F10A
Secretary
Department of Budget and Management

Operating Budget Data

($ in Thousands)

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change	% Change Prior Year
General Fund	$8,082	$8,941	$9,360	$420	4.7%
Deficiencies and Reductions	0	-348	-559	-211	
Adjusted General Fund	**$8,082**	**$8,593**	**$8,802**	**$209**	**2.4%**
Special Fund	11,065	13,107	13,972	865	6.6%
Deficiencies and Reductions	0	0	-295	-295	
Adjusted Special Fund	**$11,065**	**$13,107**	**$13,678**	**$570**	**4.4%**
Reimbursable Fund	198	214	225	11	5.3%
Adjusted Reimbursable Fund	**$198**	**$214**	**$225**	**$11**	**5.3%**
Adjusted Grand Total	**$19,345**	**$21,914**	**$22,705**	**$791**	**3.6%**

Note: The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

- After accounting for across-the-board reductions for employee increments, salaries, and a 2% general reduction, the fiscal 2016 allowance for the Department of Budget and Management (DBM) increases by $790,931, or 3.6%, over the fiscal 2015 working appropriation.

- Personnel expense growth of $632,222 accounts for most of the change in the allowance. This includes funding to convert 2 contractual full-time equivalents (FTE) to regular positions, employee health care, and retirement.

Note: Numbers may not sum to total due to rounding.

For further information contact: David B. Juppe Phone: (410) 946-5530

Personnel Data

	FY 14 Actual	FY 15 Working	FY 16 Allowance	FY 15-16 Change
Regular Positions	192.80	197.80	199.80	2.00
Contractual FTEs	11.85	9.90	9.50	-0.40
Total Personnel	**204.65**	**207.70**	**209.30**	**1.60**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	5.58	2.82%
Positions and Percentage Vacant as of 1/1/15	10.00	5.06%

- There are 2.0 new regular positions in fiscal 2016, reflecting the conversion of 2.0 long-term contractual FTEs in the Central Collection Unit (CCU).

- There is a net decrease of 0.4 contractual FTEs. CCU is adding 2.0 new contractual FTEs to aid with the implementation of the new information technology collection system and abolishing a 0.4 FTE that is no longer needed.

- Turnover expectancy is set at 2.82% in fiscal 2016, requiring that approximately 5.5 positions be held vacant throughout the year. The agency has averaged 12.0 vacant regular positions over the last two fiscal years.

Analysis in Brief

Major Trends

Capital Budget Performance Not Meeting Goals: The Office of Capital Budgeting strives for sound capital budget planning processes. Objectives have been established to ensure that at least 90% of State-owned capital projects are consistent with agency facilities master plans and have approved program plans. The agency did not meet either objective in fiscal 2014.

Percent of Outstanding Debt Collected Projected to Decline: The percent of outstanding debt collected by CCU is projected to decrease in fiscal 2015 and 2016, primarily due to the addition of video toll violations from the Maryland Transportation Authority. Since CCU does not have prior experience with these new accounts, it is conservatively anticipating a 10% collection rate.

Percent of Vehicles Driven at Least 10,000 Miles Per Year Is Close to the Goal: DBM instructs agencies that vehicles must be driven a minimum of 10,000 miles per year. The agency goal is to have at least 96% of vehicles driven the official minimum number of miles. In fiscal 2014, 95% of vehicles met the minimum, which is just short of the 96% goal.

Issues

Higher Education Interagency Agreements Lack Sufficient Oversight: The usage and magnitude of interagency agreements with higher education institutions has grown markedly in recent years. Such agreements can provide research and training, which augments the ability of agencies to provide services, but also are subject to abuse. A February 2015 audit of an agreement between Towson University and the Maryland Transit Administration revealed circumvention of State procurement and personnel laws, excessive costs, and lack of documentation. Higher education institutions also charge overhead costs as high as 55% of the cost of direct service delivery. **The Department of Legislative Services recommends that DBM review each current higher education interagency agreement to determine why the services cannot be provided by the State agencies and is, therefore, appropriate for using higher education; ensure that agencies maintain documentation of all agreements, amendments, task orders, and invoices; ensure that the overhead charges and direct service costs are not excessive; and ensure that all work performed by higher education is documented. The Secretary should also be tasked with approving every new higher education interagency agreement.**

Fiscal 2014 Closeout Audit Identifies Transactions and Payables That Could Require Additional General Funds: Each year, the Office of Legislative Audits prepares a review of the State budget's closeout transactions for the most recently completed fiscal year. This year's audit disclosed \$20.5 million in unresolved payables and \$60.4 million in shortfalls due to fund receivable deficits, that when combined, add to \$80.9 million. The Administration has included \$50.7 million to address most of the payables as fiscal 2015 deficiencies. As it appears unlikely that agencies will be able to absorb these shortfalls, and federal and other fund reimbursement appear unlikely to materialize, the

State seems to be facing an unresolved liability of $30.2 million in general funds. **The agency should comment on the audit's findings and how it will address these unresolved general fund liabilities.**

DBM Should Provide Specificity for the 2% Across-the-board Reductions: Across-the-board reductions of 2% were adopted in both the fiscal 2015 and 2016 budgets, totaling $230.8 million. Although the reductions are allocated by a three-digit financial agency code, there is little specificity as to how the cuts will be taken by program or what impact these actions will have on services. **It is recommended that the agency provide the budget committees with greater detail on the 2% reductions during the 2015 session. Budget bill language is also recommended to require that the *Fiscal Digest* reflect reductions by program, subprogram, Comptroller Object, and subobject.**

Managing for Results State Comprehensive Plan Not Submitted: Section 3-1002 of the State Finance and Procurement Article stipulates that a State Comprehensive Plan be submitted annually in January. The purpose of the plan is to provide a broad overview of the State's progress in up to 10 Managing for Results goals, as evidenced through 50 to 100 performance measures. **The agency should comment on when the State Comprehensive Plan will be submitted to the budget committees, and whether the plan will be modified to reflect the goals of the new Administration.**

Recommended Actions

1. Add language abolishing 3 regular positions.

2. Add budget bill language requesting the 2% reduction detail in the Fiscal Digest.

3. Amend Section 17 adding a tracking structure necessary for legislative audits and disallowing transfers to other purposes.

4. Add a section requiring a long-term forecast.

5. Add a section applying the across-the-board Executive Branch reductions to higher education.

6. Add a section requiring monthly reporting on the State's workers' compensation account held by the Chesapeake Employers' Insurance Company.

7. Add a section requiring reporting on federal funds received by the State.

8. Add a section defining the usage of federal funds in the budget.

9. Add a section requiring indirect cost recovery reporting.

10. Add a section requiring a consistent presentation of budget data and organizational charts.

11. Add a section requiring reporting on interagency agreements and approval by the Department of Budget and Management.

12. Add a section defining the budget amendment process.

13. Add a section defining maintenance of accounting systems.

14. Add a section limiting salary payments to Executive Branch nominees rejected by the Senate.

15. Amend Section 19 adding the Legislative and Judicial branches to the 2% across-the-board reduction.

Updates

Annual Central Collection Fund Balance Transfer to the General Fund: Annual transfers from the Central Collection Fund to the general fund result when the end-of-year fund balance exceeds operating spending by 15%. Transfers in fiscal 2015 and 2016 are estimated at approximately $3 million per year. Transfers will increase upon the completion of the business system upgrade, which is a major information technology project funded in the Department of Information Technology.

F10A
Secretary
Department of Budget and Management

Operating Budget Analysis

Program Description

The Department of Budget and Management (DBM) is responsible for managing the expenditure of State resources. DBM's programs are described below:

- **Executive Direction** manages the department. It includes executive staff, Attorneys General, and the Equal Employment Opportunity Program.

- **Division of Finance and Administration** is responsible for the accounting, budgeting, payroll, and purchasing functions of the department.

- **Central Collection Unit** (CCU) collects delinquent debts, claims, and accounts due to State government.

- **Division of Procurement Policy and Administration** provides centralized review and approval or rejection of procurement of services for Executive Branch agencies. The administration also procures vehicles and manages State fleet operations.

- **Office of Budget Analysis** analyzes State agency programs, expenditures, revenues, and performance. The office recommends funding allocations and develops the operating budget with legal requirements and the Administration's directions.

- **Office of Capital Budgeting** develops an annual capital budget, prepares a five-year *Capital Improvement Program*, and reviews the master plans of State agencies.

