



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

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Budget News

The Budget Hole is Big

Maryland faces a 2.4 billion dollar state budget shortfall. How big is that? It equals:

- More than 1 in every 7 state general fund dollars, or
- Over 40% state aid to public schools, or
- The entire state share of the Medicaid budget or
- The combined budgets of the Departments of Agriculture, Business & Economic Development, Housing and Community Development, Human Resources, Environment, Juvenile Services, Natural Resources, Public Safety & Correctional Services, and State Police.

A Balanced Approach to Balancing the Budget

Most political observers consider tax increases to be “off the table” in Annapolis this year. Yet the cuts needed to balance the budget would be catastrophic to health care, education, and the “safety net” for families.

For a (somewhat oversimplified) sense of what it’s like to cut 2.4 billion dollars from the state budget, see Maryland Commons “Make the Cut” budget game, and try it for yourself at MarylandCommons.com.

The game is “easier” than the real world, both because the number of agencies and programs has been summarized, but also because it’s just you and the computer. When the Governor cuts the budget, he has to deal with 188 legislators, 23 counties and Baltimore City, a couple dozen state agency heads and hundreds of advocates for influential interests. And by the way, he also affects the daily lives of millions of Marylanders.

Still, the computer game gives you a superficial sense of how severe these cuts would need to be.

Three options are available which together may be enough to stave off damaging budget cuts.

1. Use the reserve fund. The Revenue Stabilization Account of the State Reserve Fund is known as the “Rainy Day Fund.” It is raining!

Maryland should use the state reserve fund AS INTENDED to help the budget through an extraordinary tough time. We should use half of the reserve, about 375 million dollars, to help stabilize the budget.

2. Transfer accounting reserves. At Maryland Nonprofit’s legislative preview conference, State Comptroller Peter Franchot announced that

his staff has identified over 360 million dollars in accounting reserves which can be used to help the general fund. These reserves offset an accounting liability for future income tax refunds. But these refunds can in fact be funded from current revenues without using these reserves. In normal times such reserves need to be fully funded. In this situation it's better to use them to avoid harmful cut-backs.

3. Take Uncle Sam's help. The US House Appropriations Committee has proposed an 825 billion dollar economic stimulus package, including 170 billion dollars in funding for state education and health programs. These are the two biggest categories of expenditure for Maryland and for most states. As of this writing, we do not have state-by-state estimates of the funding allocation. Maryland's share of this funding could be enough to offset any cuts in state services.

The Longer Term

The use of the state reserve fund, the accounting reserves identified by the Comptroller, and the federal stimulus aid are all temporary revenue sources. They buy time, but do not solve the underlying problem. So, Maryland could be in for another big budget problem in 2011. Slot machine revenue will still be a year in the future. We have no way of knowing if the national and state economies will recover in time to improve existing revenues.

When the 2011 budget is enacted in January 2010, elections for Governor and all 188 legislative seats will be only seven months away. Conventional wisdom holds that state taxes cannot be increased in an election year. Serious program cuts are considered only slightly less dangerous. Expect budget officials to make their decisions this year with one eye on next year.

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Poverty & Economic Well-being

The Heat Is On! Or Is It Going Out the Window?

As temperatures go down and thermostats turn up, there's no better time to talk about home energy needs than now. Most often, the conversation of energy supply and cost takes place when vehicle gas prices reach \$4.00 per gallon, but for families with less than modest means, the topic of "home" energy cost is year-round and at an all time high in the winter months.

