



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

# MARYLAND POLICY REPORTS

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These plans add \$700 million to \$1 billion in cuts to the \$1 billion already recommended by the governor. The Republican budget plans should serve to spark debate about the state's needs and priorities.

If implemented, they would lead to a very different civic atmosphere in Maryland. Services might be severely reduced from current support levels, including environmental protection; the arts; safe, reliable public transportation and children's services. Maryland should seek a balanced approach that includes revenue. Only then can the state preserve and protect crucial investments in education, health, and other services.

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#### **Maryland Budget & Tax Policy Institute**

190 W. Ostend Street  
Suite 201  
Baltimore, MD 21230

410-727-6367  
fax 410-727-1914  
[www.marylandpolicy.org](http://www.marylandpolicy.org)

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**Republican Legislators Propose Alternative Budgets**

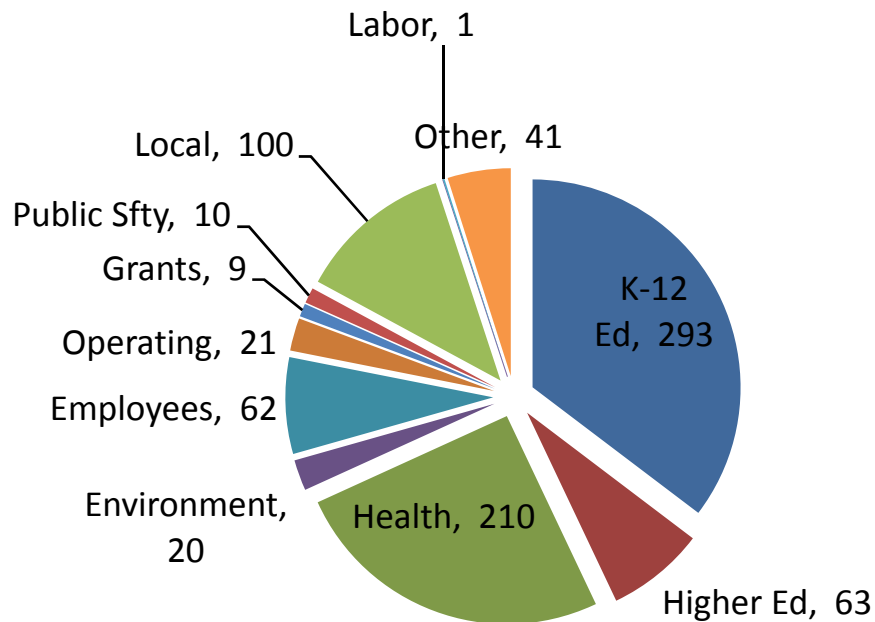
Neil Bergsman

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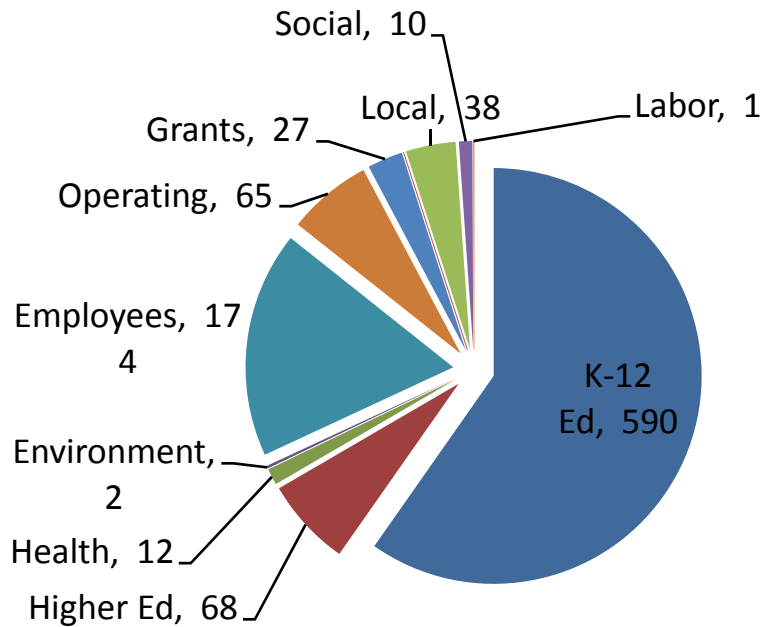
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**House GOP Caucus Proposed Budget Reductions  
Fiscal year 2011 General Funds - \$ millions  
Total = \$733 million**



**Brinkley-Pipkin Proposed Budget Reductions**  
**General Funds - \$ millions**  
**Total = \$988 million**



**K through 12 Education**

Public education is the biggest category in the Maryland state budget. Both Republican plans take their largest cuts in this area.