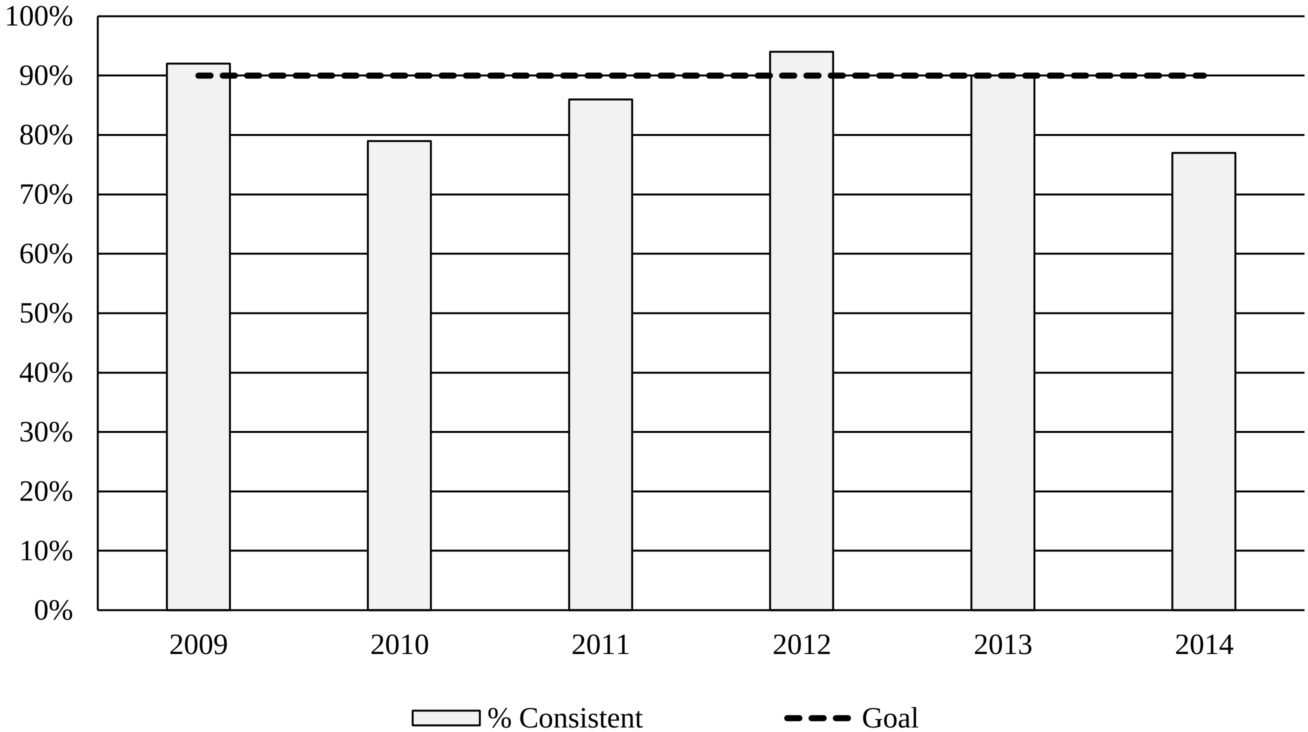
DBM also has an Office of Personnel Services and Benefits (F10A02), which provides State personnel policy direction and support. This budget and related issues are discussed in a separate analysis.

Performance Analysis: Managing for Results

1. Capital Budget Performance Not Meeting Goals

The Office of Capital Budgeting reports two objectives as part of its goal to ensure that capital projects included in the budget are consistent with sound planning practices. Under the first objective, the office seeks to have 90% of State-owned capital projects be consistent with agency facilities master plans. As seen in **Exhibit 1**, the agency met this goal in fiscal 2012 and 2013 but had 21% of capital projects that were not consistent with agency master plans in fiscal 2014. The agency attributes this largely to projects included for funding while several agencies were developing new or revised facility master plans, as well as to accommodate emergency projects.

Exhibit 1
Office of Capital Budgeting
Percent of State-owned Capital Projects Consistent with
Agency Facilities Master Plans
Fiscal 2009-2014

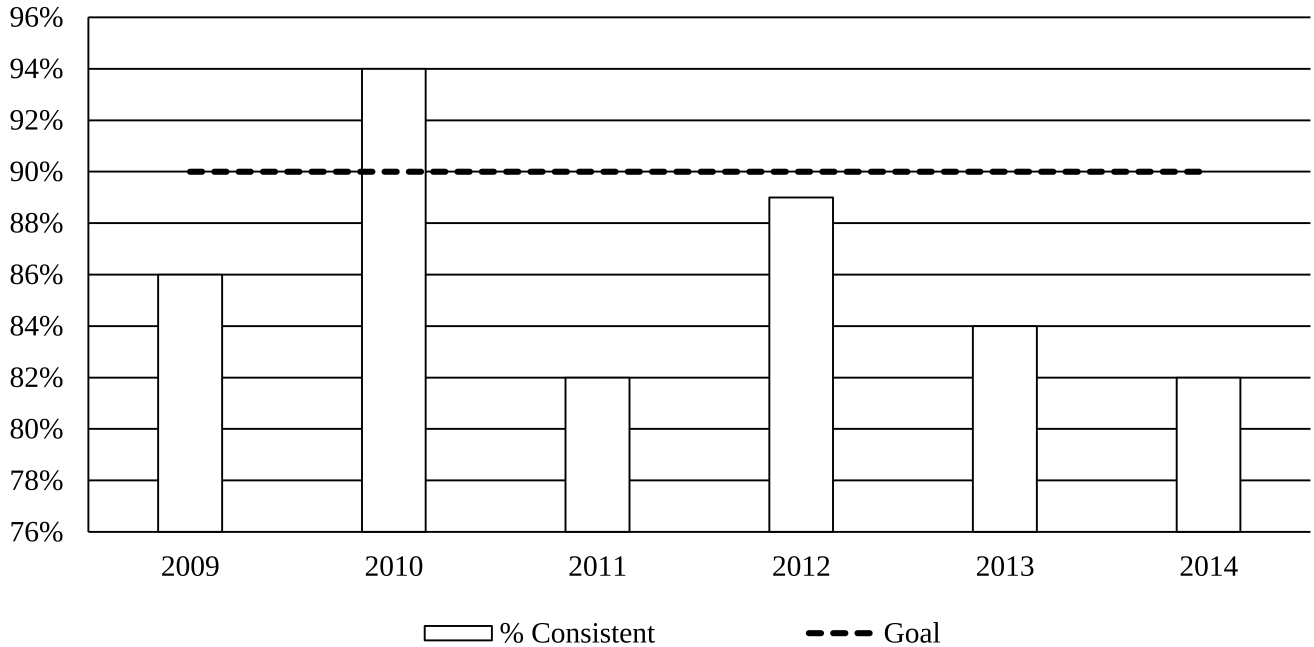


Source: Governor's Budget Books, Fiscal 2011-2016

Section 3-602 of the State Finance and Procurement Article provides that capital projects must have an approved Part 1 program prior to authorization of funds for design and an approved Part 2 program prior to authorization of capital funds. A section added to the capital budget by the Administration each year, however, permits projects without approved program plans to receive authorizations in the capital budget bill with the stipulation that no funds can be expended until the program plans are approved.

DBM has set a goal that 90% of State-owned capital projects included in the budget bill have approved facility programs. **Exhibit 2** demonstrates that the agency only had 84% and 82% of projects with approved program plans in fiscal 2013 and 2014. In one case, a project was accelerated in order to take advantage of available federal funds. Other projects had programmatic issues or were discretionary additions in the capital budget.

Exhibit 2
Office of Capital Budgeting
Percent of State-owned Capital Projects with Approved Facility Programs
Fiscal 2009-2014



Source: Governor's Budget Books, Fiscal 2011-2016

2. Percent of Outstanding Debt Collected Projected to Decline

CCU is charged with responsibility for collecting delinquent claims, debts, and accounts owed to the State except for taxes, child support, and unemployment contributions and overpayments. Typical debts include Motor Vehicle Administration fines, student tuition and fees, and restitution for damage to State property, among others. **Exhibit 3** illustrates collection trend activity between fiscal 2012 and 2014 and projected collections in fiscal 2015 and 2016. Actual collections have fluctuated between $125.7 million and $138.5 million, but throughout the period, the unit has consistently collected approximately 47% of outstanding debts.

