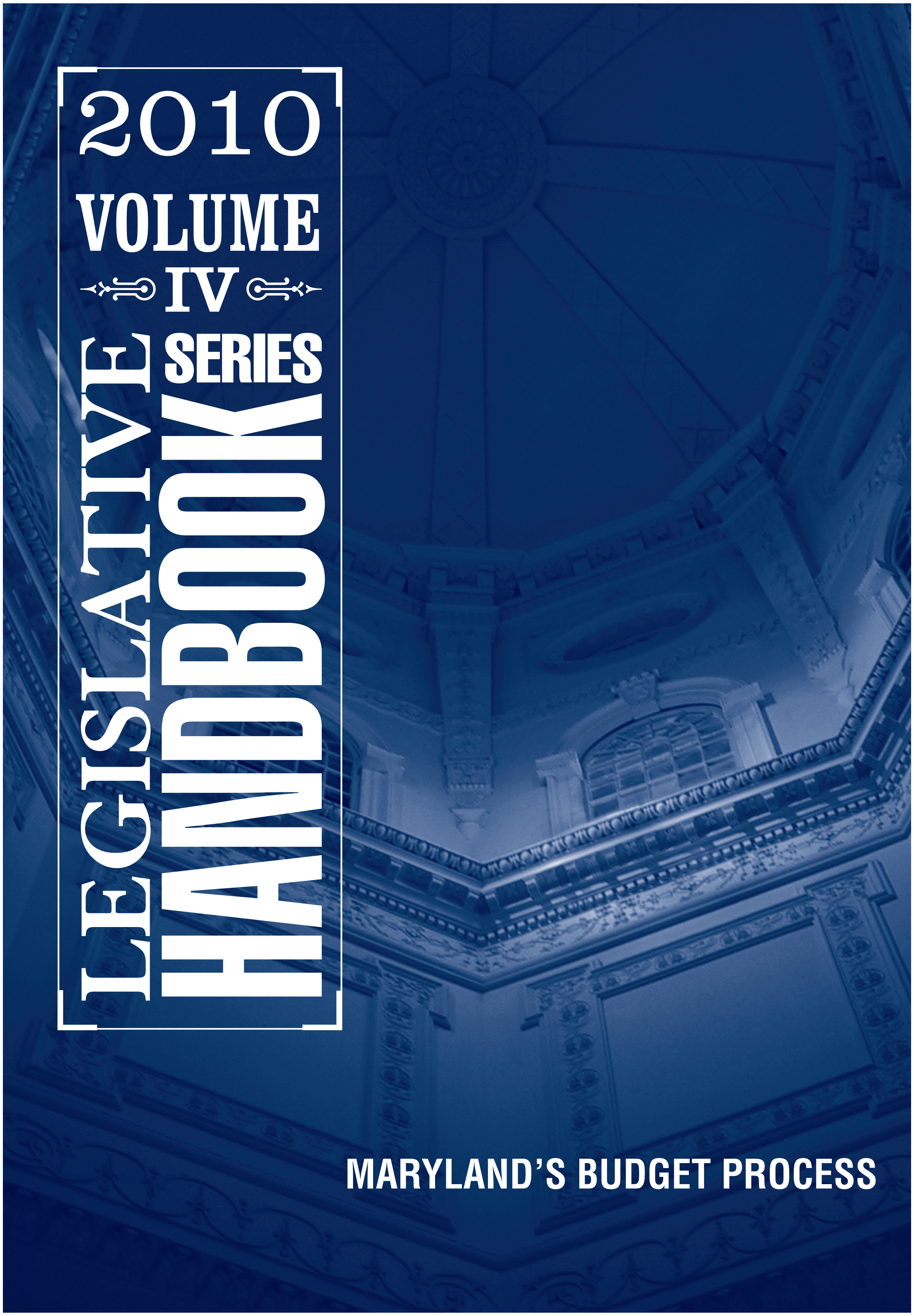

2010

VOLUME IV

LEGISLATIVE HANDBOOK SERIES

MARYLAND'S BUDGET PROCESS

Maryland's Budget Process

Legislative Handbook Series
Volume IV
2010

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Foreword

The legislature exercises its major role in fiscal policy through the budget process. The budget not only establishes the level of appropriations for the next fiscal year but indicates the spending priorities and policies of State government.

This volume has been prepared to assist the members of the Maryland General Assembly in understanding the budget process and to aid in the exercise of their individual and collective judgment on budget issues. It is not intended to be a definitive legal analysis of the process or a procedures manual but rather a primer for members of the legislature. The study is based on the policies and procedures in effect at the 2010 session of the General Assembly.

This is one of nine volumes of the 2010 Legislative Handbook Series prepared prior to the start of the General Assembly term by the staff of the Office of Policy Analysis, Department of Legislative Services. The material for this volume was assembled and prepared by Chantelle Green, Rebecca Ruff, and Dana Tagalicod and was reviewed by Patrick Frank and Claire Rossmark. The manuscript was prepared by Judy Callahan and Ria Hartlein.

The Department of Legislative Services trusts that this volume will be of use to all persons interested in the Maryland State government. The department welcomes comments on ways future editions may be improved.

Karl S. Aro
Executive Director
Department of Legislative Services
Maryland General Assembly

Annapolis, Maryland
November 2010

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Exhibits

Chapter 1.
Introduction to the Maryland State Budget Process

Taxes and spending – the essence of State fiscal policy – are key issues facing the Governor and legislature each year. These matters are addressed through formulation of the State's operating and capital budgets. Decisions respecting the operating budget bear directly on the services to be provided to the citizens of the State and the level of taxation required to provide such services. Likewise, decisions respecting the capital budget determine the quality of the State's infrastructure and the extent to which its costs will be financed by more State debt.

The first part of this book addresses the State's operating budget. Chapter 2 provides a history of Maryland's budget process. Chapter 3 is an overview of the current budget process. Chapter 4 addresses how the budget is formulated within the Executive Branch. Chapter 5 examines the role of the legislature in approving the budget, while Chapter 6 considers how budget implementation is monitored and how closeout is implemented. Chapter 7 examines cash management issues and budget balancing strategies.

The final part of the book is concerned with capital budgeting and the use of State debt. Chapter 8 discusses general obligation bond debt and the various other types of State debt. Chapter 9 provides details about developing a capital budget and the influence of the State's debt affordability process on the overall size of the capital budget.

As these chapters are considered, it is important to keep in mind that fiscal decisions simultaneously involve three aspects of any budget. These are:

- ***Affordability*** relates to the overall level of expenditures to be authorized. Affordability is determined by available resources and citizen preferences as to levels of taxation. Maryland's Capital Debt Affordability Committee and Spending Affordability Committee address affordability in terms of the State's capital and operating budgets. This aspect of budgeting is the focus of those interested in the State's creditworthiness, like bondholders and the national bond rating agencies.

- ***Priority*** relates to the distribution of available resources among competing public goods. In Maryland's budget process, the Governor has considerable opportunity to support certain policy objectives by giving them funding priority. While this most frequently occurs through the allocation of spending increases, it can also occur in a zero sum sense with money being withdrawn from one purpose to support another.

- ***Detail*** relates to the items (personnel, contracts, or goods) to be applied to each of the specific activities supported by the budget. By acting on the particulars of the budget through its power to reduce or restrict appropriations, the legislature can affect not only the activities touched, but also, in aggregate, both the affordability and the allocation of funds in the budget.

As the reader considers the State's budget process, it is also important to be aware that a cautious fiscal culture has evolved in Maryland. Having earned a AAA bond rating from all three major rating agencies (Fitch, Moody's, and Standard & Poor's), the State makes few important decisions without considering the potential impact on that treasured status. Many of the procedures described in this volume have helped maintain Maryland's credit rating.

Chapter 2. History of Maryland's Budget Process

The budget process in Maryland is unique in the degree to which the legislature is constrained from increasing or transferring funds within the Executive Branch during consideration of the budget. Lacking the flexibility afforded the U.S. Congress or other state legislatures, the General Assembly may only reduce or restrict funding, operating in an executive-dominated model of budgeting. This current system was not always in place in Maryland; prior to 1916, Maryland's budget process was controlled by the legislature.

The Legislative Budget Model: Maryland's Process Pre-1916

Budgetary development and enactment in Maryland, much like the rest of the nation prior to the early 1900s, was largely a function of the Legislative Branch of government. Each Executive Branch agency submitted a separate funding request directly to the legislature, which reviewed and approved funding through individual appropriations bills. Agency spending and resource requirements were typically only reviewed during the legislative session. The executive role was extremely limited, although oversight was exercised through the line item veto.

This legislature-centric model of budgeting created numerous problems, including the lack of a unified budget, inadequate oversight, and political influence. Because each agency submitted its funding request independently, and inefficiencies existed within the functions of the Comptroller and the Treasurer, the legislature often was not able to compare a statement of total State revenues to total State spending. There was no professional staff responsible for assisting the legislature in its review or to provide support for framing major revenue and expenditure policy. As a result, agencies were not remitting all funds collected to the general fund and were often overspending their appropriations by mid-year. In addition, politics, patronage, and logrolling became increasing influences in the development and implementation of the budget. These inadequacies in the budget process culminated in 1915 with a general fund budget deficit of $1.3 million, out of $3.3 million in annual general fund spending.

Budget Process Reform

Through most of the nineteenth century, government played a minimal role in the United States. The country's economy was largely agrarian-based, with less than 5% of the population living in cities. The administrative component of the government was staffed by clerks who were largely selected based on patronage. As fundamental changes related to the Industrial Revolution, immigration trends, and the rise of business monopolies began to occur in the 1880s, there was a related increase in corruption and a lack of financial and inventory control. These changes resulted in an era of progressive reform focusing on the need to separate politics from administration.

Changes at the Local and Federal Level

Recognition of the inadequacies of the legislative budget model began to surface as early as 1879. Reform began at the local level with the formation of the National Municipal League in 1894. By 1899, the league had prepared a model charter under which an executive would submit a unified budget to a city council, which would only have the ability to reduce or eliminate appropriations without the ability to increase the budget. This model, which was adopted by Baltimore City, would ultimately serve as the basis for the system adopted by Maryland in 1916.

By 1905, budget process reform was beginning to take shape at the federal level, as well. Congress adopted the Anti-Deficiency Act in an attempt to control agency mismanagement in spending practices. Similar to Maryland, federal agencies were expending their appropriations in full prior to the end of the fiscal year, requiring significant amounts of deficiency appropriations. The Act stipulated that departments were to allot their appropriations over the course of the fiscal year. In 1911, the Commission on Economy and Efficiency was created to study the persistent need for deficiency appropriations at the federal level, to study the federal budget process, and to recommend changes. The result, which was enacted in 1921 under the Budget and Accounting Act, was the adoption of an executive budget model for the federal budget process.

Commission on Economy and Efficiency on a Budget System

When faced with a $1.3 million general fund deficit in 1915, Maryland established its own Commission on Economy and Efficiency in the State Government of Maryland to investigate and recommend budgetary reform. The commission was headed by Frank Goodnow, who had served on the commission that examined the same issues at the federal level. The firm of Harvey S. Chase & Company was also retained to examine the accounts and methods in various areas of Maryland's State government to identify opportunities within the budget for increased efficiency and economy. The recommendations in the final report provide the basis for Maryland's current budget process.

The Executive Controlled Budget Model: Maryland's Current Process

The most significant recommendation of the commission was very similar to changes that had already occurred at the local and federal level. The commission recommended the adoption of a constitutional amendment to establish an executive budget process, effectively limiting the role of the legislature to one of reducing or eliminating appropriations. Adoption of this recommendation meant that the Governor was required to submit a unified budget to the legislature, to ensure oversight of global revenues and expenditures. The legislature could only reduce expenditures, which limited political influence and alleviated political pressure on General Assembly members, thus lessening the likelihood for overspending and the need for deficiency appropriations. The constitutional amendment also established parameters for when the budget had to be submitted and enacted, and it deleted the executive line item veto.

Since the implementation of an executive-dominated budget model in 1916, the following additional enhancements to the process have been made.

- In 1920, a merit-based civil service system was established as a way of reducing patronage pressure and improving the professionalism of the State's workforce.

- By 1939, the Department of Budget and Procurement was created to provide centralized executive control and a dedicated staff to assist in development of the budget and oversight of its implementation.

- The Board of Revenue Estimates was established in 1945 to provide an independent estimate of State revenues.

- In 1952, modifications were made to permit the migration from a line item to a program budget in order to better assess outcomes and improve accountability.

Development of Legislative Tools for Influencing the Budget

To help compensate for the General Assembly's limited power with regard to the budget process, additional mechanisms for exerting influence over the budget process have been developed over the years. There are four primary tools that give the General Assembly increased power in influencing budget policy: a practice colloquially known as "fencing," mandating appropriation levels, creating special funds, and passage of supplementary appropriations.

Fencing

Fencing refers to the practice of adding budget language to an appropriation to restrict the expenditure of funds to a purpose (possibly including other than that for which the funds were included in the budget as introduced by the Governor). The use of fencing is based on the General Assembly's authority to restrict appropriations. Historically, fencing has had only moderate success in allowing the General Assembly to influence budget policy. Since the Governor cannot be forced to expend the fenced funds, the desired outcome of the fencing effort is not guaranteed. While the Governor may only expend the restricted funds in accordance with the budget language, he or she may elect not to spend the funds for the new purpose and instead let them revert or be cancelled at the end of the fiscal year.

Mandated Appropriations and Entitlements

A mandated appropriation is a statutory or constitutional requirement that designates that a specific amount be appropriated or a specific formula be used to calculate the appropriation. An entitlement is a legal commitment to provide certain benefits to certain individuals or groups based on meeting eligibility criteria. The authority for the General Assembly to impose mandated spending is the result of a 1978 constitutional amendment allowing the legislature to require the Governor to include a minimum level of funding for a program in a future budget. The use of mandated spending has grown significantly because it gives the legislature a stronger role in priority setting and fiscal policy formulation and increases the ability to protect agencies and interests. At the same time, the increased use of mandates has also limited the flexibility of the budget process.

Additional information on the impact of mandated appropriations and entitlements on the budget process is provided in Chapter 4.

Creation of Special Funds

Special funds have statutory dedications identifying a broad purpose for the use of the funds but allow the Governor discretion as to how the funds are allocated and used. Absent legislation to change the uses of the special funds or to transfer balances as has been done from time to time to help balance the budget, the Governor may only include special funds in the budget for the purpose for which the special funds are created. The impact of creating special funds is similar to that of using mandated appropriations. By dedicating certain revenues to specific uses, funding is generally assured for specially funded programs. This dedication of revenues, however, limits the State's ability to adapt to changing fiscal conditions because it requires passage of additional legislation every time the special funds are used for a purpose other than what was stated in the original legislation.

Supplementary Appropriation Bills

Supplementary appropriation bills allow the General Assembly to create new appropriations but only if the tax revenue necessary to pay for the appropriation is included in the bill. A supplementary appropriation bill must meet the following requirements:

- ***Single Object –*** Supplementary appropriations must each be in a separate bill and be limited to a single object.

- ***Revenue Support –*** Supplementary appropriation must identify the tax revenue necessary to pay the specific appropriation in the bill.

- ***Post-budget Passage –*** Supplementary appropriations may not be finally acted upon until after the budget bill has been finally acted upon by both chambers.

- ***Final Passage and Enactment –*** Supplementary appropriations must be passed in each chamber by a majority vote and be presented to the Governor to be enacted or vetoed.

Supplementary appropriation bills can clearly be used by the General Assembly to provide appropriations in addition to those in the Governor's allowance. A number of factors, such as requiring a new or increased tax to pay for the proposed appropriation and being subject to the Governor's veto, limit their widespread use. Other than the annual Maryland Consolidated Capital Bond Loan and any local bond bills, the use of supplementary appropriations has not been frequent during the past 20 years.

Chapter 3. Operating Budget Overview

Formal Powers

Article III, Section 52 of the Constitution of Maryland establishes the respective powers of the Governor and the General Assembly in adopting the operating budget and provides a schedule for its submission and approval (see Appendix 1). Further law pertaining to the operating budget is set forth at § 7-101 *et seq.* of the State Finance and Procurement Article.

Governor

Under the constitution, the Governor must submit a budget to the General Assembly on the third Wednesday in January (or by the tenth day of session in the first year of a term). The budget consists of a detailed statement of revenues and intended spending and a bill making the appropriations proposed. The budget must be balanced when submitted. In other words, the proposed appropriations must be supported by estimated revenues.

After submission of the budget bill, the Governor may change proposed appropriations by submitting one or more supplemental budgets. Supplemental budgets permit the Governor to correct errors and omissions in the original budget. Supplemental budgets are also used to reallocate funds deleted by the General Assembly. Although customarily accepted, supplemental budgets may only be attached to the budget by consent of the legislature.

Legislative Powers

Under the constitution, the budget bill is introduced in both houses. By custom, the House and Senate move the bill in alternate years – the House moves the budget in odd numbered years and the Senate moves the budget in even numbered years. For example, the budget bill will start in the House in the 2011 legislative session.

In acting on the budget bill, the legislature may not amend the budget to increase the amounts allowed to units of the Executive Branch nor may it transfer funds from one unit to another. Funding may be increased for Legislative and Judicial Branch agencies, however.

The legislature's main power is to reduce or delete appropriations proposed in the budget bill. The legislature may also add language to the budget bill making appropriations contingent or conditional or restricting how funds may be applied. Appropriations for debt service, statutorily mandated support for public schools, and salaries of constitutional officers may not be reduced.

The legislature must complete action on the budget by the eighty-third day of session. If this is not accomplished, the Governor must issue a proclamation extending the session if a budget is not passed by the ninetieth day. Unlike other bills, the budget is enacted upon passage. The Governor's signature is not required. Moreover, the budget is not subject to veto.

In addition to budget action, the legislature may affect the level of State expenditures through what is known as a supplementary appropriation bill. Under this type of legislation, the legislature raises a tax and directs its revenues to a particular purpose. Supplementary appropriations may only be considered after enactment of the budget bill, and unlike the budget bill, a supplementary appropriation is subject to veto. Bond bills are considered supplementary appropriation bills.

Overview of the Budget Process

The formulation of the new budget commences during the spring of the previous year. In the nine months preceding introduction, each agency receives instructions as to how to request funds and how much to request, has its request reviewed by the Department of Budget and Management, and receives an allowance reflecting the decision of the Governor.

Through its spending affordability process, the legislature offers input into the fiscal policy used by the Governor in making the budget. Under this process, a statutory committee meets each fall to consider the condition of the economy and the State's fiscal health and to recommend to the Governor the amount by which State government spending should be allowed to grow in the upcoming budget. By law, the Governor is not bound by this limit. However, if the proposed budget exceeds the limit, the Governor must explain why in the budget message.

The General Assembly reviews the budget bill containing the Governor's allowance during the 90-day legislative session. The bill (and any supplemental budgets) is referred to the budget committees of the respective houses: the House Appropriations Committee and the Senate Budget and Taxation Committee. The committees separately but concurrently hold about six weeks of hearings on the budget. Hearings are focused on one or more agencies per day. At the hearings, the committees receive recommendations from the staff of the legislature's Department of Legislative Services, Office of Policy Analysis. After the legislature's analysts present their recommendations, the agencies are given an opportunity to brief the committees and respond to any recommendations. Testimony from the public is sometimes received as well. At the conclusion of the hearings in the house moving the bill, the budget bill is reported to the floor and follows the course of other legislation. When the General Assembly approves the budget bill, the allowances contained therein become appropriations for the next fiscal year (beginning July 1); or, in the case of deficiency appropriations, immediately upon passage of the bill.

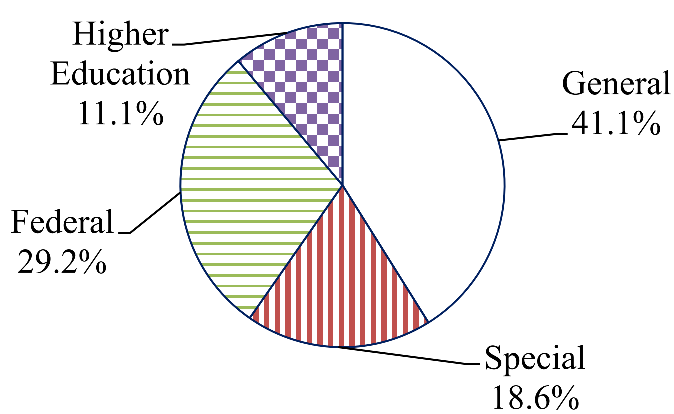
Funding Sources

The budget bill appropriates general, special, federal, and higher education funds in specific line items. The bill also authorizes the use of reimbursable funds, though not in specific line items. Nonbudgeted funds refer to funds that are not appropriated through the budget process to the agency receiving and spending these monies. In other words, nonbudgeted funds do not have a specific line item appropriation in the budget bill.

The total State budget is a composite of these fund types, most of which are appropriated each year in the budget bill. An individual agency budget may have only a single funding source, while others draw from a variety of sources.

Exhibit 3.1 presents the fiscal 2011 budget by fund source.

Exhibit 3.1
Maryland's $32.0 Billion Budget
Where It Comes from: Budget by Fund Source



Source: Department of Legislative Services

General Funds

The general fund consists of any revenues collected by the State that are not dedicated by law to a specific purpose. The individual income tax, retail sales tax, and State Lottery are the three largest sources of general fund revenue. Although statutes mandate minimum funding levels for certain programs, the Governor has substantial discretion in the allocation of general funds in the budget. The fiscal 2011 budget appropriated $13.1billion in general funds.

Special Funds

Special funds consist of revenues collected by the State, the use of which is statutorily limited to certain purposes. Special funds may be derived from fees (*e.g.*, car and boat registration and child support applications), taxes levied for a specific purpose (*e.g.*, State property taxes, motor fuel and vehicle taxes, and property transfer tax), local government payments for services, and gifts or donations. Special fund appropriations in fiscal 2011 totaled $6.0 billion. This includes $394.5 million in special funds that replace general funds and are anticipated to be appropriated to the budget by budget amendment.

Federal Funds

Federal funds are made available to State and local governments under programs administered by agencies of the Unites States Government. Federal grants are classified as block grants or categorical grants. Block grant funds typically have fewer federal restrictions associated with their use than categorical grant funds, which generally are limited to the specific purposes authorized by law or federal agency rules. In most instances, federal funds must be matched by State funds (general or special) in a prescribed ratio. Medicaid and highway construction are two activities that particularly rely on federal funds. The federal fund appropriation in fiscal 2011 totaled $9.3 billion.

In February 2009, President Barack H. Obama signed the American Recovery and Reinvestment Act into law. The American Recovery and Reinvestment Act provisions support State programs by funding infrastructure, education programs, and human services programs, as well as providing discretionary funds. The American Recovery and Reinvestment Act appropriations total $4.5 billion over the fiscal 2009 to 2011 period, including $1.6 billion in fiscal 2011. The most significant impact of the American Recovery and Reinvestment Act funding for the State budget is the use of these funds in place of general funds, in order to sustain ongoing programs. The fiscal 2011 budget includes $1.3 billion in American Recovery and Reinvestment Act funding to support Medicaid, education, and discretionary State spending. When the American Recovery and Reinvestment Act funds are no longer available, the State will need to replace the funds or reduce spending.

