

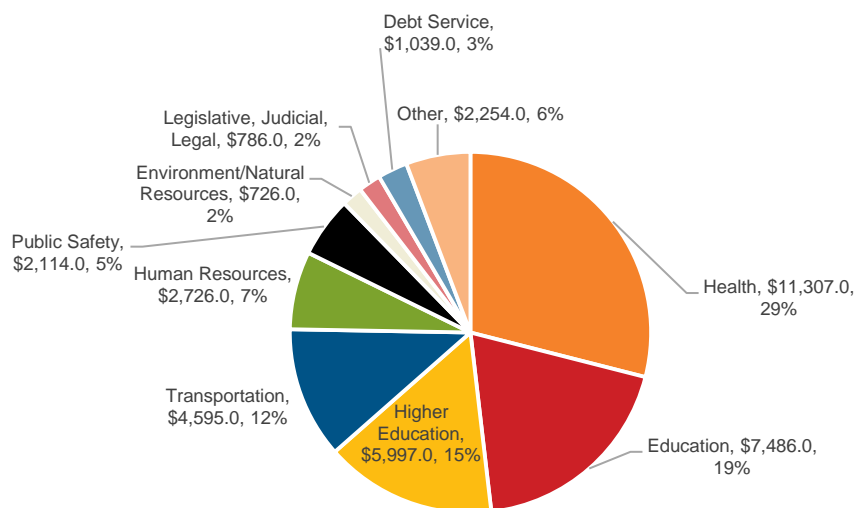
January 2014

Maryland's Fiscal Year 2015 Budget

Governor O'Malley introduced his Fiscal Year (FY) 2015 budget plan on January 15th, which will be the last budget proposed and passed during his term (though work on the next budget will largely be complete before the next Governor takes office). Highlighting the budget plan's conformity to the legislature's Spending Affordability recommendations and asserting that the structural budget deficit

will be eliminated by FY 2017, the administration touts the fiscal responsibility of the plan. On Monday, January 20th, the Department of Legislative Services (DLS) will provide their Fiscal Briefing, which will provide us with more detail about the plan. In the meantime, this brief provides a quick, first-look analysis of the Governor's proposed FY 2015 budget. As more details emerge, the Maryland Center on Economic Policy (MDCEP) will release a more in-depth budget review in the next few weeks.

Governor O'Malley's Budget Highlights, FY 2015



Note: Dollars in millions

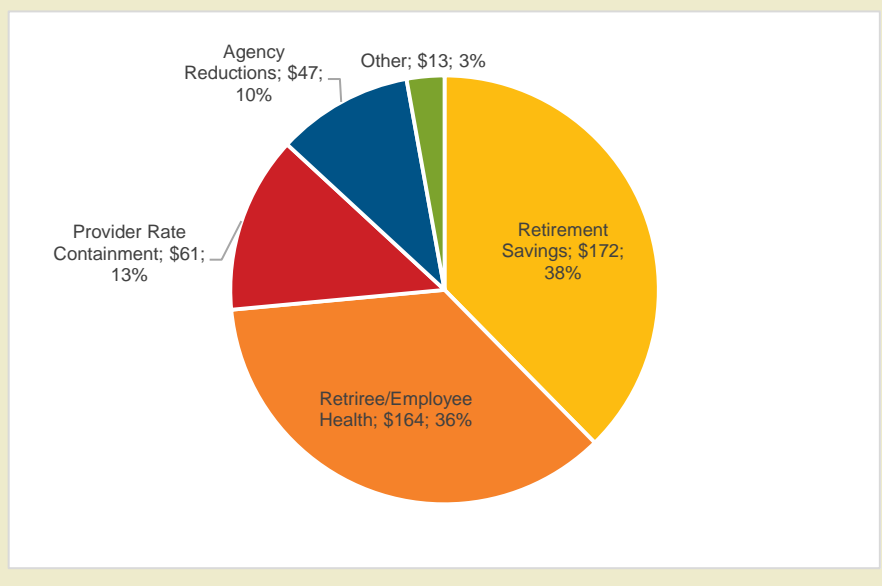
Source: The Office of Governor Martin O'Malley