- The Brinkley-Pipkin proposal would require local governments to share half the cost of teachers' retirement payments (currently paid 100% by the state), shifting \$450 million out of the state budget and requiring school budgets to make up the difference.
- The House GOP plan would reduce spending \$167 million by basing aid to local schools on average attendance rather than September 30 enrollment. This penalizes school districts with higher dropout and absentee rates. These generally are districts serving a lower-income population.
- Both plans would eliminate the "Geographic Cost of Education" index, cutting \$127 million. This aid is targeted to regions where the cost of living is above the state average. The cut would affect 11 counties and Baltimore City - with the largest cuts to Prince George's, Montgomery and Baltimore City.

<b>PROPOSED CUTS - K-12 Education</b>	Brinkley-Pipkin	House Caucus
Geographic Cost of Education Index	\$126.7 million	\$126 million
Average Daily Attendance		167 million
Inflation on Formulas	2.2 million	
Seed School	6.0 million	
Teacher Quality Programs	5.2 million	
Teachers' Retirement	450.2 million	
<i>Subtotal</i>	\$590.2 million	\$293 million

### **Health**

Health programs, including Medicaid coverage for low-income and disabled individuals, are the second largest budget expenditure in the state budget. The House GOP budget assumes savings of \$195 million from “performance audits” of Medicaid providers, and would also eliminate Medicaid funding of abortions. Both plans would end state funding for stem-cell research.

<b>PROPOSED CUTS Health</b>	Brinkley-Pipkin	House Caucus
Medicaid Performance Audits		195.00 million
Medicaid Abortions		2.10 million
Stem Cell Research	12.40 million	12.40 million
<i>Subtotal</i>	12.40 million	209.50 million

### **Higher Education**

Over \$1 billion in state funds support higher education (in addition to student tuition payments, research contracts and other revenues generated by the colleges themselves). The Brinkley-Pipkin plan freezes state funding for higher education at 2007 per-pupil levels, for a reduction of \$46 million. It also reduces state aid to private colleges and universities by \$13 million. The House GOP plan eliminates 1,000 higher education jobs (cutting \$17.5 million) and cuts university travel in half (\$27.5 million). To the extent that some of these expenses are tied to research contracts and revenue-raising operations (like dining halls). These cutbacks could also result in less overall revenue for the colleges.

The House Caucus would also eliminate funding for scholarships awarded by state Senators and Delegates. Maryland is the only state to provide significant funding for private colleges’ operating costs, and the only state where legislators distribute publicly-funded scholarships.

<b>PROPOSED CUTS Higher Education</b>	<b>Brinkley-Pipkin</b>	<b>House Caucus</b>
Legislative Scholarships		11.50 million
USM Travel		27.50 million
Employee Tuition Remission		6.85 million
1000 Higher Ed. Positions		17.50 million
Hold per-student funding at 2007 level	46.40 million	
Merge UMBI/UMCES	7.40million	
USM Hagerstown Center	1.00 million	
St. Mary's College funding formula	0.20 million	
Private Colleges	13.00 million	
<i>Subtotal</i>	68.00 million	63.35 million

### **State Employees and Retirees**

Both plans include substantial reductions in the number of state government jobs, as well as the compensation and retirement/health coverage of state employees. In addition to job losses from specific cuts to programs, each of the plans would eliminate 500 more state positions. The spending reductions from doing so are estimated at \$20 million in the Brinkley-Pipkin proposal and \$29.9 million in the House GOP proposal. Both plans would also require state retirees to use Medicare Part D prescription drug benefits, a state spending reduction of \$66 million under the Brinkley-Pipkin estimate or \$30 million in the House GOP estimate. The Brinkley-Pipkin Plan would also increase employees' contribution to their retirement benefits by 2% (reducing the state payment by \$88 million). The House GOP plan would limit state executive salaries to no more the Governor's salary (\$150,000 a year), for a reduction of \$2.3 million.

### **Other Reductions**

Each plan contains further actions outside these categories. For example, both plans would eliminate funding for water quality programs in the Chesapeake Bay 2010 fund (the Brinkley-Pipkin plan accounts for this \$20 million as a revenue transfer, while the House GOP considers it a spending cut). Both plans would eliminate state-funded stem-cell research.