Higher Education Funds: Current Restricted and Unrestricted Funds

Since 1986, budgets for the public institutions of higher education are composed of current unrestricted and current restricted funds, rather than general, special, or federal funds. Current unrestricted funds are those funds received by a university or college for which no stipulation was made by the donor or other external agency as to the purposes for which they should be expended. Therefore, the institution may use such funds in any fashion it deems appropriate. Unrestricted revenue sources typically include such items as tuition and fee revenues, sales and services from auxiliary enterprise operations, and federal fund indirect cost recoveries. Unrestricted revenues also include State funds appropriated to the institutions. The current unrestricted fund appropriation in fiscal 2011 totaled $2.4 billion including $1.2 billion in general funds.

Current restricted funds are those received by the institution for which some stipulation is imposed by the donor, or other external entity, which limits the expenditure of the funds to a specific purpose. Restricted funds in higher education are primarily related to research contract and grant activity and to student financial aid programs. The current restricted fund appropriation in fiscal 2011 totaled $1.2 billion.

Reimbursable Funds

Reimbursable funds represent payments received by a State agency for services it provides to another State agency. The budget of the agency providing the service contains the salaries and other expenditures necessary to carry out the service, but the agency does not receive an appropriation for these expenditures. The actual appropriation is contained in the budget of the agency that "purchases" the services. The use of the term "reimbursable" indicates that these funds are not included in the total of budgeted funds, otherwise they would be counted twice and the budget would be distorted. The budget bill does not provide a specific line item appropriation for reimbursable funds. Instead, it authorizes agencies to use funds appropriated in other agencies for operating expenditures. According to the Department of Budget and Management, estimated reimbursable fund expenditures total $304.4 million in fiscal 2011.

An example of an agency that receives reimbursable funds is the Technology Support and Computer Center under the Comptroller. The budget bill indicates that funds are appropriated in various user agencies' budgets to pay for data processing services and grants authority to the computer center to use receipts from data processing services as funds to cover operating expenses. There is no appropriation to the computer center. However, each using agency's budget will include an appropriation for data processing, and these funds are expended by being transferred to the computer center.

Nonbudgeted Funds

Nonbudgeted funds refer to funds that are not appropriated through the budget process to the agency receiving and spending these monies. Because they are not appropriated, they do not appear in the budget bill, although information on certain aspects of these funds may be provided in the State Budget Books issued by the Governor. Examples of nonbudgeted agencies include the following:

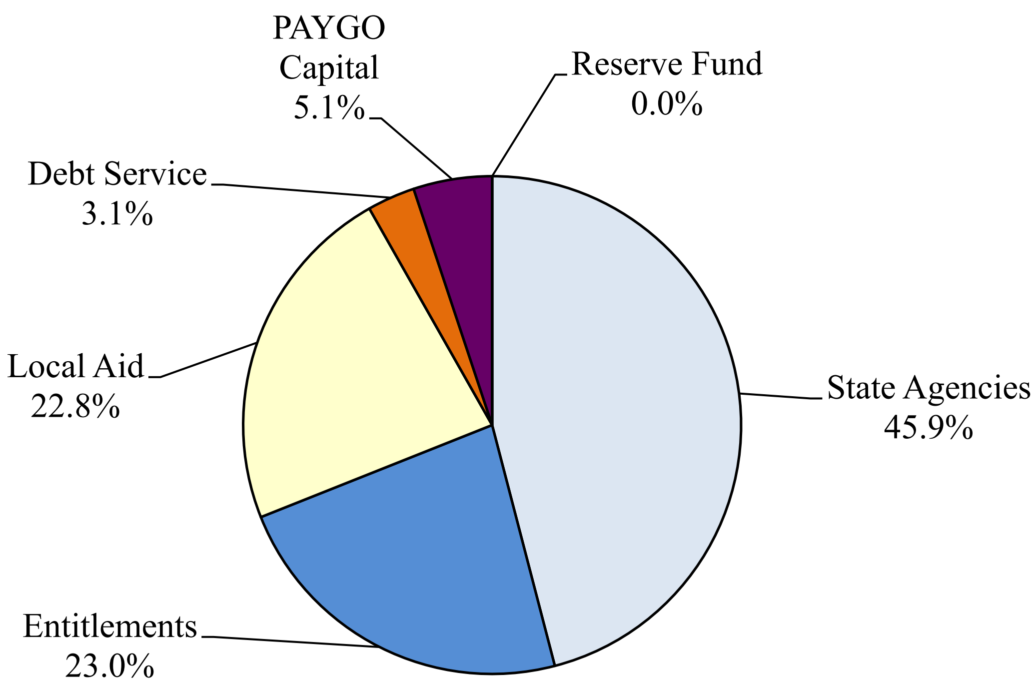
- the Maryland Automobile Insurance Fund, which provides automobile insurance to "high risk" drivers and pays claims involving uninsured motorists. The income is from insurance premiums, a share of the uninsured motorist fine, investment earnings, and collections on judgments (calendar 2010 estimated budget for administration was $47.7 million); and

- the Maryland Transportation Authority, which has an estimated budget from toll revenues and bond proceeds of $262.1 million for its operating program in fiscal 2011 and another $867.8 million for its capital program.

Categories of Spending

In addition to the source of funds, it matters where the funds go. In a most basic format, State spending can be broken into six purposes: State agencies, entitlements, local aid, debt service, pay-as-you-go (PAYGO), and reserves. Exhibit 3.2 illustrates the fiscal 2011 budget by purpose.

Exhibit 3.2
Maryland's Fiscal 2011 Budget
Where It Goes: Budget by Purpose



PAYGO: pay-as-you-go

Source: Department of Legislative Services

Agencies

Funding for State agency operations constitutes the largest area of spending, representing 45.9% of the fiscal 2011 budget. This includes all operational expenses for State agencies, such as the Department of Public Safety and Correctional Services, the Department of Business and Economic Development, and the Department of Health and Mental Hygiene. These expenses are budgeted by line item and include costs such as personnel expenses, travel, vehicle purchase and maintenance, office space and supplies, or communication expenses. In fiscal 2011, nearly 64.0% of agency spending was for contractual services and grants or subsidies.

Entitlements

Entitlements are government programs providing benefits to members of a specified group. While funding for entitlement programs is included in agency budgets, it is not included as State agency spending because it is not for the actual operations of the agency. Entitlements include the State Department of Assessments and Taxation's tax credit programs, the Department of Health and Mental Hygiene's Medicaid program, and the Department of Human Resources' foster care and cash assistance programs. In fiscal 2011, 23% of the budget was used to support entitlement programs.

Local Aid

Local aid includes direct grants to local governments for various public services such as education; libraries; community colleges; transportation; public safety; health and recreation; and State-paid retirement costs for public school teachers, librarians, and community college faculty. Although grants may be for specific programs or purposes, local governments usually have considerable flexibility in the expenditures of these funds. Examples of specific programs are the Foundation Program, Students with Disabilities funding, Program Open Space, and Disparity Grants. Local aid accounted for 22.8% of State spending in fiscal 2011.

Debt Service

Debt service on State general obligation bonds accounted for 3.1% of the total State budget in fiscal 2011. General obligation bonds are secured by the full faith and credit of the State and are supported by property taxes and other funds deposited into the Annuity Bond Fund.

Pay-as-you-go

General, special, and federal funds included in the operating budget for capital expenditures are known as pay-as-you-go. These funds are used in instances where federal law limits or prohibits use of tax-exempt debt financing. Pay-as-you-go funding may also be used to supplement or replace debt financing when revenues are available for this purpose. Pay-as-you-go funding represented 5.1% of the fiscal 2011 budget.

Reserves

The State Reserve Fund consists of appropriations to the Revenue Stabilization Account (Rainy Day Fund), Dedicated Purpose Account, and the Catastrophic Event Account. In fiscal 2011, there was no appropriation made to the State Reserve Fund.

Agency Budget Request Structure

Agency budget requests are submitted by program and object classification, which are further broken down into subprograms and subobjects. It is important to understand these terms in reference to the budget.

Programs

The term program applies to the "work program" for accounting purposes. This is usually the level at which the General Assembly enacts appropriations. Programs are set up by the Department of Budget and Management. The Comptroller's office establishes an accounting structure for each agency, which is called the State Chart of Accounts. This structure permits expenditures to be charged against the correct program and fund. Programs for higher education institutions are consolidated into a single appropriation in the budget bill rather than specifying each program. Nevertheless, each institution must continue to prepare and submit its budget by program. Exhibit 3.3 provides an explanation of the code classification system.

"Work programs" are primarily related to the operating functions of an agency. Thus, the work program encompasses such specific functional areas as "executive direction," "general operations," "field operations," "operations support," "services and institutional operations," or other areas relating to the nature of the agency. The work programs in the budget are quite stable, although they may be changed, deleted, or added to, as required by the Governor, by law, or at legislative request.

Subprograms

Subprograms may be used to define activities required to accomplish specific goals. The concept of a "subprogram" in this sense includes the resources required to solve a problem or to deliver a service. Subprograms are oriented to the goals, objectives, and accomplishments to be attained for a given expenditure level.

Subprograms are most often found in programs that have multiple goals and objectives or serve large and diverse populations. A good example of this would be the Medical Care Provider Reimbursements in the Department of Health and Mental Hygiene. Among some of the subprograms in this program are disabled, elderly, children, and pregnant women.

Exhibit 3.3
State of Maryland
Code Classification for Budget and Accounting Procedures

The system of coding consists of eight letters and digits which are required to provide five areas of identification. The code for the Division of State Documents in the Secretary of State, for example, is D16A06.02, representing the following categories:

1. Major purpose or functional classification ....D
2. Financial Agency 16
3. Agency or department classification..A
4. Unit of organization classification 06
5. Work Program.. 02

Code Number

1. Major Purpose or Functional Classification

Example: Executive and Administration ....D
The first letter will identify the "Major Purpose or Functional" classification for which the budget allowances are made available.

2. Financial Agency

Example: Secretary of State D16
These two numbers, together with the previous letter uniquely identify each State government entity.

3. Agency or Department Classification

Example: Executive Department D16A
This letter will identify the "Agency or Department" classification of expenditures.

4. Unit of Organization Classification

Example: Secretary of State...D16A06
These two digits will identify the "Unit of Organization" classification. In small agencies there may be only one unit of organization.

5. Work Program Classification

Example: Division of State Documents...D16A06.02
The last two digits will identify the "Work Program" classification. This is the level of appropriation in the budget bill, except for higher education institutions.

Source: Department of Legislative Services

Objects

The expenditures are detailed by object classifications which categorize the specific items to be purchased or payments to be made with the appropriation to support the purpose of the program or subprogram. Most of the State budget is captured in salaries and wages (which represents the cost of the regular workforce), contractual services (which represents purchased services, including Medicaid provider payments), grants, subsidies and contributions (which includes aid to local governments), and land and structures (which captures capital spending and major facility maintenance costs). There are 13 object classifications, which are listed below:

- .01 Salaries, Wages, and Fringe Benefits
- .02 Technical and Special Fees
- .03 Communications
- .04 Travel
- .06 Fuel and Utilities
- .07 Motor Vehicle Operations and Maintenance
- .08 Contractual Services
- .09 Supplies and Materials
- .10 Equipment – Replacement
- .11 Equipment – Additional
- .12 Grants, Subsidies, and Contributions
- .13 Fixed Charges
- .14 Land and Structures

Subobjects

Each object classification in agency budget submissions is further subdivided into subobjects. Subobjects provide more specific information concerning the cost structure of the budget. For example, object code .03 – Communications is divided into subobjects, as follows:

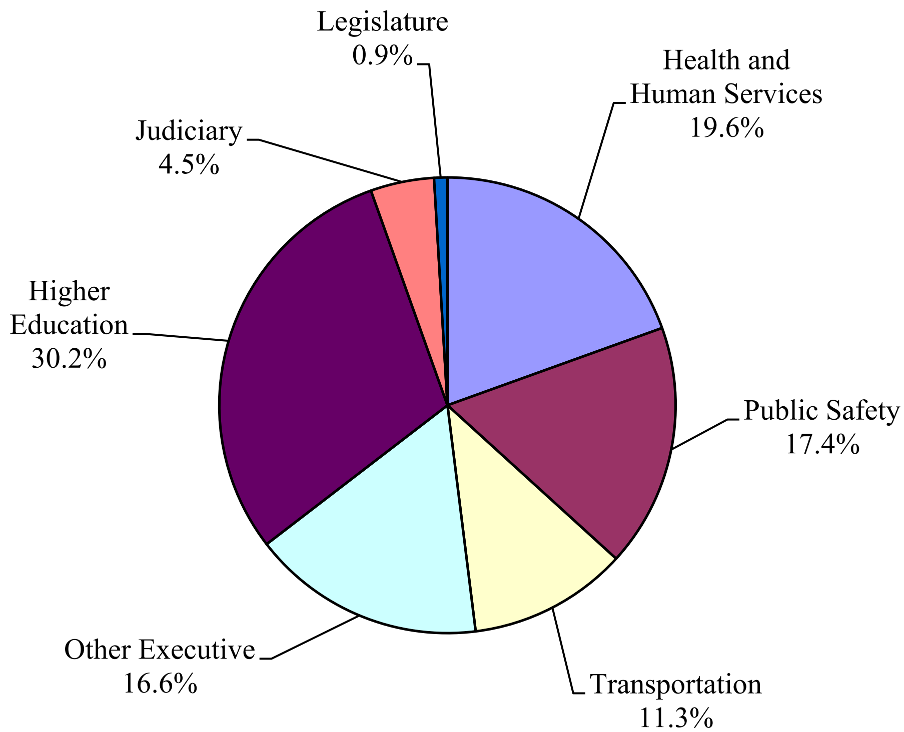
- .0301 Postage
- .0302 Telephone
- .0303 Telecommunications
- .0304 Miscellaneous Communication Charges
- .0305 Department of Budget and Management Paid Telecommunications
- .0306 Cell Phone Expenditures
- .0322 Capital Lease (Telecommunications)
- .0395 Corporate Purchasing Card

Budget requests are developed in this detail level under language provided in each prior year's budget bill. Since 1982, the General Assembly has stated in the budget bill its intent that all budgets be developed at the subobject level of detail and be available through the Department of Budget and Management's automated data system.

Budgeting for Maryland State Personnel

In fiscal 2011, the Maryland State employee workforce consisted of approximately 79,000 regular full-time equivalent positions and more than 9,000 contractual full-time equivalents. Exhibit 3.4 shows the number of regular positions by service area for fiscal 2011.

Exhibit 3.4
Regular Full-time Equivalent Positions
Fiscal 2011



Source: Department of Legislative Services

Regular Positions

Most State personnel are employed in full-time equivalent authorized positions, known as regular positions. Employment in these positions entitles the employee to certain rights and protections, including participation in health and retirement benefit plans.

When budgeting for regular positions, each position is assigned a six-digit position identification number. An agency receives sufficient funding for each authorized position and the associated benefits regardless of whether the position is filled or vacant at the beginning of the fiscal year. These costs are budgeted in Object 1: Salaries and Wages. A variety of subobjects for fringe benefits is included in Object 1, and can vary among State agencies depending on the type of employee and expense.

The Department of Budget and Management varies fringe benefit rates from year to year depending on cost projections, participation projections, and other factors.

- Employee health insurance is budgeted per position based on current agency enrollment patterns. Retiree health insurance is budgeted per position based on a percentage of the employee health insurance.

- Social Security is budgeted per position based on a percent of salary up to certain limits.

- Employee retirement is budgeted per position based on a percent of salary as required by a particular pension system.

- Deferred compensation match is budgeted at the rate of up to $600 per year for each employee enrolled in the State's 401k plan. The match was not funded in fiscal 2010 or 2011.

- Unemployment compensation is budgeted per position based on a percent of salary.

- Workers' compensation is budgeted at the agency level, based on past agencywide experience with workers' compensation claims.

Contractual Full-time Equivalent

The State also employs people in contractual positions. Although terms can vary, contractual employees do not generally receive health or retirement benefits. Social Security and unemployment insurance costs, however, must be budgeted for contractual employees. Under current budget practice, the full amount of funding for each authorized position is included in each agency's budget. Costs associated with contractual employees are budgeted in Object 2: Technical and Special Fees, and should not be confused with employees hired through a contractual services provider in Object 8.

Turnover Expectancy

As previously mentioned, under current budget practice, the full amount of funding for each authorized position is recognized in the appropriate budget subobject, regardless of whether or not the positions will be filled or vacant. A negative adjustment, called turnover expectancy, is made to the budget based on the expectation that a certain percentage of authorized positions will not be filled at all times during the fiscal year. By including this negative adjustment, or turnover, the agencies should not receive more funding than necessary for personnel expenses. Turnover adjustments are made for both regular and contractual full-time equivalent positions.

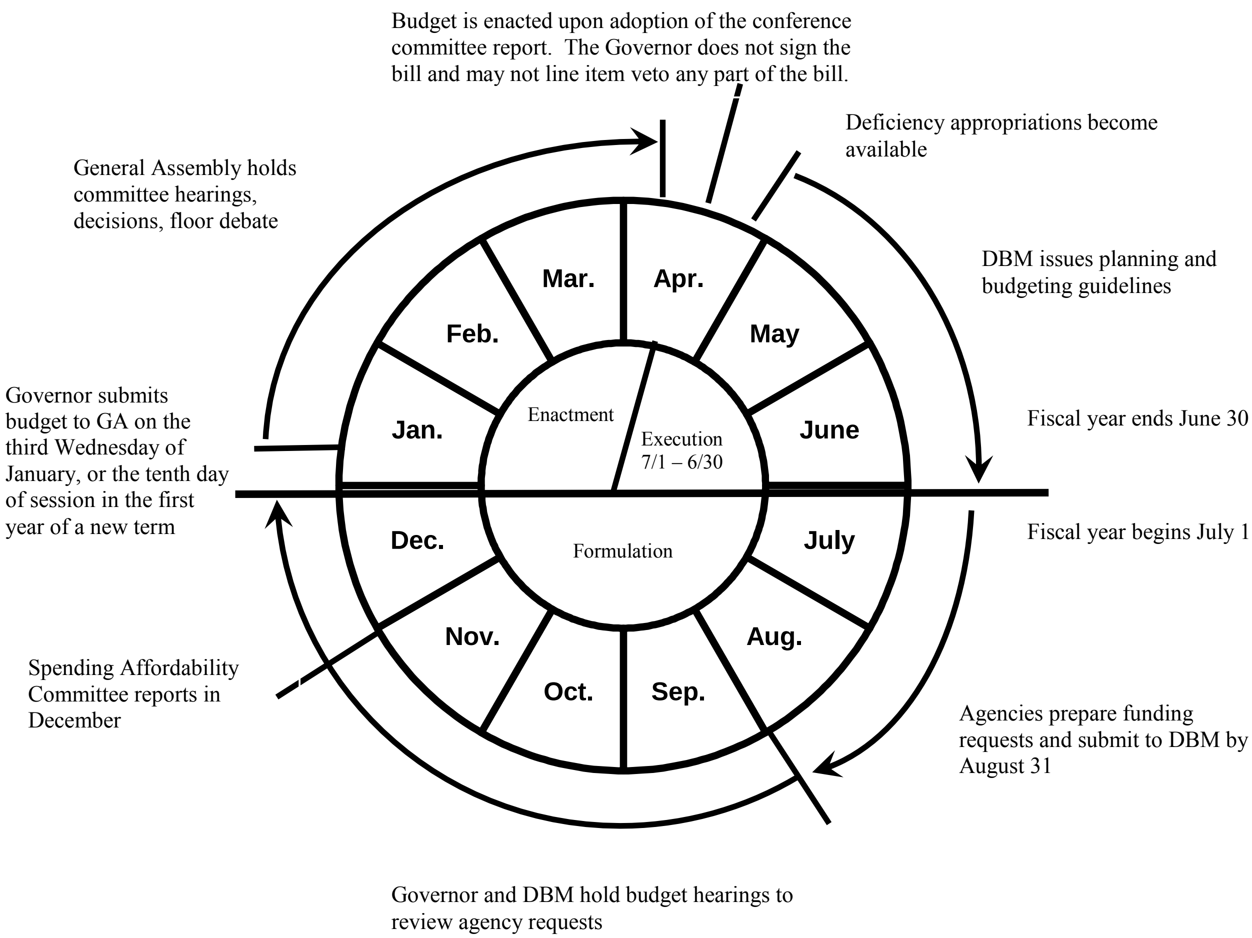
The Department of Budget and Management instructs agencies on how to calculate turnover expectancy. Historical vacancy trends are considered when assessing an accurate level for budgeted turnover. For instance, if an agency typically has 10% of its positions vacant but turnover is only budgeted at 3%, the agency is receiving more money than it needs to fill its positions. Conversely, if the agency has historically had a 2% vacancy rate, a budgeted turnover of 5% may be too high and this could lead to an inability to maintain filled positions and inefficient operations. New positions are budgeted at 25% turnover, assuming that at least one quarter of the fiscal year will be spent on the recruitment and hiring process.

Additional detail on the Maryland State Personnel System can be found in *Volume V – Maryland State Personnel, Pensions, and Procurement*.

Chapter 4. Maryland State Operating Budget: Formulation

The budget process is not confined to the legislative session. It is continuous; State government is always at some point in the process. The cyclical nature of the budget process, which may be viewed in three stages (formulation, enactment, and execution) is shown in Exhibit 4.1.

Exhibit 4.1
The Budget Cycle



DBM: Department of Budget and Management
GA: General Assembly

Source: Department of Legislative Services

Development of the budget is primarily an Executive Branch task. Through the use of mandated appropriations, however, the legislature is able to take a more active role in directing where funding is allocated. The Department of Budget and Management supervises the executive budget making process.

Formulation

The process starts about 15 months before the start of the budget year (*e.g.*, planning for the fiscal 2012 budget starting July 1, 2011, began in April 2010). At this time, the Department of Budget and Management develops instructions for use by agencies in preparing their budgets and develops a maximum request ceiling for each agency.

Agencies are directed to submit budget requests within their ceilings to the Department of Budget and Management in late summer. At that time, agencies may also request additional funds for new or expanded programs "over the target requests." In the fall, Department of Budget and Management staff review the budget request and "over the target" items and recommends to the Governor various enhancements, reductions, or no changes to the budget request. For example, consideration might be given to the additional costs associated with the opening of a new facility or the expansion of program resources based on a shift in the program's population. These are costs that were not included in the prior year's budget and go above and beyond what is required to maintain current operations.

Final executive decisions on the budget are not typically made until shortly before the budget is introduced. In part this is because the Board of Revenue Estimates does not report its estimate of revenues to be available in the budget year until mid-December. In addition, the legislature's Spending Affordability Committee, which advises the Governor as to its spending limit, also does not report until December. The time required to physically produce the budget, however, does put a practical limit on how late decisions can be made. The budget amounts approved by the Governor for each program and included in the budget are known as the "allowance."

Article III, Section 52 of the Constitution of Maryland requires the State operating budget to be balanced. The Governor must submit a budget that does not have total proposed appropriations exceeding total estimated revenues for the fiscal year. Neither the Governor nor the General Assembly may amend the budget bill to provide for spending in excess of estimated revenues.