Exhibit 3
Central Collection Unit
Fiscal 2012-2016 Est. Collection Activity

Fiscal Year	Dollar Value of Debt Collected	% of Outstanding Total Collected	Annual % Change in Dollars Collected
2012	$125,717,129	47.5%	-6.9%
2013	138,492,905	46.9%	10.2%
2014	134,590,503	46.0%	-2.8%
2015 Est.	142,507,313	31.0%	5.9%
2016 Est.	142,507,313	31.0%	0.0%

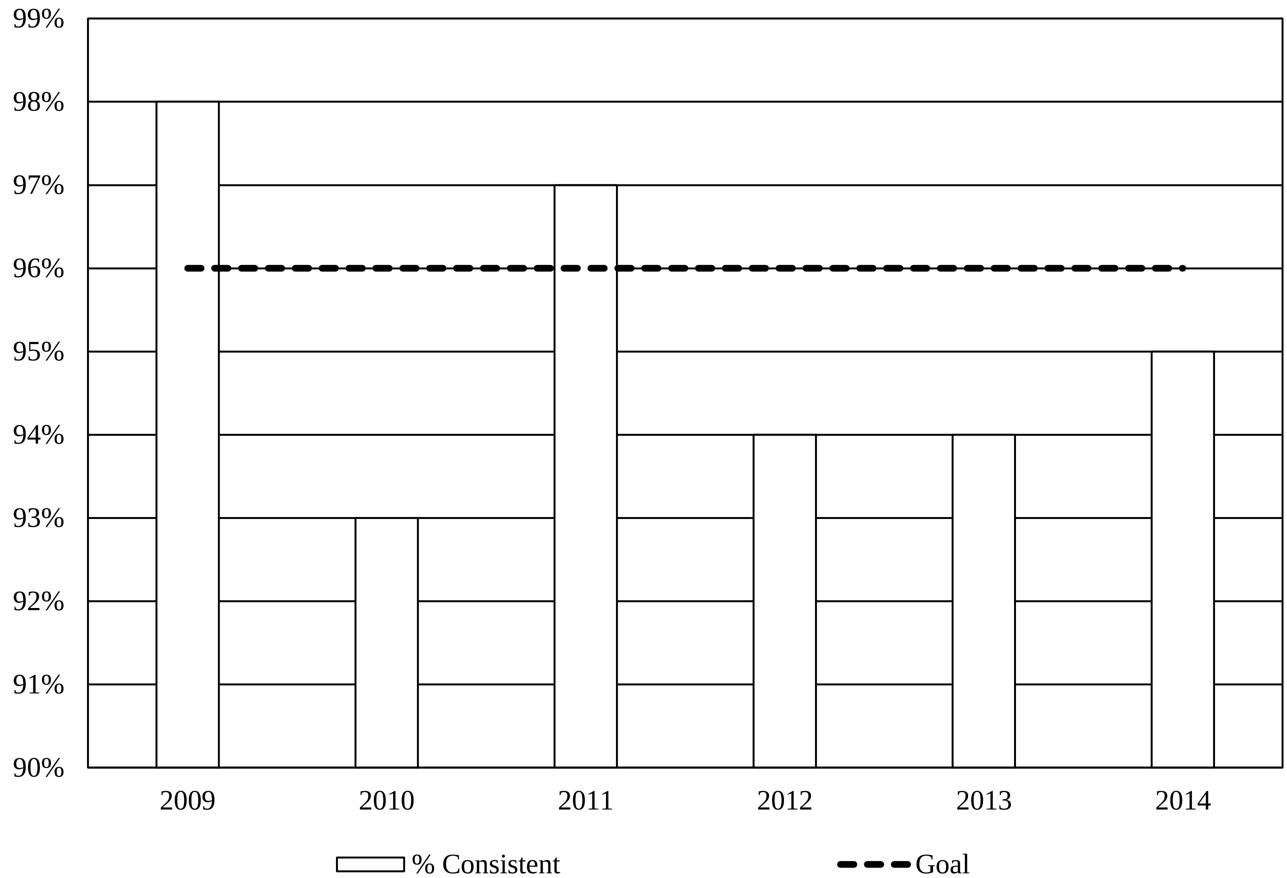
Source: Governor's Budget Books, Fiscal 2014-2016; Department of Budget and Management

Beginning in fiscal 2015, CCU's account inventory will be expanded to include video tolling violations from the Maryland Transportation Authority (MDTA). A backlog of 800,000 individual toll violations accrued while the agency sought legislation to clarify and alter MDTA's procedures for collecting unpaid tolls (Chapter 113 of 2013). CCU also expects approximately 40,000 to 50,000 toll violations per month. The majority of violations are from users of the InterCounty Connector. Based on the phased implementation of Chapter 113, CCU expects to begin receiving accounts in fiscal 2015. Because CCU has not had prior experience in collecting toll violations, it is assuming a collection rate of 10%, which is the primary reason that the percent of outstanding debt in fiscal 2015 and 2016 is estimated to fall to 31% in each year.

3. Percent of Vehicles Driven at Least 10,000 Miles Per Year Is Close to Goal

DBM instructs agencies that vehicles must be driven a minimum of 10,000 miles per year. The agency's goal is to have at least 96% of vehicles driven the official minimum number of miles. **Exhibit 4** shows that 94% of vehicles met the minimum mileage requirement in fiscal 2012 and 2013, increasing to 95% in fiscal 2014. This is just short of the goal.

Exhibit 4
Fleet Management
Percent of Vehicles Driven a Minimum 10,000 Miles Per Year
Fiscal 2009-2014



Source: Governor's Budget Books, Fiscal 2011-2016

Fiscal 2015 Actions

Exhibit 5 shows the overall impact of the cost containment actions on the fiscal 2015 appropriation.

Exhibit 5
Fiscal 2015 Reconciliation
($ in Thousands)

Action	Description	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Legislative Appropriation with Budget Amendments		**$8,991**	**$13,507**	**$0**	**$214**	**$22,712**
July BPW	Reduce computers and printers by $30,000 and fleet management software by $20,000. Overbudgeted postage reduced $400,000.	-50	-400	0	0	-450
Working Appropriation		**$8,941**	**$13,107**	**$0**	**$214**	**$22,262**
January BPW Across the Board	2% across-the-board reduction.	-348	0	0	0	-348
Deficiency Appropriations		0	0	0	0	0
Total Actions Since January 2015		***-$348***	***$0***	***$0***	***$0***	***-$348***
Adjusted Working Appropriation		**$8,593**	**$13,107**	**$0**	**$214**	**$21,914**

BPW: Board of Public Works

Source: Department of Legislative Services

Cost Containment

On July 2, 2014, the Board of Public Works (BPW) withdrew $450,000 from the fiscal 2015 budget of DBM. This included:

- $400,000 in special funds from CCU due to overbudgeted postage. It is expected that this $400,000 will be credited to the general fund along with other surplus revenue in the Central Collection Fund (CCF) above 15% of actual expenses as part of the fiscal 2015 closeout; and

- $50,000 in general funds, including $30,000 to delay the replacement of computers and printers and $20,000 intended to upgrade fleet management software. The agency advises that the impact of these reductions is minimal in the short-term, but replacement cannot be deferred indefinitely.

Additional BPW reductions were adopted on January 7, 2015, which, as it pertains to DBM, results in a 2% across-the-board reduction that totals $347,991. **The agency should indicate how it plans to allocate the 2% reduction in fiscal 2015.**

Proposed Budget

DBM's fiscal 2016 allowance increased by approximately $791,000 over the adjusted fiscal 2015 working appropriation. About $632,000 of this increase is related to personnel expenses, as shown in **Exhibit 6**. Across-the-board cuts to employee increments and the annualization of the 2% general salary increase provided in fiscal 2015 are offset by growth for employee health insurance and retirement expense. Two new regular positions are provided for CCU to convert 2 long-time contractual full-time equivalents. Nominal operating expense growth is provided for CCU postage, which had been reduced in fiscal 2015 because of a large prepaid balance with the U.S. Postal Service, offset by reductions in the allocation of CCU hearing expense allocations for the Office of Administrative Hearings.

Exhibit 6
Proposed Budget
Department of Budget and Management – Secretary
($ in Thousands)

How Much It Grows:	**General Fund**	**Special Fund**	**Reimb. Fund**	**Total**
Fiscal 2014 Actual	$8,082	$11,065	$198	$19,345
Fiscal 2015 Working Appropriation	8,593	13,107	214	21,914
Fiscal 2016 Allowance	8,802	13,678	225	22,705
Fiscal 2015-2016 Amt. Change	$209	$570	$11	$791
Fiscal 2015-2016 Percent Change	2.4%	4.4%	5.3%	3.6%

Where It Goes:	
Personnel Expenses	
New positions: Central Collection Unit conversion of 2 contractual FTEs	$96
Section 20: abolition of prior year 2% general salary increase	-271
Section 21: abolition of employee increments	-255
Employee and retiree health insurance	428
Increments and general salary increase annualization (prior to cost containment)	425
Employee retirement	244
Other fringe benefit adjustments	-36
Statewide Allocations	
Office of Administrative Hearings allocation	-341
New statewide budget system	36

Where It Goes:	
Other Changes	
Central Collection Unit postage	400
Replacement equipment	35
Section 19: difference in 2% across-the-board reduction	21
Rent	17
Other	-9
Total	**$791**

CCU: Central Collection Unit
FTE: full-time equivalent

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation reflects deficiencies and the Board of Public Works reductions to the extent that they can be identified by program. The fiscal 2016 allowance reflects back of the bill and contingent reductions to the extent that they can be identified by program.

