

Federal Aid Supports Essential State and Local Investments in Maryland

As weak revenues continue to make it challenging for Maryland's state and local governments to provide the services we all rely on, policy developments in Washington threaten to make things much worse. Federal assistance provides essential support to the public investments that make Maryland's economy strong, accounting for 30 percent of the state budget and 18 percent of combined state and local revenues.ⁱ This money supports Maryland schools and universities, keeps our highways and railroads in good condition, and ensures that struggling Marylanders can get medical care when they need it. Deep cuts in the Trump administration's budget and the Affordable Care Act repeal bill passed by the House of Representatives would drastically reduce this support, making it harder for the state to continue needed investments and weakening our economy.

Federal Aid Is Essential to the State Budget

The governor's spending proposal for the next fiscal year counts on \$13 billion in federal aid, amounting to 30 percent of the state budget.ⁱⁱ Federal revenue is spread across nearly every major state agency, and in several agencies provides the majority of funding.

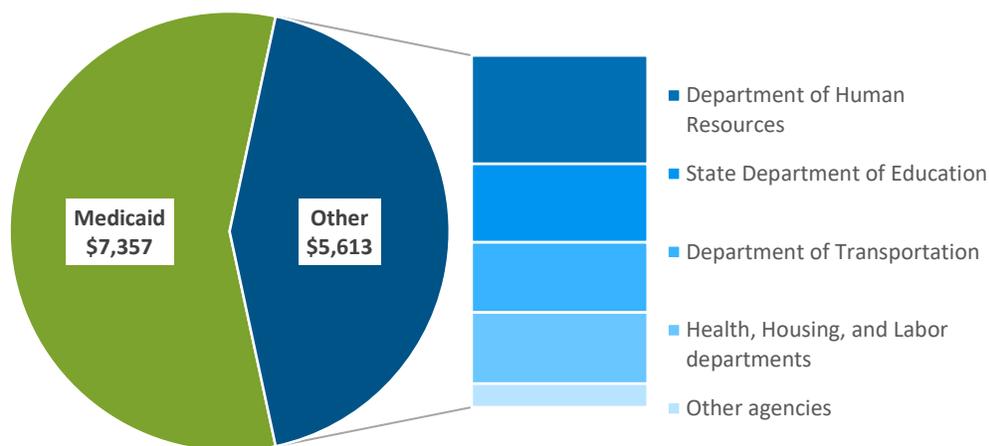
The single largest source of federal aid to the state is Medicaid, which provides needed medical care to 1.3 million Marylandersⁱⁱⁱ – families struggling to make ends meet, adults and children with disabilities, and people whose jobs don't pay enough to maintain a decent standard of living. Maryland receives \$7.4 billion in federal funding through Medicaid, accounting for 57 percent of federal aid and 17 percent of the state budget overall. The Department of Health and Mental Hygiene administers about 98 percent of federal Medicaid funds in the state budget.

Six state agencies receive most of the remaining \$5.6 billion in federal aid:

- **DEPARTMENT OF HUMAN RESOURCES (\$1.7 BILLION):** This money goes primarily toward nutrition, child wellbeing, and poverty reduction. The largest component is \$1.1 billion from the Supplemental Nutritional Assistance Program (SNAP, formerly food stamps), which provides modest benefits to help families put food on the table. SNAP benefits 679,000 Marylanders, including one in five of the state's children, and has been shown to lead to better child health and a better chance of finishing high school.^{iv} The remainder goes toward foster care, child support enforcement, workforce development, home energy assistance, and several other activities. Five percent of the federal revenue in the Department of Human Resources goes toward cash assistance to families. Federal aid accounts for two-thirds of the department's funding.

MOST FEDERAL AID TO MARYLAND SUPPORTS HEALTH CARE; HUMAN SERVICES, EDUCATION, TRANSPORTATION ARE RUNNERS-UP

Medicaid and non-Medicaid federal aid by state agency (\$ millions)



Source: MDCEP analysis of Maryland Budget Highlights FY 2018.