After introduction of the budget, Department of Budget and Management staff monitors legislative action. As appropriate, supplemental budgets are submitted for legislative consideration.

Agency Budget Request Development

Maryland uses a target budget formulation that allows the Governor to designate the maximum amount an agency can request in its next budget. The target allocated to each State agency reflects State fiscal conditions and administration priorities.

The Secretary of Budget and Management distributes the departmental allocations. Agency heads are then responsible for distributing the departmental request target among the programs. If a departmental secretary is able to bring the total budget under the level of the request target by finding program savings in some areas of the department, the secretary may redistribute the savings among other programs. This provides an incentive to find cost saving measures within the budget.

While the request process limits the level of funding requested by each agency, other factors will determine the amount actually budgeted. Agencies may submit "over the target requests." There are a number of items that are funded outside of the request. Among these items might include cost-of-living salary increases for State employees, other salary increases for certain categories of State employees, PAYGO (pay-as-you-go) capital projects, statewide facilities renewal, and executive initiatives. These items are usually added to departmental budgets based on updated revenue estimates, executive priorities, identified needs, and other factors.

Budget Preparation and Submittal

Around the middle of June, a letter from the Secretary of Budget and Management is sent to State agencies outlining the Governor's fiscal policies for the forthcoming year. Attached to the letter are supplemental instructions for the preparation and submission of the operating budget. This attachment includes sample formats to provide backup information on various classifications (*e.g.,* food, fuel and utilities, motor vehicles, and data processing equipment), standard rates pertaining to such items as furniture and cars, and inflationary factors to be applied at the object and/or subobject level. The supplemental instructions are referred to as the "Budget Instructions." Agencies are allowed to deviate from the prescribed rates but must justify the deviation.

During July and August, each agency prepares its budget request indicating the source of funding for the expenditures for each program. Since the General Assembly may not add to the Governor's recommended allowance, this is the time period when legislators and advocacy groups attempt to get departments or agencies to include in the original budget request funding for particular projects of interest to them.

The requests are submitted to the Department of Budget and Management by the end of August. This information is accompanied by budget forms which provide a detailed explanation for items requested in the budget. The amount of data and the budget detail included vary according to the size and complexity of the agency submitting the budget request. As a courtesy, the Department of Budget and Management provides the supporting data and budget requests to the Department of Legislative Services. In a 1981 opinion, the Attorney General advised that Executive Privilege applies to the budget request. Consequently, the Department of Legislative Services keeps information about the request confidential.

Managing for Results

In response to recommendations by the legislative auditor that strategic planning results and measurement data be included in the budget, the Department of Budget and Management initiated a statewide strategic initiative known as Managing for Results beginning with the fiscal 1999 budget submission. Chapter 452 of 2004 codified the Managing for Results process and authorized the Office of Legislative Audits to audit performance measures to determine their reliability. This strategic planning process is intended to institute performance measurement techniques for all State government programs.

Agencies are responsible for developing the following aspects of the Managing for Results process for each program appropriated in the annual budget bill:

- ***Mission*** **–** a short comprehensive statement of the reason for the organization's existence, succinctly identifying what an organization does (or should do), and for whom it does it.

- ***Vision*** **–** a brief compelling description of the preferred, ideal future, including the conditions and quality of life.

- ***Key Goals*** **–** the general ends toward which an organization directs its efforts. Goals clarify the mission and provide direction but do not state how to get there.

- ***Objectives*** **–** specific and measurable targets toward the accomplishment of a goal. Agency objectives should be attainable and time bound.

- ***Strategies –*** specific courses of action that will be undertaken to accomplish goals and objectives. Strategies reflect budgetary and other resources.

- ***Performance Measures –*** the system of customer-focused, quantified indicators that let an organization know if it is meeting its goals and objectives. There are five categories of performance measures: efficiency, input, outcome, output, and quality. Outcome measures should be reported for each program and agency. An appropriate and balanced mix of performance measures should be submitted for each program.

For each agency, after being reviewed by the Department of Budget and Management's Office of Budget Analysis, these elements (with the exception of strategies), are published along with summary budget data in the annual State Budget Books.

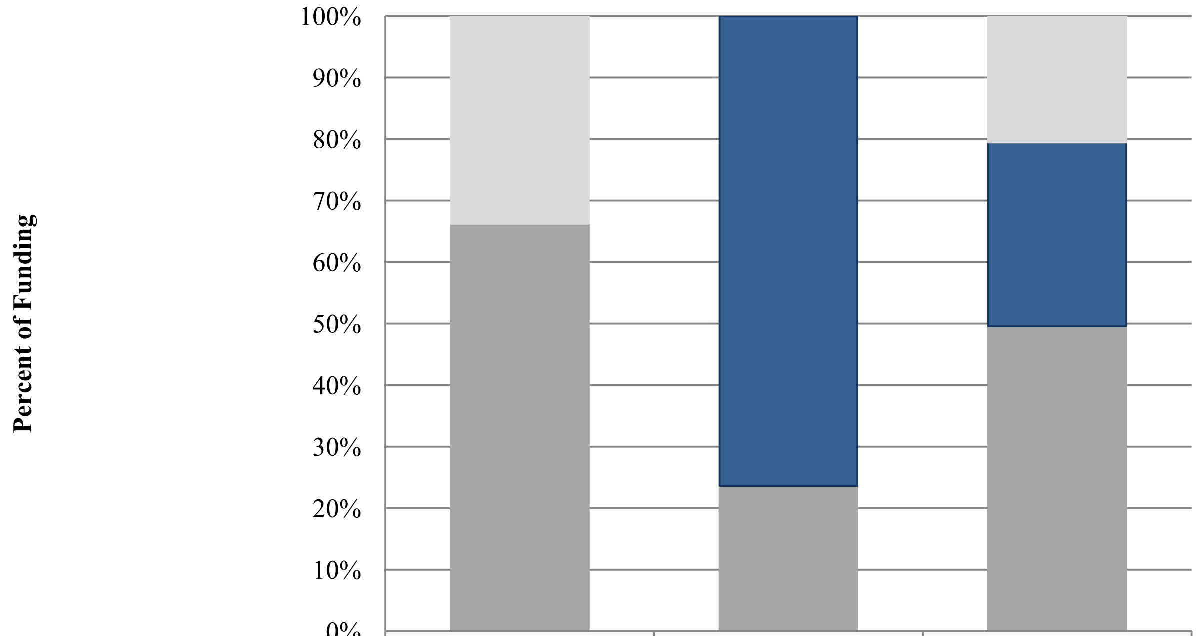
Mandated Appropriations and Entitlement Programs

During the formulation of the budget, Department of Budget and Management staff must be aware of any mandated appropriations, entitlements, or special funds that have been created by the General Assembly, which might dictate how the Governor develops the budget. A mandate is a legal requirement for the Governor to include certain levels of funding for specific programs and purposes in the budget as introduced. Related but distinct from mandates are entitlements, which are legal commitments to provide certain benefits to certain individuals or groups who meet specified eligibility criteria. Special funds, a third tool for asserting legislative influence in the budget formulation process, have statutory dedications identifying a broad purpose for the use of the funds but allow the Governor discretion as to how the funds are allocated and used.

The power of the General Assembly to impose mandated spending dates back to 1978. In a 1977 court case, legislation to require parity in foster care payments was ruled unconstitutional. This led to a 1978 constitutional amendment allowing the General Assembly to require the Governor to include a minimum level of funding for a program in a future budget. Legislation imposing mandated funding levels must be enacted prior to July 1 of the fiscal year that precedes the fiscal year to which the requirement applies. For example, legislation adopted during the 2010 session could impose mandates effective in the fiscal 2012 budget but would not affect the fiscal 2011 budget introduced that same year.

Appropriations with a mandated amount or purpose, which include special funds, accounted for 79% of the fiscal 2010 State-sourced budget. As shown in Exhibit 4.2, more than 66% of the fiscal 2010 general fund appropriation and approximately 24% of the special fund and higher education appropriations are mandates or entitlements. The remaining 76% of the special fund and higher education appropriations is still mandated for specific purposes.

Exhibit 4.2
Maryland State Spending from Own-source Budget
Fiscal 2010 Allowance
($ in Millions)



	General Funds	Special and Higher Education Funds	Total Funds
Non-mandated/Entitlement	$5,054.9	$0.0	$5,054.9
Mandated Purpose	$0.0	$7,352.0	$7,352.0
Mandated Amount/Entitlement	$9,914.2	$2,274.5	$12,188.7

Source: Department of Legislative Services

Exhibit 4.3 shows that the policy areas that receive the largest share of mandated appropriations are K-12 education and health programs, receiving 80% of all mandated general fund spending in fiscal 2010. Transportation and capital expenditures account for nearly 77% of all special fund mandates.

Exhibit 4.3
Statutorily Mandated Appropriations and Entitlements by Policy Area
Fiscal 2010 Allowance
($ in Millions)

Policy Area	GF	% of GF	SF	% of SF	Total	% of Total
Education, K-12	$5,411.7	54.6%	$90.0	4.0%	$5,501.7	45.1%
Health	2,565.2	25.9%	292.1	12.8%	2,857.3	23.4%
Transportation	63.0	0.6%	959.6	42.2%	1,022.6	8.4%
Capital Program	0.0	0.0%	785.0	34.5%	785.0	6.4%
Education, Post-secondary	608.1	6.1%	0.0	0.0%	608.1	5.0%
Judiciary	409.4	4.1%	54.7	2.4%	464.1	3.8%
Human Services	312.9	3.2%	37.0	1.6%	349.9	2.9%
Administration and Legislative	254.3	2.6%	0.1	0.0%	254.4	2.1%
Public Safety	94.5	1.0%	0.0	0.0%	94.5	0.8%
Non-specific Aid	127.0	1.3%	1.0	0.0%	128.0	1.1%
Agriculture, Environment, and Natural Resources	15.9	0.2%	54.7	2.4%	70.6	0.6%
Economic Development and Housing	52.2	0.5%	0.3	0.0%	52.5	0.4%
Total	**$9,914.2**	**100.0%**	**$2,274.5**	**100.0%**	**$12,188.7**	**100.0%**

GF: general fund
SF: special fund

Source: Department of Legislative Services

There are both advantages and disadvantages associated with the use of mandates and entitlement programs. Mandated funding allows the legislature to have a stronger role in priority setting and fiscal policy formulation in a state dominated by a strong executive-budget model. It also can guard priority programs during fiscal crises and protect agencies and interest groups from having to annually fight for funding. At the same time, however, mandated funding reduces flexibility in the budget, competition for resources, and transparency in determining how the budget is prepared and how funds are allocated. There is also the potential to cause structural budget problems by mandating large funding increases without corresponding revenues. Mandated funding in the Governor's allowance nearly doubled between fiscal 2004 and 2009, increasing from $6.7 billion in general funds to $12.6 billion.

In recent years, increased emphasis has been placed on mandate reform, specifically targeted at repealing or revising mandates in order to allow for more flexibility in the allocation of resources. The fiscal 2010 budget was reduced by $1.1 billion as a result of mandate reform efforts.

Spending Affordability

During the late 1970s and early 1980s, the General Assembly considered proposals to control the growth of the operating budget. The proposals were similar to limitations on expenditures and/or taxes enacted in other states. The thrust of the proposals was to use certain economic indicators to tie the growth of ongoing State spending to the growth in the Maryland economy. The result of these deliberations was the creation of the Spending Affordability Committee during the 1982 session. The committee is composed of the President of the Senate, the Speaker of the House, majority and minority leaders of the Senate and the House, the chairmen of the four standing fiscal committees, and other members selected by the Presiding Officers. In recent years, the committee has consisted of 18 legislators and has been assisted by an advisory committee of private citizens.

The committee meets in the fall leading up to the legislative session. The Department of Legislative Services prepares forecasts that estimate projected revenues and expenditures for the upcoming fiscal year. The committee reviews these projections and the status of the State economy. By statute, the committee must report to the Legislative Policy Committee each December its recommendations for fiscal goals for the budget to be considered at the next session of the General Assembly. This report includes the following types of recommendations:

- a level of State spending;
- a level of new debt authorization; and
- a level of State personnel.

The committee may make other appropriate findings and recommendations. By statute, if committee recommendations with respect to State spending exceed the annual increase in relevant economic indicators, the committee must provide an analysis as to the extent the recommendations exceed such indicators. Similarly, if the Governor submits a budget request in excess of the amounts recommended by the Spending Affordability Committee, the Governor must explain the rationale for exceeding the recommendations. The budget committees must also provide an explanation for any amounts exceeding Spending Affordability Committee recommendations that are presented to the Senate and House of Delegates for consideration.

Recommendations for State Spending

For the purpose of spending affordability, State spending has traditionally been defined as general, special, and higher education appropriations less capital, one-time, pass-through, higher education restricted, and Maryland Correctional Enterprises appropriations. The calculation compares session-to-session spending appropriated by the General Assembly. Hence, 2010 session spending (fiscal 2011 appropriations and 2010 deficiency appropriations) are compared to 2009 session spending (2010 appropriations and 2009 deficiency appropriations). Deficiency appropriations are also counted as new spending under spending affordability.

Periodically, the Spending Affordability Committee modifies the methodology used for calculation of the spending affordability limit. These modifications can be done to recognize changes in revenues or expenditures. For example, the base spending calculation was adjusted in the 2008 report to include medical malpractice subsidy payments that were an ongoing expense budgeted in the Medicaid program. The calculation was also modified in 2009 and 2010 to reflect the use of American Recovery and Reinvestment Act of 2009 funds used in lieu of general funds for certain ongoing, core State government functions.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State funding expenditures in any fiscal year that might result in unsupportable levels of spending in future years. Thus, especially during periods of strong economic growth, the committee has attempted to smooth spending by limiting increases relative to the level of growth in the economy. The committee has often used growth in personal income as a proximate measure of the State's economic growth and as a guide for the increase in State spending. Consequently, the spending affordability process limits the growth in State government so that it does not exceed the growth in Marylanders' income.

Compliance with the recommendations of the Spending Affordability Committee with respect to State spending has generally been good. The budget passed by the

General Assembly has only exceeded the committee's recommendation once. For fiscal 1985, the Governor's original budget was within spending limits; however, a supplemental budget in excess of $90 million was introduced and subsequently enacted. Also, the committee did not make a recommendation for the fiscal 1993 budget because of the financial difficulties being faced by the State at the time. Exhibit 4.4 displays the history of compliance with the Spending Affordability Committee's recommendations on State spending.

Exhibit 4.4
History of Compliance with Spending Limits
($ in Millions)

Session	Committee Recommendation		Legislative Action	
Year	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**
1982	10.18%	$431.9	9.62%	$412.80
1983	9.00%	428.0	5.70%	269.8
1984	6.15%	326.7	8.38%	402
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	467.2
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629
2005***	6.70%	1,037.1	6.69%	1,036.30

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**
2006***	9.60%	1,604.1	9.57%	1,599.00
2007	7.90%	1,450.0	7.51%	1378.4
2008	4.27%	848.7	4.16%	826.8
2009****	0.70%	145.7	0.19%	39.2
2010****	0.00%	0.0	-1.14%	-237.9

*2000 legislative action does not reflect $266 million of Cigarette Restitution Fund appropriations. Cigarette Restitution Fund dollars were excluded from the calculation during the 2000 session because they had not previously been available to the State. The 2000 growth rate including Cigarette Restitution Fund dollars was 9.16%.

**Data from the 2001 session and subsequent years reflects a revised methodology for calculating the spending affordability.

***The committee initially approved a limit of 5.70% for fiscal 2005 and 8.90% for fiscal 2006.

****Legislative action calculation includes federal funds under the American Recovery and Reinvestment Act of 2009 used in lieu of ongoing general fund spending.

Source: Department of Legislative Services

Other Recommendations

The Spending Affordability Committee is charged with making other recommendations with respect to the State budget policy. One of these recommendations is the level of debt authorization for the upcoming session. In determining the level, the committee has considered the report of the Capital Debt Affordability Committee.

The Spending Affordability Committee has also made recommendations concerning a specific fiscal issue. In 2005, with revenues exceeding projections and to allow for greater budgeting flexibility during difficult fiscal periods, the committee recommended increasing the minimum balance of the Revenue Stabilization Fund (Rainy Day Fund) from 5.0 to 7.5% of estimated general fund revenues. This recommendation was adopted by the General Assembly during the 2006 session (Chapter 52 of 2006).

State Budget Books

Beginning in September after receipt of the agencies' budget requests, the Department of Budget and Management initiates its budget review activity that culminates in the production of the State budget by the beginning of January. Analysts in that department review the requests, the Governor or the Governors' designee holds hearings with the agencies, and the analysts make recommendations to the Governor as to the amount that should be appropriated to each agency.

The budget is actually constructed piece by piece as the Governor meets with the staff and considers the recommendations. The smaller agencies and those with little or no changes are considered first. The larger agencies and those with significant changes and large fiscal issues are completed last. Completed summary allowance sheets are assembled in budget code sequence and printed as the State Budget Books. In fiscal 2011, the budget books were issued in five volumes: a budget highlights volume providing an executive summary of the Governor's budget, three volumes providing detail for the operating budget, and one for the capital budget. These are the principal supporting documents of the budget bill.

The Governor's *Budget Highlights* is the book containing specific explanations of the major programs and issues of executive action contained in the budget, in addition to presenting a general overview of the major departments' budgets. The book also contains a listing of State assistance to each of the counties and a "budget in brief" section outlining revenue sources and areas of expenditures, the status of State general funds, estimated revenues, details of general and special funds, and a summary of budgeted operating expenditures and the capital budget program.

The budget books also include Managing for Results information. For each agency, after being reviewed by the Department of Budget and Management's Office of Budget Analysis, each of the Managing for Results elements (with the exception of strategies) is published along with the budget data in the budget books.

The budget books show the details of expenditures by object classification for the past, present, and next fiscal year. Also shown are the sources of funds (general, special, or federal) expended by the agency and summaries of capital expenditures. An example of the program detail is shown in Exhibit 4.5.

Exhibit 4.5
Example of Program Appropriation Detail
Department of Housing and Community Development

SOOA20.01 OFFICE OF THE SECRETARY – OFFICE OF THE SECRETARY

Appropriation Statement:

		2009 Actual	2010 Appropriation	2011 Allowance
	Number of Authorized Positions	30.00	30.00	30.00
	Number of Contractual Positions	1.00	.50	.50
01	Salaries, Wages and Fringe Benefits	2,586,025	2,745,471	2,864,141
02	Technical and Special Fees	50,182	40,167	41,006
03	Communication	15,429	19,200	17,000
04	Travel	50,715	45,300	18,750
08	Contractual Services	160,878	165,674	165,450
09	Supplies and Materials	26,035	30,000	24,500
10	Equipment – Replacement	163		
11	Equipment – Additional	10,078		
12	Grants, Subsidies and Contributions	99,907	105,333	113,933
13	Fixed Charges	85,820	90,088	97,596
	Total Operating Expenses	449,025	455,595	437,229
	Total Expenditure	3,085,232	3,241,233	3,342,376
	Special Fund Expenditure	2,169,819	2,201,856	2,280,576
	Federal Fund Expenditure	915,413	1,039,377	1,061,800
	Total Expenditure	3,085.232	3,241,233	3,342,376

Special Fund Income:

		2009 Actual	2010 Appropriation	2011 Allowance
S00304	General Bond Reserve Fund	1,195,013	928,400	705,120
S00306	Homeownership Loan Program Fund	105,957	194,368	319,368
S00309	Maryland Housing Fund	339,063	364,203	364,203
S00315	Neighborhood Business Development Fund	105,957	136,479	161,479
S00317	Rental Housing Loan Program Fund	275,489	364,203	364,203
S00321	Special Loan Program Fund	148,340	214,203	256,203
S00326	Partnership Loan Program			20,000
S00334	Community Legacy			90,000
	Total	2,169,819	2,201,856	2,280,576

Federal Fund Income:

		2009 Actual	2010 Appropriation	2011 Allowance
14.195	Section 8 Housing Assistance Payments Program – Special Allocations	790,274	897,291	916,951
14.239	Home Investment Partnerships Program	54,576	61,967	63,172
14.871	Section 8 Housing Choice Vouchers	70,563	80,119	81,677
	Total	915,413	1,039,377	1,061,800

Source: *Fiscal 2011 State Budget Books*

The budget books also contain the "personnel detail" for the State. The personnel detail is sequenced so that within each program, positions are first divided into eight standard job categories (officials and administrators, professionals, technicians, protective service workers, paraprofessionals, office and clerical, skilled craft workers, and service/maintenance). Within categories, classifications are then arranged in descending order of the classification base salary. After each class of position is the number of positions per class, together with the total salary required for the previous, current, and next fiscal year. An example of the personnel detail is shown in Exhibit 4.6.

Exhibit 4.6
Example of Personnel Detail

PERSONNEL DETAIL

Housing and Community Development

Classification Title	FY 2009 Positions	FY 2009 Expenditure	FY 2010 Positions	FY 2010 Appropriation	FY 2011 Positions	FY 2011 Allowance
S00a2003 Office of Management Services						
prgm mgr senior i	1.00	93,913	1.00	95,738	1.00	95,738
prgm mgr iv	1.00	126,747	3.00	284,985	3.00	284,985
prgm mgr iii	4.00	230,730	3.00	249,239	3.00	249,239
prgm mgr ii	3.00	176,980	4.00	277,922	4.00	277,922
personnel administrator iii	1.00	70,995	1.00	72,505	1.00	72,505
prgm mgr i	1.00	64,634	1.00	65,887	1.00	65,887
administrator iii	.00	0	1.00	73,316	1.00	73,316
hcd community program admin iii	.00	0	1.00	60,563	1.00	60,563
hcd community program admin ii	.00	0	1.00	60,083	1.00	60,083
administrator iii	.00	0	1.00	60,563	1.00	60,563
administrator ii	3.00	209,540	4.00	231,259	4.00	231,259
personnel administrator i	1.00	23,631	1.00	57,840	1.00	57,840
personnel officer iii	.00	0	1.00	54,207	1.00	54,207
admin officer iii	1.00	74,628	1.00	52,770	1.00	52,770
personnel officer ii	2.00	101,433	1.00	52,770	1.00	52,770
pub affairs officer ii	1.00	15,441	.00	0	.00	0
admin officer ii	.00	0	1.00	47,639	1.00	47,639
personnel officer i	.00	0	1.00	52,356	1.00	52,356
personnel specialist	1.00	47,780	.00	0	.00	0
pub affairs officer i	1.00	0	.00	0	.00	0
exec assoc ii	1.00	55,524	1.00	56,930	1.00	56,930
TOTAL s00a2003	**22.00**	**1,291,976**	**28.00**	**1,906,572**	**28.00**	**1,906,572**
TOTAL s00a20	**52.00**	**3,267,423**	**58.00**	**4,103,087**	**58.00**	**4,103,087**

Source: *Fiscal 2011 State Budget Books*

The Budget Bill

The Governor submits the budget bill in accordance with the provisions of Article III, Section 52 of the Constitution of Maryland (see Appendix 1). The constitution stipulates that the budget bill must include all appropriations for the Legislature, the Judiciary, and the executive department and that these appropriations shall provide for an efficient school system, the interest and principal on the State debt, the salaries established by law and by the constitution, and other purposes that may be required by law or by the constitution.

