



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

SPECIAL REPORT

Maryland Budget Update

**BOARD OF PUBLIC WORKS APPROVES \$94
MILLION IN MID-YEAR CUTS**

**THIRD ROUND OF MID-YEAR CUTS IN FISCAL
YEAR 2009**

CUMULATIVE TOTAL \$427 MILLION

- Accounts for savings from employee furloughs announced in December
- Eliminates 894 state employee positions – brings cumulative total positions abolished to 1735
- Health programs take the largest share of the cuts.

Special Report
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BOARD OF PUBLIC WORKS APPROVES \$94 MILLION IN MID-YEAR CUTS

For the third time this fiscal year, the Board of Public Works has approved cuts to state agencies' existing budgets. The cuts total \$81.6 million, of which \$67.1 million is general funds. Another \$12.5 million will be held unspent by agencies and returned to the treasury at the end of the fiscal year. Including these "reversions," the cuts total \$94.2 million.

The Board already cut budgets in June and October of last year. The cuts overall total \$605 million in total funds. Focusing on state general funds, this action brings total cuts to \$427 million – 2.8% of the original general fund budget.

Furlough Savings Recorded

The largest component of these cuts is \$34 million across all state agencies reflecting the savings from employee furloughs announced in December. Governor O'Malley issued an executive order requiring most executive branch employees to take two to five unpaid furlough days. The state "significantly curtailed" its operations on December 26 and January 2, and most employees had unpaid holidays on those days. Employees earning 40,000 to 60,000 dollars were required to take two additional unpaid furlough days (for a total of four). Employees earning 60,000 dollars and up were required to take three additional furlough days, for a total of five.

Correctional officers in prisons, direct care workers in state hospitals, and similar positions requiring 24-hour coverage are exempt from the requirement.

This action has important symbolic value, as it shows a real, visible cutback in state programs and services. It also represents a meaningful sacrifice on the part of state employees. An employee making \$50,000 will lose approximately 950 dollars in income. But the furloughs contribute about 8 percent of the overall cuts for the year.

Another 894 Jobs Cut – 1735 total jobs cut this year

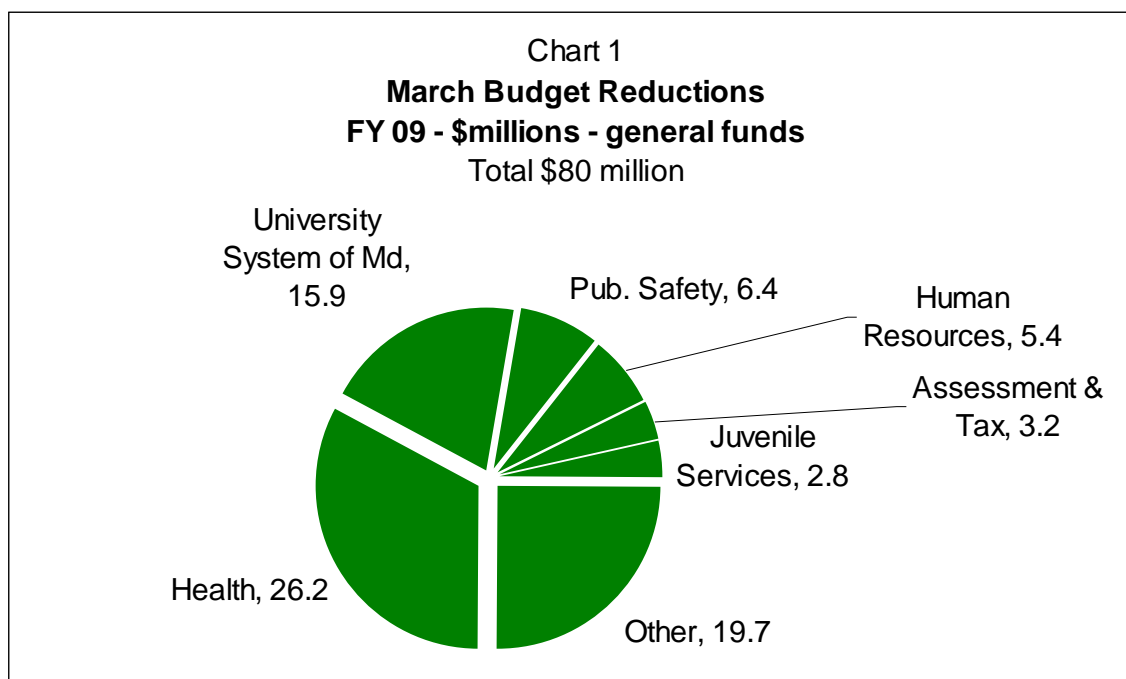
In this round, 894 state jobs are cut – all but 2 of them vacant. Including the earlier rounds of cuts, 1,735 state jobs have been cut. Over half of these positions come from three agencies: 411 from Public Safety and Correctional Services, 319 from Department of Health and Mental Hygiene and 256 from the Department of Human Resources.