Operating Budget Overview

The administration's budget plan includes \$39 billion in spending in the state Operating Budget, with funding for State Agencies, Local Aid, including K-12 Education, and Entitlements, like Medicaid, as well as \$4 billion in Capital Budget spending, including Transportation, Environment, School Construction and Public Safety capital projects. State sources of funding, including the General Fund (which receives most state tax collections) Special Funds, and Higher Education (Tuition) Funds, pay for 73 percent of the Operating Budget,

with Federal Funds, like Food Stamps or Medicaid, paying for 27 percent. Special Funds are usually dedicated to specific purposes, like Transportation or Bay Restoration. Personal income tax revenues and sales tax collections account for more than 80 percent of General Fund revenue. In the Operating Budget, Health, Education and Public Safety accounts for 69 percent of total spending.

Closing the Gap – Spending Reduction



Note: Dollars in millions

Source: The Office of Governor Martin O'Malley

Closing the Gap – Administration Budget-Balancing Plan

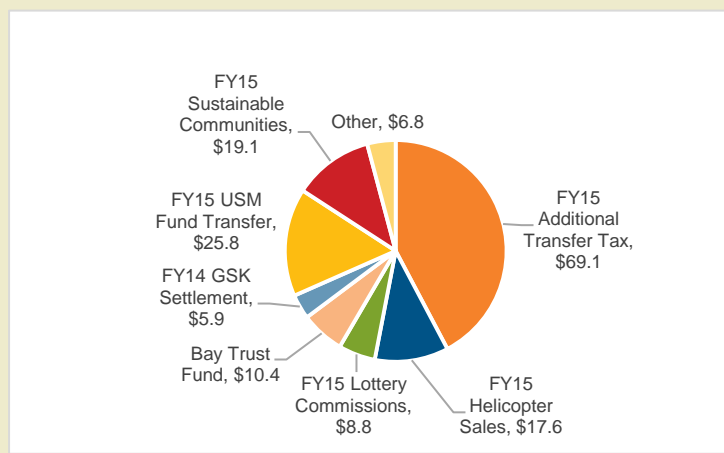
Attributing the budget gap to decreased revenue collections related to the federal shutdown, the administration identified a General Fund shortfall of \$584 million; \$193 million in the current FY 2014 budget and \$391 million in the FY 2015 budget. The administration reports that the FY 2015 budget plan includes \$621 million in gap-closing measures, including \$457 million in spending reductions and \$163 million in transfers and revenues.

The largest single saving proposed by the administration is to cap the re-investment of savings from pension reform at \$200 million, resulting in an estimated \$172 million in related Retirement cost savings. Similarly, the administration points to favorable trends from prior cost containment in Retiree/Employee Health spending and estimates \$164 million in related savings. The administration also points to \$47 million in spending reductions in State Agencies and \$61 million in savings from health provider rates cost containment.¹

¹ Although more detail is needed and will be available soon in the DLS Fiscal Briefing, the \$47 million in agency reductions seem to include \$19 million in an identified FY 2013 Medicaid surplus, \$7.3 million from the State Personnel System, and \$7.2 million in withdrawn PAYGO in the Maryland Energy Administration. The provider rate savings appear to come primarily from delaying planned rate increases for Developmental

The administration's \$163 million in reported new revenue payments and transfers to close the gap include allocating an additional \$69.1 million in FY 2015 transfer tax revenue to the General Fund, on top of the \$75 million in FY 2015 transfer tax collections to the General Fund authorized in the 2013 session. Transfers from other Special Funds include \$25.8 million from the University System of Maryland and \$19.1 million from the Sustainable Communities Tax Credit. \$17.6 million in new money is realized by selling outdated medical evacuation helicopters which have already been replaced.