The budget bill is a large bill. Although the bill is introduced independently in both the Senate and the House of Delegates, the printed version of the first reader includes both bill numbers. One house passes the budget bill first in one year, and by prearranged schedule, the other house passes the bill first in the next year. The original bill is often altered by one or more supplemental budgets, and during the 2010 session, one supplemental budget was introduced. During the 2010 legislative session, the fiscal 2011 budget bill (Senate Bill 140) passed by the General Assembly totaled $32 billion in appropriations.

The budget bill, as presented to the General Assembly by the Governor, has three major parts. The first and largest part contains the specific appropriation proposed for each program of State government for the next fiscal year as well as the "deficiency appropriations" for those units of State government that are judged to require additional funds deemed necessary to complete the current fiscal year.

The second part of the budget bill embraces several sections that provide general directions and limitations pertaining to the expenditure and transfer by budget amendment of the appropriations contained in the first part. Included in these sections are the regular and the Maryland Department of Transportation executive pay plans and a listing of nonclassified flat rate or per diem positions (*e.g.*, Governor, Comptroller, and Treasurer). Other sections govern the expenditure or allow for the recovery of funds associated with specific purposes, including tort claims, indirect costs, computer usage, and other areas of the budget. The legislature typically adds additional sections to this part with provisions applicable to multiple agencies.

The third part of the budget bill is the "Budget Summary," as required by the constitution (Article III, Section 52(5a)). This summary provides figures for the total of all proposed appropriations, including deficiencies, and estimated revenues available each year to pay for the appropriations. For each year, projected revenues must be equal to or greater than the proposed appropriations.

The budget bill is introduced in each house of the General Assembly by the Presiding Officers on the third Wednesday of January (the eighth day of the session). This date is extended to the tenth day (Friday) every fourth year for the newly elected Governor. Copies of the budget bill and the Maryland State Budget Books are provided to each member. Copies are also made available to State agencies and other government offices.

Chapter 5. Maryland State Operating Budget: Legislative Review and Enactment

The budget process may be viewed in its broadest sense as the principal means by which the elected policymakers – the Governor and the members of the General Assembly – strive to balance an acceptable level of taxation with an acceptable level of spending for governmental services (see Exhibit 5.1). The budget provides a means to deliver services and solve problems for which citizens are willing to pay. At the same time, it is incumbent upon the General Assembly to use the budget process as a means to eliminate inefficiency and waste and to either improve or eliminate those programs or activities that are ineffective or clearly lack citizen approval. Within the budget process, legislative budget review serves an important purpose. It is the General Assembly that has the ultimate responsibility to impose the taxes that finance the costs of State government. Only by a thorough and searching examination of proposed appropriations, agency programs, and operations can the General Assembly perform its duty and function of exercising control over expenditure of public funds.

In acting on the budget (either the original budget or a supplemental budget), the General Assembly may amend the budget to reduce, restrict, or impose certain conditions concerning the expenditure of appropriations but cannot impose a condition that contradicts or circumvents existing law. The constitution prescribes that a bill be confined to one purpose, and the purpose of the budget bill is to appropriate funds for the operation of the State, not to legislate generally (37 Opinions of the Attorney General 121 (1952)). The General Assembly does not have the authority to modify existing law by means of amending the budget bill, otherwise known as "legislating in the budget." However, the General Assembly may reduce any item of appropriation in the annual budget bill below any minimum level of funding that has been set by statute (65 Opinions of the Attorney General 45 (1980)) with the exception of certain education funding and debt service and may strike out or reduce items including those items inserted to provide for satisfaction of judgments (68 Opinions of the Attorney General 382 (1983)). The General Assembly may also impose conditions or limitations on an appropriation relating to the expenditure of funds (*Bayne v. Secretary of State*, 283 Md. 560, 574, 1978). Based on *Bayne*, the General Assembly has regularly acted to restrict the expenditure of an appropriation pending review of additional information, certain action by an agency, or the satisfaction of certain conditions.

Exhibit 5.1
Budget Review and Enactment
Legislative Session

	State Agencies	Executive	Legislative
January	Agencies start to prepare overviews and rebuttals to the Department of Legislative Services' recommendations.	Governor presents the budget to all members of the General Assembly. If necessary, a Budget Reconciliation and Financing Act is introduced.	APP and B&T hold separate but concurrent budget hearings with agencies. Legislative Services presents analyses and recommendations at public hearings.
February	At public hearings, agencies respond to issues and recommendations raised by the Department of Legislative Services and committee member questions.	Department of Budget and Management reviews and recommends items for supplemental budget(s). Governor approves requests and formulates supplemental budget(s), as necessary.	
March		Department of Budget and Management reviews and recommends items for supplemental budget(s). Governor approves requests and formulates supplemental budget(s), as necessary.	If a BRFA has been introduced, APP and B&T hold separate but concurrent hearings on the BRFA. APP and B&T consider budget and BRFA recommendations and prepare written reports of adopted amendments. First house receives committee report, debates amendments, and passes BRFA and budget bill with or without supplements. Second house receives BRFA and budget bill, refers to committee, receives committee report, debates, amends, and passes BRFA and budget with supplement(s), if any.
April		Department of Budget and Management reviews and recommends items for supplemental budget(s). Governor approves requests and formulates supplemental budget(s), as necessary.	Conference committee formed on items lacking agreement. Budget enacted by eighty-third day. Legislative Services finalizes *Joint Chairmen's Report* for Journal.

APP: House Appropriations Committee B&T: Senate Budget and Taxation Committee BRFA: Budget Reconciliation and Financing Act

Source: Department of Legislative Services

After introduction of the budget in January by the Governor, the budget bill is processed in the same manner as any other bill, with the notable exceptions that it must be passed by the eighty-third day of the session and is not subject to veto by the Governor. If the budget is not passed by the eighty-third day, the Governor must issue a proclamation extending the session. Due to the size of the budget bill and the number of amendments, the legislature gives this bill priority in scheduling to avoid conflict with other major pieces of legislation.

Shortly after the Governor introduces the budget, the Department of Legislative Services presents a fiscal briefing to the budget committees on the provisions and implications of the Governor's proposed budget. This fiscal briefing is also provided to other Senate and House standing committees. The department highlights the methods of funding the budget, including the estimated financial position of the State at the end of the fiscal year. The briefing highlights new programs and significant program changes introduced in the budget. Revenue assumptions also are discussed as they relate to the financing of a balanced budget. The document also customarily provides an overview of the budget's impact on the Transportation Trust Fund, higher education, the State Reserve Fund, the number of State positions, and local aid. The briefing also provides a brief overview of the Governor's proposed capital budget. Copies of the *Fiscal Briefing Report* are available to all members of the General Assembly and published on the Maryland General Assembly's website.

Budget Analysis – Department of Legislative Services

The Department of Legislative Services is responsible for the oversight of the executive budget (State Government Article, Section 2-1237). During the period April through October, legislative analysts keep a careful eye on the implementation of the present year's appropriations, while simultaneously watching the budget formulation process for the future year's budget. To accomplish this goal, analysts track budget amendments; engage in interviews and other contacts with the agencies; gather background information pertaining to agency plans, programs, and activities; and perform continuing study and research relating to fiscal issues, taxes, finances, and other matters pertaining to the budget. During November through the early part of February, a major focal point is on budget analysis and development of recommended actions for the budget committees to consider.

Legislative analysts begin the budget analysis process in the fall by meeting with the agencies to review budget requirements. Analysts may collect workload measures, caseload statistics, and historical rates of expenditures to evaluate the need for and effectiveness of agency programs. As the Governor's initiatives are introduced, legislative analysts must evaluate the costs and benefits of each initiative and be prepared to make recommendations regarding the need for, or issues surrounding, these new expenditures. Once the Governor's allowance is made available in its entirety, legislative staff scrutiny of proposed expenditures culminates in the production of approximately 160 budget analyses, each representing a State government agency or unit within a large department.

The budget analysis is a comprehensive document that examines all facets of agency operations, including changes in proposed funding and personnel. In the late 1990s, the State agencies began using a strategic planning process known as Managing for Results to place a greater emphasis on performance outcomes. The budget analysis examines each agency's goals and missions, relative to performance, with the intent to link funding with outcomes. It also raises public policy issues, includes recommended budget actions, and provides informative appendices that summarize fiscal activity for the prior, current, and proposed fiscal years.

The first few pages of the analysis document provide an executive summary of the information contained within the document. The first one or two pages illustrate operating budget and personnel trends over a three-year period (past, present, and proposed). Additional personnel information lists the number of vacant positions and the budgeted turnover expectancy for the proposed budget year. Subsequent pages provide summaries of major performance trends, policy issues, recommended actions, and updates. Exhibit 5.2 provides a sample of the first two pages of a fiscal 2011 budget analysis, and Exhibit 5.3 provides a sample of one of the standard appendices, which highlights fiscal trend detail.

As these written analyses are completed, copies are provided to the budget committee members, the respective agencies, and the Secretary of the Department of Budget and Management. Members of the General Assembly not assigned to the budget committees may receive individual budget analyses on request. After the analyses are completed, they are electronically distributed to every member of the General Assembly at the time the budget bill is reported to the Senate or the House of Delegates. The analyses are also made available to the public on the General Assembly's website.

The Department of Legislative Services works closely with the Senate Budget and Taxation Committee and the House Appropriations Committee prior to the session, meeting with these committees to develop the schedule of budget hearings, department overviews, and briefings.

Exhibit 5.2
Example of Budget Summary

V10A
Department of Juvenile Services

Operating Budget Data

($ in Thousands)

	FY 09 Actual	FY 10 Working	FY 11 Allowance	FY 10-11 Change	% Change Prior Year
General Fund	$266,941	$254,580	$260,974	$6,393	2.5%
Contingent & Back of Bill Reductions	0	0	-3,753	-3,753	
Adjusted General Fund	**$266,941**	**$254,580**	**$257,220**	**$2,640**	**1.0%**
Special Fund	165	203	203	0	
Adjusted Special Fund	**$165**	**$203**	**$203**	**$0**	**0.0%**
Federal Fund	7,383	16,171	15,971	-200	-1.2%
Contingent & Back of Bill Reductions	0	0	-62	-62	
Adjusted Federal Fund	**$7,383**	**$16,171**	**$15,908**	**-$263**	**-1.6%**
Reimbursable Fund	880	883	225	-658	-74.5%
Adjusted Reimbursable Fund	**$880**	**$883**	**$225**	**-$658**	**-74.5%**
Adjusted Grand Total	**$275,369**	**$271,838**	**$273,557**	**$1,719**	**0.6%**

Note: For purposes of illustration, the Department of Legislative Services has estimated the distribution of selected across-the-board reductions. The actual allocations are to be developed by the Administration.

- A fiscal 2010 deficiency provides $1.0 million in additional funding for overtime and just over $5.0 million in additional funding to support residential per diem placements.

- The fiscal 2011 allowance, after adjusting for contingent reductions, is $1.7 million (0.6%) above the fiscal 2010 working appropriation.

Personnel Data

	FY 09 Actual	FY 10 Working	FY 11 Allowance	FY 10-11 Change
Regular Positions	2,271.65	2,254.05	2,240.05	-14.00
Contractual FTEs	121.40	126.35	98.45	-27.90
Total Personnel	**2,393.05**	**2,380.40**	**2,338.50**	**-41.90**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	86.69	3.87%
Positions and Percentage Vacant as of 12/31/09	138.90	6.16%

- The fiscal 2011 allowance abolishes 14 full-time equivalent positions, 10 of which are vacant, 4 of which are filled.

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

For further information contact: Simon G. Powell Phone: (410) 946-5530

Source: Department of Legislative Services

Exhibit 5.3
Example of Fiscal Summary

Department of Juvenile Services

Program/Unit	FY09 Actual	FY10 Wrk Approp	FY11 Allowance	Change	FY10 - FY11 % Change
01 Office of the Secretary	$ 1,766,873	$ 1,569,311	$ 1,354,450	-$ 214,861	-13.7%
01 Departmental Support	24,417,798	25,560,692	25,827,814	267,122	1.0%
02 IT Projects – Departmental Support	800,000	0	0	0	0%
01 Residential Services	4,727,228	5,857,731	6,647,433	789,702	13.5%
01 Baltimore City Region Administrative	3,353,213	2,663,024	3,060,891	397,867	14.9%
02 Baltimore City Region Community Services	41,687,482	38,248,524	43,712,674	5,464,150	14.3%
03 Baltimore City Region State Operated Residential	21,749,732	22,526,632	22,375,198	-151,434	-0.7%
01 Central Region Administrative	1,196,293	1,146,922	1,332,096	185,174	16.1%
02 Central Region Community Services	24,694,040	21,582,970	21,532,617	-50,353	-0.2%
03 Central Region State Operated Residential	14,522,192	14,891,634	14,198,734	-692,900	-4.7%
01 Western Region Administrative	2,179,910	1,966,331	2,183,230	216,899	11.0%
02 Western Region Community Services	9,633,914	12,299,986	10,538,346	-1,761,640	-14.3%
03 Western Region State Operated Residential	27,583,298	25,954,046	28,068,326	2,114,280	8.1%
01 Eastern Region Administrative	868,169	832,779	1,071,726	238,947	28.7%
02 Eastern Region Community Services	13,427,947	13,274,776	13,180,477	-94,299	-0.7%
03 Eastern Region State Operated Residential	5,613,282	5,786,622	6,315,015	528,393	9.1%
01 Southern Region Administrative	426,641	391,942	517,947	126,005	32.1%
02 Southern Region Community Services	17,469,074	17,239,509	17,043,370	-196,139	-1.1%
03 Southern Region State Operated Residential	7,622,238	7,302,797	7,245,365	-57,432	-0.8%
01 Metro Region Administrative	843,178	959,066	1,017,659	58,593	6.1%
02 Metro Region Community Services	24,385,511	27,589,768	25,088,014	-2,501,754	-9.1%
03 Metro Region State Operated Residential	26,401,217	24,192,597	25,060,869	868,272	3.6%
Total Expenditures	**$ 275,369,230**	**$ 271,837,659**	**$ 277,372,251**	**$ 5,534,592**	**2.0%**
General Fund	$ 266,941,195	$ 254,580,176	$ 260,973,529	$ 6,393,353	2.5%
Special Fund	165,069	203,000	203,000	0	0%
Federal Fund	7,383,339	16,171,158	15,970,722	-200,436	-1.2%
Total Appropriations	**$ 274,489,603**	**$ 270,954,334**	**$ 277,147,251**	**$ 6,192,917**	**2.3%**
Reimbursable Fund	$ 879,627	$ 883,325	$ 225,000	-$ 658,325	-74.5%
Total Funds	**$ 275,369,230**	**$ 271,837,659**	**$ 277,372,251**	**$ 5,534,592**	**2.0%**

Note: The fiscal 2010 appropriation does not include deficiencies.

Source: Department of Legislative Services

The analysis of each agency is prepared according to the budget hearing schedule. Every effort is made to have the agency's written analysis completed five calendar days prior to the hearing date. In most cases, the analysis is sent to the agency in time for a written rebuttal to be submitted to the committees at the public hearing. The intention of this practice is to provide formal documentation of the agency's position on recommendations contained in the analyses which will be available for committee discussion at a later date. The rebuttal also provides a means to pursue other issues (which may not have been addressed in the written analysis) during the limited time available for budget hearings.

Legislative Budget Hearings

Legislative budget hearings are conducted over a six- to seven-week period beginning the third week of the session. Both the Senate Budget and Taxation Committee and the House Appropriations Committee use a combination of full committee meetings and a subcommittee structure based on grouped policy areas. Both committees will occasionally hold joint subcommittee hearings for budgets that cross their respective policy jurisdictions. Likewise, representatives of the policy committees of the legislature are invited to participate in hearings on matters of joint interest. Regardless of the committee structure or hearing method, both committees use the same analyses prepared by the Department of Legislative Services, and the same legislative analysts provide briefings for each committee.

Budget Reconciliation and Financing Acts

A Budget Reconciliation and Financing Act is a separate piece of legislation passed by the General Assembly in addition to the budget bill. It can be used to implement a variety of actions such as raising revenues, altering statutory formulas and mandates, and transferring various monies in special funds to the general fund to allow their use for other purposes, such as balancing the budget. Often appropriations in the budget will be contingent on the enactment of a Budget Reconciliation and Financing Act.

In recent years, the Budget Reconciliation and Financing Act has been used to balance the budget. Mandated spending has exceeded projected revenues, resulting in a budget that is out of balance. A mandate is a statutorily required level of funding. For example, there is the requirement in Section 4-216 of the Economic Development Article to fund the Maryland Tourism Board at $6 million annually. In fiscal 2011, the Administration proposed reducing this mandated spending to $5 million in the Budget Reconciliation and Financing Act. This was part of a comprehensive effort to reduce spending. More information about balancing the budget is provided in Chapter 7.

If a Budget Reconciliation and Financing Act is necessary to help balance the budget, the Governor typically introduces this legislation at the same time as the budget is introduced. This legislation is assigned to the Senate Budget and Taxation Committee and the House Appropriations Committee, and each committee holds a separate hearing on the bill. Typically, the hearings consist of testimony from the Administration about the provisions in the bill and an overview and summary of the bill's provisions by the Department of Legislative Services along with alternative and additional recommendations to be considered. Additionally, testimony is received from agencies, interest groups, and the public. Since many of the provisions in a Budget Reconciliation and Financing Act are of interest to the policy committees of the legislature, current practice has been to invite several representatives of the policy committees to participate in the hearings and to provide comments and concerns to the budget committees about the legislation or about any of the other recommendations by the Department of Legislative Services.

Committee/Subcommittee Decisions

At the conclusion of the budget hearings, the committees and subcommittees meet to make decisions regarding the items before them. The recommendations made and issues raised in the legislative budget analyses typically serve as a starting point as do questions arising in the budget hearings themselves. Also bearing importantly on the decisions, however, are concerns with the overall fiscal objectives of meeting the Spending Affordability Committee's recommended spending ceiling and maintaining a balanced budget.

Committee decisions may take the form of amending the budget bill to reduce appropriations or add restrictive language. Committee narrative, which does not have the force of law, may also be inserted into the committee report. If a Budget Reconciliation and Financing Act was introduced, committee decisions may also take the form of amending the legislation. These types of committee actions are described below.

Budget Reductions

The decisions concerning changes to the Governor's allowance (*i.e.*, the proposed appropriation) are usually made at the work program level. Sometimes the reductions to agency budgets are quite specific (*e.g.*, abolish position number 123456) while other times they may be quite general (*e.g.*, reduce program funding). Also, in some occasions an agency administrator will be allowed the flexibility to distribute a particular reduction among the various units of the agency. Reductions are reflected in the budget bill as amendments. The committee report explains the action taken in each amendment. Examples of budget reductions as reflected in a committee report are included in Exhibit 5.4.

Exhibit 5.4
Example of Reductions

H00 Department of General Services – Office of Facilities Security

Reduce appropriation for the purposes indicated:	Funds		Positions
1. Delete funding for 3 long-term vacant positions in the Office of the Facilities Security. The number of thefts at the Department of General Services managed facilities has continued to trend downward. Funding is deleted for the following positions: • administrator II (position number 0766455); • program manager IV (position number 005975); and • police officer manager (position number 006020).	206,353	GF	
Total Reductions	206,353		0.00

Effect	Allowance	Appropriation	Amount Reduction	Position Reduction
Position	181.00	181.00		0.00
General Fund	7,666,048	7,459,695	206,353	
Special Fund	73,610	73,610	0	
Federal Fund	251,583	251,583	0	
Total Funds	**7,991,241**	**7,784,888**	**206,353**	

Source: Department of Legislative Services

Budget reductions are sometimes made to items applicable across the budget. To implement these reductions, the legislature commonly adds a separate section to the budget bill which identifies the items to be reduced and stipulates an aggregate amount of savings to be realized. Section 7-213 of the State Finance and Procurement Article delegates to the Governor and the Board of Public Works the authority to allocate such reductions to the appropriate programs of the budget. For example, Section 44 of the budget bill for fiscal 2011 required the Governor to abolish 500 regular full-time equivalent positions from the Executive Branch and required funding for salaries to be reduced by $12 million in general funds related to the abolitions.

Budget Bill Language

In addition to reductions in the amount of appropriations, the committees may also propose language for inclusion in the budget bill placing limitations on the expenditure of funds or expressing legislative intent as to the use of funds. As previously noted, the General Assembly may not impose a condition that contradicts or circumvents a statute or lawful regulation. Exhibit 5.5 is an example of budget bill language.

Exhibit 5.5
Example of Budget Bill Language

K00A Department of Natural Resources

Add the following language:

Provided that $2,696,006 of the General Fund appropriation within this agency, made for the purpose of general operating expenses, may not be expended for that purpose but instead may be used only to provide operating expenses for and installation of 50 water quality monitoring stations to measure ambient nitrogen and phosphorus concentrations as well as flow data for water bodies entering Maryland but that currently are not being monitored. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise to any other purpose and shall revert to the General Fund.

Explanation: This action restricts $2,696,006 of the general fund appropriation in the Department of Natural Resources for the installation of 50 water quality monitoring stations along fourth order stream border crossings that enter Maryland and empty into a Maryland tributary of the Chesapeake Bay but that currently are not being monitored. The stations are to be placed at the site where each of these fourth order streams not currently being monitored enter Maryland and where the fourth order streams empty into a Maryland tributary of the Chesapeake Bay. The full cost is anticipated to be $2,696,006 in fiscal 2011 with salaries and fringe benefits ($192,262), equipment ($103,744), contractual full-time equivalents ($150,000), and stream gauges ($2,250,000 or $45,000 per gauge).

Source: Department of Legislative Services

Committee Narrative

At times, the budget committees wish to express legislative intent or request a department to perform certain studies or report on particular issues during the interim. This is usually written as "committee narrative" in the *Joint Chairmen's Report* of the budget committees' action (see Budget Committee Reports and Actions which follows). This does not have the effect of law nor does it require agreement to the language on the part of the entire House and Senate. However, for committee narrative to appear in the joint report, both budget committees must agree. Aware that future appropriations must be approved by the committees, departments are generally responsive to narrative requests. Exhibit 5.6 is an example of committee narrative.

Exhibit 5.6
Example of Committee Narrative

J00H01.01 Maryland Transit Administration

Options for Meeting Farebox Recovery: Operating costs for the Maryland Transit Administration (MTA) continue to increase; specifically fuel, spare parts, labor and contracted service costs have outpaced the available revenues from fares despite a continued increase in ridership over that same period. The committees are interested in understanding the financial and ridership impacts of various revenue and expenditure options that MTA might pursue in order to meet the statutory farebox recovery level. By December 15, 2010, MTA should submit a report that outlines:

- potential scenarios for increasing farebox in fiscal 2011 or 2012;
- the ridership and revenue/expenditure impact of those scenarios;
- the impact to MTA's budget and to the Transportation Trust Fund forecast of those scenarios; and
- the efficiencies in service that could be undertaken to improve the farebox.