Cost Containment

In fiscal 2016, the Administration has implemented several across-the-board reductions. This includes a general 2% reduction, elimination of employee increments, and a revision to the salary plan, which reflects the abolition of the 2% general salary increase provided on January 1, 2015. This agency's share of these reductions is $853,187.

Issues

1. Higher Education Interagency Agreements Lack Sufficient Oversight

Interagency agreements are used by State agencies to obtain services from State institutions of higher education, such as information technology (IT) assistance and training. Such agreements can be beneficial to agencies, as a means of tapping research, knowledge, and skills that can benefit and support operations and services. Despite these advantages, interagency agreements do have certain downsides, including that they are:

- exempt from State procurement laws, including the requirements for competitive procurement, publication of solicitations and awards, and BPW approval;

- exempt from State personnel laws, including those relating to recruitment and selection, as well as from State salary schedules that limit the level of compensation; and

- subject to indirect cost recovery and overhead charges. While these overhead rates typically are based on the rates for indirect costs approved by the federal government, in fiscal 2014, these rates were as high as 55%. This means that for every $100 for direct service provision, the agency actually pays $155 for the service, which includes $55 of overhead charges.

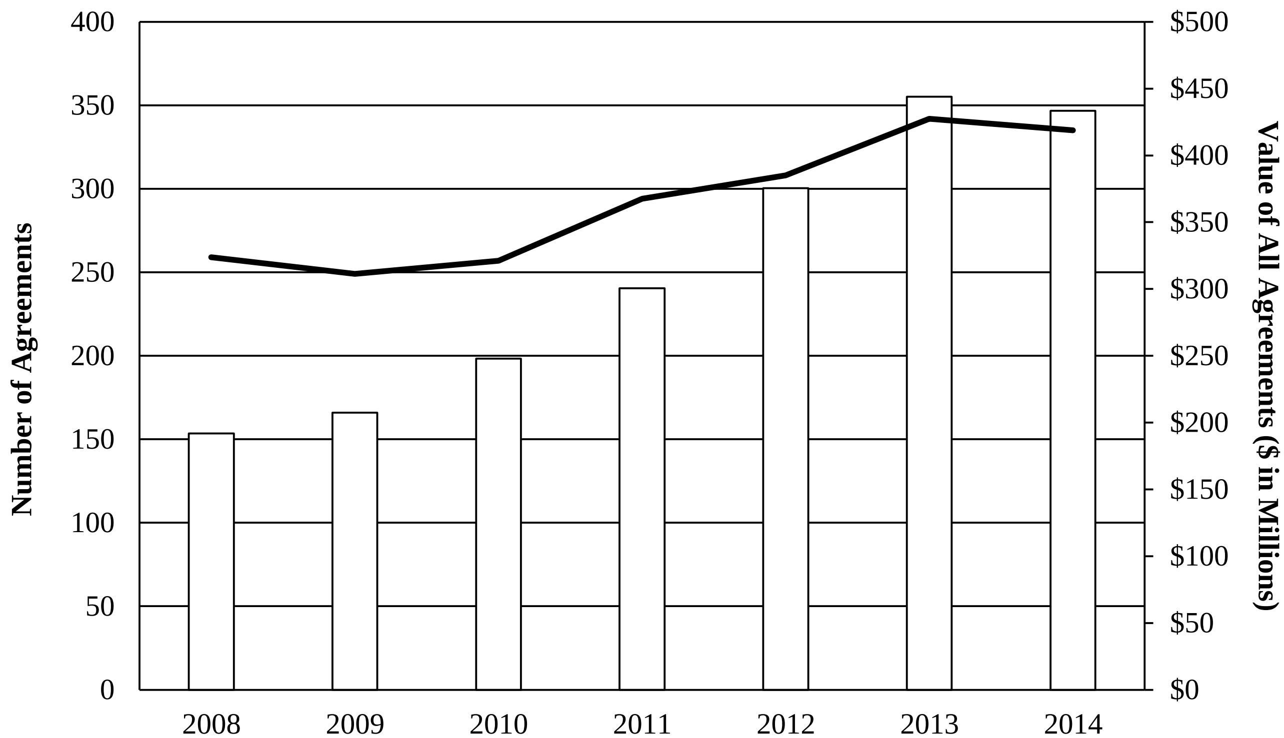
In the mid-1990s, the Office of Legislative Audits (OLA) found that IT operations of the Department of Public Safety and Correctional Services (DPSCS) were being subcontracted through interagency agreements because State IT salaries were not competitive. Starting in fiscal 1998, the budget committees adopted annual budget bill language to require that interagency agreements in excess of $100,000 be reported to the budget committees. Reports submitted by higher education institutions and agencies were difficult to reconcile, which made it difficult to determine the overall number and length of agreements, or to understand what services were being purchased. The language was completely rewritten for the fiscal 2007 budget to require a comprehensive annual report coordinated by DBM. This new language required additional data on the length and value of each contract tied to a specific control number between each institution and agency and the purpose of the agreement, agency, and higher education contacts. Recent revisions requested detail on agency indirect cost recovery charges.

Exhibit 7 shows that the number of interagency agreements has increased 29% since fiscal 2008, from 259 to 335 in fiscal 2014. The total dollar value of all agreements has grown 126%, from $191.9 million in fiscal 2008 to $433.5 million in fiscal 2014.

Maryland Transit Administration Audit Findings

Based on a tip from the State's Fraud Hotline, OLA examined an interagency agreement between the Maryland Transit Administration (MTA) and Towson University's Division of Economic and Community Outreach (DECO). A report was issued in February 2015 which noted that between fiscal 2010 and 2013, MTA had entered into 10 agreements, which ultimately totaled $10.6 million.

Exhibit 7
Higher Education Interagency Agreements
Significant Growth in Both Number and Dollar Value
Fiscal 2008-2014



Source: Department of Budget and Management

Major findings included:

- Procurement and Personnel laws were circumvented, as MTA specified to DECO which employees to hire and which vendors to use. OLA reported that DECO hired the employees and paid their salaries, but daily supervision of their work was performed by MTA.

- Costs appeared excessive and their validity was in question. For example one employee was paid $212,509 to oversee bus procurement.

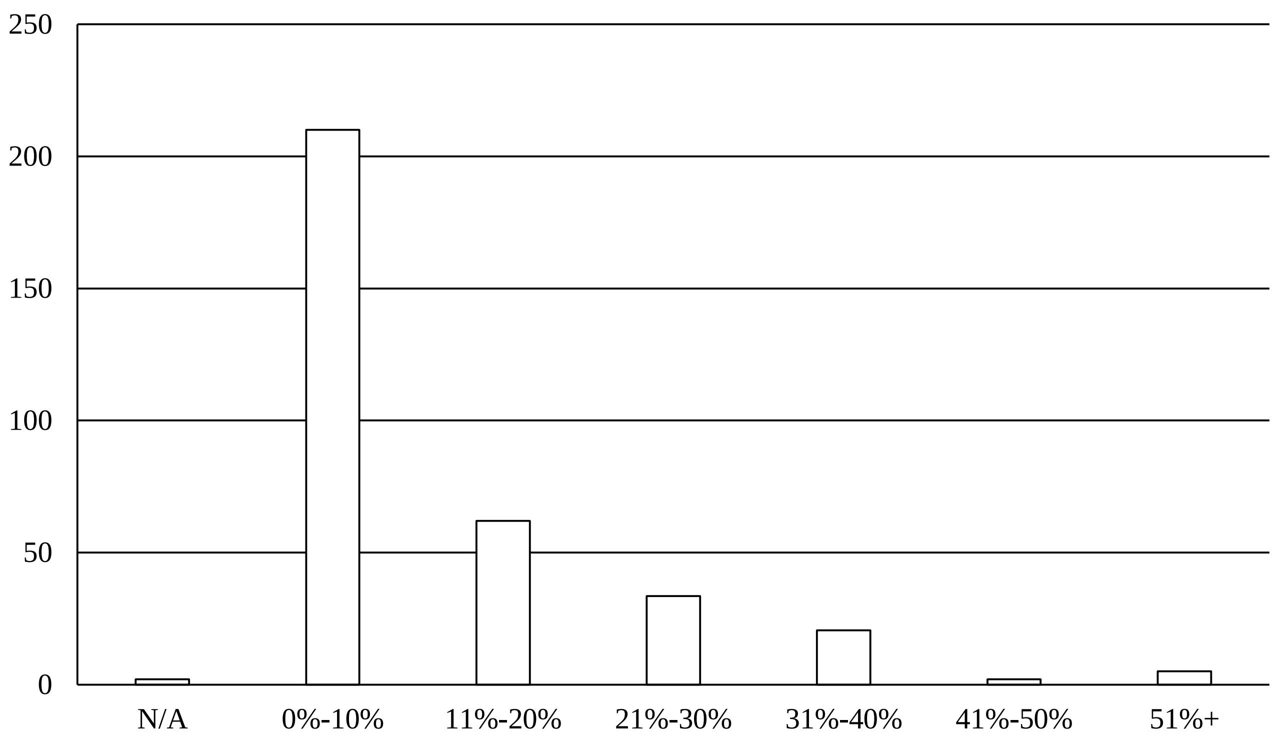
- Amounts charged were inconsistent with task orders or not authorized, and services, for which payment was made in advance, were not verified.