Closing the Gap – Revenues/Transfers



Note: Dollars in millions

Source: The Office of Governor Martin O'Malley

The administration reports that capital projects normally supported by money now sent to the General Fund, like the transfer tax and the Bay Trust Fund, will be financed through new capital debt, or General Obligation (GO) Bonds. DLS reports that \$229 million in GO Bonds were used as General Fund budget relief in the last FY 2013 budget, estimates \$147 million in the current FY 2014 budget, and projected \$109 million in the FY 2015 budget, prior to the Governor's proposal of replacing an additional \$69 million in transfer tax sent to the General Fund with GO Bonds. However, increased capital debt and prior allocation of GO Bonds leaves limited flexibility in funding the Capital Budget and increases debt service costs.

Capital Budget Overview

The FY 2015 Capital Budget totals \$4 billion, with \$1.5 billion in General Capital spending and \$2.5 billion in Transportation Capital spending. Of the \$1.5 billion in General Capital spending, \$1.1 billion is funded with GO Bonds, with the remaining portion made up of other state and federal sources.

Environmental/Natural Resources projects total \$456 million and include \$118 million for Bay Restoration, \$72 million for Land Preservation. Higher Education projects total \$373 million, including \$257 million for Public Colleges and Universities and \$65 million for Community Colleges. K-12 Education/School Construction receives \$306 million, with \$289.2 million for Public School Construction, \$12.1 million for the State Library Resource Center, and \$5 million in Public Library Grants. Housing & Community Revitalization projects get \$126 million, including \$51.6 million for Rental Housing programs. Public Safety projects total \$110 million, including \$31.5 million for a new Juvenile Detention

Disabilities Administration and Medicaid providers until halfway through the fiscal year.

Facility in Prince George's County; \$30 million for adult Correctional Facilities, \$27 million for the Public Safety Communications System, and \$10 million for a Youth Detention Facility in Baltimore City.

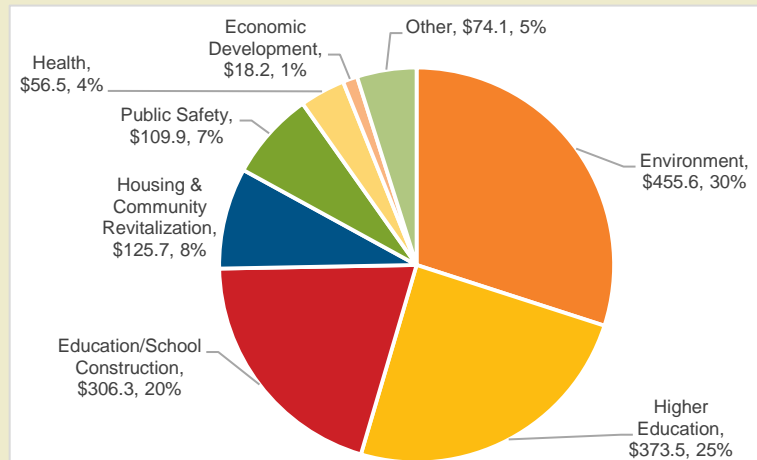
The Capital Budget for Transportation includes \$1.2 billion for State Highway projects, \$654 million for Mass Transit Administration projects, including \$159 million for the Metro D.C. Purple Line and \$91 million for the Baltimore Red Line. In addition to MTA projects, the Washington Metropolitan Area Transit Authority receives \$254 million for the D.C. Metro.

Operating Budget Detail

Education

- The administration highlights \$6.1 billion in FY 2015 Local Aid to Public Schools, an increase of \$135.6 million, or 2.3 percent, from FY 2014.
 - Includes \$5.3 billion in Direct Aid and \$801 million in Teacher Retirement Payments.
 - \$3.1 billion for Foundation Program – per student formula funding;
 - \$1.2 billion for Compensatory Education, weighted formula funding for economically disadvantaged students;
 - \$393 million for Special Education formula funding;
 - \$258 million for Student Transportation; and
 - \$197.7 million for Limited English Proficiency Grants
 - Governor highlights \$132.7 million for Geographic Cost of Education Index (GCEI), which provides additional funds to high-cost jurisdictions, and \$27 million redistributed through the Net Taxable Income (NTI) formula change
- Budget also includes \$70.8 million in Local Library Aid, with \$50.8 million in Direct Aid and \$20 million for Library Retirement Payments.
- The administration highlights \$153.7 million in FY 2015 Early Childhood Education spending, including \$4.3 million in new money to expand Pre-Kindergarten.
 - \$54.1 million for Maryland State Department of Education (MSDE) Division of Early Childhood Development, an increase of \$600,000 from FY 2014
 - \$82.9 million for Child Care Subsidy Program, an increase of

FY 2015 Capital Budget (Non-transportation)



Note: Dollars in millions
Source: The Office of Governor Martin O'Malley

\$9.9 million from FY 2014, accounting for \$2 million fiscal 2014 deficiency reversion.