Information Request	**Author**	**Due Date**
Options for meeting farebox recovery	MTA	December 15, 2010

Source: Department of Legislative Services

Budget Reconciliation and Financing Acts

As is the case with any other piece of legislation, the committees can make amendments to a Budget Reconciliation and Financing Act by adding, altering, or striking provisions. Exhibit 5.7 is an example of an amendment to a Budget Reconciliation and Financing Act. As originally introduced, the Budget Reconciliation and Financing Act altered the mandated amount of funding for the Maryland Tourism Board from $6 million to $5 million for the next two fiscal years. As shown in Exhibit 5.7, the committee altered this provision by further reducing the amount of funding for the Maryland Tourism Board from $5 million to $4 million.

Exhibit 5.7
Example of a Budget Reconciliation and Financing Act Provision

Article – Economic Development

4–216.

(b) **(1) FOR EACH OF FISCAL YEARS 2011 AND 2012, THE GOVERNOR SHALL INCLUDE IN THE ANNUAL BUDGET BILL A PROPOSED GENERAL FUND APPROPRIATION TO THE FUND OF ~~$5,000,000~~ <u>$4,000,000</u>.**

(2) For fiscal year **[**2011**]** **2013** and each fiscal year thereafter, the Governor shall include in the annual budget bill a proposed General Fund appropriation to the Fund in an amount not less than $6,000,000 for each fiscal year.

Source: Department of Legislative Services

Budget Committee Reports and Actions

For agencies heard in subcommittees, a report of each subcommittee's recommended actions is prepared, and these reports are then presented to the full committee. Each item is considered for acceptance, rejection, or modification to arrive at the final position of the committee.

When the Senate Budget and Taxation Committee and the House Appropriations Committee arrive at their final positions on the budget bill, the Department of Legislative Services prepares the respective committee reports. The two reports differ according to which house moves the budget bill first.

The First House Report

The first house report (*i.e.*, the house moving the bill first) details and illustrates reductions, restrictive language, and committee narrative adopted by the committee. These actions are listed in the same order that the programs affected appear in the budget bill. Actions altering appropriations or altering, striking, or adding language are linked to amendments in the budget bill.

Exhibit 5.8 is a page from a Senate Budget and Taxation Committee report. This document is used in conjunction with the budget bill to explain the action recommended by the committee to the full Senate. In the example, the committee recommended two amendments. Amendment 135 provided budget bill language that would dedicate a portion of the funding under the Maryland Tourism Board to prevent the closure of four welcome centers and to reopen one welcome center. Amendment 136 reduced general funds for the Maryland Tourism Board. A fiscal summary by fund of the Governor's allowance, the proposed reduction, and the resulting appropriation is presented at the end of each program.

The First House Committee Reprint of the Budget Bill and the Budget Reconciliation and Financing Act

To facilitate consideration of the budget, an official committee reprint of the bill incorporating the amendments adopted by the committee is used as the basis for legislative action. Each proposed amendment in the reprinted bill is numbered. This committee reprint of the bill and the committee report are used for the floor action as explained below. The rules of the Senate and the House explicitly provide for use of the reprint (Rule 52(d)).

Exhibit 5.9 is a sample of a committee reprint indicating the action of the first house on the budget bill for the Department of Business and Economic Development's Maryland Tourism Board. This example matches Exhibit 5.8 from the committee report. The Senate added budget language and reduced the general funds by $1 million.

Exhibit 5.8
Example of First House Action – Committee Report

T00G00.03 Department of Business and Economic Development – Maryland Tourism Board

Add the following language to the general fund appropriation:

, provided that $300,000 of this appropriation made for the purpose of statewide marketing initiatives may not be expended for that purpose but instead may be transferred by budget amendment to T00G00.02 Office of Tourism Development to be used to prevent the closure of the welcome centers located on US-13, Crain Memorial Highway, and I-70 East and West; and to reopen the Mason Dixon welcome center on US-15. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise for any other purpose and shall revert to the General Fund.

Explanation: The cost containment initiative of fiscal 2010 resulted in the closure of 6 of the 12 welcome centers in the State. This language would dedicate a portion of the funding under the Maryland Tourism Board to prevent the closure of four additional centers as assumed in the fiscal 2011 allowance and to reopen one center closed during the fiscal 2010 cost containment effort.

Amendment No. **135**

Reduce appropriation for the purposes indicated:	**Funds**		**Positions**
1. Reduce general funds for the Maryland Tourism Board. This leaves $4,000,000 in general funds and $300,000 in special funds for the board in fiscal 2011.	1,000,000	GF	
Total Reductions	1,000,000		0.00

Effect	**Allowance**	**Appropriation**	**Amount Reduction**	**Position Reduction**
General Fund	5,000,000	4,000,000	1,000,000	
Special Fund	300,000	300,000	0	
Total Funds	**5,300,000**	**4,300,000**	**1,000,000**	

Amendment No. **136**

Source: Department of Legislative Services

Exhibit 5.9
Example of First House Action – Committee Reprint

BUDGET BILL 153

T00G00.02 Office of Tourism Development				
General Fund Appropriation				3,676,981
T00G00.03 Maryland Tourism Board				
General Fund Appropriation, provided that $300,000 of this appropriation made for the purpose of statewide marketing initiatives may not be expended for that purpose but instead may be transferred by budget amendment to T00G00.02 Office of Tourism Development to be used to prevent the closure of the welcome centers located on US–13, Crain Memorial Highway, and I–70 East and West; and to reopen the Mason Dixon welcome center on US–15. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise for any other purpose and shall revert to the General Fund	**135**	~~5,000,000~~ 4,000,000	**136**	
Special Fund Appropriation		300,000		~~5,300,000~~ 4,300,000
T00G00.05 Maryland State Arts Council				
General Fund Appropriation, provided that this appropriation shall be reduced by $247,566 contingent upon the enactment of legislation reducing the mandated amount of funds for the Maryland State Arts Council		13,546,000		
Special Fund Appropriation		300,000		
Federal Fund Appropriation		800,411		14,646,411

Source: Department of Legislative Services

Additionally, if a Budget Reconciliation and Financing Act is introduced and acted upon by the committee, an official committee reprint of the bill incorporating the amendments adopted by the committee is also used as the basis for legislative action. Refer to Exhibit 5.7 for an example of a committee amendment to a provision in a Budget Reconciliation and Financing Act.

First House Action

When the budget committee in the first house has completed its deliberations and its report is prepared, the budget bill and, if applicable, the Budget Reconciliation and Financing Act, are brought to the floor for their second reading. This occurs around the end of the ninth week of the session. Recent practice has been to report the bills out of committee and to special order them to be heard on second reading two days later. This additional time prior to floor action on the bills permits the members to review the recommended amendments and the other supporting documentation. Each member is provided information that includes:

- the budget committee report;
- a committee reprint of the budget bill and the Budget Reconciliation and Financing Act, which contain each of the committee amendments;
- a fiscal note revised to show the effect of committee amendments;
- a summary report which provides information on the status of the general fund, spending affordability, and other important issues; and
- the Department of Legislative Services analyses.

During the period that the budget and Budget Reconciliation and Financing Act are special ordered, the analysts of the Department of Legislative Services are available to respond to inquiries and to provide additional data or background information concerning the amendments or any item pertaining to the budget. During second reading debate, legislative analysts are available to the legislature in the lounge area or by phone to the Legislative Services Building second floor conference room.

For second reading debate, the budget is debated first and, if applicable, the Budget Reconciliation and Financing Act is debated second and the following procedure is used for both pieces of legislation. The committee report may propose many amendments to each of the bills; therefore, to expedite floor action, amendments are considered in blocks. A block of amendments generally encompasses all the amendments to a department or a group of smaller agencies. The chairman of the budget committee briefly explains the effect of the block of amendments and moves that all amendments in the block be accepted. Unless there is an objection to an amendment, the block is voted upon. If there are objections, the block is divided so that the vote is taken on those amendments without objection. The controversial amendments are then resolved separately.

This procedure is followed until all committee amendments have been considered and voted upon. At this point, a motion is made to adopt the committee report and the budget bill or Budget Reconciliation and Financing Act as amended. Each bill is then opened to other amendments from the floor and floor amendments are drafted to the committee reprint of each bill. Upon resolution of floor amendments, each bill is ordered printed for third reading. The third reading and passage in the first house is usually completed by the end of the tenth week.

Bill Sent to the Second House

When the budget bill and, if applicable, the Budget Reconciliation and Financing Act, are received in the second house, they are referred to the budget committee for review. The changes made as a result of the actions in the first house are explained to the committee by the Department of Legislative Services analysts. Committee amendments are written to the budget bill and the Budget Reconciliation and Financing Act as amended by the first house (third reader file copy).

Second House Action

The second house committee reprint of the budget bill and associated committee report reflect changes desired to the budget bill as passed by the first house. Those amendments made by the first house with which the second house committee agrees are unchanged in the reprinted bill and unnumbered. The amendments that the committee makes to the first house bill are renumbered and keyed to the second house committee report which accompanies the bill to the floor and serves to explain the committee action. In the event that the committee recommends a change to an amendment adopted by the first house, the report will be formatted in the same manner as the bill; *i.e.*, first house language or numbers are stricken, and new language or numbers are inserted and shown in italics.

Exhibit 5.10 presents a section of the second house report concerning the Department of Business and Economic Development's Maryland Tourism Board. During floor debate on the budget bill in the Senate, an amendment was added to Amendment 135 that required additional funding from the Maryland Tourism Board to be dedicated to reopen three welcome centers instead of just one as originally passed by the Senate Budget and Taxation Committee. In response, in Amendment 59, the House Appropriations Committee modified the budget language added on the Senate floor and required less funding to be dedicated from the Tourism Board and required only one center to be reopened. In Amendment 60, the committee restored the general fund reduction to the Tourism Board recommended by the Senate. Exhibit 5.11 shows the House Appropriations Committee's amendments as they appeared in the second house committee reprint.

Exhibit 5.10
Example of Second House Action – Committee Report

T00G00.03 Department of Business and Economic Development – Maryland Tourism Board

Amend the following language:

, provided that ~~$300,000~~ ~~$420,000~~ *$250,000* of this appropriation made for the purpose of statewide marketing initiatives may not be expended for that purpose but instead may be transferred by budget amendment to T00G00.02 Office of Tourism Development to be used to prevent the closure of the welcome centers located on US-13, Crain Memorial Highway, and I-70 East and West; and to reopen the Mason Dixon welcome center on US-15~~, the Bay Country welcome center on US-301, and the Youghiogheny Overlook welcome center on Interstate 68~~. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise for any other purpose and shall revert to the General Fund.

Explanation: The cost containment initiative of fiscal 2010 resulted in the closure of 6 of the 12 welcome centers in the State. This language would dedicate a portion of the funding under the Maryland Tourism Board to prevent the closure of four additional centers as assumed in the fiscal 2011 allowance and to reopen ~~one~~ ~~three~~ *one* center~~s~~ closed during the fiscal 2010 cost containment effort.

Amendment No. **59**

Reduce appropriation for the purposes indicated:	Funds		Positions
~~1. Reduce general funds for the Maryland Tourism Board. This leaves $4,000,000 in general funds and $300,000 in special funds for the board in fiscal 2011.~~	~~1,000,000~~	~~GF~~	
Total Reductions	~~1,000,000~~ *0*		

Effect	Allowance	Appropriation	Amount Reduction	Position Reduction
General Fund	5,000,000	~~4,000,000~~ *5,000,000*	~~1,000,000~~ *0*	
Special Fund	300,000	300,000	0	
Total Funds	**5,300,000**	~~**4,300,000**~~ ***5,300,000***	~~**1,000,000**~~ ***0***	

Amendment No. **60**

Source: Department of Legislative Services

Exhibit 5.11
Example of Second House Action – Committee Reprint

166 **SENATE BILL 140**

T00G00.02 Office of Tourism Development		
General Fund Appropriation		3,676,981
T00G00.03 Maryland Tourism Board		
General Fund Appropriation, provided that ~~$300,000~~ ~~$420,000~~ *$250,000* of this appropriation made for the purpose of statewide marketing initiatives may not be expended for that purpose but instead may be transferred by budget amendment to T00G00.02 Office of Tourism Development to be used to prevent the closure of the welcome centers located on US–13, Crain Memorial Highway, and I–70 East and West; and to reopen the Mason Dixon welcome center on US–15~~, the Bay Country welcome center on US–301, and the Youghiogheny Overlook welcome center on Interstate 68~~. Funds not expended for this restricted purpose may not be transferred by budget amendment or otherwise for any other purpose and shall revert to the General Fund	~~5,000,000~~ ~~4,000,000~~ *5,000,000*	
Special Fund Appropriation	300,000	~~5,300,000~~ ~~4,300,000~~ *5,300,000*

59

60

Source: Department of Legislative Services

Additionally, if applicable, the second house committee reprint of the Budget Reconciliation and Financing Act reflects changes to the bill as passed by the first house. If the second house committee agrees with the amendments made by the first house, those provisions are unchanged in the reprinted bill. If the committee recommends a change to an amendment adopted by the first house, the bill is changed to reflect the actions of the second house; *i.e.*, first house language or numbers are stricken, and new language or numbers are inserted and shown in italics and underlined. For example,

Exhibit 5.12 shows a provision of the Budget Reconciliation and Financing Act as amended by the second house. The first house reduced the amount of funding for the Maryland Tourism Board to $4 million; however, the second house increased it to the original level of $5 million.

Exhibit 5.12
Example of Second House Action on a Budget Reconciliation and Financing Act Provision

Article – Economic Development

4–216.

(b) **(1) FOR EACH OF FISCAL YEARS 2011 AND 2012, THE GOVERNOR SHALL INCLUDE IN THE ANNUAL BUDGET BILL A PROPOSED GENERAL FUND APPROPRIATION TO THE FUND OF ~~$5,000,000~~ ~~$4,000,000~~ *$5,000,000*.**

(2) For fiscal year **[**2011**]** **2013** and each fiscal year thereafter, the Governor shall include in the annual budget bill a proposed General Fund appropriation to the Fund in an amount not less than $6,000,000 for each fiscal year.

Source: Department of Legislative Services

As in the case of the first house, similar information is prepared for each member, and the budget bill and the Budget Reconciliation and Financing Act are brought to the floor for second reading about the eleventh week. The bills are then special ordered to permit time for review and study. If the second house had not further amended the budget bill, it would be enacted upon passage at this point. However, as is usually the case, because the second house has amended the budget bill and the Budget Reconciliation and Financing Act, both bills must be returned to the first house. At this point, the first house must either accept the bills as amended by the second house or call for a conference committee on each bill to resolve the points of difference. Even though the same recommendations are considered in each house, many differences do occur. For example, in 2010, as the budget went to conference there were 77 amendments that were in conference.

Supplemental Budgets

The Constitution of Maryland provides that the Governor may amend or supplement the budget, with the consent of the General Assembly, before final action on the budget bill (Article III, Section 52(5)). The General Assembly usually permits the Governor to submit supplemental budgets, and the supplemental budget automatically becomes part of the budget bill. However, the General Assembly may exercise its right to delay the reading of a supplemental budget. This maneuver took place in 1990 so that the first house (the Senate) could complete its deliberation of the Governor's budget and move the budget bill to the second house in order to meet constitutional deadlines.

The constitution specifies that a budget supplement shall be for the purpose of correcting an oversight, providing funds contingent upon passage of pending legislation, or for an emergency. The restrictions applied to supplemental budgets are reinforced by Section 7-102 of the State Finance and Procurement Article which states that supplemental budget amendments be restricted to the correction of mechanical errors in the initial budget or to provide funding for legislation enacted in the current session.

However, in practice, supplemental budgets fit these criteria only broadly. Supplemental budgets also play a part in negotiations over the Governor's legislative priorities. In years when the Board of Revenue Estimates revises the estimate upon which the budget is based, supplemental budgets are used to fine-tune proposed appropriations to bring spending in line with revised revenue estimates. It is even possible for the Governor to use a supplemental budget to reduce current fiscal year appropriations. The Governor may also reprogram funds that are withdrawn in a supplemental budget, which was done during the 2010 session. As originally submitted by the Governor, the allowance for Medicaid for fiscal 2011 was $26.9 million greater than what was actually needed because of an increase in the federal share of Medicaid costs. Therefore, in the supplemental budget for fiscal 2011, the Governor withdrew these overbudgeted funds and reallocated these funds to pay for other budget priorities, such as funding Disparity Grant payments at fiscal 2010 levels, rather than allowing a $24.4 million decrease from fiscal 2010 to 2011.

Supplemental budgets may be submitted at any time prior to final action on the budget bill. Generally, no more than three supplemental budgets are introduced each year. However, during the 1990 session, 10 supplemental budgets were submitted. When supplemental budgets are received, there is often very little time for analysis, and decisions have to be made on statements of purpose, explanations of why the items were not in the original budget bill, and applicable background information that may be available to the legislative analysts. The General Assembly may make any reductions it desires, including reducing the supplemental budget to zero.

According to the rules of both houses, if a supplement is added to the budget bill after the first house has acted on the budget, the first house may consider the supplement and second house amendments made to it. Amendments to these supplements subsequently adopted by the first house, and rejections or modifications to second house amendments made by the first house, are returned to the second house for concurrence. If the second house refuses to concur, the differences are referred to the conference committee. If a supplemental budget is submitted when the budget is in conference, it is deferred to the conferees.

The Conference Committee

The conference committee for the budget bill is composed of five members from each house, and is, by House rule, restricted to dealing only with those amendments in disagreement. The Senate rule is somewhat less restrictive. The conference committee usually meets during the twelfth week of session, and meetings generally involve many hours over a three- to four-day period. The conference committee recommendations must be accepted in their entirety by each house. If they are not, the conference committee must be reinstituted or another appointed. In practice, the budget conference committee report has always been adopted, even though sharp debate has occurred. As has been previously discussed, the conference committee recommendations must be adopted by the eighty-third day or the Governor must issue a proclamation extending the session should the budget not be passed by the ninetieth day.

If a Budget Reconciliation and Financing Act has items of difference and is sent to conference, the conference committee is again composed of five members from each house; however, the committee is not restricted to dealing only with those amendments in disagreement.

The report of the budget conference committee is sent to the President of the Senate and the Speaker of the House. The fiscal 2011 report consisted of the following items:

- a letter from the two committee chairmen summarizing the position of the conference committee and the impact of its actions;

- a plain language description of the conference committee action on each item at issue between the houses;

- a listing of amendments by number that were adopted and/or rejected, or the adoption of new conference committee amendments;

- the language of each new conference committee amendment (see example in Exhibit 5.13); and

- a summary table of conference committee amendments indicating the action taken on each item at issue before the committee. (Exhibit 5.14 contains an example of a page of an amendment table.)

Also distributed with the conference report is a second document that provides summary information on the status of the general fund budget, budget growth, expenditures by major category for each fund, and an updated fiscal note on the budget bill.

Exhibit 5.13
Example of Conference Committee Amendment

Conference Committee Amendment No. 12

On page 166 of the Committee Reprint, under the heading Division of Tourism, Film and the Arts, in program T00G00.03 Maryland Tourism Board, adopt Amendment 59, and in line 5 strike "$250,000" and substitute "$300,000"; and in line 16 following "US-15" insert "and the Youghiogheny Overlook welcome center on Interstate 68. Further provided that these funds are contingent on the execution of Memoranda of Understanding (MOU) between the Department of Business and Economic Development and the county governments which contain the aforementioned welcome centers. The MOUs shall provide for an equal cost sharing arrangement between the State and county of all welcome center operating expenses. The State shall only contribute $50,000 towards the costs of operation of each welcome center".

Source: Department of Legislative Services

Exhibit 5.14
Example of a Page in the Summary Table of Conference Committee Amendments

Amd No.	Description	Fund Code	Governor's Allowance	Senate Proposed Appropriation	House Proposed Appropriation	Amount at Issue	Conference Appropriation or Action	Legislative Reduction
56	Higher Education – Technical amendment to account for amendment 44.	GF					Adopt.	
57	Higher Education – Technical amendment to account for amendment 46.	GF					Adopt.	
58	Higher Education – Technical amendment to account for amendment 48.	GF					Adopt.	
59	DBED – Reduces restriction of marketing funds that must be transferred to support welcome centers from $420,000 to $250,000.	SF					Adopt w/CCA.	
60	DBED – Restores $1.0 million for Maryland Tourism Board.	GF	5,000,000	4,000,000	5,000,000	1,000,000	5,000,000	0
61	DBED – Strikes language that contingently reduced $500,000 for cultural arts programs.	SF					Reject.	
62	DBED – Adds intent language that the Maryland Industrial Partnership Program be open to all public four-year institutions, not just USM.	GF					Adopt.	
63	TEDCO – Restores $6.2 million reduction for stem cell research.	GF	12,400,000	6,200,000	12,400,000	6,200,000	12,400,000	0
64	Department of the Environment – Restores $500,000 of $1.0 million reduction for two aquifer studies.	GF	13,422,755	12,422,755	12,922,755	500,000	12,922,755	500,000
65	Department of Juvenile Services – Restores $498,000 of $748,000 department-wide reduction to contractual support.	GF	62,615,313	61,784,505	62,282,505	498,000	62,282,505	332,808
66	State Police – Strikes language reduction to cell phone usage ($24,309 in GF; $19,975 in SF).	GF/SF					Adopt.	
67	FY10 Deficiency – Modifies Medicaid reduction, in conjunction with the BRFA to make CRF special funds available from $700,000 in agricultural funds to instead cut $450,000 in textbook funds.	GF	47,328,224	44,628,224	44,878,224	250,000	45,328,224	2,000,000
68	FY10 Deficiency – Restores $125,000 of a $200,000 reduction for a Race to the Top consultant.	GF	200,000	0	125,000	125,000	125,000	75,000

Source: Department of Legislative Services

Enrolled Bill

When the budget bill has passed both houses, the results of the conference committee are superimposed onto the budget bill. The final bill is proofed and verified by the Document Management unit of the Department of Legislative Services and printed as an enrolled bill. Because this occurs during the last week of the session when the print shop is attempting to print all the bills awaiting approval prior to the end of session, the enrolled bill is often not printed and available until after the session ends Sine Die.

Once passed, the budget bill becomes law, and any deficiency appropriations (for the current fiscal year) contained in the bill become immediately available to the agencies. All other appropriations become available July 1 of the new fiscal year.

Supplementary Appropriation Bills

There is a difference between a supplemental budget and a supplementary appropriation bill. A supplemental budget is the Governor's modification to the budget bill. A supplementary appropriation bill is a separate piece of legislation that may be passed by the General Assembly only after the budget bill is enacted. A supplementary appropriation bill permits the General Assembly to add an appropriation to the State budget.

The appropriation in this type of bill must be limited to a single object, must include a tax or new revenue source to cover the amount of the appropriation, and is subject to the Governor's veto. This type of bill is infrequently used (except for bond bills, which the Court of Appeals has ruled must meet the requirements of supplementary appropriation bills).

Chapter 6.
Maryland State Operating Budget: Implementation and Closeout

In carrying out the provisions of the budget bill, there are a number of documents available to provide guidance by providing details about the budget enacted by the General Assembly. These documents include the *Report on the State Operating Budget and Related Recommendations* (*Joint Chairmen's Report*), the *90 Day Report*, the *Fiscal Effects Report*, and the *Fiscal Digest*. The process also allows the Governor the flexibility to change appropriations through the budget amendment and reduction processes. The Department of Budget and Management has established processes by which it monitors and controls spending.