The Maryland Budget & Tax Policy Institute is concerned about the ability of these agencies to deliver services and operate safely with the reduced number of positions.

March Cuts by Agency – Health and Higher Education are Biggest Losers

The cuts approved in March affect 49 different state agencies, from \$26.2 million at the Department of Health and Mental Hygiene to \$6,000 for the Office of the State Prosecutor. The cuts average 8/10 of 1% of the affected agencies' general fund budgets.

Chart 1 shows the distribution of the cuts among the major agencies. These amounts include each agency's share of the furlough savings and the vacant position reductions, as well as specific reductions.



The Department of Health and Mental Hygiene (DHMH) and the University System of Maryland together account for over half of this round of cuts. The Health Department cuts include a variety of fund switches, provider rate reductions, and program reductions.

The cuts to Higher Education are almost entirely the University System of Maryland's share of the employee furlough savings.

Top 10 Cuts

The March round of cuts includes 82 individual items. The largest 10 budget cuts in this round are detailed as follows. These 10 items account for more than ¾ of the total reductions in this round.

Item	Agency	Total funds (\$000)	General Funds (\$000)
1. Furloughs – Salary savings from furloughs	Statewide	\$43,314	\$34,401
2. Abolish 862 state positions (all but 2 vacant)	Statewide	9,200	9,200
3. Prescription drug rebate collections now represent approximately 34% of drug costs, compared with 30% assumed in budget.	Health & Mental Hygiene	6,350	6,350
4. Less than half of \$17 million set aside for long-term care services, resulting from changes in "level of care" eligibility standard is expected to be spent.	Health & Mental Hygiene	4,750	4,750

Item	Agency	Total funds (\$000)	General Funds (\$000)
5. Favorable adjustment to Uncompensated Care funding. Change reduces Medicaid costs at hospitals with high Medicaid utilization rates.	Health & Mental Hygiene	6,000	3,000
6. Projected cost of Homeowners' Tax Credits below budgeted amount.	Assessments & Taxation	2,000	2,000
7. Reduce local mental health Core Services Agency grants and contracts.	Health & Mental Hygiene	1,400	1,400
8. Mental Hygiene institutions – implement cost containment measures, defer supply and equipment purchases, revise staffing plan to reduce overtime and other staffing costs.	Health & Mental Hygiene	1,381	1,381
9. Reduce Medicaid rates to managed Care organizations (MCO's) through December 2009. Rate increase reduced from 4.4% to 4.0%.	Health & Mental Hygiene	2,750	1,334
10. Mental health for uninsured – increase utilization review for mental health services to non-Medicaid recipients.	Health & Mental Hygiene	1,250	1,250

The two largest cuts are statewide cuts related to employee furloughs and elimination of vacant positions. Seven of the next eight largest cuts are assigned to the Department of Health and Mental Hygiene. They particularly affect Medicaid and mental health services. The \$1.4 million cut to local mental health “Core Services Agencies” could be a particular hardship to lower-income residents with mental illness. The weak economy both triggers mental illness problems, and puts the cost of treatment out of reach of more patients.