The Brinkley-Pipkin plan calls for \$65 million in "Administrative efficiencies—agency operating costs/consolidations." The House Caucus estimates \$6 million from a 1% across-the-board cut to all discretionary budgets.

The Brinkley-Pipkin plan would eliminate \$38 million in local government assistance, most notably cutting the "disparity grant" which aids localities where the local income tax base is at least 25% under the state average. The House Caucus would transfer to the state general fund \$100 million from highway funds allocated to Baltimore City.

The Brinkley-Pipkin plan makes cuts to two social programs: \$5.3 million from Judy Hoyer Centers, which provide a range of early-childhood services and \$4.9 million by reducing reimbursement rates for foster care families by 3%.

The House Caucus cites \$40 million in the Port Administration budget it says is not needed because the operation of the Seagirt Marine Terminal has been leased to a private operator. Legislation would be needed to transfer this savings from the transportation fund to the general fund.

<b>PROPOSED CUTS</b>	<b>Brinkley-Pipkin</b>	<b>House Caucus</b>
<b>Environment</b>		
	Transfer to general fund – counts as revenue	
Chesapeake Bay Fund		20.00 million
Critical Areas Commission	2.10 million	
<i>Subtotal</i>	2.10 million	20.00 million
<b>Operating Expenses</b>		
Office of Secretary Budgets		2.80 million
Advertizing		1.80 million
Travel		1.30 million
Electricity		9.00 million
Administrative Efficiencies	65.00 million	6.30 million
<i>Subtotal</i>	65.00 million	21.20 million
<b>Grants</b>		
Crime Control	20.60 million	8.00 million
Maryland Zoo		0.50 million
Arts	6.60 million	
<i>Subtotal</i>	27.20 million	8.50 million
<b>Public Safety</b>		
Md Corr. Adjustment Center		9.20 million
Police Speed Camera Staff		0.78 million
<i>Subtotal</i>	-	9.98 million
<b>Local Government</b>		
Highway User Grant to City	2.60 million	
Disparity Grant	22.00 million	
Circuit Court Clerks	8.40 million	
Baltimore & Ocean City Convention Centers	5.40 million	
<i>Subtotal</i>	38.40 million	-

<b>Social</b>		
Judy Hoyer Centers	5.30 million	
Foster Care	4.90 million	
<i>Subtotal</i>	10.20 million	-
<b>Labor</b>		
Living Wage Provision		1.10 million
Prevailing Wage Unit	0.70 million	
<i>Subtotal</i>	0.70 million	1.10 million
<b>Other</b>		
Public Television		1.00 million
Seagirt Marine Terminal		39.60 million
Government House Chefs		0.20 million
<i>Subtotal</i>	-	40.80 million

### **Revenue Measures**

Neither plan proposes to increase any state revenues – taxes or fees. The Brinkley-Pipkin plan adds \$134 million to general fund revenues by redirecting money from dedicated special funds to the General Fund. Of that, \$104 million in sales tax revenue would be directed to the general fund instead of the transportation Trust Fund; \$20 million would be re-directed from the Chesapeake Bay 2010 Fund to the General Fund; and \$10 million would be transferred from the University System of Maryland’s reserves to the General fund.

### **Offsetting Increases**

Both plans incorporate some expenditure increases and tax reductions, which offset a small portion of the proposed expenditure reductions.

The House Caucus plan would eliminate the 6-to10-day employee furloughs incorporated in the Governor’s budget, adding \$82.5 million to the budget.

The Brinkley-Pipkin plan restores \$50 million in transportation aid to local governments. It would also reverse transfers proposed by the Governor from the Med-Evac Operations Fund and the Injured Workers insurance Fund.

Both plans re-instate a tax credit for the use of Maryland-mined coal at \$4.5 million. This tax credit is of strong regional significance in Western Maryland.

### **Not Recommended for Cuts**

It is important to recognize that neither GOP plan proposes to roll back Maryland’s Medicaid eligibility or reduce most “safety net” programs such as Rental Assistance or Temporary Disability Assistance.

### **Disproportionate Effect on Metro Jurisdictions**

Both Republican lists of cuts concentrated on areas that disproportionately reduce funding for Baltimore City and other metropolitan jurisdictions. The House Caucus proposal revokes \$100 million in highway aid from the city. Baltimore City performs essentially all of its own road maintenance; the State Highway Administration does not maintain roads in Baltimore City as it does in the state's other 23 jurisdictions. The Caucus plan also changes the basis of school aid programs from enrollment on September 30 to average attendance. This proposal has the effect of taking funding away from jurisdictions with the most students at risk of dropping out – like Baltimore City and Prince George's County.