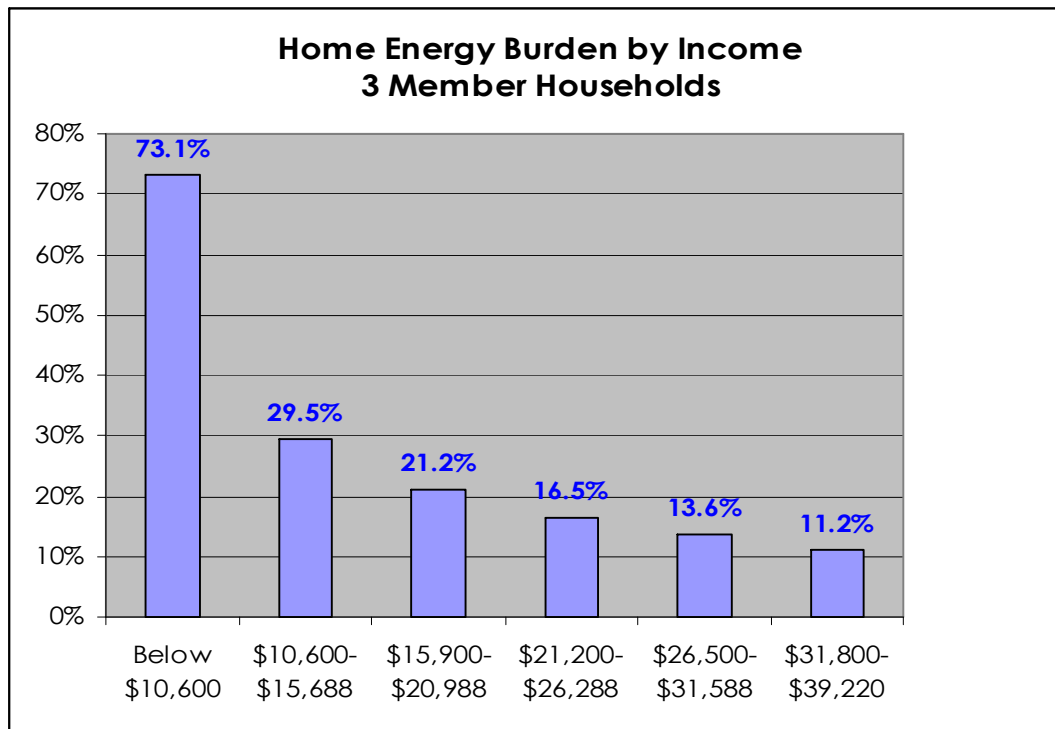
For many homes in Maryland energy consumption is higher, because these homes may have structural deficiencies (i.e. damaged roofs, walls, windows, and doors, etc.), and therefore do not keep the house warm. In situations such as this, many homes in need of such costly repair may not benefit from energy efficiency programs that utilize weatherproofing or weatherization efforts. For example, caulking will not help cracked windows and insulation

won't stop leaks from a damaged roof.

Structural deficiencies in homes coupled with the seasonal rise in heating are a recipe for high energy cost and consumption for Maryland's most economically strained households. Even more, due to the rise of unemployment throughout the U.S., including Maryland, many "middle-income" households now find themselves eligible for various forms of assistance.

Marylanders with the lowest incomes pay more of their income on home energy than their counterparts with higher incomes. Three-person households making below 50 percent of the poverty level (\$8,800 or less per year) pay nearly three-quarters of their income on home energy.¹ Even for Maryland families just under the federal poverty line, energy costs require more than one fifth of their income.

Families that are financially strapped can't afford the cost to heat their home, let alone repair structural deficiencies that could cost two or three times their income. According to Fisher, Sheehan & Colton, "even households with incomes between 150 percent and 185 percent of the federal poverty level (\$31,800-\$39,220 for a family of three) have energy bills above the percentage of income generally considered to be affordable."



Source: Fisher, Sheehan & Colton. Public Finance and General Economics. 2008

What Maryland Has To Offer: Energy Assistance Programs

In addition to nonprofit organizations in Maryland that provide home energy assistance to low-income and vulnerable residents, there are four energy programs administered through the state that assist low-income residents by making energy costs more affordable or by

cutting energy consumption.

1. Maryland Energy Assistance Program (MEAP)
2. Electric Universal Service Program (EUSP)
3. Utility Service Protection Program (USPP)
4. Weatherization Assistance Program (WAP)

Eligibility for all four programs is based on income of 175 percent of the federal poverty level (FPL), which amounts to \$2,566 per month for a household of three.² A person or household may automatically be eligible for these program if they are elderly and have limited income, receive temporary cash assistance (TCA), Supplement Security Income (SSI), food stamps (currently known as the Supplemental Nutrition Assistance Program), veterans or Social Security disability benefits, etc.

When the fiscal year 2009 budget for OHEP was finalized last spring, it was funded with \$36 million in special funds and \$40 million in federal funds (or Low-Income Home Energy Assistance (LIHEAP)). However, instead of the \$40 million as budgeted, Maryland received a record level of \$109 million.

Maryland Energy Assistance Program (MEAP). MEAP provides assistance with home heating bills, which are paid directly to the utility company on eligible individuals' behalf. Although limited assistance is available, some MEAP funds are set-aside to replace broken or inefficient refrigerators and furnaces.³ In 2008, MEAP has approved 91,717 applications out of 124,631 applications received (76% of applications approved).⁴ Currently, the average MEAP benefit is \$578.