Not surprisingly given the collapse of the real estate market, the amount budgeted for homeowners' property tax credits exceeds the amount needed this year. As the growth in property values stalls, the growth in tax credits also falls. A \$2 million reduction in these funds from the State Department of Assessments and Taxation budget completes the top ten.

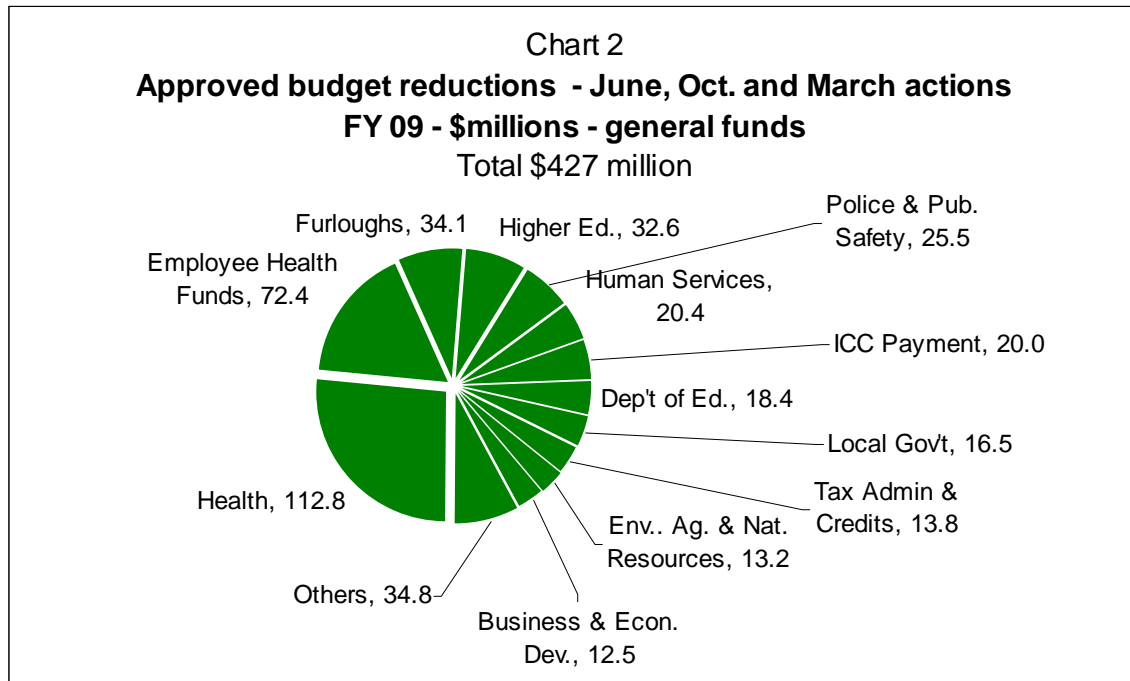
Other Program reductions

A number of smaller items also involve service reductions. For example:

- In the Department of Human Resources, the Displaced Homemaker program is eliminated, saving \$431,000.
- The Department of Aging cuts assisted living and senior care services, for \$176,000.
- The Health Department eliminates marketing efforts to discourage tobacco use, saving \$390,000 of tobacco settlement funds.

Adding the Subtractions

The Maryland Budget & Tax Policy Institute has added together all three rounds of reductions. The results are shown in Chart 2.



Of the \$427 million in general funds cut over the course of the year, over one half came from health programs, employee health benefit funds, and employee furloughs.

Next Steps

State Budget Secretary T. Eloise Foster has indicated that they expect this action to conclude the cuts to the current year's budget, which ends June 30.

Projections show the state will finish the year with over \$400 million in the general fund balance and nearly \$700 million in reserves.

Over the next month, the legislature will complete action on the fiscal year 2010 budget, which begins July 1. That budget already incorporates over \$1 billion in spending cuts. As the national economy and state revenues continue to deteriorate, additional cuts may be proposed during the course of the year.

Sources:

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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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