- The work performed could not be documented. MTA could not provide OLA with copies of agreements, amendments, task orders, or invoices.

Overhead Charges Cost the State $28 Million

The December 2014 interagency agreement report demonstrates that agencies are paying $28 million in overhead charges, in addition to the direct service costs paid for over the life of the agreements (which span multiple years, and not just the amounts paid in fiscal 2014). These charges range from 0% to 55%. **Exhibit 8** shows that for the 335 agreements reported, most are paying less than 10% in overhead charges, but that 28 agreements are paying 31% or more in such charges.

Exhibit 8
Fiscal 2014 Higher Education Interagency Agreements
Range of Facility Overhead Charges from 0% to 55%



Source: Department of Budget and Management

Issues

- ***Circumvention of Personnel and Procurement Laws:*** As demonstrated in the audits of MTA and DPSCS, agencies have, in instances, used higher education interagency agreements as a way of circumventing State law to hire specific personnel and vendors at rates beyond those paid to regular State employees. This highlights an issue found in other audits where agencies enter into agreements with higher education institutions, but the institutions provide no direct services. Instead, the institutions simply act as a pass-through to subcontractors. Under such arrangements, there is no justification for entering into an interagency agreement.

- ***Agreements Are Generally More Costly:*** Unless an institution of higher education charges nothing for overhead, agencies are paying more for direct service delivery at a time when the State has been struggling with ongoing structural deficits. Five agreements currently stipulate overhead charges in excess of 50%.

- ***Appropriateness of Agreements:*** While many of the interagency agreements may legitimately augment agency resources, there are numerous instances where it is questionable why the agency is outsourcing the service. This includes:

  - MDTA contracting with the University of Maryland, College Park for undergraduate student internships for $162,900 plus a 50% overhead charge;

  - the Department of Health and Mental Hygiene (DHMH) paying $160,406 plus 15% overhead charges for IT staff;

  - DHMH paying $764,041 for staff support for the Office of Oral Health for program coordination, analysis, grant writing, and other more specialized services; and

  - DHMH paying $182,882 plus 14% overhead to the University of Maryland Baltimore County for a research analyst to assist in primary care office duties.

The Department of Legislative Services (DLS) recommends that DBM review each current higher education interagency agreement to determine why the services cannot be provided by the State agencies and is, therefore, appropriate for using higher education; ensure that agencies maintain documentation of all agreements, amendments, task orders, and invoices; ensure that the overhead charges and direct service costs are not excessive; and ensure that all work performed by higher education is documented. The Secretary should also be tasked with approving every new higher education interagency agreement and ensuring that any agreements are only for services to be provided directly by higher education. These recommendations are made as part of the existing annual budget bill language.

2. Fiscal 2014 Closeout Audit Identifies Transactions and Payables That Could Require Additional General Funds

Each year, OLA prepares a review of the State budget's closeout transactions for the most recently completed fiscal year. This year's audit included four findings for fund receivable deficits totaling $20.5 million and four payables totaling $60.4 million, for a combined $80.9 million. A fund receivable deficit occurs when an agency charges spending to special, federal, or reimbursable funds that do not materialize. In most cases, agencies attempt to charge services against federal funds, which are later determined to be ineligible for federal reimbursement. A payable occurs when an agency overspends its general fund appropriation.

The Administration has included $50.7 million in fiscal 2015 general fund deficiencies to resolve most of the payables. However, $30.2 million in shortfalls remain ($9.8 million in payables and $20.5 million in fund receivable deficits), as shown in **Exhibit 9**.

Exhibit 9
Fiscal 2014 Closeout Audit Findings
Unresolved Payables and Fund Receivable Deficits
($ in Millions)

Agency	Amount	Fiscal 2015 Deficiency	Unresolved Amount	Total Unresolved
		Fund Receivable Deficits		
DHMH – DDA	$13.7	$0	$13.7	
Aging	3.8	0	3.8	
Veteran's Affairs	1.6	0	1.6	
DNR	1.4	0	1.4	
Subtotal	***$20.5***	***$0***	***$20.5***	***$20.5***
		Payables		
DHMH	$44.4	$38.0	$6.4	
MSDE	10.8	10.8	0	
MHEC	3.4	0	3.4	
OPD	1.9	1.9	0	
Subtotal	***$60.4***	***$50.7***	***$9.8***	***$9.8***
Grand Total	**$80.9**	**$50.7**	**$30.3**	**$30.2**

DDA: Developmental Disabilities Administration
DHMH: Department of Health and Mental Hygiene
DNR: Department of Natural Resources
MHEC: Maryland Higher Education Commission
MSDE: Maryland State Department of Education
OPD: Office of the Public Defender

Source: Department of Legislative Services

OLA does not believe that federal funds will be forthcoming to address the fund receivable deficits. It is possible, though unlikely, that agencies will be able to absorb some of these shortfalls within their existing budgets as has been the case for some items in prior years. Given the 2% across-the-board cuts, however, it appears more likely that agencies will need $30.2 million in general funds to resolve all outstanding items.

The agency should comment on the audit's findings and how it will address these unresolved general fund liabilities.

3. DBM Should Provide Specificity for the 2% Across-the-board Reductions

As part of budget balancing actions for both the fiscal 2015 and 2016 budgets, Governor Martin J. O'Malley and Governor Lawrence J. Hogan, Jr. adopted 2% across-the-board reductions to agency operating budgets of $112.8 million and $118.0 million in fiscal 2015 and 2016, respectively. Data provided to BPW in January 2015 and Section 19 of the fiscal 2016 budget bill provide the allocation of the reductions by a three-digit financial agency code in accordance with Section 7-114.2 of the State Finance and Procurement Article. Given the magnitude of the reductions, reporting data at this level limits transparency and impedes the oversight responsibility of the budget committees to determine the impact on programs and services to the citizens of Maryland. On January 30, 2015, the budget committees sent correspondence to DBM requesting that detail on the 2% reduction in fiscal 2015 and 2016 be provided by February 27, 2015.

It is recommended that the agency provide additional detail to the budget committees during the 2015 session, which outlines the specific reductions to be implemented for each agency and an assessment of the impact on services. Budget bill language is also recommended to require DBM to allocate the reductions by program, subprogram, Comptroller Object, and subobject in the fiscal 2016 *Fiscal Digest* in July 2015.

4. Managing for Results State Comprehensive Plan Not Submitted

Sections 3-1001 and 3-1002 of the State Finance and Procurement Article require DBM to annually develop a State Comprehensive Plan to summarize the State's overall progress toward the goals established through the Managing for Results process. The plan is to consist of no more than 10 statewide goals and between 50 to 100 performance measures. In effect, this report is meant to serve as an index of progress in each of the major policy areas (education, health, economic development, *etc.*).

Section 3-1002 also requires DBM to submit a copy of the State Comprehensive Plan to the budget committees in January each year. No report was submitted in January 2015.

DLS recommends that the Secretary comment on the status of the required State Comprehensive Plan, including when it will be submitted to the budget committees and whether the Administration is considering modifications to the goals and measures reported in prior years.

Recommended Actions

1. Add the following language:

   <u>Provided that 3 regular positions are abolished from this budget on July 1, 2015.</u>

   Explanation: The language abolishes 3 regular positions to ensure that the 2% reduction produces ongoing out-year savings. The Secretary is authorized to allocate the reduction to the appropriate program(s).

2. Add the following language:

   <u>Provided that the Department of Budget and Management shall submit detail of the 2% across-the-board reduction in fiscal 2016 by program, subprogram, Comptroller Object, and subobject to the budget committees and the Department of Legislative Services by July 1, 2015. Further provided that it is the intent of the budget committees that this detailed allocation shall be reflected in the fiscal 2016 Fiscal Digest published in July 2015.</u>

   Explanation: Section 19 of the fiscal 2016 budget bill includes a 2% across-the-board general fund reduction allocated by financial agency code. In addition to supplying the budget committees with greater specificity on the actions and impacts of the reduction during the session, it is also important to ensure that the reductions are allocated by program, subprogram, object, and subobject in the Fiscal Digest, which provides the legislative appropriation by agency, program, and fund on the first day of the fiscal year. This data will be used to forecast the fiscal 2017 baseline by the Department of Legislative Services, thus an accurate accounting for the reduction is essential.