- MSDE FY 2014 deficiencies total \$19.7 million, with \$34.8 million in Special Fund deficiency spending and a \$15.2 million General Fund deficiency reversion.
 - \$14 million General Fund deficiency for MSDE Division of Accountability, Assessment and Data Systems. DLS anticipated an \$11.9 million deficiency for assessment contract.
 - A \$34.8 million funding swap in Foundation Program –Special Fund deficiency replaces \$34.8 million in General Funds.
 - \$9.6 million General Fund deficiency spending for Teacher Development. DLS had anticipated \$6.5 million for Quality Teacher Incentives.
 - \$2.2 million in General Fund deficiency reversion for Transportation.
 - FY 2015 Operating Budget funds \$6.1 million for Aging Schools program and \$1.8 million for Interagency Committee on School Construction
 - \$20 million in Special Funds, which are Lottery proceeds, in Maryland Stadium Authority (MSA) for Baltimore City Public School Construction and Revitalization. Baltimore City and Baltimore City Public Schools will each contribute \$20 million annually for \$60 million in total funding through MSA, which projects that \$60 million annually can support up to \$1.1 billion in bonds.
 - The administration highlights total FY 2015 funding of \$318.2 million for School Nutrition programs.

Higher Education

- Maryland Higher Education Commission (MHEC) FY 2015 funding of \$489 million, an increase of \$8.1 million from FY 2014, accounting for \$10.1 million in fiscal 2014 deficiency funding.
 - FY 2015 General Funding is \$465.2 million.
 - Local Aid to Community Colleges is budgeted in MHEC at \$304.7 million, including \$42.9 million for Retirement Payments. Budget includes back-of-bill language to limit growth in Community College Formula to 5 percent, which would result in Local Aid to Community Colleges of \$297.5 million.
 - Administration points to \$119.5 million in FY 2015 funding for scholarships and grants, including \$77 million through Educational Excellence Award program.
 - \$10 million FY 2014 deficiency for Educational Excellence Award program.

- FY 2015 \$5.5 billion Higher Education Institutions budget, an increase of \$147.6 million from FY 2014, accounting for a \$3 million FY 2014 General Fund deficiency reversion.
 - Includes \$5.1 billion in funding for University System of Maryland, a 3 percent increase from FY 2014.
 - FY 2015 funding for Morgan State University of \$223.2 million;
 - \$73.1 million for St. Mary's College; and
 - \$91.6 million for Baltimore City Community College.
 - Administration highlights an increase of \$6.8 million for campus-based financial assistance to \$431.8 million; a \$43.5 million boost in support for academic instruction to \$1.34 billion; and a \$10.9 million increase in research expenditures to \$1.03 billion.