Budget Implementation Documents

Joint Chairmen's Report

The final report detailing every action taken by the General Assembly upon the budget bill, commonly called the *Joint Chairmen's Report*, is submitted by the chairman of the Senate Budget and Taxation Committee and the chairman of the House Appropriations Committee. Prepared by the Department of Legislative Services, the document is usually entered into the House and Senate journals before adjournment Sine Die. The *Joint Chairmen's Report* contains a summary of reductions and final appropriations for each agency, indicates items contingent upon the enactment of legislation, subject to review by legislative committees, or otherwise restricted, and details and explains budget actions. Budget actions consist of reductions in funds and personnel, budget bill language, and committee narrative. Budget bill language has the force of law; however, the authority of budget bill language lasts only during that fiscal year. Committee narrative expresses legislative intent and is generally used to make policy statements or request additional information such as plans, reports, or special studies.

Each agency receives the parts of the *Joint Chairmen's Report* that apply to its appropriations so that the budget is implemented according to legislative intent. Any action in the *Joint Chairmen's Report* that requires follow-up, such as an agency submission of a report, is sent to the Department of Legislative Services. The department prepares a brief analysis of the item for the budget committees, which may choose to conduct a hearing. Exhibit 6.1 is a page taken from the fiscal 2011 *Joint Chairmen's Report.*

Exhibit 6.1
Example of *Joint Chairmen's Report*

R00A02
State Department of Education
Aid to Education

Budget Amendments

Add the following language:

Provided that the Maryland State Department of Education shall notify the budget committees of any intent to transfer funds from program R00A02 Aid to Education to any other budgetary unit. The budget committees shall have 45 days to review and comment on the planned transfer prior to its effect.

Explanation: The Maryland State Department of Education should not transfer any funds from Aid to Education until the transfer is reviewed and approved by the budget committees. This includes additional federal funds available through the American Recovery and Reinvestment Act of 2009.

Information Request	**Author**	**Due Date**
Report on any transfer of funds from R00A02	Maryland State Department of Education	45 days prior to transfer

AID TO EDUCATION

R00A02.13 Innovative Programs

Reduce appropriation for the purposes indicated:	**Funds**		**Positions**
1. Reduce Fine Arts grants. These funds were transferred into the Aid to Education budget for fiscal 2011 from the Maryland State Department of Education Headquarters budget. These funds should be reduced to help address the State's current fiscal constraints.	431,530	GF	
Total Reductions	431,530		0.00

Effect	Allowance	Appropriation	Amount Reduction	Position Reduction
General Fund	3,929,266	3,497,736	431,530	
Federal Fund	14,874,166	14,874,166	0	
Total Funds	**18,803,432**	**18,371,902**	**431,530**	

Source: Department of Legislative Services

The 90 Day Report and *Fiscal Effects Report*

The 90 Day Report is prepared by the Department of Legislative Services immediately upon the adjournment of the General Assembly. The report includes summary information on most of the recently enacted legislation, including the operating and capital budgets. It also includes information on major policy and fiscal issues of the session as well as a summary of State aid to local governments.

The *Effect of the 2010 Legislative Program on the Financial Condition of the State (Fiscal Effects Report)* is also prepared by the Department of Legislative Services in July or August after the Governor has completed action on the General Assembly's legislative program. The report summarizes the fiscal effect of all legislation signed by the Governor on State revenues and expenditures as well as on local government finances. The report also includes summary information on the recently enacted operating and capital budgets, incorporating final action on the legislative program.

Fiscal Digest

The *Fiscal Digest* is prepared by the Department of Budget and Management and is published shortly after the beginning of the fiscal year. The digest includes a summary of the status of the general fund, an estimate of revenues for the fiscal year, the details of the appropriations for operating purposes, and a summary of the capital budget and bond bill projects that received funding for the fiscal year. The *Fiscal Digest* consolidates all modifications made to the allowance (changes made by the Governor through the supplemental budgets and the changes made by the General Assembly). The resulting appropriations provide the basis for the Comptroller's office to pay expenditures for the fiscal year.

Increases and Transfers in Appropriations After Budget Enactment

Budget Amendments

Enactment of the budget bill establishes the appropriations the General Assembly intends to apply to each government entity. These appropriations can be changed through the budget amendment process. As provided for in the State Finance and Procurement Article, the process allows for:

- the transfer of funds within an agency or department between work programs;
- the transfer of funds between agencies as specifically authorized by statute or in the budget bill; and

- the utilization of additional federal or special funds with legislative review, as specifically authorized in the budget bill.

Budget amendments to transfer funds within an agency or department are submitted to the Secretary of the Department of Budget and Management for the Governor's approval. Transfers of this type change the appropriation of a certain program but do not change the total appropriation of a department or agency. Thus, the Secretary of the Department of Health and Mental Hygiene may, upon approval of the Governor, transfer funds from programs of the Springfield Hospital Center (in the Mental Hygiene Administration) to programs at the Holly Center (in the Developmental Disabilities Administration), as this transfer does not change the total appropriation of the department.

Funds appropriated to a department or agency may not be transferred to another department or agency unless authorized by law. For example, in the fiscal 2011 budget bill, funds appropriated for Major Information Technology Development projects were authorized to be transferred to programs of the respective financial agencies.

Appropriations dealing with special and federal funds are recognized as estimates for these types of revenue. If revenues in excess of the estimates are attained, the budget bill authorizes use of the excess revenue by approved budget amendment. Beginning in fiscal 1992, the budget committees began review of both special and federal fund amendments and beginning in fiscal 2007 annual budget bill language requires that this process now applies to amendments which increase special, federal, or higher education fund appropriations by $100,000 or more. Budget amendments may not restore funds for items or purposes specifically denied by the General Assembly, fund a capital project not authorized by the General Assembly, increase the scope of a capital project by more than 7.5% over the approved estimate or 5.0% over the approved net square footage without consideration by the budget committees, or provide more than $100,000 for the reclassification of positions.

Budget amendments solely for the purpose of appropriating federal disaster relief funds, transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee, or appropriating funds for Major Information Technology Development Project Fund projects approved by the budget committees are excluded from the requirement of budget committee review.

There were approximately 181 budget amendments in fiscal 2009 that decreased the budget by $165.1 million (all funds) compared to 206 budget amendments in fiscal 2008 that increased the budget by $11.7 million. Typically, most budget amendments increase the legislative appropriation because most budget amendments recognize special and federal funds that were not appropriated by the General Assembly. However, the large decrease in fiscal 2009 can be attributed to the substantial number of cost containment actions taken by the Board of Public Works during fiscal 2009.

Deficiency Appropriations

The budget amendment process essentially allows transferring funds among programs and adding unanticipated special and federal fund receipts to programs. Occasionally, general funds appropriated for a program are insufficient to support the costs of the program; however, in order to provide additional general funds for a program during the current fiscal year, a deficiency appropriation is required.

A deficiency appropriation is an amount included in Section 1 of the budget bill to supplement the appropriation for the current year. The funds become available immediately upon enactment of the budget bill. Deficiencies may also be included in supplemental budgets.

Common reasons for funding deficiencies include inflation or workload exceeding expectations. Examples of deficiencies are increased gas prices resulting in insufficient funding for motor vehicle gasoline in the Maryland State Police or increased prison inmates adding unexpected food and medical costs to the Division of Correction budget. A specific example from the fiscal 2011 budget bill was a deficiency appropriation for the Medical Care Programs Administration to supplement the appropriation for fiscal 2010 to provide funds for the calendar 2010 managed care organization rate increase and for higher-than-expected Medicaid enrollment.

Over the past 10 years, the amount of general fund deficiencies has ranged from a high of $219 million for fiscal 2010 to a low of $62 million for fiscal 2009. During that time period, the average amount of general fund deficiencies was $124 million.

Contingent Fund

The budget also makes a provision to supplement the appropriations in the budget for the operation of the State government. This is accomplished by the contingent fund, which is a specific appropriation of general funds to the Board of Public Works. It is a reserve available to increase the appropriation of an agency for an emergency for which funds have not been included in its budget. The fiscal 2011 budget contains $500,000 for the contingent fund. Transfers from the contingent fund, after approval by the Board of Public Works, are made by budget amendment.

Reductions in Appropriations After Budget Enactment

Section 7-213 of the State Finance and Procurement Article authorizes the Governor to reduce an appropriation by up to 25% with the approval of the Board of Public Works. Funds may be reduced under this provision only when the Governor finds an appropriation is "unnecessary" or when the reduction results from legislative action on the budget bill. Certain restrictions are placed on this authority. The Governor may not reduce Legislative or Judicial Branch appropriations, appropriations for payment of the principal or interest on State debt, or appropriations for public schools. The Governor may also use this authority to allocate "across-the-board" reductions made by the General Assembly.

During fiscal 1991 through 1993, the Governor used this authority to reduce appropriations six times to allow the State to address its fiscal problems. To address shortfalls in revenue estimates, this authority was also used to make reductions to the fiscal 2002, 2003, and 2004 budgets and the fiscal 2008, 2009, and 2010 budgets.

The most recent example of the use of this authority occurred during the summer and fall of calendar 2009. Due to a continually worsening economy, by the beginning of the 2010 fiscal year, the budget was out of balance by over $300 million. Throughout the fall, the economic picture continued to decline and in an effort to address the increasing budget shortfall, on three separate occasions, the Governor proposed and the Board of Public Works adopted reductions to the fiscal 2010 appropriation. The general fund reductions totaled $531.4 million and 533 positions were abolished, of which 309.5 were filled.

Budgetary Control and Monitoring Processes

As adjuncts to the budget amendment process, a number of procedures have been put in place by the Secretary of the Department of Budget and Management to insure that the Executive Branch maintains control and is kept informed on budgetary matters. These procedures involve the creation, abolishment, or transfer of positions; selection of contractors; purchase of supplies and equipment; and employment of students and others by State departments and agencies. Two of the more important procedures in this regard are those relating to procurement and creating State positions.

Procurement

All State agencies currently have delegated approval authority for services and information technology procurements up to $25,000. Some agencies have higher delegation levels for certain types of procurements. In addition, all agencies (except

Maryland Public Television) have $100,000 of delegated approval authority for awards to preferred providers as described in Title 21 of the Code of Maryland Regulations. Preferred providers are Maryland Correctional Enterprises, Blind Industries and Services of Maryland, and sheltered workshops.

All procurements over $2,500 must be entered into the Advanced Purchasing and Inventory Control System module of the State's Financial Management Information System. To obtain approval under the Advanced Purchasing and Inventory Control System, agencies (excluding the Maryland Department of Transportation, which has its own system) must establish an electronic approval path to the Department of Budget and Management. This approval path must also include the Board of Public Works for any procurement action that requires Board of Public Works approval.

The General Assembly has delegated supervision and control of the procurement process to the Board of Public Works. The board may implement the procurement law by setting policy, adopting regulations, and establishing internal procedures.

Personnel

Most departments and agencies must request permission to create, transfer, or abolish a position under their budgetary control. A personnel transaction form is submitted to the Department of Budget and Management for every such action with respect to an authorized position, whether the position is in the professional, skilled, management, or executive service. The same policy applies to positions paid from general, special, or federal funds. Some agencies, notably public higher education institutions, operate outside this system, however.

Withheld Allotments

Section 2 of the operating budget bill authorizes the Secretary of the Department of Budget and Management to place funds in contingency reserve pending the satisfaction of certain statutory restrictions, as enumerated in the budget bill. Funds are currently withheld under one of two types of restrictions:

- appropriations which may be spent only for the maintenance of land and structures, whose release is contingent upon the award of contracts; and

- appropriations restricted by specific contingencies imposed by the General Assembly which require legislative review prior to expenditure. For example, $100,000 of the fiscal 2011 appropriation to the Mental Hygiene Administration in the Department of Health and Mental Hygiene may not be expended until the department submits a report to the budget committees concerning the treatment of children and adolescents in residential treatment centers.

Closeout

Closeout is the process of closing the books at the end of each fiscal year. In Maryland, the fiscal year begins on July 1 and ends on June 30. At the end of each fiscal year, each entity that received an appropriation for operating expenses during the fiscal year must report to the Comptroller regarding the amount of the appropriation that is unspent and the amount of the unspent appropriation that is needed to meet unpaid obligations during the fiscal year.

During the closeout process, all appropriations for the fiscal year that just ended are placed into one of three categories. If an obligation was incurred and payment was made, that appropriation is placed in the expended appropriations category. If an obligation was incurred but payment was not made, that appropriation is placed in the encumbered appropriations category. Finally, if an appropriation was unexpended and unencumbered, that appropriation is placed in the reverted or canceled category. General funds in the reverted or canceled category revert to the State's general fund while special funds revert to the appropriate special fund.

The Department of Legislative Services reviews closeout information for closeout activity that raises policy issues or that represents unusual activity. Additionally, audit staff from the Office of Legislative Audits conduct a special performance audit of closeout information.

Chapter 7. Cash Management

This chapter examines how the State defines a balanced budget. The differences between having a budget balanced structurally and on a cash basis are examined. The chapter also discusses budget balancing strategies and the general fund forecast.

Cash Balance versus Structural Balance

Article III, Section 52 of the Maryland Constitution requires that the budget be balanced on a cash basis. This means that the total amount of revenues estimated to be received in a fiscal year must equal or exceed the total amount of money budgeted to be spent in that fiscal year.

In order for the budget to be structurally balanced, the amount of ongoing revenues must be at least equal to the amount of ongoing expenditures. Ongoing revenues are sources of income that the State receives on a continuing basis such as personal income tax receipts and retail sales tax collections. Ongoing expenditures are expenses that the State must pay on a continuing basis such as personnel costs for State employees. One-time revenues and one-time expenditures, such as fund transfers and capital improvements, are not calculated into the structural balance of the budget.

If ongoing revenues exceed ongoing expenditures, the State experiences a surplus. On the other hand, if ongoing revenues are less than ongoing expenditures, the State experiences a structural deficit. The State has annually experienced a general fund structural deficit since fiscal 2002.

The constitution requires the budget to be balanced on a cash basis; however, there is no constitutional requirement for the budget to be balanced on a structural basis. Even though the State is not required to have a structurally balanced budget, having a budget that is balanced only on a cash basis is not sufficient to ensure that the State remains on solid financial footing. If out-year estimates are correct, large structural imbalances will need to be addressed in subsequent fiscal years.

The fiscal 2011 budget is an example of the State having a constitutionally balanced budget while experiencing a structural deficit because the budget was balanced on a cash basis with a cash balance of $205 million projected at the end of fiscal 2011; however, ongoing spending exceeded ongoing revenues by $1.892 billion. Examples of one-time actions taken in fiscal 2011 include federal stimulus funds totaling $1.279 billion, a local income tax reserve account transfer to support local education totaling $350 million, other fund transfers totaling $179 million including transfers from the University System of Maryland and Morgan State University fund balances, and one-time revenues totaling $25 million such as the accrual to the general fund of net interest on special fund accounts.

Budget Balancing Strategies

Numerous strategies can be employed to achieve the goal of a balanced budget. One set of strategies that can be used are actions that are taken one-time, such as transferring funds from the Rainy Day Fund, transferring funds from other fund balances, using the general fund balance, or taking one-time reductions. The advantage of one-time actions is that they allow the State to balance the budget without reducing out-year funding commitments. The disadvantage of one-time actions is that they do not provide ongoing financial assistance in balancing the budget.

Another set of strategies that can be used are actions that are taken on an ongoing basis, such as raising taxes and fees or reducing the amount of mandated expenditures in the budget. If the tax or fee increase occurs for more than one fiscal year or the mandated expenditures are reduced for more than one fiscal year, these actions can provide ongoing financial assistance in balancing the budget.

One-time Actions

Rainy Day Fund

The State established the Revenue Stabilization Account, more commonly known as the "Rainy Day Fund," in 1986 to retain State revenues to meet future needs and to reduce the need for future tax increases by moderating revenue growth. The Rainy Day Fund consists of direct appropriations in the budget and interest earned from all Reserve Fund accounts.

During difficult economic times, transferring funds from the Rainy Day Fund to the general fund is one of the one-time fund balancing strategies that can be used. For example, after revenues were written down by $716.5 million for fiscal 2010, $210 million was transferred from the Rainy Day Fund to support fiscal 2010 spending. This action left a $651.1 million fund balance in the Rainy Day Fund which was 5% of general fund revenues; therefore, this action could be authorized in the budget bill. However, if the resulting fund balance was less than 5%, current law would have required the transfer to be authorized in an act of the General Assembly other than the budget bill.

Other Fund Transfers

In addition to transferring funds from the Rainy Day Fund, sometimes funds are transferred from other fund balances in order to balance the budget on a one-time basis. Typically, the vehicle that is used to transfer the funds is a Budget Reconciliation and Financing Act, which is a separate piece of legislation passed by the General Assembly in addition to the budget bill. Through a Budget Reconciliation and Financing Act, the General Assembly can authorize the transfer of various monies in special funds to the general fund to allow their use for other purposes, such as balancing the budget.

For example, the Budget Reconciliation and Financing Act of 2010 transferred $600.6 million from various special funds to the general fund in order to balance the fiscal 2010 and 2011 budgets. The largest fund transfer was $397.7 million from the Highway User Revenue account over the course of fiscal 2010 and 2011. Other examples of fund balance transfers that assisted in balancing the fiscal 2010 and 2011 budgets are $145.0 million from the University System of Maryland Fund Balance, $5.2 million from the State Insurance Trust Fund, $3.0 million from the Oil Contaminated Site Environmental Cleanup Fund, and $2.5 million from the Health Boards and Commissions.

General Fund Balances

The general fund balance is the unrestricted, unobligated amount left in the general fund at the end of the fiscal year. The general fund balance can result from the General Assembly planning to leave a balance, appropriated funds that are reverted or cancelled, or higher than anticipated revenue growth in general fund sources.

The general fund balance can be used as a cushion in case expenditures are too high or revenues are too low compared to the projections. Additionally, the general fund balance can be used to help balance the budget for the following fiscal year. For example, when the fiscal 2010 budget was enacted, fiscal 2009 was projected to end with a fund balance of $437 million, which was used to balance the fiscal 2010 budget.

However, using the projected general fund balance from the previous year to balance the budget for the following year has risks. If anticipated revenues for the previous year come in lower than expected, the projected fund balance is no longer available to fund the budget for the following year, which can result in a budget that is out of balance. This occurred at the beginning of fiscal 2010. Although the fiscal 2010 budget was balanced using the fiscal 2009 fund balance of $437 million, revenue collections for fiscal 2009 were much lower than anticipated; consequently, instead of a $437 million fund balance, fiscal 2009 ended with a $40 million fund balance. By the beginning of the fiscal year, the fiscal 2010 budget was out of balance by over $300 million. To address this shortfall, the Administration produced a plan to reduce expenditures that was approved by the Board of Public Works. For more information on the authority of the Administration to make reductions during the fiscal year through the Board of Public Works, see Chapter 6 of this handbook entitled "Implementation and Closeout."

One-time Reductions

As mentioned previously, one-time actions allow the State to balance the budget without reducing out-year funding commitments; however, they do not provide ongoing financial assistance in balancing the budget. An example of a one-time reduction is a $58.3 million general fund reduction in fiscal 2011 generated by furloughing State employees. Though this generates savings in fiscal 2011, the savings evaporate in the following year when the furlough is no longer in effect. Often, one-time reductions are implemented again if spending continues to exceed revenues. The furlough also serves as an example of this.

Ongoing Actions

Taxes and Revenues

One example of a common ongoing fund balancing strategy is raising revenues by implementing tax or fee increases. One example of a fee increase can be found in the Budget Reconciliation and Financing Act of 2009 which raised the monthly fee for the Drinking Driver Monitoring Program from $45 to $55. This fee increase was projected to raise $1.4 million in additional revenue for fiscal 2010. Several examples of tax increases occurred during the special session of 2007, which raised the sales tax from 5.0 to 6.0%, raised the corporate income tax from 7.0 to 8.25%, and raised the tobacco tax by $1 per pack. All of these actions were put in place for more than one fiscal year; therefore, the actions offered assistance in balancing future budgets.

Expenditures

Reducing the amount of expenditures in the budget is another common fund balancing strategy. While the General Assembly often does reduce the amount appropriated for certain programs for one fiscal year, in order for the action to be an ongoing fund balancing strategy, the action must reduce expenditures for several fiscal years. Ongoing reductions generally involve permanent changes to programs like deleting positions and reducing an agency's mission or services. For example, the Rosewood Center was closed in 2009, which has resulted in an annual savings of

$3.6 million. Another example is the 2009 closure of the Toulson Boot Camp and the consolidation of pre-release beds, which has resulted in an annual savings of $6.3 million.

In many instances, the Governor or the General Assembly must use a Budget Reconciliation and Financing Act in order to reduce the amount of a mandated appropriation. A mandated appropriation is a statutorily required level of funding, and some examples include funding for the Maryland Tourism Board, soil conservation districts, local health grants, and the Cade and Sellinger funding formulas for community colleges and private colleges. For an additional discussion of the relationship between mandates and Budget Reconciliation and Financing Acts, see Chapter 5 of this handbook entitled, "Legislative Review and Enactment."

General Fund Forecast

The general fund forecast is an estimate of out-year general fund revenues and expenditures. When the Governor introduces the budget at the beginning of each legislative session, the budget includes a long-term general fund forecast. For example, when the fiscal 2011 budget was introduced, it included a general fund forecast for fiscal 2009 through 2015. The Governor's general fund forecast is based on the report by the Board of Revenue Estimates in December prior to the legislative session.

As the budget moves through the legislative process, actions taken by the General Assembly affect the long-term forecast. So that the budget is based on the most recent economic data, the revenue forecast is also updated during the legislative session. Each March, the Board of Revenue Estimates updates its estimate to reflect any new factors in either economic or collection data.

After the budget is passed by the General Assembly (usually in early April), the Department of Legislative Services updates the long-term general fund forecast. Exhibit 7.1 is the long-term forecast prepared when the fiscal 2011 budget was passed in April 2010.