Information Request	**Author**	**Due Date**
Two percent reduction detail	Department of Budget and Management	July 1, 2015
Two percent reduction by program	Department of Budget and Management	In the Fiscal Digest

3. Amend the following section:

   Section 17 Using Funds for Their Intended Purpose

   SECTION 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller Objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0175 (Workers' Compensation), 0217 (Health Insurance), 0305 (DBM Paid Telecommunications), 0322 (Capital Lease Telecommunications), 0874 (Office of Attorney General Administrative Fee), 0876 (DoIT IT

Services Allocation), 0894 (State Personnel System Allocation), 0897 (Enterprise Budget System Allocation), and 1303 (rent paid to DGS) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller Objects 0152, 0154, 0217, 0305, 0322, and 0876 between State departments and agencies by approved budget amendment in fiscal year 2015 and fiscal year 2016. All funds budgeted in or transferred to Comptroller Objects 0152 and 0154, and any funds restricted in this budget for use in the employee and retiree health insurance program that are unspent shall be credited to the fund as established in accordance with Section 2-516 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

Further provided that each agency that receives funding in this budget in any of the restricted Comptroller Objects listed within this section shall establish within the State's accounting system a structure of accounts to separately identify for each restricted Comptroller Object, by fund source, the legislative appropriation, monthly transactions, and final expenditures. It is the intent of the General Assembly that an accounting detail be established so that the Office of Legislative Audits may review the disposition of funds appropriated for each restricted Comptroller Object as part of each closeout audit to ensure that funds are used only for the purposes for which they are restricted and that unspent funds are reverted or canceled.

Explanation: This amendment pertaining to restricted objects of expenditure is amended to disallow transfers to other purposes and makes it possible for the Office of Legislative Audits to track the disposition of funds in restricted statewide subobjects.

4. Add the following section:

Section XX Executive Long-term Forecast

SECTION XX. AND BE IT FURTHER ENACTED, That the Governor's budget books shall include a forecast of the impact of the Executive budget proposal on the long-term fiscal condition of the General Fund, Transportation Trust Fund, and higher education Current Unrestricted Fund accounts. This forecast shall estimate aggregate revenues, expenditures, and fund balances in each account for the fiscal year last completed, the current year, the budget year, and four years thereafter. Expenditures shall be reported at such agency, program or unit levels, or categories as may be determined appropriate after consultation with the Department of Legislative Services. A statement of major assumptions underlying the forecast shall also be provided, including but not limited to general salary increases, inflation, and growth of caseloads in significant program areas.

Explanation: This annual language provides for the delivery of the Executive's general fund, transportation, and higher education forecasts and defines the conditions under which they are to be provided.

Information Request	Author	Due Date
Executive forecasts	Department of Budget and Management	With the submission of the Governor's fiscal 2017 budget books

5. Add the following section:

Section XX Across-the-board Reductions and Higher Education

SECTION XX. AND BE IT FURTHER ENACTED, That all across-the-board reductions applied to the Executive Branch, unless otherwise stated, shall apply to current unrestricted and general funds in the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.

Explanation: This section explicitly applies reductions intended for the full Executive Branch to the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College, unless their exclusion is specifically stated.

6. Add the following section:

Section XX Chesapeake Employers' Insurance Company Fund Accounts

SECTION XX. AND BE IT FURTHER ENACTED, That the General Accounting Division of the Comptroller of Maryland shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (workers' compensation coverage) and to credit all payments disbursed to the Chesapeake Employers' Insurance Company (CEIC) via transmittal. The control account shall also record all funds withdrawn from CEIC and returned to the State and subsequently transferred to the General Fund. CEIC shall submit monthly reports to the Department of Legislative Services concerning the status of the account.

Explanation: This section provides continuation of a system to track workers' compensation payments to the CEIC Fund for payment of claims, current expenses, and funded liability for incurred losses by the State.

Information Request	Author	Due Date
Report on status of ledger control account	CEIC	Monthly beginning on July 1, 2015

7. Add the following section:

Section XX Reporting Federal Funds

SECTION XX. AND BE IT FURTHER ENACTED, That the Governor's budget books shall include a summary statement of federal revenues by major federal program sources supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting this data and ensure that they are updated as appropriate to reflect ongoing congressional action on the federal budget. In addition, DBM shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each federal fund appropriation by Catalog of Federal Domestic Assistance number or equivalent detail for programs not in the catalog. Data shall be provided in an electronic format subject to the concurrence of DLS.

Explanation: This annual language provides for consistent reporting of federal monies received by the State.

Information Request	**Author**	**Due Date**
Reporting components of each federal fund appropriation	DBM	With submission of the fiscal 2017 budget

8. Add the following section:

Section XX Federal Fund Spending

SECTION XX. AND BE IT FURTHER ENACTED, That in the expenditure of federal funds appropriated in this budget or subsequent to the enactment of this budget by the budget amendment process:

(1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.

(2) For fiscal 2016, except with respect to capital appropriations, to the extent consistent with federal requirements:

(i) when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged except that this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child welfare or welfare reform activities;

(ii) when additional federal funds are sought or otherwise become available in the course of the fiscal year, agencies shall consider, in consultation with the Department of Budget and Management (DBM), whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and

(iii) DBM shall take appropriate actions to effectively establish the provisions of this section as policies of the State with respect to the administration of federal funds by executive agencies.

Explanation: This annual language defines the policies under which federal funds shall be used in the State budget.

9. Add the following section:

Section XX Indirect Costs Report

SECTION XX. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall provide an annual report on indirect costs to the General Assembly in January 2016 as an appendix in the Governor's fiscal 2017 budget books. The report shall detail by agency for the actual fiscal 2015 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the General Fund, and the amount of indirect cost recovery retained for use by each agency. In addition, it shall list the most recently available federally approved statewide and internal agency cost-recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years, the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies. Further provided that for fiscal 2016, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery may only be transferred to the General Fund and may not be retained in any clearing account or by any other means, nor may DBM or any other agency or entity approve exemptions to permit any agency to retain any portion of federal statewide cost recoveries.

Explanation: This is annual language that requires a report on indirect costs and disallows waivers of statewide cost recovery.

Information Request	**Author**	**Due Date**
Annual report on indirect costs	DBM	With submission of the Governor's fiscal 2017 budget books

10. Add the following section:

Section XX Reporting on Budget Data and Organizational Charts

SECTION XX. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that all State departments, agencies, bureaus, commissions, boards, and other organizational units included in the State budget, including the Judiciary, shall prepare and submit items for the fiscal 2017 budget detailed by Comptroller subobject classification in accordance with instructions promulgated by the Comptroller of the Treasury. The presentation of budget data in the State budget books shall include object, fund, and personnel data in the manner provided for in fiscal 2016 except as indicated elsewhere in this Act; however, this may not preclude the placement of additional information into the budget books. For actual fiscal 2015 spending, the fiscal 2016 working appropriation, and the fiscal 2017 allowance, the budget detail shall be available from the Department of Budget and Management (DBM) automated data system at the subobject level by subobject codes and classifications for all agencies. To the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund for actual fiscal 2015 spending, the fiscal 2016 working appropriation, and the fiscal 2017 allowance. The agencies shall exercise due diligence in reporting this data and ensuring correspondence between reported position and expenditure data for the actual, current, and budget fiscal years. This data shall be made available on request and in a format subject to the concurrence of the Department of Legislative Services (DLS). Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of Maryland.

Further provided that due diligence shall be taken to accurately report full-time equivalent counts of contractual positions in the budget books. For the purpose of this count, contractual positions are defined as those individuals having an employee-employer relationship with the State. This count shall include those individuals in higher education institutions who meet this definition but are paid with additional assistance funds.

Further provided that DBM shall provide to DLS with the allowance for each department, unit, agency, office, and institution, a one-page organizational chart in Microsoft Word or Adobe PDF format that depicts the allocation of personnel across operational and administrative activities of the entity.

Explanation: This annual language provides for consistent reporting of fiscal 2015, 2016, and 2017 budget data and provides for the submission of department, unit, agency, office, and institutions' organizational charts to DLS with the allowance.

Information Request	**Author**	**Due Date**
Agency organizational charts	DBM	With submission of the fiscal 2017 budget

11. Add the following section:

Section XX Interagency Agreements

SECTION XX. AND BE IT FURTHER ENACTED, That on or before August 1, 2015, each State agency and each public institution of higher education shall report to the Department of Budget and Management (DBM) any agreements in place for any part of fiscal 2015 between State agencies and any public institution of higher education involving potential expenditures in excess of $100,000 over the term of the agreement. Further provided that DBM shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

(1) a common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;

(2) the starting date for each agreement;

(3) the ending date for each agreement;

(4) a total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;

(5) a description of the nature of the goods and services to be provided;

(6) the total number of personnel, both full-time and part-time, associated with the agreement;

(7) contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement;

(8) the amount and rate of any indirect cost recovery or overhead charges assessed by the institution of higher education related to the agreement; and,

(9) the justification submitted to DBM for indirect cost recovery rates greater than 20%.