- STATE DEPARTMENT OF EDUCATION (\$1.3 BILLION):** The majority of this money is passed through to local school districts. It includes \$232 million in aid to low-income districts (Title I), \$210 million in special education grants, and \$340 million in school meals funding to ensure that all students go to class well fed and ready to learn. The State Department of Education also receives funding for child care assistance and workforce development services for youth and adults with disabilities.
- DEPARTMENT OF TRANSPORTATION (\$1.1 BILLION):** This includes \$637 million for highway construction and maintenance as well as \$397 million for transit maintenance.
- DEPARTMENT OF HEALTH AND MENTAL HYGIENE (\$661 MILLION):** In addition to Medicaid funding, the Department of Health and Mental Hygiene receives \$319 million from the Children’s Health Insurance Program, which provides insurance to children in struggling families that are not eligible for Medicaid. Another \$113 million from the Supplemental Nutrition Program for Women, Infants, and Children (WIC) ensures that children and pregnant women in low-income families have the nutrition they need for healthy development.
- DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (\$296 MILLION):** This money primarily goes toward Section 8 Housing Assistance, enabling families to obtain decent housing at an affordable price. Federal housing assistance benefits 186,000 Marylanders.^v Federal aid accounts for two-thirds of this agency’s funding.
- DEPARTMENT OF LABOR, LICENSING, AND REGULATION (\$179 MILLION):** This includes \$92 million for unemployment insurance benefits and administration, with most of the remainder going toward workforce development and adult education.

Federal funding for environmental activities is spread across multiple state agencies and totals \$121 million, or 12 percent of the state’s environmental spending. This includes \$54 million from the federal government for restoration of the Chesapeake Bay.

Parts of the state government other than the six agencies described above are slated to take in \$376 million in non-Medicaid federal funding in fiscal year 2018. This funding is used for many purposes, including public safety, emergency management, and services to aging Marylanders.

Federal Aid Is Essential to Local Budgets

Maryland counties and Baltimore City (including independent county-level agencies like school boards and community colleges) received \$1.9 billion in federal aid in 2014, including \$760 million in grants to central county governments.^{vi} Baltimore City received the most federal revenue in 2014 in both absolute and per-capita terms. As a share of total revenue, federal aid was most important in Somerset, Allegany, and Kent counties.

TABLE 1. DISTRIBUTION OF FEDERAL AID AMONG COUNTIES, FY 2014

COUNTY	FEDERAL AID (\$ THOUSANDS)	FEDERAL AID AS A SHARE OF REVENUE	FEDERAL AID PER CAPITA
Allegany	\$31,741	12%	\$432
Anne Arundel	\$103,781	4%	\$187
Baltimore City	\$378,876	10%	\$608
Baltimore	\$253,831	8%	\$308
Calvert	\$19,079	5%	\$211
Caroline	\$11,335	9%	\$347
Carroll	\$32,475	5%	\$194
Cecil	\$24,345	6%	\$239
Charles	\$43,714	6%	\$286
Dorchester	\$10,599	9%	\$325
Frederick	\$45,200	5%	\$187
Garrett	\$11,061	8%	\$369
Harford	\$57,958	6%	\$232
Howard	\$65,089	4%	\$213
Kent	\$8,909	11%	\$450
Montgomery	\$349,177	6%	\$342
Prince George's	\$308,642	8%	\$345
Queen Anne's	\$10,109	5%	\$208
St. Mary's	\$26,274	6%	\$240
Somerset	\$12,075	13%	\$462
Talbot	\$9,245	8%	\$244
Washington	\$39,589	8%	\$265
Wicomico	\$30,242	8%	\$300
TOTAL	\$1,883,348	7%	\$319

Source: Department of Legislative Services.

Primary and secondary education aid is the largest component of federal aid to counties, totaling \$814 million in 2014. This money is distributed as pass-through revenue: the federal government makes grants to

states, which disburse the money to local school districts.^{vii} For this reason it appears in both the state and county budgets. Community college boards of trustees and county boards of health also receive significant federal support, together totaling \$322 million in 2014. While federal aid is 7 percent of county-level budgets overall, county boards of health rely on the federal government for more than a quarter of their funding.