Health

- \$7.7 Billion in FY 2015 for Medicaid provider reimbursements, with \$2.4 billion in General Funds and \$4.4 billion in Federal Funds.
- FY 2015 Allowance for Maryland Children's Health Program (MCHP) of \$225.7 million, with 72.4 million in General Funds and \$145.6 million in Federal Funds.
- FY 2014 deficiency spending for Medicaid/MCHP of \$70.8 million, with General Fund deficiency spending of \$136.9 million to replace \$70 million of lost Cigarette Restitution Funds and for increased enrollment and utilization trends.
- May be potential General Fund underfunding in the FY 2015 allowance for Medicaid/MCHP.
 - FY 2014 Appropriation for Medicaid/MCHP was \$2.33 Billion.
 - Plus a FY 2014 General Fund deficiency of \$136.9 million, so total FY 2014 Medicaid/MCHP funding of \$2.467 Billion.
 - FY 2015 General Fund Allowance for Medicaid/MCHP is \$2.471 Billion, an increase of \$3.8 million from FY 2014.
- \$311 million in total FY 2015 allowances for Mental Hygiene Administration, \$218.9 million in General Funds and \$65.1 million in Federal Funds.
- FY 2014 deficiency of \$19.5 million for Community Services for Medicaid Recipients, with a \$27.8 million federal deficiency and an \$8.3 million General Fund deficiency reversion.
- FY 2015 budget includes \$956.1 million for Developmental Disabilities Administration (DDA), \$534.7 million in General Funds and \$418.6 million in Federal Funds.
 - FY 2015 budget also includes \$8.9 million in General Funds for DDA Court Involved Service Delivery System and \$1.8 million in total funding for DDA Facility Reorganization.

- Governor highlights \$5.1 million to support 596 new community placements for transitioning youth, \$770,000 for 30 new service placements for court-involved clients, and \$460,000 for 37 new service placements through Waiting List Equity Fund.
- DDA received FY 2014 deficiency of \$30.3 million. More information is needed, but this may be underfunded. DLS estimated the need for \$41.1 million in FY 2014 DDA deficiency spending.
- The administration points to \$49.1 million in funding for DHMH provider rate increases, most effective mid-year, including \$9.8 million for a 2.5 percent rate increase for home and community service providers and an additional \$6 million for rate increases for home and community service providers for Medicaid enrollees with disabilities.
- The Governor highlights funding for Maryland long-term care system, including \$32 million for Balancing Incentive Payments, for community-based care, and \$14.4 million for the Money Follows the Person for community support contracts.
- \$117.3 million for Substance Abuse treatment and \$7.9 million for prevention programs.
- FY 2015 funding for Local Aid–Public Health of \$46.9 million, an increase of \$5.1 million from FY 2014.

Public Safety

- FY 2015 Allowance for Department of Public Safety and Correctional Services (DPSCS) of \$1.359 Billion, with \$1.19 Billion in General Funds.
 - Governor points to \$8.1 million in FY 2015 and \$5.1 million for FY 2014 deficiencies to implement new technologies to improve security at state correctional facilities and \$4.1 million for staffing at correctional facilities.
- \$30.5 million General Fund DPSCS FY 2014 deficiency
 - \$10.7 million for Maryland Correctional Institution–Hagerstown
 - \$10.1 million for Jessup Correctional Institution
 - \$6.9 million for Baltimore City Detention Center
- FY 2015 budget funds \$349.7 million for State Police, including \$254.7 million in General Funds.
 - The administration highlights \$7 million to begin replacing vehicle fleet, \$1.4 million to replace IT infrastructure, and \$1.2 million to fully staff Aviation Command.
- Total FY 2014 deficiencies for State Police of \$5.5 million, including deficiency spending of \$3.8 million for gun registration backlog and \$1.7 million for Field Operations Bureau
- Department of Juvenile Services (DJS) FY 2015 funding of \$341.7 million, with \$290 million in General Funds.
 - The administration reports funding of \$1.5 million for Operation

Safe Kids, \$700,000 for GPS monitoring, \$3.9 million to provide Evidence-Based Practices to 300 youth, and \$550,000 for the Children in Need of Service program.

- Accounting for deficiency spending, FY 2015 General Funds for DJS go up just \$6 million.
- FY 2014 total deficiencies for DJS of \$690,280 in General Funds. DLS had anticipated need for \$3 million.
- Governor's Office of Crime Control and Prevention (GOCCP) receives FY 2015 allowance of \$117.4 million, with \$97.5 million in General Funds and \$17.6 million in Federal Funds.
- FY 2014 deficiency reversion of \$60,000 in General Funds for GOCCP.
- FY 2015 budget funds \$116.8 million in Local Aid – Public Safety, an increase of \$2.9 million.