Exhibit 7.1
General Fund Budget Outlook
Fiscal 2009-2015
($ in Millions)

Revenues	2009 Actual	2010 Working	2011 Allowance	2012 Est.	2013 Est.	2014 Est.	2015 Est.	2011-15 Average Annual Change
Opening Fund Balance	$487	$87	$154	$205	$0	$0	$0	
Transfers	189	791	175	61	60	57	61	
One-time Revenues/Legislation	871	192	25	0	0	0	0	
Subtotal One-time Revenue	**$1,548**	**$1,070**	**$353**	**$266**	**$60**	**$57**	**$61**	**-35.6%**
Ongoing Revenues	$12,893	$12,512	$13,033	$13,601	$14,363	$15,063	$15,762	
Revenue Adjustments – Legislation	0	0	-40	-46	-47	-45	-46	
Subtotal Ongoing Revenue	**$12,893**	**$12,512**	**$12,993**	**$13,555**	**$14,316**	**$15,018**	**$15,716**	**4.9%**
Total Revenues and Fund Balance	**$14,440**	**$13,582**	**$13,346**	**$13,821**	**$14,376**	**$15,076**	**$15,776**	**4.3%**
Ongoing Spending								
Operating Spending*	$14,638	$14,465	$15,025	$15,476	$16,333	$17,011	$17,796	
VLT Revenues Supporting Education	0	-11	-114	-145	-372	-479	-523	
Multi-year Commitments	0	7	25	15	15	65	65	
Ongoing Spending – Legislation	0	0	-51	-34	-37	-39	-56	
Subtotal Ongoing Spending	**$14,638**	**$14,461**	**$14,885**	**$15,312**	**$15,939**	**$16,558**	**$17,282**	**3.8%**
One-time Spending								
PAYGO Capital	$14	$0	$1	$1	$1	$1	$1	
One-time Reductions	0	-4	-464	0	0	0	0	
Federal Stimulus Funds	-445	-1,144	-1,279	0	0	0	0	
Appropriation to Rainy Day Fund	147	115	0	50	50	50	50	
Subtotal One-time Spending	**-$285**	**-$1,033**	**-$1,743**	**$51**	**$51**	**$51**	**$51**	**n/a**
Total Spending	**$14,353**	**$13,428**	**$13,142**	**$15,363**	**$15,990**	**$16,609**	**$17,333**	**7.2%**
Ending Balance	**$87**	**$154**	**$205**	**-$1,542**	**-$1,614**	**-$1,534**	**-$1,557**	
Rainy Day Fund Balance	$692	$614	$632	$661	$699	$734	$767	
Balance Over 5% of GF Revenues	47	-12	-1	-19	-19	-20	-21	
As % of GF Revenues	5.37%	4.91%	4.99%	4.86%	4.87%	4.87%	4.87%	
Structural Balance	**-$1,745**	**-$1,949**	**-$1,892**	**-$1,757**	**-$1,623**	**-$1,540**	**-$1,566**	

GF: general fund
PAYGO: pay-as-you-go
VLT: video lottery terminal

* Includes $199 million in fiscal 2010 deficiency appropriations.

Source: Department of Legislative Services

Chapter 8. Capital Budget Overview

Formal Powers

Article III, Section 52 of the Constitution of Maryland establishes the respective powers of the Governor and the General Assembly in adopting the capital budget. Further law pertaining to the capital budget is set forth at § 8-101 *et seq.* of the State Finance and Procurement Article.

Governor

Unlike the operating budget, the capital budget is regarded as a supplementary appropriation bill; as such, it may be introduced in accordance with and subject to rules and timelines applicable to other bills under the Maryland Constitution, Article III, Section 27 and the Rules of the House and Senate. However, it has long been the practice of the Administration to present the capital budget bill by the twentieth day of the session. Because the capital budget is regarded as a supplementary bill, under the constitution, the capital budget bill has several characteristics and requirements that are distinct from the operating budget bill:

- the capital budget must be introduced as a separate bill;
- the bill must contain a single work, object, or purpose;
- the bill must be signed by the Governor and is subject to the Governor's line-item veto power; and
- the bill must include a tax revenue by which the appropriations contained in the bill are to be paid.

The capital budget, as with any other supplementary appropriation bill, may not be finally acted upon until after the operating budget has passed.

Legislative Powers

The capital budget bill is typically introduced by the presiding officer of each house as an administration bill by the twentieth day of each session. Similar to the operating budget, it is customary for the House and Senate to move the bill in alternate years.

Unlike the operating budget, in acting on the capital budget bill, the legislature may amend the budget to add and delete projects from the capital bond program. The legislature may also increase project funding and add contingent, conditional, or restrictive language to the bill regarding how the funds may be applied.

Funding Sources

Maryland has authorized the issuance of the following types of State debt:

- tax-exempt general obligation bonds;
- Build America Bonds;
- Qualified Zone Academy Bonds;
- Qualified School Construction Bonds;
- transportation debt;
- bay restoration bonds;
- stadium authority bonds; and
- capital leases.

The State has also granted some agencies the authority to issue revenue bonds. With respect to revenue bonds, the State does not pledge its full faith and credit, and the revenue source is quite limited (such as students' auxiliary fees). Consequently, this debt is not considered State debt.

General Obligation Bonds

State general obligation bonds are backed by the full faith and credit of the State. The State constitution limits general obligation bonds' maturities to a maximum of 15 years. General obligation bonds are authorized and issued to provide funds for State-owned capital improvements as well as to provide grants to local governments and nonprofit organizations for capital projects that serve a public purpose.

Authorizing and Issuing General Obligation Bonds

The General Assembly authorizes the State to incur debt for specific capital projects. By separate enabling acts, the General Assembly authorizes a particular loan for a particular project or purpose. Prior to 1990, general obligation debt was authorized through a series of separate bond bills: the general construction loan for State-owned facilities, the general public school construction loan to provide funds for local governments to build schools, and water quality loans to assist local governments to address water quality problems. Since 1990, however, the authorization of general obligation debt has primarily been consolidated into a single authorization bill known as the Maryland Consolidated Capital Bond Loan and also referred to as the capital bond bill. Although separate authorizations bills for legislative initiatives (also known as local bond bills) are still introduced each session, the current practice is to authorize funding for these projects in the Maryland Consolidated Capital Bond Loan each session rather than passing individual bills.

The Board of Public Works, by resolution, authorizes the issuance of bonds in a specific amount for part or all of the loan authorized by a particular enabling act. The board issues bonds on a consolidated basis as a single issue, designated as a "State and local facilities loan." Typically, general obligation bonds authorized in a given year are not issued by the board in the same year in which they are authorized. According to the State Treasurer's Office, just over half of the bonds authorized in a given year are typically issued within the first two fiscal years. The Capital Debt Affordability Committee assumes bonds authorized in a given year will be fully issued over a five-year period of time.

The net proceeds of general obligation bond issuances are applied in specific amounts to the various enabling acts. Upon approval by the board, the Comptroller may expend money from the State and Local Facilities Loan Fund for any project authorized by an enabling act. The Comptroller must account for all expenditures from the fund on a project-specific basis. The Comptroller must pay the expenses of each bond sale from the proceeds of that bond sale credited to a premium and expense account. After the expenses have been paid, the remaining proceeds from the bond sale are transferred to the Annuity Bond Fund to pay debt service on those bonds, and if approved by the board, the costs of other capital projects. This cash flow accounting basis allows the Comptroller to use the proceeds for projects that are moving forward and avoids the accumulation of large cash balances for projects that are delayed. Generally, proceeds are used for near-term cash needs for projects in progress. However, in some instances, proceeds are used as reimbursements for amounts advanced to a specific loan account.

Tax-exempt Bonds

The most commonly issued general obligation bonds are tax-exempt bonds. Bond purchasers do not pay federal income taxes on the interest earned from general obligation bonds. Because bond holders do not pay federal taxes on interest earnings, the interest rates for tax-exempt bonds are generally lower than taxable bonds. This reduces the State's debt service expenditures.

Federal laws and regulations limit the amount of tax-exempt bond proceeds that may be used to support "private activities." Bond proceeds are limited to 5%, or $15 million, of any given issue. Additionally, private loan use is limited to 5%, or $5 million, of any given issue. This limitation primarily impacts the use of general obligation bonds for industrial development or low-cost government subsidized housing loans. Federal tax laws do permit use of general obligation bonds for public housing owned by a governmental agency or private nonprofit corporation (*e.g.*, Maryland's Partnership Rental Housing Program). These federal restrictions would not apply, however, to the extent the State chooses to issue taxable debt.

Expenditures of bond proceeds must also be approved by the Board of Public Works. All grants and contracts for projects other than local schools must come before the board and receive approval prior to the disbursement of funds. In the case of public schools, the board's Interagency Committee on School Construction, pursuant to procedures adopted by the Board of Public Works, allots funds for the subdivisions on the basis of near-term cash requirements. It should be noted that once a local government has received board approval on a particular school contract, the local government, and not the State, deals directly with the contractors, although the State reviews all transactions.

Taxable Bonds

Another type of debt is taxable debt. It is issued in the place of tax-exempt debt. The difference between the two is that holders of taxable bonds are required to pay income taxes on interest earnings.

When the State revenues decline, the State often reduces pay-as-you-go operating budget appropriations for capital programs; the programs are supported by general obligation bonds instead. The reason that pay-as-you-go appropriations are made in the first place is that the programs support "private activity" programs. While the federal government does allow some private activity projects, the amount is limited to 5% or $15 million of each issuance. If the level of general obligation debt supporting private activity programs exceeds federal guidelines, the State cannot issue tax-exempt debt and issues taxable debt instead. This was the case in 2005 and 2006, when the State issued $65 million in taxable debt.

Build America Bonds

Build America Bonds were created under the American Recovery and Reinvestment Act of 2009 as a supplementary financing tool to the existing tax-exempt bond market. Build America Bonds can be issued for a multitude of capital projects such as transportation infrastructure, environmental projects, and school construction. Under the program, State and local governments are permitted to issue taxable bonds in 2009 and 2010 to support projects that qualify for tax-exempt bonds. Currently, bonds can be issued utilizing a tax credit or direct payment subsidy. Under the tax credit option, the taxpayer holding the bond is eligible to receive a tax credit equal to 35% of the interest paid. Under the direct payment subsidy, the issuer receives federal funds equal to 35% of the interest cost. Currently, there is no limit on the amount of Build America Bonds that can be issued at any given time. It should be noted that federal legislation is pending that would extend the timeframe for issuing Build America Bonds and modify the amount of the interest payment subsidy for Build America Bonds.

To date, large sums of Build America Bonds have been issued by the State and municipalities. Build America Bonds are issued as general obligation bonds. The State Treasurer's Office began issuing Build America Bonds in lieu of tax-exempt bonds in August 2009 ($50.0 million) and has since issued an additional $458.2 million in Build America Bonds. In December 2009, the Maryland Transportation Authority issued $450.5 million in Build America Bonds and is expected to issue an additional $250.0 million in Build America Bonds in July 2010. Lastly, as of June 2010, the Maryland Department of Transportation and the University System of Maryland have issued $126.0 million and $125.0 million in Build America Bonds, respectively.

Qualified Zone Academy Bonds

Qualified Zone Academy Bonds were created under the federal Tax Reform Act of 1997 to finance education projects. Additional federal authorizations have been provided periodically, most recently by the American Recovery and Reinvestment Act of 2009. Academy bonds are allocated to states based on their proportion of the United States population living below the poverty line. They may be used in schools located in a federal Enterprise or Empowerment Zone, or where at least 35% of the student population qualifies for free or reduced price meals. Academy bond projects must receive a 10% private sector match. In Maryland, these bonds are issued by the State and are used primarily to support school renovations through the Aging Schools Program.

The State does not pay interest on academy bonds. Instead, the State repays the principal only, and the bondholder receives a federal tax credit in lieu of interest payments each year until the bond matures. Academy bonds are issued with the full faith and credit of the State. Consequently, academy bonds are considered State debt. For purposes of calculating State debt affordability, academy bonds are included in general obligation bond debt outstanding and debt service. Since fall 2001, the State has issued academy bonds six times, with proceeds totaling $47.6 million. It is anticipated that another $4.5 million in academy bonds will be issued by December 2010.

Qualified School Construction Bonds

Qualified School Construction Bonds were created under the American Recovery and Reinvestment Act of 2009 and totaled $22 billion nationwide. To date, the State has issued Qualified School Construction Bonds in October 2009 and July 2010. The October 2009 Qualified School Construction Bonds were sold as tax-credit bonds that provided the buyer with credit on federal income taxes. Unlike the first Qualified School Construction Bond issuance, the July 2010 issuance was structured similarly to Build America Bonds – the State pays debt service, and the federal government reimburses the State for a share of the interest costs. The advantage that Qualified School Construction Bonds offer is that the federal government reimburses the State up to 100% of the interest costs if the interest rate is less than the tax credit rate set each day. Like academy bonds, Qualified School Construction Bonds may be used for public school renovation projects but are different in that they may be used for new construction and to acquire land. Additionally, they do not require a 10% private sector match.

The bonds are allocated to states based on their share of Title I funds, which are federal funds for low-income students. Maryland was authorized to issue $50.3 million in 2009 and another $50.3 million in 2010. Like academy bonds, these bonds are considered State debt and may be issued in lieu of general obligation bonds. Some additional funds were allocated directly to the 100 largest school systems nationwide with the highest populations of school age children living below the poverty level. Maryland has three eligible school systems: Baltimore City received a $58.1 million authorization; Baltimore County received a $19.4 million authorization; and Prince George's County received a $25.1 million authorization. The direct allocations to the school systems are not State debt.

Payment of Debt Service on General Obligation Bonds

The Constitution of Maryland prohibits the contracting of debt unless, in the same act authorizing the debt, an annual tax or taxes are levied sufficient to pay debt service within 15 years. Repeal of the dedicated tax or its use for other purposes until the debt is repaid is also prohibited. As a uniform practice, each debt authorization pledges toward repayment of *ad valorem* property tax on all taxable property in the State. The Board of Public Works is required annually to set a tax rate by May 1 that will produce revenue sufficient for debt service requirements. The Constitution of Maryland (Article III, Section 34) provides that the tax or taxes so levied need not be collected if, or to the extent, that funds sufficient for debt service requirements in the next fiscal year are appropriated in the annual State budget. Property tax revenues, while exclusively dedicated to debt repayment, are supplemented with premiums from bond sales and some miscellaneous revenues.

Debt service on general obligation bonds is paid from the Annuity Bond Fund. The fund is structured with a separate account for each enabling act, and debt service is paid according to a defined schedule. General obligation bonds are generally structured at issuance to mature in serial installments with interest-only payments made during the first two years and with an approximately equal level of annual amortization of principal and interest over the remaining 13 years. The revenue sources supporting the fund include the following:

- ***State Property Tax:*** This tax is exclusively dedicated to the repayment of debt service. The rate is set each year in an amount sufficient to pay all debt service for which funds are not available from other sources. Prior to fiscal 2002, the property tax rate on real property was $0.21 per $100 of assessed value. During this time period, real property was assessed at only 40% of the full value. Beginning in fiscal 2002, assessments were made at 100% of the value, and the rate was reduced to $0.084 per $100, equivalent to $0.21 per $100 at the 40% assessed value level. In fiscal 2004 and 2005, the Board of Public Works increased the State property tax rate to $0.132 per $100 of assessable base. However, since fiscal 2007, the rate has been maintained at $0.112 per $100 of assessed value. The rate used to assess the value on operating real property of public utilities is $0.280 cents per $100 of assessed value.

- ***General Fund Appropriations:*** The enabling acts commit the State property tax to the service of general obligation debt, and all amounts collected from such tax are exclusively applied to that purpose. However, the State has not always set the State property tax at a rate sufficient to fully support debt service. From fiscal 1972 through 2003, general funds were appropriated to the State Department of Education for payment of debt service for public school construction debt. Beginning in fiscal 2004, the increase in the State property tax rate eliminated the need to use general funds to subsidize funding of general obligation debt service on an annual basis. In fiscal 2008, $29.3 million in general funds was used to subsidize a portion of the State's $692.5 million general obligation debt service payment. While no general fund appropriations were required in fiscal 2009 and 2010 to support debt service, current out-year projections estimate that general funds will be needed to support debt service beginning in fiscal 2013.

- ***Repayable Debt Service:*** Debt service on some State bonds is repaid by certain State agencies, subdivisions, and private organizations. Loans authorized for hospital construction, airport development, shore erosion control, sanitary facilities, and sewer construction are repaid by those benefiting from the bond proceeds. In some instances, these loans are repaid over a period longer than the 15-year maximum maturity on State bonds or are repaid interest free. The difference between bond redemption and loan repayment is made up from other sources. Repayments are expected to total $625,894 in fiscal 2011.

- ***Miscellaneous Receipts:*** These receipts generally include rental of land, profit from the Whitmore garage, and accrued interest on bond proceeds held prior to disbursement. In fiscal 2011, $250,000 was budgeted in the miscellaneous receipts category.

- ***Fund Reserves:*** These are excess funds in the Annuity Bond Fund which result when property tax collections exceed the estimate on which the budget was built or when interest rates (and hence debt service) are lower than the estimate on which the budget was built. Excess funds remain in the Annuity Bond Fund and decrease the debt service requirement in the following year.

- ***Bond Sale Premiums:*** Premiums received on the sale of general obligation bonds are also deposited into the Annuity Bond Fund. Although bidders are allowed to bid on general obligation bonds with up to a 1% discount, bids at a premium are also allowed. Bidding at a premium means that the financial syndicate agrees to pay the State some amount in addition to the par value of the bonds. Every winning bid, except one since October 1996, has included a premium. In recent years, premiums have increased in response to the low market interest rates. As interest rates rise, bond sale premiums are expected to decline. The sale of State general obligation bonds yielded a net premium of $62.7 million in fiscal 2010. It should be noted that the March 2010 bond sale, which was solely composed of Build America Bonds, did not generate a premium.

In summary, revenues from the above sources in fiscal 2011 were deposited into the Annuity Bond Fund as shown in Exhibit 8.1.

Exhibit 8.1
Fiscal 2011 Estimated Revenue Sources Deposited into the Annuity Bond Fund

Source	Amount	Percent
Balance Beginning of the Year	$67,672,612	8.1%
State Property Taxes	781,143,159	93.7%
Interest and Penalties on Property Taxes	1,500,000	0.2%
Loan Repayments	625,894	0.1%
Miscellaneous Receipts	250,000	0.0%
Bond Sale Premium	0	0.0%
Transfer to Reserve	-17,764,224	-2.1%
Total Annuity Bond Fund Payments	**$833,427,441**	**100.0%**

Source: *Fiscal 2011 State Budget Books*

Transportation Debt

The Maryland Department of Transportation issues Consolidated Transportation Bonds that are tax-supported debt. These bonds, which have a maturity of 15 years, provide the financial support largely for highway capital projects. Debt service on Consolidated Transportation Bonds is payable solely from the Transportation Trust Fund.

The State previously issued county transportation bonds that were also backed by the full faith and credit of the State and counted toward State debt affordability limits. However, Chapter 539 of 1993 changed this policy by authorizing the department to issue bonds for the local jurisdictions. As a result of this legislative change, these bonds no longer count toward the State's debt affordability limits, but instead count toward the counties' outstanding debt.

Consolidated Transportation Bonds

In an effort to control transportation debt, the Maryland Department of Transportation must meet three criteria: an outstanding debt limit and two coverage tests. The outstanding debt limit is set by statute but is adjusted periodically to reflect the increased revenue potential of the Transportation Trust Fund. In 2007, the maximum outstanding debt limit was increased to $2.6 billion to reflect an increase in revenues. The General Assembly also sets an annual debt ceiling in each budget bill. The fiscal 2011 budget bill set the maximum ceiling for June 30, 2011, at $1.791 billion.

The bond revenue coverage tests, established in each bond resolution, mandate that the department's annual net revenues and pledged taxes must each equal at least twice the maximum future debt service. The department has adopted an administrative policy establishing a minimum coverage of 2.5 as a hedge. The department has agreed with bondholders that if the coverage ratio falls below 2.0, it will not issue any additional bonds until the 2.0 level is achieved. At the end of fiscal 2009, the Maryland Department of Transportation's debt outstanding was approximately $1.6 billion, and the net revenues coverage ratio, the limiting test, was 3.1. The department's March 2010 financial forecast shows the net revenues test falling below the administrative level of 2.5 before reaching the level again in fiscal 2015.

Other Special Transportation Financing

The Maryland Department of Transportation also uses several forms of alternative financing.

- ***Grant Anticipation Revenue Vehicle Bonds:*** Chapter 470 of 2002 authorized the Maryland Department of Transportation to issue Grant Anticipation Revenue Vehicle Bonds. These bonds are backed by future federal transportation funds. Chapters 471 and 472 of 2005 established a finance plan for the construction of the InterCounty Connector, an east-west highway running from Interstate 270 in Montgomery County to Interstate 95/U.S. Route 1 in Prince George's County. The finance plan included authorization for a one-time issuance by the Maryland Transportation Authority of $750 million in grant anticipation revenue vehicle bonds. In 2007 and 2008, the authority issued two tranches of grant anticipation revenue vehicle bonds for a total issuance of $750 million.

- ***Transportation Infrastructure Finance and Innovation Program:*** Chapter 470 of 2002 authorized the Maryland Department of Transportation to participate in a federal financing program established by the Transportation Infrastructure Finance and Innovation Act of 1998. Chapters 471 and 472 of 2005 authorized the Maryland Transportation Authority to secure a loan or line of credit from the Transportation Infrastructure Finance and Innovation Program to finance construction of the InterCounty Connector. In December 2008, the Maryland Transportation Authority agreed to terms with the U.S. Department of Transportation for a $516 million line of credit under the program. The line of credit will be repaid by toll revenues.

- ***Nontraditional Debt:*** The Maryland Department of Transportation also uses nontraditional debt to finance construction of transportation-related facilities. Nontraditional debt is any debt instrument that is not a Consolidated Transportation Bond or a Grant Anticipation Revenue Vehicle Bond. This includes certificates of participation; debt backed by customer facility charges, passenger facility charges, or other revenues; and revenue bonds issued by the Maryland Transportation Authority or the Maryland Economic Development Corporation on behalf of the Maryland Department of Transportation. Certificates of participation are purchase agreements that are backed by a dedicated revenue source. Once the certificates of participation are repaid, the Maryland Department of Transportation will own the facility being built; until that time, however, other parties have a financial hold on the facility.

The General Assembly began placing limits on certificates of participation in fiscal 2002, and then all of the Maryland Department of Transportation's nontraditional debt in fiscal 2005. The total nontraditional debt outstanding limit for fiscal 2011 is \$628.3 million, which may be increased through a review process by the budget committees.

The Maryland Department of Transportation currently has eight nontraditional debt issuances outstanding, as shown in Exhibit 8.2.

Maryland Water Quality Financing Administration's Bay Restoration Fund Bonds

The Maryland Water Quality Financing Administration was created during the 1988 session of the Maryland General Assembly as a component unit of the Maryland Department of the Environment. Its purpose is to encourage capital investment for wastewater and drinking water projects. Chapter 428 of 2004 established the Bay Restoration Fund to provide funding to upgrade wastewater treatment facilities located in Maryland or used by citizens of the State in order to achieve enhanced nutrient removal where it is cost effective to do so. Maryland's 67 major wastewater treatment plants have been identified for up to 100% Bay Restoration Fund grant funding for enhanced nutrient removal technology upgrade.

Although bonds issued by the Bay Restoration Fund are not backed by the full faith and credit of the State, they are considered State debt since they are backed by a fee imposed by the State through its general taxation power. Since they are considered as State debt, the maturity of the bonds is limited to 15 years. There is currently no limit on the amount of Bay Restoration Fund bonds that the administration may issue, which will

Exhibit 8.2
Maryland Department of Transportation Nontraditional Debt Issuances
($ in Thousands)

Year Issued and Maturity	Amount Issued	Purpose
Certificates of Participation		
1999-2025	$42,750	Expand Pier B and a deicing facility at the Baltimore/ Washington International Thurgood Marshall (BWI Marshall) Airport.
2000-2025	33,000	Construction of a parking garage at the Maryland Rail Commuter/Amtrak station near BWI Marshall.
2004-2016	15,500	Purchase buses for shuttle operations at BWI Marshall.
2006-2024	26,530	Construction of a paper shed at the Port of Baltimore.
Maryland Transportation Authority Revenue Bonds		
2002-2027	264,075	Construction of a parking garage near BWI Marshall, roadway improvements, enhanced pedestrian access, and upgrading of utility plants. Bonds backed by parking fees.
2002-2032	117,345	Construction of a consolidated rental car facility at BWI Marshall. Bonds backed by customer facility charges.
2003-2013	69,700	Various capital improvements at BWI Marshall, including roadway improvements, installation of pedestrian sidewalks, and taxiway work. Bonds backed by passenger facility charges.
Maryland Economic Development Corporation Debt		
2002-2022	36,000	Construction of a new Maryland Department of Transportation headquarters building.
2003-2030	223,660	Construction of Concourse A and reconstruction of Concourse B at BWI Marshall.
Total	**$828,560**	

Source: Department of Legislative Services

depend on the annual fee revenue available; however, they must seek approval of the Board of Public Works and the Secretary of the Maryland Department of the Environment before issuing bonds.