Electric Universal Service Program (EUSP). EUSP assist electric customers whether they're active customers or currently without service. Eligible electric customers may receive help in three ways:

1. Help to pay current electric bills
2. Help to pay past due electric bills that were owed before July 1, 2000
3. Help with energy efficiency measures to reduce future electric bills.⁵

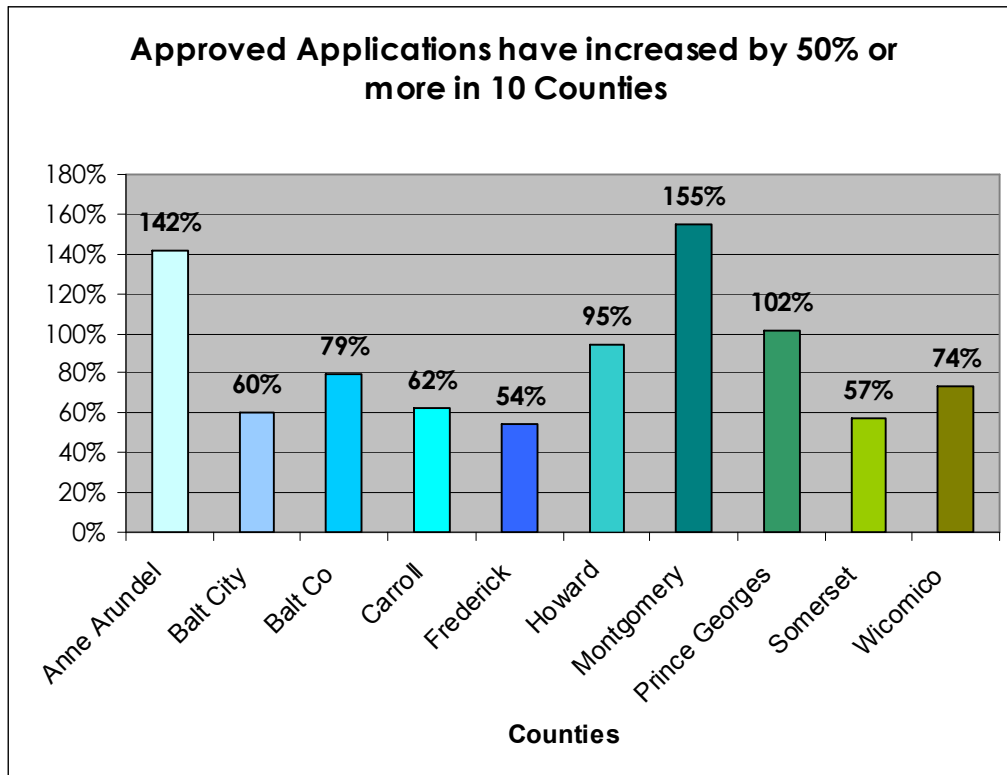
In 2008, EUSP served 100,456 bill payment recipients and 7,948 arrearage recipients. The average EUSP bill payment benefit is \$657 and the average arrearage benefit is \$905.

Utility Service Protection Program (USPP). "USPP protects low-income families from utility cut-offs and allows MEAP-eligible households to enter into a year-round even monthly payment program with their utility company. An equal monthly payment plan based on the estimated cost of the customer's average annual utility usage minus the MEAP benefit will be used to determine the even monthly payments for participation in the USPP" (DHR. OHEP. USPP). From 2006 to 2008, 75,000 to 85,000 eligible households enrolled in USPP.⁶

Weatherization Assistance Program (WAP). The Weatherization Assistance Program provides, at no cost to the eligible household, home weatherization services such as weather

stripping, caulking, plastic window covering, etc. to help make customers' homes or apartments more fuel efficient and comfortable.⁷ While the other three programs are administered by the Department of Human Resource's (DHR) Office of Home Energy Programs (OHEP), WAP is administered by the Department of Housing and Community Development (DHCD).

The current fiscal year appropriation for WAP is \$5.5 million.⁸ The average cost per unit is \$4,937. In 2008, 991 applicants were served; whereas, in 2006, 2,478 were served—19% of which were elderly, 8% children and 12% with disabilities.⁹



Source: DHR FIA. Office of Home Energy Programs

Assistance Is In High Demand

In the past six years (fiscal years 2002 through 2008) total intake and approved applications for OHEP have increased by 50,792 (or 65.6%). Moreover, the needs in ten counties have increased by 50% or more, ranging from a low of 54% in Frederick County and 155% in Montgomery County (see chart above).

