



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

# SPECIAL REPORT

## Maryland Budget Update “Devastating”

Special Report  
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# “Devastating”

With new economic and budgetary developments, Maryland’s financial situation has gone from grim to “devastating.” Official revenue estimates have deteriorated more than we expected. The legislative Spending Affordability Committee has recommended its lowest level of budget growth ever, and the abolition of 1000 state jobs.

In the current year, employees will take two to five unpaid furlough days. That savings together with the \$300 million in cuts exacted in October will not be enough to get the state out of the red.

A silver lining in this dark horizon is the potential of some fiscal relief for states is an upcoming federal stimulus bill. At the same time, the “devastating” revenue numbers mean that this help may only soften the crumbling economy’s impact on the budget – it’s not likely to fully eliminate the threat to services and programs that Marylanders need

## December Revenue Estimates

On December 16, [the Board of Revenue Estimates presented its official December estimate to the Governor](#). This is the estimate that Governor O’Malley will use to present a balanced budget to the legislature in January.

The estimates for the current year (fiscal year 2009) and the upcoming year (fiscal year 2010) are a combined 1.4 billion dollars below the previous official estimates. The Board anticipates that Maryland’s economy is that Maryland will experience a long and severe downturn as part of the national recession sparked by the failure of the national housing and credit markets.

Here are some excerpts of their analysis:

- “Economic growth in Maryland has all but ground to a halt and has perhaps now reversed.”
- “All indications are that the Maryland housing market has further to fall.”
- “Consumer spending and the retail sector are also unlikely to see a resumption of growth until the housing market bottom, if not later.”
- “...Job losses of 2.0% – over 50,000 jobs – are forecast.... Job growth is not expected to return in 2010.”
- “...The state’s economy is unlikely to resume growth until early 2010 at the soonest.”

The Board reduced its estimate of virtually every important source of revenue, and set them below the unofficial legislative staff estimates from October. The table below summarizes the rapid descent of state revenue estimates over the course of the fall.

**Deteriorating Revenue Estimates**  
general funds - \$millions

<b>Fiscal Year 2009</b>			
	<b>Official 9/08</b>	<b>Legis. 10/08</b>	<b>Official 12/08</b>
Pers. Income	7,310	7,250	7,103
Sales	3,787	3,777	3,718
Others	2,992	2,903	2,853
Total	14,089	13,930	13,674
Diff. from Sept est.	-	(159)	(415)
<b>Fiscal Year 2010</b>			
	<b>Official 9/08</b>	<b>Legis. 10/08</b>	<b>Official 12/08</b>
Pers. Income	7,698	7,532	7,181
Sales	3,933	3,838	3,701
Others	3,071	3,044	2,856
Total	14,702	14,414	13,738
Diff. from Sept est.	-	(288)	(964)

Sources: Bureau Of Rev. Est. & Dep't of Legislative Services

Year-to-year revenue growth is now estimates at 9/10 of 1 percent in the current year, and 5/10 of 1 percent in fiscal year 2010. The board faced a difficult analytical problem, in that the tax increases and recession hit at about the same time. Revenue estimating in a time like this is especially difficult.

The decline in anticipated revenue from the September projection to the December estimate is 3 percent for FY 2009 and 7 percent for FY 2010. The Department of Legislative Services now estimates the budget shortfall at 391 million dollars in the current year and 1.87 billion dollars for fiscal year 2010.

The spending cuts needed to address budget gaps of this size would lead to a catastrophic threat to state programs and Maryland's most vulnerable families and citizens.

# Spending Affordability Recommendation

Maryland law sets out a Spending Affordability process to determine the prudent level of state spending growth in the upcoming budget. With economic indicators, including the Board's revenue estimates, a legislative committee annually recommends to the Governor a limit on spending growth in the state budget. The spending affordability recommendation is not binding on the Governor or the legislature. However, the legislature tends to use it as a guide in its action on the budget and will generally reduce the budget to the recommended spending level.

This year, the Spending Affordability Committee recommended that the growth in state spending should be limited to 7/10 of 1 percent. This is by far the lowest limit recommended in the Committee's 25-year history (the previous record was 2.5%).