Jobs & Economic Development

- FY 2015 Allowance for Department of Labor, Licensing and Regulation (DLLR) of \$361.6 million, with \$45.3 million in General Funds, \$140.1 million in Special Funds, and \$176.3 million in Federal Funds.
 - \$100.9 million in FY 2015 for Division of Workforce Development and Adult Learning.
 - Governor points to \$34 million for twelve Workforce Investment Areas, more than \$3 million for Adult Education Services, and \$19 million for education and job training for state's incarcerated populations.
- Total FY 2014 deficiencies for DLLR of \$173,095.
- FY 2015 budget includes \$161.1 million for Department of Business and Economic Development (DBED), with \$80.2 million in General Funds and \$80.9 million in Special Funds.
 - The administration highlights \$30 million for the Maryland Enterprise Investment Fund and Challenge Investment Programs, \$28 million for the Maryland Economic Development Assistance Authority Fund (MEDAAF), \$11 million for the Small, Minority and Women-owned Business Investment Account, \$10 million for Sustainable Communities Tax Credit, and more than \$6 million for Maryland Small Business Development Financing Authority.
 - FY 2015 budget includes \$17 million for the State Arts Council, \$14.4 million in State funds for tourism development, \$11 million for film production incentives, and \$2 million for the Preservation of Cultural Arts Program.
- FY 2014 total deficiencies for DBED of \$5.1 million, including \$4.5 million for MEDAAF.

Environment/Natural Resources/Agriculture

- FY 2015 Allowance of \$377.3 million for Department of the Environment, with \$37.7 million in General Funds, \$76.1 million in Federal Funds and \$263.4 million in Special Funds.
 - \$3 million increase in grants for Enhanced Nutrient Removal, \$12.9 for the Science Services Administration, and \$19.8 million for the Air and Radiation Management Administration.
- No current FY 2014 deficiencies for Department of the Environment.
- Department of Natural Resources funded at \$310.3 million for FY 2015, with \$53.3 million in General Funds, \$30.7 million in Federal Funds and \$226.3 million in Special Funds.
 - The administration highlights \$42.4 million in operating funding for the Chesapeake Bay 2010 Trust Fund, \$26 million to the Fisheries Service, and \$10.6 million to the Wildlife and Heritage Service.
- FY 2014 deficiency reversions in Department of Natural Resources total \$66,771.
- FY 2015 budget funds \$110.9 million for Department of Agriculture, with \$29.4 million in General Funds, \$4.2 million in Federal Funds and \$77.3 million in Special Funds.
 - Budget includes \$43.1 million for Office of Resource Conservation that works with farmers to reduce runoff reaching the Chesapeake Bay and \$2.9 million for State Chemist program.
- FY 2014 deficiency reversion of \$276,000 in General Funds for Department of Agriculture.
- \$49.5 million in FY 2015 funding for Maryland Energy Administration, with \$48.7 million in Special Funds.
- \$29.2 million in FY 2015 funding for Maryland Department of Planning.

Housing and Community Development

- FY 2015 budget funds Department of Housing and Community Development at \$375.3 million, with \$262.6 million in Federal Funds, \$71 million in Special Funds, and \$10.7 million in General Funds.
- No current FY 2014 deficiencies for Department of Housing and Community Development.
- The administration points to \$43.2 million in total funds for energy programs, to weatherize homes, \$37.2 million for Division of Neighborhood Revitalization, and \$7.9 million for foreclosure prevention and mediation programs.
- \$1 million for Emergency Solutions Grants for rapid re-housing of individuals at risk of or experiencing homelessness.