Controlling Consumption & Cutting Cost: 2008 Legislation

The 2008 legislative session brought two home energy initiatives to fruition that will have a *direct* impact on low-to-moderate income residents:

1. EmPOWER Maryland Energy Efficiency Act
2. Regional Greenhouse Gas Initiative (RGGI)-Maryland Strategic Energy Investment Program

EmPOWER Maryland requires the Public Service Commission to approve, by December 31, cost effective energy efficiency programs that are designed to reach energy reduction targets:

- 10% reduction in consumption by 2015
- 15% reduction in peak demand by 2015 ¹⁰

According to the Maryland Energy Administration (MEA), when implemented, EmPOWER will:¹¹

- Help avoid rolling blackouts by reducing peak hour electricity consumption
- Save households roughly \$16/month or \$190/year
- Add 8,067 new “green collar” jobs to the Maryland economy by 2015 and 12,241 by 2025 ¹²

Secondly, RGGI or the Strategic Energy Investment Fund (SEIF) aims “to reduce consumers’ bills, provide both short-term rate relief, as well as a long-term strategy to increase supply and decrease demand.” ¹³ “The SEIF was created with the proceeds from the upcoming auction of carbon allowances to electric power plants under the Regional Greenhouse Gas Initiative (RGGI). Maryland Department of Environment (MDE) estimates that the auction will generate between \$80 and \$140 million annually.”¹⁴ According to MEA, the first auction raised \$16.3 million,¹⁵ at a rate of \$3.07 per ton.

Program	Amount	Percentage
Low income bill payment (EUSP)	\$2.7 million	16.5%
Direct consumer rate relief	\$3.75 million	23%
Low income efficiency program	\$3.75 million	23%
Energy efficiency program	\$3.75 million	23%
Renewables, climate change program	\$1.7 million	10.4%
Administration	\$572,000	3.5%

Tough Economic Times Require More Effort

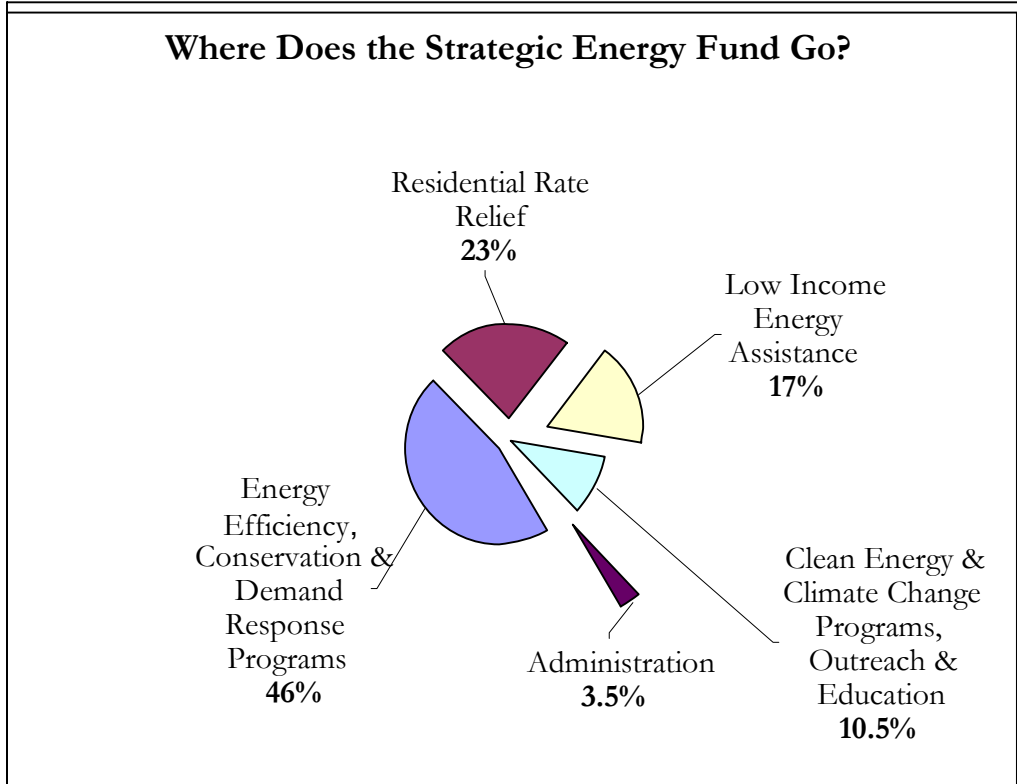
-Will an increase in Low-Income Home Energy Assistance Program (LIHEAP) funding address the abundance of both previously and newly eligible applicants? Maryland has received an increase in federal funds for the LIHEAP totaling \$109 million, almost triple what the state has received in previous years. We are seeing that many “in the middle” are finding themselves eligible for public benefits.

- Maryland officials should ensure that the majority of resources are dedicated to those most in need.