The Brinkley-Pipkin plan would cut the "Disparity Grant" by \$22 million. This specifically takes funding away from jurisdictions that have less ability to raise funds through their local income tax – most prominently Baltimore City and Prince George's County.

Both plans eliminate funding for the Geographic Cost of Education index, which also tends to target metropolitan school districts.

### **Unintended Consequences**

Some of the proposed spending cuts raise questions about whether in the absence of the money the state could perform vital services required by law. For example, the Brinkley-Pipkin plan would eliminate the Chesapeake Bay Critical Areas Commission, saving \$2.1 million. If the Critical Areas Commission were abolished, it might be impossible for owners of property near the bay and its tributaries to obtain the permits they need to build under laws protecting these critical areas, even if their planned structures are consistent with environmental quality. The plan's sponsors may not intend to halt all development in the critical area.

Similar unintended consequences could arise from several items in the House Caucus' proposal. Eliminating the Prevailing Wage Unit could prevent government-funded construction projects from moving forward at all. Restrictions in travel could impede a variety of routine and critical functions, from probation supervision, to inspections of nursing homes or elevators, to child welfare investigations.

The greatest potential for adverse unintended consequences will come from the elimination of 500 state jobs. The budget proposed by the governor already contains 1900 fewer jobs in state executive-branch agencies than in 2008. Among the remaining state positions, the largest categories are jobs like prison guards, nurses and other direct care staff in 24-hour hospitals, bus drivers, and highway maintenance workers. Arbitrary cuts of state positions could seriously affect security, health safety, and citizen services.

### **Unhatched Chickens**

Several items in the plans are based on speculative estimates. Medicaid performance audits might not produce the \$195 million in savings anticipated in the House

Caucus proposal. It might not be possible to find \$65 million in administrative efficiencies and consolidations (Brinkley-Pipkin). As an illustration: the Departments of Budget and Management, Information Technology and General Services are the state's principal administrative and support agencies. Their combined budget total only \$130 million. It seems unlikely that one half of that amount could be saved without harming services to citizens.

Of course, the Governor's proposed budget also counts on some "unhatched chickens," including \$2 million from "streamlining state operations" and \$10 million from position eliminations due to attrition and the state's eight-year-old hiring freeze.

### **Long-Range Plans**

This analysis focuses on the actions proposed by Republican legislators in the budget currently before the legislature. However, both Republican groups present their recommendations as part of a long-range plan. The House Caucus would not increase state spending in 2012, and then allow 1% to 2% growth through 2015. In 2014 and 2015 they would return the state sales tax to its 2007 level of 5% (it was raised to 6% beginning in 2008), and corporation income taxes to 7% (now 8.25%).

The Brinkley-Pipkin plan also constrains budget growth through 2014, mostly by requiring local governments to fund half of teacher retirement payments.

### **So What?**

The Republican budget plans should serve to spark debate about the state's needs and priorities. If implemented, they would lead to a very different civic atmosphere in Maryland.

- There would be less state support for education at all levels – K-12, community colleges, public universities, private colleges, and scholarship aid.
- Local governments would have greater responsibility for funding education and other services – resulting in greater disparities among localities whose wealth and therefore property tax capabilities vary.
- There would likely be no capacity to expand health coverage for low-income Maryland residents, including children, as well as services to reduce the developmental disability waiting list, or summer job programs for at-risk youth, for example.
- Other services might be severely reduced from current support levels, including environmental protection; the arts; safe, reliable public transportation and children's services.
- As state and local agency staffs become increasingly inadequate, government could likely become less efficient, less convenient and serve the public more poorly. In some cases, health and safety could suffer.

The potential effects of the plans described above argue for a better alternative.

Rather than relying solely on spending cuts, Maryland should seek a balanced approach that includes revenue. Only then can the state preserve and protect crucial investments in education, health, and other services. Only then will the needs of families in a crushing recession be met. And only then will the state's economy be spared from the threat of a downturn that could result if the stimulative impact of state government spending is weakened at a time when the private sector has not recovered to its previous level.

Some options worth considering include continuing the existing  $\frac{3}{4}\%$  marginal tax rate on income over \$1 million, closing tax loopholes for multi-state corporations, and adding ten-cents a drink to the alcohol tax. Any of these would reduce the need for damaging cuts to valuable public services.

**MB&TPI**

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

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