While statewide data on the use of federal funds by central county governments are not available, the Baltimore City budget can serve as an illustrative case. The city budget for fiscal year 2017 includes \$168 million in federal operating aid and \$48 million in federal support for the capital budget.^{viii} Six agencies account for 93 percent of federal assistance in the city's operating budget.

- **DEPARTMENT OF HEALTH (\$65 MILLION):** This includes \$28 million in aid for HIV treatments for uninsured residents of the Baltimore metro area (including suburban counties) and \$20 million for maternal and child health. There is also significant federal support for services to seniors, youth violence prevention, and general administration.
- **OFFICE OF HUMAN SERVICES (\$45 MILLION):** The largest component of federal aid for the Office of Human Services is \$25 million to help homeless Baltimore residents find and maintain permanent housing. The budget also includes \$9 million from the federal government for other services to homeless Baltimoreans and \$8 million for Head Start. Federal aid accounts for two-thirds of this agency's funding.
- **OFFICE OF EMPLOYMENT DEVELOPMENT (\$14 MILLION):** This money goes toward job training and other workforce development services. Funds are earmarked for citizens returning from incarceration, TANF participants, other adults, and youth. Federal aid accounts for more than half of this agency's funding.
- **DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (\$13 MILLION):** This includes \$8 million for community support projects through the federal Community Development Block Grant program. It also includes \$3 million for housing rehabilitation and \$1 million for general administration.
- **POLICE AND FIRE DEPARTMENTS (\$20 MILLION TOGETHER):** Funding for the police department goes toward homeland security intelligence, the crime lab, and general administration. It totals \$12 million. Funding for the fire department goes toward facilities, fire suppression and emergency rescue, and general administration. It totals \$7 million.

Federal Cuts Would Cause Serious Harm

Policy changes under consideration in Washington could drastically reduce federal support to Maryland's state and local budgets. Medicaid, the single most important component of federal investment in the states, is facing deep cuts under both the health reform repeal bill passed by the House of Representatives and the president's budget. The budget also cuts billions from nondefense discretionary spending – that is, parts of the federal budget other than defense that are set annually by Congress, rather than being determined by law.^{ix} This is the second-most important category of federal investment that supports core functions of state and local governments.

Direct cuts to Maryland governments embedded in the Trump budget are in addition to the damage caused cuts to the federal workforce would cause. The thousands of federal employees who live in Maryland bring large amounts of income, economic activity, and tax revenue into the state. And, like all other states, Maryland will be significantly harmed by cuts in direct federal spending that don't pass through state or local budgets.

Costly Cuts to Health and Nutrition

Together, the Trump budget and House health reform repeal bill envision drastic cuts to two of the most important tools the federal government uses to reduce poverty and help families afford the basics: Medicaid and SNAP (also known as food stamps). Both changes have serious implications for Maryland.

The American Health Care Act, the bill that repeals much of the Affordable Care Act and radically restructures Medicaid, is projected to increase the number of uninsured Americans by 23 million in 2026.^x In Maryland, 265,000 people are expected to lose coverage.^{xi} Another 11,000 elderly Marylanders living on low incomes will lose access to Medicaid under the House bill, which will mean prohibitive out-of-pocket costs, especially for long-term care not covered by Medicare. This bill is estimated to cost Maryland \$14 billion over 10 years in lost federal funding, which will make it harder for the state to provide needed investments in health care and other services.^{xii} Making matters worse, the law creates a cap on federal Medicaid funding, which means the costs to Maryland will only grow over time as needs continue to increase. The Trump budget piles on by calling for an *additional* \$610 billion in cuts over 10 years, or a 12 percent reduction in funding.^{xiii} The budget also reduces the federal contribution rate for the Children's Health Insurance Program by 23 percentage points, shifting more costs onto the states. This would almost certainly force the state to deny coverage to thousands more Marylanders and would make it even harder to fund needed services.

The president's budget cuts federal funding for SNAP food assistance by \$193 billion nationwide, or more than 25 percent, over 10 years.^{xiv} The proposal would end the federal commitment to pay the full cost of the program's benefits, shifting costs to states for the first time. This change would cost Maryland \$1.9 billion or more over 10 years, likely forcing the state to reduce benefits.

