supposes such a supplemental budget. The full House of Delegates must approve the final budget. Then it moves to the state Senate for approval by the Budget and Taxation Committee and the full Senate. Finally, a conference committee of Senators and Delegates will convene to negotiate remaining differences.

The constitutional target for final passage of the budget is April 6. Although the legislature does not always conclude its budget work by this deadline, it generally finishes by the final scheduled day of the legislative session, April 13 this year.

The budget takes effect upon passage by the legislature, without the Governor’s signature.

Looking Over the Horizon

Most of the techniques used by the Governor and the House of Delegates to balance the budget have only a temporary effect. These include nearly \$1 billion in fund transfers and \$2.1 billion in federal stimulus payments.

After 2010 the millionaire tax bracket will expire and inflation adjustments on various funding formulas will kick in. Having made over \$1.5 billion in cumulative cuts to this budget, most of what remains in the spending plan are high priorities: public schools, health care, higher education, public safety and a basic safety net. Without a new source of permanent revenue, the next two or three budgets will be increasingly challenging.

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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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