Further provided that DBM shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2015, that contains information on all agreements between State agencies and any public institution of higher education involving potential expenditures in excess of $100,000 that were in effect at any time during fiscal 2015.

Further provided that the Secretary of DBM shall review each current higher education interagency agreement to determine why the services cannot be provided by the State agencies and is, therefore, appropriate for using higher education; ensure that agencies maintain documentation of all agreements, amendments, task orders, and invoices; ensure that the overhead charges and direct service costs are not excessive; and ensure that all work performed by higher education is documented. Further provided that no new higher education interagency agreement may be entered into during fiscal 2016 without prior approval of the Secretary of the Department of Budget and Management.

Explanation: The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of $100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. The report also requires DBM to report on the justification for any interagency agreement with an indirect cost recovery rate greater than 20%. Further, it requires that DBM submit a consolidated report on all agreements by December 1, 2015, to the budget committees and the Department of Legislative Services. **Review of each agreement and approval of new agreements by the Secretary of DBM is also required.**

Information Request	Author	Due Date
Consolidated report on all interagency agreements	DBM	December 1, 2015

12. Add the following section:

Section XX Budget Amendments

SECTION XX. AND BE IT FURTHER ENACTED, That any budget amendment to increase the total amount of special, federal, or higher education (current restricted and current unrestricted) fund appropriations, or to make reimbursable fund transfers from the Governor's Office of Crime Control and Prevention or the Maryland Emergency Management Agency, made in Section 1 of this Act shall be subject to the following restrictions:

(1) This section may not apply to budget amendments for the sole purpose of:

(i) appropriating funds available as a result of the award of federal disaster assistance; and

(ii) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee.

(2) Budget amendments increasing total appropriations in any fund account by $100,000 or more may not be approved by the Governor until:

(i) that amendment has been submitted to the Department of Legislative Services (DLS); and

(ii) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to DLS shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of the impact on regular position or contractual full-time equivalent payroll requirements.

(3) Unless permitted by the budget bill or the accompanying supporting documentation or by any other authorizing legislation, and notwithstanding the provisions of Section 3-216 of the Transportation Article, a budget amendment may not:

(i) restore funds for items or purposes specifically denied by the General Assembly;

(ii) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation (MDOT) shall be restricted as provided in Section 1 of this Act;

(iii) increase the scope of a capital project by an amount 7.5% or more over the approved estimate or 5.0% or more over the net square footage of the approved project until the amendment has been submitted to DLS, and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to MDOT; and

(iv) provide for the additional appropriation of special, federal, or higher education funds of more than $100,000 for the reclassification of a position or positions.

(4) A budget may not be amended to increase a Federal Fund appropriation by $100,000 or more unless documentation evidencing the increase in funds is provided with the amendment and fund availability is certified by the Secretary of the Department of Budget and Management (DBM).

(5) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.

(6) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health, or welfare, including protecting the environment or the economic welfare of the State.

(7) Budget amendments for new major Information Technology projects, as defined by Sections 3A-301 and 3A-302 of the State Finance and Procurement Article, must include an Information Technology Project Request, as defined in Section 3A-308 of the State Finance and Procurement Article.

(8) Further provided that the fiscal 2016 appropriation detail as shown in the Governor's budget books submitted to the General Assembly in January 2016 and the supporting electronic detail shall not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the MDOT pay-as-you-go capital program.

(9) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. Further provided that for the fiscal 2017 allowance, DBM shall continue policies and procedures to minimize reliance on budget amendments for appropriations that could be included in a deficiency appropriation.

Explanation: This annual language defines the process under which budget amendments may be used.

13. Add the following section:

Section XX Maintenance of Accounting Systems

SECTION XX. AND BE IT FURTHER ENACTED, That:

(1) The Secretary of the Department of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2015 in program M00Q01.03 Medical Care Provider Reimbursements have been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.

(2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2015 to program R00A02.07 Students With Disabilities for Non-Public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.

(3) The Secretary of the Department of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2015 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year**, including detail on average monthly caseload, average monthly cost per case, and the total expended for each foster care program,** and to prepare the periodic reports required under this section for that program.

(4) For the programs specified, reports shall indicate total appropriations for fiscal 2015 and total disbursements for services provided during that fiscal year up through the last day of the second month preceding the date on which the report is to be submitted and a comparison to data applicable to those periods in the preceding fiscal year.

(5) Reports shall be submitted to the budget committees, the Department of Legislative Services, the Department of Budget and Management, and the Comptroller on November 1, 2015; March 1, 2016; and June 1, 2016.

(6) It is the intent of the General Assembly that general funds appropriated for fiscal 2015 to the programs specified that have not been disbursed within a reasonable period, not to exceed 12 months from the end of the fiscal year, shall revert.

Explanation: This annual language requires the maintenance of accounting systems for certain programs, states the intent of the General Assembly that general funds not disbursed be reverted, and requires reporting of disbursements by the Department of Health and Mental Hygiene (DHMH), the Maryland State Department of Education (MSDE), and the Department of Human Resources (DHR). **The language pertaining to reporting of foster care data for fiscal 2015 is modified to request average monthly caseload and cost by type of foster care program (regular, institutional group homes, emergency, intermediate, treatment, purchase homes, independent living, minor mothers, subsidized guardianship, and subsidized adoption.)**

Information Request	**Authors**	**Due Date**
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH DHR MSDE	November 1, 2015 March 1, 2016 June 1, 2016

14. Add the following section:

Section XX Secretary's or Acting Secretary's Nomination and Salary

SECTION XX. AND BE IT FURTHER ENACTED, That no funds in this budget may be expended to pay the salary of a Secretary or an Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate or an Acting Secretary who was serving in that capacity prior to the 2015 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2015 session unless the Acting Secretary is appointed under Article II, Section 11 of the Maryland Constitution prior to July 1, 2015.

Explanation: This language ensures that the intentions of the General Assembly are reflected in the payment of executive salaries.

15. Amend the following section:

SECTION 19. AND BE IT FURTHER ENACTED, That for fiscal year 2016, the general fund appropriations in Section 1 of this act for ~~Executive Branch~~ agencies shall be reduced by ~~$117,992,000~~ $121,007,173. This reduction may be allocated to any object or subject of expenditure related to agency operations in the following amounts in accordance with a schedule determined by the Governor, Chief Judge, and the Presiding Officers.

Agency	General Funds
B75 General Assembly	311,740
C00 Judiciary	2,703,433
C80 Office of the Public Defender	2,019,000
C81 Office of the Attorney General	363,000
C82 State Prosecutor	30,000
C85 Maryland Tax Court	13,000
D05 Board of Public Works (BPW)	153,000
D10 Executive Department – Governor	255,000
D11 Office of the Deaf and Hard of Hearing	8,000
D12 Department of Disabilities	65,000
D15 Boards and Commissions	196,000
D16 Secretary of State	41,000
D18 Governor's Office for Children	40,000
D25 BPW Interagency Committee for School Construction	38,000
D26 Department of Aging	430,000
D27 Maryland Commission on Civil Rights	52,000
D28 Maryland Stadium Authority	252,000
D38 State Board of Elections	133,000
D39 Maryland State Board of Contract Appeals	14,000
D40 Department of Planning	267,000

D50 Military Department	249,000
D55 Department of Veterans Affairs	166,000
D60 Maryland State Archives	45,000
D90 Canal Place Preservation and Development Authority	2,000
E00 Comptroller of Maryland	1,745,000
E20 State Treasurer’s Office	105,000
E50 Department of Assessments and Taxation	549,000
E75 State Lottery and Gaming Control Agency	507,000
E80 Property Tax Assessment Appeals Board	22,000
F10 Department of Budget and Management	327,000
F50 Department of Information Technology	1,310,000
H00 Department of General Services	1,270,000
K00 Department of Natural Resources	1,126,000
L00 Department of Agriculture	513,000
M00 Department of Health and Mental Hygiene	27,215,000
N00 Department of Human Resources	6,888,000
P00 Department of Labor, Licensing and Regulation	954,000
Q00 Department of Public Safety and Correctional Services	24,378,000
R00 State Department of Education – Headquarters	2,785,000
R00 Children’s Cabinet Interagency Fund	475,000
R00 Maryland Longitudinal Data System Center	47,000
R15 Maryland Public Broadcasting Commission	168,000
R62 Maryland Higher Education Commission	2,068,000
R75 Support for State Operated Institutions of Higher Education	27,211,000
S00 Department of Housing and Community Development	160,000
S50 Maryland African American Museum Corporation	41,000
T00 Department of Business and Economic Development	1,084,000
T50 Maryland Technology Development Corporation	407,000
U00 Department of the Environment	698,000
V00 Department of Juvenile Services	5,882,000
W00 Department of State Police	5,226,000
Total General Funds	~~117,992,000~~
	121,007,173

Explanation: A statewide across-the-board reduction in the budget as introduced cut $118 million in general funds from Executive Branch agencies. This action includes the Legislative and Judicial branches, which increases the overall cut by $3 million in general funds.