Discretionary Cuts Would Hit Maryland Hard

The Trump administration's budget proposal calls for \$54 billion in cuts to nondefense discretionary spending in fiscal year 2018. This is an overall cut of 10 percent compared to current levels, and some federal agencies would see cuts of double this amount or more.^{xv} As a share of the economy, nondefense discretionary spending would be less under the administration plan than it has been in more than half a century.^{xvi} These cuts would have devastating effects on Maryland's economy.

Between federal services receiving reduced support under the administration plan and those that are eliminated outright, **MARYLAND STATE AND LOCAL GOVERNMENTS STAND TO LOSE UPWARDS OF \$270 MILLION IN FEDERAL FUNDING** in budget year 2018 alone:^{xvii}

- The Low Income Home Energy Assistance Program, which helps struggling families maintain safe temperatures in their homes, is eliminated. Maryland received \$74 million from this program in federal budget year 2017.
- Housing and community development programs in Maryland are cut by \$97 million. (**See Table 2.**) This includes the Community Development Block Grant (CDBG) and HOME Investment Partnerships, both of which are eliminated. Together, these programs total \$57 million in Maryland in the current federal budget year. Table 2 reports the approximate amounts lost by counties and municipalities that receive direct grants through these programs.^{xviii}
- The budget cuts federal funding for K-12 education in Maryland by \$65 million. Three programs are eliminated outright, including before- and after school programs for low-income students, professional development and class size reduction to improve instructional quality, and academic enrichment grants

to low-income schools. Core federal support for high-poverty schools (Title I) and special education are cut by a combined \$10 million.

- The Appalachian Regional Commission, which supports economic development in Western Maryland and other parts of the Appalachian region, is eliminated. Maryland’s 2018 budget counts on \$20 million from the commission—money that directly benefits many of the rural communities President Trump has pledged to support.^{xix}
- Workforce development services for adults, youth, and dislocated workers are cut by \$18 million, or 40 percent. These services connect workers to good jobs and ensure businesses can access the talent they need.
- The Chesapeake Bay Program, which cleans up Maryland’s environment and strengthens our regional economy, is eliminated. This cut costs Maryland \$8 million in lost federal funding.^{xx}
- Other vital services funded through the discretionary budget are cut. These include Head Start, nutritional assistance for pregnant mothers and their children (WIC), and public health services.

TABLE 2. IMPACT OF PROGRAM ELIMINATIONS BY COUNTY (\$ THOUSANDS)

COUNTY	COMMUNITY DEVELOPMENT BLOCK GRANTS	HOME INVESTMENT PARTNERSHIPS	TOTAL
Anne Arundel	\$1,817,259	\$582,764	\$2,400,023
Baltimore City	\$19,099,736	\$3,298,456	\$22,398,192
Baltimore	\$3,604,110	\$1,538,559	\$5,142,669
Harford	\$932,877	\$309,223	\$1,242,100
Howard	\$1,034,767	\$334,275	\$1,369,042
Montgomery	\$4,087,565	\$1,410,567	\$5,498,132
Prince George's	\$4,461,422	\$1,025,219	\$5,486,641
Municipalities	\$2,807,828	\$0	\$2,807,828
TOTAL	\$37,845,564	\$8,499,063	\$46,294,627

Source: U.S. Department of Housing and Urban Development. FY 2016 values.

ⁱ “Maryland Budget Highlights: FY 2018,” Department of Budget and Management, 2017, <http://dbm.maryland.gov/budget/Documents/operbudget/2018/FY2018Highlights.pdf>.

ⁱⁱ “State and Local Government Finances by Level of Government and by State: 2014,” U.S. Census Bureau, 2017, <https://factfinder.census.gov/bkmk/table/1.0/en/SLF/2014/00A1/0400000US24>.

ⁱⁱⁱ “Maryland Budget Highlights.”

^{iv} “Medicaid and CHIP in Maryland,” Centers for Medicare and Medicaid Services, 2017, <https://www.medicaid.gov/medicaid/by-state/stateprofile.html?state=maryland>.