Income/Work Supports & Nutrition Programs

- FY 2015 Department of Human Resources (DHR) budget funds Family Investment Administration at \$188.9 million.
- FY 2014 deficiency reversion of \$1.8 million in Family Investment Administration, with a \$4.8 million General Fund deficiency reversion and \$3 million in Federal Fund deficiency spending.
- FY 2015 DHR budget includes \$1.45 billion for Assistance Payments made through the Local Departments of Social Services, with \$1.35 billion in Federal Funds, \$76 million in General Funds, and \$18.6 million in Special Funds.
 - Federal Funds include \$1.25 billion for Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps, and \$100.4 million in Temporary Assistance for Needy Families (TANF) funds, likely in part for Temporary Cash Assistance (TCA) payments.
 - Budget includes \$1.7 million to ensure that combined TCA and SNAP benefits meet statutorily required level of 61 percent of Maryland Minimum Living Level.
 - The administration highlights \$6.9 million in total funding, a \$1.7 million increase, for the Maryland Meals for Achievement program, which provides school breakfasts; a \$3 million grant for Maryland Food Bank, an increase of \$1 million; and \$400,000 for Moveable Feast, an increase of \$160,000.
 - Coalition of advocates had urged Governor to fund a \$7.3 million Anti-Hunger Budget Package, including a \$1.8 million increase for Maryland Meals for Achievement, \$5 million for the Maryland After School and Summer Opportunity Fund (MASOF), and \$475,505 for Home Delivered Meal Programs for Older Adults. The budget did not fund the requested \$5 million for MASOF. It is not clear if the Department of Aging's budget includes funds to meet the \$475,505 request.
- FY 2014 General Fund deficiency reversion of \$3.2 million in Assistance Payments. DLS had estimated a surplus in the TCA program of more than \$5 million.
- \$34.9 million in Federal Funds for FY 2015 Work Opportunities Program.
- \$40.6 million for Child Support Enforcement Administration and \$48.7 million for Local Child Support activities in DHR FY 2015 budget.

Human Services & Supporting Vulnerable Families

- \$333.7 million in FY 2015 DHR budget for Foster Care Maintenance Payments, with \$237.6 million in General Funds and \$90.6 million in Federal Funds.
- FY 2014 deficiency for Foster Care Payments of \$19.3 million, with \$18.9

million in General Funds and \$385,599 in Special Funds. It is not clear if the deficiency is for FY 2013 or FY 2014 costs.

- FY 2014 Appropriation for Foster Care Payments is \$237.9 million, plus the \$18.9 million deficiency for \$256.8 million in fiscal 2014 General Funds, or \$19.2 million than the FY 2015 General Funds allowance.
- FY 2015 DHR budget includes \$222.7 million for the Child Welfare Services program, which pays for child welfare workers and operations in the Local Departments of Social Services, with \$141.5 million in General Funds and \$79.6 million in Federal Funds.
- \$29.9 million in FY 2015 DHR budget for Social Services Administration (SSA), with 12.2 million in General Funds and \$17.7 million in Federal Funds.
- FY 2014 deficiencies include a \$1.2 million funding swap in SSA, with General Funds replacing Federal Funds.
- Children's Cabinet Interagency Fund (CCIF) receives FY 2015 allowance of \$21.8 million in General Funds.
- FY 2014 deficiency reversion of \$1.4 million in General Funds for CCIF.
- FY 2015 budget includes \$1.9 million in General Funds for the Governor's Office for Children (GOC).
- FY 2014 General Fund deficiency reversion of \$24,976 in Governor's Office for Children.

Judiciary/Legislative

- FY 2015 General Fund Allowance of \$82.6 million for General Assembly.
- Judiciary receives \$496.6 million in total FY 2015 funding, with \$432.5 million in General Funds.
- FY 2015 Allowance for the Office of the Public Defender of \$99.2 million, with \$99 million in General Funds.
- FY 2014 deficiency of \$6.2 million in General Funds for Office of the Public Defender. DLS had estimated the need for a \$18.8 million deficiency to meet the court requirements of the *DeWolfe v. Richmond* decision and \$3.2 million for normal staffing shortfalls.
- Office of the Attorney General receives FY 2015 funding of \$32.9 million, with \$17.7 million in General Funds, \$12.2 million in Special Funds and \$3 million in Federal Funds.
- FY 2014 General Fund deficiency reversion of \$100,000 in Office of the Attorney General.
- Office of State Prosecutor is funded at \$1.4 million in General Funds for FY 2015.

The Maryland Center on Economic Policy is made possible through the generous support of The Kreiger Fund, the Fund for Change, the Open Society Institute-Baltimore, The Open Society Foundations, and The Moriah Fund.