Updates

1. Annual Central Collection Fund Balance Transfer to the General Fund

CCU collects delinquent debts, claims, and accounts owed to State government. Sections 3-301 to 3-306 of the State Finance and Procurement Article require that the collections be deposited into the CCF, which support CCU operations. At closeout each year, since fiscal 2011, fund balance in excess of 15% of actual operating expenses are automatically transferred to the general fund, as stipulated in Section 3-306.

Transfers from the Fund Decrease After Fiscal 2014

Exhibit 10 shows the estimated fund balance transfers from the CCF to the general fund at about $3 million per year for fiscal 2015 and 2016. Because CCU operating expenditures include the cash flow for the major IT business system replacement, transfers to the general fund should increase after the upgrade is completed. Details on this project are included in the Department of Information Technology analysis because it is funded from the Major IT Development Project Fund.

Exhibit 10
Central Collection Fund – Cash Flows and Fund Balance
Fiscal 2012-2016 Est.
($ in Thousands)

Fiscal Year	Beginning Balance	17% Fee Revenue	Operating Expenditures	Other Expenditures	General Fund Transfers	Ending Balance
2012	$1,816	$18,526	-$11,144	-$1,010	-$6,364	$1,824
2013	1,824	19,901	-12,159	-1,943	-5,507	2,116
2014	2,116	19,202	-11,065	-2,616	-5,584	2,053
2015 Est.	2,053	20,000	-13,107	-3,096	-3,419	2,431
2016 Est.	2,431	20,500	-14,007	-3,173	-3,173	2,578

Source: Department of Budget and Management

Appendix 1

Current and Prior Year Budgets

Current and Prior Year Budgets
Department of Budget and Management – Secretary
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2014					
Legislative Appropriation	$8,383	$12,854	$0	$188	$21,425
Deficiency Appropriation	-312	-174	0	0	-486
Budget Amendments	508	132	0	20	660
Reversions and Cancellations	-498	-1,747	0	-10	-2,255
Actual Expenditures	**$8,082**	**$11,065**	**$0**	**$198**	**$19,345**
Fiscal 2015					
Legislative Appropriation	$8,674	$13,438	$0	$214	$22,326
Cost Containment	-50	-400	0	0	-450
Budget Amendments	317	69	0	0	386
Working Appropriation	**$8,941**	**$13,107**	**$0**	**$214**	**$22,262**

Note: Numbers may not sum to total due to rounding. The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies.

Fiscal 2014

DBM finished fiscal 2014 approximately $2.1 million below its legislative appropriation. Deficiency appropriations reduced the budget by $485,698. Retirement contributions were reduced by $216,451, and health care contributions were reduced by $182,970 through deficiency appropriations. Another $50,000 was reduced in turnover expense to reflect cost containment. Finally $36,277 was withdrawn due to delays in the Statewide Personnel System IT replacement project.

Amendments added $660,356 in fiscal 2014. Funding for the cost-of-living adjustment and salary increment increased the appropriation by $620,229. There is also $20,127 for Annual Salary Review (ASR) position reclassifications in the Office of Administrative Hearings (OAH) and the State Retirement Agency (SRA). Because OAH and SRA are reimbursable-funded agencies, it was administratively more efficient to budget these ASRs in DBM's budget. Finally a budget amendment for $20,000 in reimbursable funds was processed to pay for the general salary increase and salary expense for positions that support the operations of the Employee Benefits Division who are funded from the State Employee Health and Welfare Benefits Fund.

Reversions and cancellations totaled $2,254,955. Of this, $498,071 represented general fund reversions across the department largely due to unspent funding for salaries and benefits because vacancy experience was higher than anticipated. The remaining reversions were from smaller amounts of general operating expenses including statewide charges for phone service and the new Personnel IT system. Special fund cancelations totaled $1,746,962, all attributed to the CCU due to overbudgeted postage, salaries and benefits, outside collection agency commissions, and incentive bonuses.

Fiscal 2015

On July 2, 2014, BPW withdrew $450,000 from the fiscal 2015 budget of DBM. This included:

- $400,000 in special funds from CCU due to overbudgeted postage. It is expected that this $400,000 will be credited to the general fund along with other surplus revenue in the Central Collection Fund above 15% of actual expenses as part of the fiscal 2015 closeout; and

- $50,000 in general funds, including $30,000 to delay the replacement of computers and printers and $20,000 intended to upgrade fleet management software. The agency advises that the impact of these reductions is minimal in the short-term, but replacement cannot be deferred indefinitely.

Budget amendments add $386,163 to the fiscal 2015 budget. Of this, $330,438 in all funds is due to the addition of a 2% general salary increase, effective January 1, 2015. The remaining $55,725 was provided for a one-grade salary increase for operating and capital budget analysts.

Object/Fund Difference Report
Department of Budget and Management – Secretary

Object/Fund	FY 14 Actual	FY 15 Working Appropriation	FY 16 Allowance	FY 15 - FY 16 Amount Change	Percent Change
Positions					
01 Regular	192.80	197.80	199.80	2.00	1.0%
02 Contractual	11.85	9.90	9.50	-0.40	-4.0%
Total Positions	**204.65**	**207.70**	**209.30**	**1.60**	**0.8%**
Objects					
01 Salaries and Wages	$ 14,761,171	$ 17,454,190	$ 18,612,599	$ 1,158,409	6.6%
02 Technical and Spec. Fees	311,591	322,406	337,988	15,582	4.8%
03 Communication	390,400	670,219	1,056,018	385,799	57.6%
04 Travel	42,795	32,300	41,000	8,700	26.9%
07 Motor Vehicles	3,388	11,680	11,580	-100	-0.9%
08 Contractual Services	3,081,477	3,131,646	2,795,490	-336,156	-10.7%
09 Supplies and Materials	110,510	115,000	122,500	7,500	6.5%
10 Equipment – Replacement	177,166	40,500	75,450	34,950	86.3%
13 Fixed Charges	466,674	483,811	505,254	21,443	4.4%
Total Objects	**$ 19,345,172**	**$ 22,261,752**	**$ 23,557,879**	**$ 1,296,127**	**5.8%**
Funds					
01 General Fund	$ 8,082,087	$ 8,940,553	$ 9,360,343	$ 419,790	4.7%
03 Special Fund	11,065,374	13,107,412	13,972,429	865,017	6.6%
09 Reimbursable Fund	197,711	213,787	225,107	11,320	5.3%
Total Funds	**$ 19,345,172**	**$ 22,261,752**	**$ 23,557,879**	**$ 1,296,127**	**5.8%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.
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Fiscal Summary
Department of Budget and Management – Secretary

Program/Unit	FY 14 Actual	FY 15 Wrk Approp	FY 16 Allowance	Change	FY 15 - FY 16 % Change
01 Executive Direction	$ 1,747,759	$ 2,014,511	$ 2,003,610	-$ 10,901	-0.5%
02 Division of Finance and Administration	1,518,358	1,171,498	1,053,119	-118,379	-10.1%
03 Central Collection Unit	11,065,374	13,107,412	13,972,429	865,017	6.6%
04 Division of Procurement Policy and Administration	1,870,449	2,161,233	2,323,106	161,873	7.5%
01 Budget Analysis and Formulation	2,260,443	2,808,682	3,075,302	266,620	9.5%
01 Capital Budget Analysis and Formulation	882,789	998,416	1,130,313	131,897	13.2%
Total Expenditures	**$ 19,345,172**	**$ 22,261,752**	**$ 23,557,879**	**$ 1,296,127**	**5.8%**
General Fund	$ 8,082,087	$ 8,940,553	$ 9,360,343	$ 419,790	4.7%
Special Fund	11,065,374	13,107,412	13,972,429	865,017	6.6%
Total Appropriations	**$ 19,147,461**	**$ 22,047,965**	**$ 23,332,772**	**$ 1,284,807**	**5.8%**
Reimbursable Fund	$ 197,711	$ 213,787	$ 225,107	$ 11,320	5.3%
Total Funds	**$ 19,345,172**	**$ 22,261,752**	**$ 23,557,879**	**$ 1,296,127**	**5.8%**

Note: The fiscal 2015 working appropriation does not include January 2015 Board of Public Works reductions and deficiencies. The fiscal 2016 allowance does not reflect contingent or across-the-board reductions.

Appendix 3