^v “Supplemental Nutrition Assistance Program: Number of Persons Participating,” U.S. Department of Agriculture, 2017, <https://www.fns.usda.gov/sites/default/files/pd/29SNAPcurrPP.pdf>.

Steven Carlson, Dottie Rosenbaum, Brynne Keith-Jennings, and Catlin Nchako, “SNAP Works for America’s Children,” Center on Budget and Policy Priorities, 2016, <http://www.cbpp.org/research/food-assistance/snap-works-for-americas-children>.

^{vi} Analysis of Department of Housing and Urban Development data by the Center on Budget and Policy Priorities.

^{vii} “Local Government Finances in Maryland: Fiscal Year Ending June 30, 2014,” Department of Legislative Services, 2016, http://dls.state.md.us/data/polanasubare/polanasubare_intmatnpubadm/polanasubare_intmatnpubadm_annrep/2014-LGF.pdf.

^{viii} Some other sources of federal aid are distributed as pass-through revenue, while others are transferred directly to local jurisdictions. For this reason, total federal aid to the state and total federal aid to local governments should not be added.

^{ix} Fiscal 2017: Summary of the Adopted Budget,” Baltimore City Bureau of the Budget and Management Research, 2016, [http://ca.baltimorecity.gov/files/Fiscal 2017 Summary of the Adopted Budget_Final.pdf](http://ca.baltimorecity.gov/files/Fiscal%202017%20Summary%20of%20the%20Adopted%20Budget_Final.pdf).

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- “Baltimore Capital Improvement Program: FY 2017,” Baltimore City Planning Commission, 2016, http://bbmr.baltimorecity.gov/sites/default/files/CIP_Book_FY17_with_cover.pdf.
- ix “Budget of the U.S. Government: A New Foundation for American Greatness,” U.S. Office of Management and Budget, 2017, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/budget.pdf>.
- x “H.R. 1628, American Health Care Act of 2017,” Congressional Budget Office, 2017, <https://www.cbo.gov/publication/52752>.
- xi Emily Gee, “CBO-Derived Coverage Losses by State and Congressional District,” Center for American Progress, 2017, <https://www.americanprogress.org/issues/healthcare/news/2017/05/25/433017/cbo-derived-coverage-losses-state-congressional-district/>.
- xii “House Republican Health Plan Would Shift \$14 Billion in Medicaid Costs to Maryland,” Center on Budget and Policy Priorities, 2017, <http://www.cbpp.org/sites/default/files/atoms/files/3-22-17health-factsheets-md.pdf>.
David Cutler and Emily Gee, “Coverage Losses by Congressional District under the House ACA Repeal Bill,” Center for American Progress, 2017, <https://www.americanprogress.org/issues/healthcare/news/2017/03/17/428601/coverage-losses-congressional-district-house-aca-repeal-bill/>.
- xiii “Budget of the U.S. Government.”
- xiv Stacy Dean, “President’s Budget Would Shift Substantial Costs to States and Cut Food Assistance for Millions,” Center on Budget and Policy Priorities, 2017, <http://www.cbpp.org/research/food-assistance/presidents-budget-would-shift-substantial-costs-to-states-and-cut-food>.
- xv “Budget of the U.S. Government.”
- xvi Robert Greenstein, “Greenstein: Trump Budget Proposes Path to a New Gilded Age,” Center on Budget and Policy Priorities, 2017, <http://www.cbpp.org/press/statements/greenstein-trump-budget-proposes-path-to-a-new-gilded-age>.
- xvii Unless otherwise noted, data are from “The VIP Series: FY 2018 President’s Budget Volume 17, No. 2,” Federal Funds Information for States, 2017.
- xviii Douglas Rice, “Trump Budget Would Increase Homelessness and Hardship in Every State, End Federal Role in Community Development,” Center on Budget and Policy Priorities, 2017, <http://www.cbpp.org/blog/trump-budget-would-increase-homelessness-and-hardship-in-every-state-end-federal-role-in>.
- xix “Maryland Budget Highlights.”
- xx Ibid.