-Will weatherization efforts be effective without addressing structural deficiencies? No. There’s no sense in denying homes access to energy efficiency programs because their home are old or in need of repair.¹⁶

- “Let’s not heat the entire neighborhood!” Increase the allowance for repairing structural repairs in low-income households.

-Will energy efficiency measures be effective without targeted outreach? Not likely. Maryland must first provide services to jurisdictions with customers with the highest usage of energy and highest arrearages¹⁷



Source: MEA. How Can The Strategic Energy Fund Be Used?

Targeted outreach & education: In order for these new programs to be successful, a strategic and targeted public outreach, education and implementation program is necessary. In addition to making sure that those

- jurisdictions with the most need are aware of the program and apply, landlords of low-income and vulnerable renters must be encouraged participate in the low-income energy efficiency programs.¹⁸

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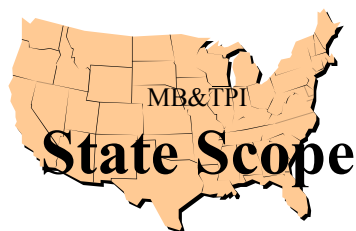
Virginia – Not Just Budget Cuts *Old Dominion Looks to Revenues and Reserve Fund to Balance Budget*

Across the Potomac, Virginia’s state budget process is running about a month ahead of Maryland’s. Governor Tim Kaine proposed amendments to their two-year budget in mid-December. Virginia faces shortfalls of 4 billion dollars over the next year-and-a-half, up from the previous, 1.9-billion-dollar estimate.¹⁹

According to the nonpartisan Commonwealth Institute²⁰, the Kaine proposal relies on a combination of cuts, new revenues and use of Virginia’s reserve fund balance. Under the Governor’s plan, Virginia would withdraw 490 million dollars from its reserve fund, and raise 268 million in revenue.

The proposed revenue measures include:

- Ending the “dealer discount” program, which allow retailers to retain \$64 million in sales tax proceeds annually as compensation for the responsibility of collecting the tax.
- \$50 million from limitations on a state land preservation tax credit program.
- \$154 million from doubling the state’s tobacco tax.



The proposed withdrawal from Virginia’s Rainy Day Fund will leave a balance of \$575 million.

Even with these revenue-side measures, Virginia will be making significant budget cuts. For example, the Governor proposes

slashing Medicaid payments to hospitals and clinics, freezing admission to programs for community-based care for elderly and disabled Medicaid patients, and cutting K-12 education by over 9 percent and colleges and universities by 15 percent.

These actions are probably representative of the kind of budget impacts Maryland is in for. Maryland should follow Virginia’s lead in prudently using the reserve fund and raising some revenues as part of a budget-balancing package.

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DHR freezes services for adults – a taste of things to come?

On the first full day of the General Assembly session, Department of Human Resources Secretary Brenda Donald issued a directive shutting down new admissions to adult services programs. Referrals from Adult Protective Services and other life safety emergencies are exempted.²¹

Affected programs include Social Services to Adults, In-home Aide Services, and Project Home. The Social Services to Adults program provides information and referral, crisis intervention, and case management services to seniors with functional disabilities due to advanced age.²² In-home aide services provide, on a sliding-scale fee basis, help with personal care and chores to enable elderly or disabled adults to remain at home and avoid institutional placements.²³ Project Home provides protective living environments in a homelike setting to adults with disabilities who cannot live alone.²⁴

This moratorium is an early example of the type of cut-back of services we may see as budget cuts work their way through the government. All of these programs are designed to help elderly and disabled adults remain as independent as possible, and avoid going into institutions. Over 36,000 people receive these services.²⁵

As DHR is required to cut its budget, it is forced into anguishing choices. Adult services are an early target because they do not serve children, and because these programs do not get federal funding. Freezing these programs is inhumane and short-sighted. But this is what the state has to do to balance the budget without new revenues.

Responding to MB&TPI's inquiries, DHR points out that all current customers will continue to be served. The Department has an internal workgroup looking at the caseloads to make projections about future impact, and has been working with other state agencies and advocates on a summit to be held this spring to determine how the State can best meet the needs of our vulnerable adults.

The Department also holds out the hope for a federal stimulus package containing relief for poor and vulnerable people.

Adult services are just one of the first programs to be hit. As substantial budget cuts continue to unfold, these stories will be repeated in agency after agency.

I am guessing that Governor O'Malley, DHR Secretary Donald, and DHR's management are unhappy about taking this step. Whether from the federal bail-out money, or from whatever Maryland revenues we can scrape together, this freeze on services should be lifted sooner rather than later.

And we should avoid cutting similar holes in the safety net as we work our way through this budget shortfall.

-Neil Bergsman

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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