This equates to just 146 million dollars of budget growth and will not even allow state spending to keep pace with inflation. The Department of Legislative Services estimates that debt service, teacher and employee pension contributions, and Medicaid will grow by over 560 million dollars. So, to accommodate these fiscal pressures and meet the spending recommendation, all other programs in the upcoming budget would need to be cut by more than 400 million dollars

And, based on the new revenue estimates, the budget would still be in deficit.

The "spending affordability" concept differs from other calculations of the budget growth rates because the spending affordability calculation contains several adjustments to capture ongoing spending from state sources. For example, federal funds, expenditures for construction projects, and payments to reserve funds are not counted in the spending affordability calculation, but most special funds and current-year deficiency appropriations are.

- In addition to the overall spending level, the Spending Affordability Committee made other recommendations.
- It recommended that the authorized state workforce be reduced by at least 1000 positions. Legislative staff reported that there remain over 3,300 vacant state executive-branch positions, not including vacancies at colleges and universities.
- It recommended that the 730-million-dollar balance in the State Reserve Fund be used "only as a last resort and only as part of a multi-year plan to achieve structural balance."

The Spending Affordability Committee was also charged with recommending improvements to the state budget process. Maryland is the only state in which the legislature cannot add to executive branch expenditures proposed by the governor. The Committee punted on this issue, putting off any thought of budget process changes until "a stable fiscal situation is established." The committee might have endorsed proposals to increase the legislature's budget power, to improve public and legislative information about budget proposals, or to provide more public and legislative comment on supplemental budgets and mid-year cuts, for example.

## Employee Furloughs

[Governor O'Malley has issued an executive order](#) requiring most executive branch employees to take two to five unpaid furlough days. [In a related press release](#), the governor estimated the move will save at least 34 million dollars. The state will “significantly curtail” its operations on December 26 and January 2, and most employees will not report for work on those days. Employees with salaries under 40,000 dollars will lose the equivalent of two days of pay. Employees earning 40,000 to 60,000 dollars will take an additional two unpaid furlough days (for a total of four). Employees earning 60,000 dollars and up will take an additional three 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 less than 9 percent of the estimated amount needed to balance the state budget.

## Federal Stimulus

Experts are expecting the new Congress to pass a new economic stimulus bill early in calendar year 2009. The package seems certain to include a component to provide financial relief for state budgets. [Maryland is one of 43 states with current or projected budget shortfalls](#).

[Some economists have put forward estimates](#) that show that propping up state budgets is one of the most effective stimulus investments the Congress could make. If states make severe budget cuts the resulting loss of spending would significantly harm a faltering national economy. Because so many state programs affect low-income households, the burden will fall on those least able to bear it.

The size of the overall package, the size of the state fiscal relief portion, its components and the size of Maryland's share are yet to be decided. One scenario developed by Federal Funds Information for States has Maryland getting \$1.7 billion of a \$98 billion national plan.

Not all of that funding would directly help the state's budget problem. Several hundred million would be dedicated to transportation and other public works projects. While these will be helpful in spurring employment, and improving economic infrastructure, they will not help bridge state's immediate budget gap. Of course, any help Maryland can get could help to soften the blow.

## Policy Implications

- Balancing the budget with spending cuts alone will probably require catastrophic cuts to education, health care, and safety-net programs for low-income families and individuals.
- Congress needs to include flexible fiscal relief for states to avoid cutbacks that would harm vulnerable citizens and make the economic situation worse.
- The governor needs to prudently use part of the Rainy Day Fund balance to support the budget. In terms of the budget, it's raining hard, and there's a hole in the roof where the rain comes in.
- Finally, an all-cut solution to the budget may not be practical. It's time to re-open revenue options as part of a comprehensive budget solution.

## What's Next?

In January, we can expect several new budget developments:

- On January 21, Governor O'Malley will submit his proposed budget to the legislature.
- A national stimulus bill containing fiscal relief for states may be signed into law at around the same time.
- Also, it is likely that the governor will propose another round of cuts to address the gap in this year's budget.

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

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