The administration has issued $50.0 million in bonds through fiscal 2010 and plans on issuing a total of $53.0 million in bonds through fiscal 2014 under the current fee revenue schedule of $30.0 per year for wastewater facility users. The Bay Restoration Fund is currently projected to have a $530.0 million deficit due to cost escalations that have increased the total estimated cost from the $750.0 million to $1.0 billion range to $1.5 billion. If the fee is increased, the administration may issue additional bonds.

Maryland Stadium Authority

The Maryland Stadium Authority was established in 1986 to build, maintain, and operate separate baseball and football stadiums at Camden Yards in Baltimore City. As part of its original enabling statute, the authority was authorized to issue up to $235 million in revenue bonds to help pay for the construction of the stadiums. Subsequent to the construction of the baseball stadium, the authority was given statutory authority to issue revenue bonds for and manage the construction of the Baltimore City and Ocean City convention centers, a conference center in Montgomery County, and the Hippodrome Theater in Baltimore City. Uncodified language in the 1998 capital budget bill also authorized the authority to assist State agencies and local governments in managing construction projects upon notification of the budget committees and with the proviso that funding be provided entirely by the agency or local government requesting assistance unless funding is specifically provided in the budget for the project.

Exhibit 8.3 lists the debt authorized and the amount of debt outstanding for the projects for which the Maryland Stadium Authority has been authorized to issue revenue bonds.

Capital Leases

Beginning in 1987, the State's capital program began utilizing lease/leaseback financing for capital projects. These leases are used to acquire both real property and equipment. Beginning in fiscal 1994, the State instituted a program involving equipment leases for energy conservation projects at State facilities to improve energy performance. Sections 8-401 to 8-407 of the State Finance and Procurement Article regulate leases. The law requires that capital leases be approved by the Board of Public Works and that the Legislative Policy Committee has 45 days to review and comment on any capital

Exhibit 8.3
Maryland Stadium Authority Revenue Debt
Authorizations and Debt Outstanding
($ in Millions)

Project	**Authorized**	**Outstanding as of June 30, 2010**
Baseball and Football Stadiums	$235.0	$184.0
Baltimore City Convention Center	55.0	21.4
Montgomery County Conference Center	23.2	18.0
Hippodrome Performing Arts Center	20.3	15.4
Ocean City Convention Center	17.3	7.6
Camden Station	8.7	7.9
Total	**$359.5**	**$254.3**

Note: Numbers may not sum due to rounding.

Source: Maryland Stadium Authority

lease prior to submission to the Board of Public Works. Section 12-204 of the State Finance and Procurement Article further requires that capital leases that execute or renew a lease of land, buildings, or office space must be certified by the Capital Debt Affordability Committee to be affordable within the State's debt affordability ratios, or must be approved by the General Assembly in the budget of the requesting unit prior to the Board of Public Works approval. Capital leases undertaken by the State are considered tax-supported debt under debt affordability calculations.

All three types of leases (equipment, energy conservation, and property) have advantages. Equipment leases often involve high technology equipment such as data processing or telecommunications equipment. Equipment leases offer the State more flexibility than purchases since leases can be for less (typically three to five years) than the entire economic life of the equipment. Equipment leases are especially attractive in an environment where technology is changing very rapidly. Leases can also be written with a cancellation clause, which would allow the State to cancel the lease if the equipment were no longer needed. Currently, the Treasurer's lease-purchase program consolidates the State's equipment leases in order to lower interest costs through volume purchasing of financing. The rate the Treasurer receives for the State's equipment leases financed on a consolidated basis is less than the rates individual agencies would receive if they financed the equipment leases themselves.

For energy conservation projects, agencies make lease payments using the savings that result from implementation of the conservation projects. Using the savings realized in utility cost reductions to pay off energy performance project leases allows projects to proceed that otherwise might not be of high enough priority to be funded given all of the other competing capital needs statewide. Under the program, utility costs will decrease; as the leases are paid off, the savings from these projects will accrue to the State.

For real property, the transaction generally involves an agreement in which the State leases property to a developer, which in turn builds or renovates a facility and leases it back to the State. At the end of the lease period, ownership of the facility is transferred to the State. The primary advantages of property leases when compared to general obligation bond financing are that they allow the State to act more quickly if an unanticipated opportunity presents itself. Because of the extensive planning and legislative approval process involved in the State's construction program, it often takes years to finance a project. Lease agreements are approved by the Board of Public Works after they have been reviewed by the Legislative Policy Committee. Since the Board of Public Works and the committee meet throughout the year, leases can be approved much more quickly than general obligation bonds, which must be approved by the entire General Assembly during a legislative session. Therefore, property leases give the State the flexibility to take advantage of economical projects.

Public-private Partnerships

A public-private partnership is a relatively new financing convention for the development of State facilities. Section 4-406 of the Transportation Article defines a public-private partnership as a sale or lease agreement between a unit of State government or the Maryland Transportation Authority and a private entity under which (1) the private entity assumes control of the operation and maintenance of an existing State facility; or (2) the private entity constructs, reconstructs, finances, or operates a State facility or a facility for State use and will collect fees, charges, rents, or tolls for the use of the facility. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility, and each party assumes some amount of financial, technical, and operational risk.

To date, Maryland has entered into one public-private partnership, and negotiations for two others are underway. In January 2010, the Maryland Port Administration entered into a 50-year lease agreement with Ports America for the operation and maintenance of

Seagirt Marine Terminal. In exchange for investment in the construction of a 50-foot berth at Seagirt, Ports America has the right to retain revenues from operations at Seagirt. In addition to the private capital investment, the Maryland Port Administration will also receive annual rent payments and annual payments based on the growth in business.

Currently, the Maryland Transportation Authority is in the process of selecting a private-sector partner to finance and construct a complete redevelopment of the two travel plazas along I-95. In return for the private capital investment and a revenue sharing agreement with the State, the private-sector partner will receive the right to maintain, operate, and retain revenues from the travel plazas for the next 35 years.

The final public-private partnership currently underway is the redevelopment of State Center. State Center is a 28-acre campus containing the largest concentration of State government offices in Maryland. The $1.5 billion transit-oriented development project includes retail space, residential units, parking, and office space for State and commercial use. The State's private partner intends to utilize a combination of private equity and debt in conjunction with tax credits and tax increment financing from Baltimore City to finance the project. Under the terms of the agreement, in exchange for private development, the State will enter into a ground lease for land that is owned by the State surrounding State Center to a private developer and enter into a long-term operating lease arrangement. If it is determined that the long-term leases are capital in nature, the partnership will impact the State's debt affordability calculation.

Section 4-406 of the Transportation Article also provides a statutory definition of public-private partnerships and establishes a framework of reporting requirements and oversight procedures for State entities. Additionally, Chapter 641 of 2010 establishes a Joint Legislative and Executive Commission on Oversight of Public-private Partnerships to study issues related to public-private partnerships. The commission is required to submit a final report to both the Governor and General Assembly by December 1, 2011.

Nondebt Capital Funding

Some capital projects and grant and loan programs are not funded through debt. General, special, and federal funds budgeted in the operating budget are sometimes used for capital expenditures. Known as pay-as-you-go, these funds are used in instances where federal law limits or prohibits use of tax-exempt debt financing (such as economic development, housing, and environmental projects). Pay-as-you-go may also be used to supplement or replace debt financing when revenue surpluses are available for this purpose.

Revenue and Enterprise Bonds

Certain agencies of State government are authorized to borrow money under laws that expressly provide that the loan obligations do not constitute a debt or a pledge of the full faith and credit of the State. The principal and interest on bonds issued by these bodies are usually payable solely from fees generated from the use of facilities or enterprises financed by the bonds.

Projects financed by revenue bonds can be divided into two general categories: traditional governmental activities and private purposes. Traditional governmental activities include transportation projects, the construction of public educational facilities, and water and sewer treatment facilities. Agencies that issue traditional governmental activity revenue bonds are the Community Development Administration of the Department of Housing and Community Development, higher education institutions (including the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College), the Maryland Transportation Authority, the Maryland Water Quality Financing Administration, and the Maryland Environmental Service.

Private activity bonds are securities issued by or on behalf of local governments to provide financing for projects that are generally used by private users. They can be issued for such purposes as housing, hospitals, private higher education, economic development, and energy conservation. State entities that issue private purpose bonds include the Community Development Administration, the Maryland Economic Development Corporation, the Maryland Health and Higher Education Facilities Authority, and the Maryland Food Center Authority.

Community Development Administration

The Community Development Administration, part of the Division of Development Finance of the Department of Housing and Community Development, administers the State's housing programs. The goals are to expand and improve the housing supply for low- and moderate-income families, to stimulate the flow of capital into the State's housing market, and to facilitate rehabilitation loans to low- and moderate-income families who are unable to obtain conventional financing. In addition, loans are made to developers for the construction of multi-family housing to provide affordable rental units to Marylanders.

The Community Development Administration funds its programs with a combination of taxable and tax-exempt revenue bonds, low-income housing tax credits, federal Home Investments Partnership Program funds, State appropriations, and revenues generated by its operation. Debt issued by the Community Development Administration is secured by mortgages on the property, mortgage insurance, and federal subsidies. Loan repayments are applied to debt service. As of December 31, 2009, the Community Development Administration had more than $2.8 billion of outstanding debt, driven primarily by $2.4 billion in current and active loans under its single-family programs.

Maryland Economic Development Corporation

The Maryland Economic Development Corporation is a nonbudgeted entity that allows the State to own or develop property for economic development purposes. The Maryland Economic Development Corporation was created in 1984 with the mission to help expand, modernize, and retain existing Maryland business and to attract new business to the State.

The Maryland Economic Development Corporation purchases or develops property that is leased to others under favorable terms. The corporation also makes direct loans to companies throughout the State to maintain or develop facilities, and it often serves as the conduit for loans administered by the Department of Business and Economic Development. The Maryland Economic Development Corporation issues bonds to raise funds for its loans. The bond debt consists primarily of revenue bonds and notes payable to government agencies such as the Department of Business and Economic Development. The debt represents nonrecourse obligations because the agency is not liable to bondholders and lenders in the event of a project or borrower default. Each project must have self-supporting revenues, and no projects are cross-collateralized. As a result, the corporation's debt is not debt of the State, and there is no implied State guaranty or State obligation to protect bondholders from losses.

The Maryland Economic Development Corporation has been involved in 219 projects through fiscal 2009. Of these, the corporation currently owns and operates 14 as operating facilities, meaning the agency is involved in management decisions and has a hand in ensuring successful daily operations. For all other projects, the corporation serves as an arms-length financing entity.

The corporation is governed by statute under the Economic Development Article, Sections 10-101 though 10-132. A 12-member board of directors manages the corporation's affairs and appoints the executive director. The Secretary of the Department of Business and Economic Development and the Secretary of the Maryland Department of Transportation serve as *ex-officio* voting members. The Maryland Economic Development Corporation's activities complement the marketing and financing programs of the Department of Business and Economic Development. There are currently 9 full-time and 2 part-time professional staff members.

Chapter 338 of 2001 was enacted as emergency legislation to amend the Maryland Economic Development Corporation's corporate powers to conform to current practices. In addition, the corporation's statutory authority was amended to be more consistent with the Maryland Economic Development Revenue Bond Act and economic development revenue bond enabling legislation that is in effect in other states competing for opportunities. The corporation's legislative purpose now is to (1) relieve the conditions of unemployment; (2) encourage increased business activity and commerce and a balanced economy; (3) assist in the retention and attraction of new business activity; (4) promote economic development; and (5) generally promote the present and prospective health, happiness, safety, right of employment, and general welfare of State residents.

Maryland Health and Higher Educational Facilities Authority

The Maryland Health and Higher Educational Facilities Authority provides financing to hospitals and educational institutions for expansion or improvements of existing facilities, new construction, and equipment. The authority may also finance continuing care communities that provide residential facilities for the elderly. The authority provides financing by acting as a conduit issuer. The debt remains the responsibility of the agency for which the debt was issued.

The authority provides for the issuance of tax-exempt revenue bonds for specific projects. In addition, the authority operates a pooled loan program. The authority administers the loans by controlling expenditures of the proceeds until construction is completed. Each issue is secured differently, depending on the borrower, but generally a lien is placed on the property. Revenues generated for the particular enterprise are pledged to retire the debt. In addition, a debt service reserve fund, equal to the highest debt service cost in any future year, must be maintained. The debt outstanding as of June 30, 2009, was $8.5 billion.

Public College and University Bond Authority

The University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College have statutory authority to issue revenue bonds to finance the acquisition, construction, renovation, or operation of academic and auxiliary facilities. The proceeds from such debt financing can be used for classrooms, laboratories, residence halls, dining centers, athletic facilities, parking garages, or other facilities. The General Assembly must expressly authorize each academic project and the maximum principal amount of bonds for the project. Legislative authorization is not required for the issuance of auxiliary facility bonds; however, the General Assembly does establish a limit on the total amount of debt (including both academic and auxiliary bonds) that may be outstanding at any time.

The revenue bonds are secured by auxiliary fees (income, fees, rents, charges, and other revenues from the use of auxiliary facilities) and academic fees (tuition, student, and activity fees). Repayment of debt service is available from those sources as well as from the proceeds of bonds and investment earnings and reserves or other funds established for the bonds under the trust agreement. Separate accounting and reports are required for auxiliary and academic facilities. The term of the bonds may not exceed the useful life of the facility, which may not be more than 33 years for auxiliary facilities or more than 21 years for academic facilities.

The maximum amounts of outstanding bonds for each system are set in statute as follows:

- $1,050 million for the University System of Maryland;
- $60 million for St. Mary's College of Maryland;
- $80 million for Morgan State University; and
- $65 million for Baltimore City Community College (may only issue revenue bonds for auxiliary facilities).

Maryland Transportation Authority

The Maryland Transportation Authority is empowered to issue bonds to finance the construction and improvement of revenue-producing transportation facilities projects. It is also authorized to finance the construction of vehicle parking facilities in priority funding areas and may also serve as a conduit for the issuance of debt by the Maryland Department of Transportation or any of its modal administrations. The authority currently operates and maintains four toll bridges (the Chesapeake Bay Bridge, the Thomas J. Hatem Memorial Bridge, the Harry W. Nice Memorial Bridge, and the Francis Scott Key Bridge), two tunnels (the Fort McHenry Tunnel and the Baltimore Harbor Tunnel), and the John F. Kennedy Memorial Highway. In addition, the authority will begin operation of another toll road, the InterCounty Connector, in 2010.

The authority may issue revenue bonds which are backed by revenues from its toll facilities. Chapter 567 of 2008 increased the maximum debt outstanding limit from $1.9 billion to $3.0 billion. A 2007 trust agreement requires that the authority collect tolls and other charges for the use of its facilities sufficient to pay 120% of the amount of the debt service requirements for each bond year and any current operating expenses and to provide for adequate deposits to a maintenance and operations reserve account. The authority also has several administrative debt policies that limit debt issuances. At the end of fiscal 2009, the Maryland Transportation Authority's debt outstanding was $1.1 billion.

The authority is also authorized to be a conduit issuer to finance Maryland Department of Transportation projects. Current outstanding conduit debt issuances were used to fund the expansion of the Baltimore/Washington International Thurgood Marshall Airport, parking facilities for the Washington Metropolitan Area Transit Authority, and most recently, a parking garage in Annapolis for State employees. At the end of fiscal 2009, the authority's total conduit debt outstanding was $448 million.

Maryland Food Center Authority

The Maryland Food Center Authority is authorized to establish, operate, and maintain wholesale food markets throughout the State. The Maryland Food Center Authority may operate projects including a market; food handling, storage, or distribution facility; commercial seafood facility or operation; and any ancillary facility or services that the authority determines will enhance the public attractiveness of a development or project. Ancillary facilities include parking, transportation facilities, restaurants, shops, stores, banks, or other commercial enterprises. The Maryland Food Center Authority projects include the wholesale produce and wholesale seafood markets at the Maryland Food Center in Howard County. In addition, the authority leases space to companies in the Maryland Food Center. The Maryland Food Center Authority currently leases the Rock Hall Seafood Processing Plant in Kent County to the town of Rock Hall.

The Maryland Food Center Authority does not need the approval of the legislature to issue debt; however, all issuances must be approved by the Board of Public Works. In addition, prior to beginning construction, the authority must submit to the Legislative Policy Committee, for review, an analysis of the economic benefits of the proposed development.

The authority issues revenue bonds with maturities not exceeding 40 years to finance development projects. As of June 1, 2010, the authority did not have any outstanding debt.

State Capital Program

The Department of Budget and Management oversees the State capital program. The program includes capital construction projects for State agencies (excluding transportation) as well as grant and loan programs for State agencies. The program is supported by general obligation bonds and pay-as-you-go funds appropriated in the operating budget. The Maryland Department of Transportation administers its own transportation program, and State universities have the authority to issue revenue bonds.

The Definition of a Capital Project

A capital budget funds the construction of buildings and infrastructure. In order for a project to be classified as a capital improvement project, the following two criteria must be met: (1) a project must have a useful life greater than or equal to the life of the bonds sold to finance the project (the State Constitution limits State debt to 15 years); and (2) the cost of the project must be at least $100,000.

Examples of capital improvement projects include the acquisition of real property, site development and improvements, architectural and engineering services, and the construction or renovation of facilities.

Capital Program Accounting Procedures

Monies derived from the issuance of State construction bonds may be used only for capital improvements. The Board of Public Works must approve individual contracts prior to the expenditure of capital funds. When a capital project is complete, any remaining unexpended funds may either be used to reduce State debt authorizations, credited to the Annuity Bond Fund to help pay debt service, or allocated to the Construction Contingency Fund to supplement any capital appropriation under guidelines stipulated in the law. If unissued bonds exist for a completed project, the authorization may be canceled, thereby reducing the amount of authorized but unissued State debt. Authorizations that are unencumbered by the board are automatically terminated within seven years of the date of authorization unless the enabling act authorizing the debt provides otherwise, or the board grants an emergency one-year temporary exemption. Sections 8-128 and 8-129 of the State Finance and Procurement Article require the Treasurer, in consultation with the Comptroller, to submit a report to the Governor and the General Assembly that lists all projects or programs that are expected to terminate in the upcoming fiscal year.

Capital Improvement Projects

Maryland's capital program may be divided into two broad categories: (1) State-owned capital projects; and (2) grants and loan programs.

State-owned Capital Projects

State-owned capital projects comprise projects that are constructed with State funds for the purpose of providing State services to the citizens of the State of Maryland. Unlike the grant and loan program, once constructed, these facilities are owned by the State. Authorizations for State-owned projects are made within the capital budget to various departments and agencies in State government. Examples of State-owned projects include the construction of State buildings and infrastructure such as State hospitals, public university buildings, and State office buildings (see Exhibit 8.4).

Exhibit 8.4
State-owned Projects

Agency	Purpose
University System of Maryland, Morgan State University, St. Mary's College of Maryland, Baltimore City Community College, and Higher Education Centers	Construction and renovation of academic, administrative, and athletic facilities
Maryland School for the Deaf	Construction and renovation of academic and administrative facilities
Maryland Environmental Service	Construction of water and wastewater treatment plants at State facilities
Health and Mental Hygiene	Construction and renovation of State hospitals, laboratories, and group homes
Historic St. Mary's Commission	Construction of exhibit structures at the St. John's site and Maryland Heritage Project
Canal Place Preservation and Development Authority	Construction of local projects and facilities intended to stimulate business development and economic growth
Planning	Construction and renovation of State-owned heritage parks and museum facilities such as Jefferson Patterson Park Museum
Juvenile Services	Construction and renovation of juvenile detention facilities and group homes
Military	Construction and renovation of National Guard armories and support facilities
Natural Resources	Construction and renovation of recreational facilities at State parks, natural resource management areas, wildlife management areas, and fish hatcheries; and annual maintenance for the Ocean City beach replenishment project

Exhibit 8.4 (Continued)

Agency	Purpose
Public Broadcasting	Construction of regional facilities, back-up power system, and learning center
Public Safety and Correctional Services	Construction and renovation of correctional institutions and the Public Safety Training Center
General Services	Acquisition, construction, and renovation of State office buildings and multi-service centers
State Police	Construction and renovation of barracks and crime laboratories
Disabilities	Construction of modifications to eliminate architectural barriers in State-owned facilities

Source: Department of Legislative Services

Grant and Loan Programs

In addition to State-owned facilities, the grant and loan program provides funding for capital projects for health and social programs, community colleges, agriculture, environment, economic development, and housing.

State-administered Programs

State-administered programs provide grants or loans to local governments and private organizations for the construction of capital projects that serve a public purpose and meet State policy objectives (*e.g.*, public school construction; Chesapeake Bay restoration; and projects relating to local jails, community colleges, housing, health and social programs, and economic development). There are a number of State-administered programs that provide full or partial capital funding in a variety of areas (see Exhibit 8.5). These programs are administered through related State agencies.

Exhibit 8.5
State-administered Grant and Loan Programs

Health and Social Programs

Senior Citizen Activity Centers	Provides grants to local government agencies to acquire, construct, and renovate senior citizen activities centers. The grants are up to 50% of the costs and total no more than $800,000.
Community Health Facilities Program	Provides grants to public and nonprofit groups for up to 75% of the costs for acquisition, design, construction, renovation, and equipping of community health facilities for mental health, developmental disabilities, and substance abuse treatment services.
Juvenile Justice Facilities Program	Provides grants for up to 50% of the cost of acquisition, design, construction, renovation, and equipping of residential and nonresidential facilities that contribute to the treatment, control, and prevention of juvenile delinquency.
Federally Qualified Health Centers Grant Program	Provides grants to local governments and private nonprofit organizations formally designated by the federal government as Federally Qualified Health Centers. The State provides grants for up to 75% of eligible costs for the acquisition, construction, renovation, and equipping of centers that offer health services to all persons regardless of the ability to pay.

Agriculture

Tobacco Transition Program	Provides funds for growers' transition and the purchase of easements to retain land in non-tobacco use.
Maryland Agricultural Cost-Share Program	Provides funds (up to 87.5%) to assist farmers in installing methods to reduce soil erosion and nutrient runoff.
Agricultural Land Preservation Program	Provides funds for the purchase of perpetual preservation easements to preserve productive agricultural land and limit the extent of urban sprawl.

Exhibit 8.5 (Continued)

Energy and Environment Programs

Maryland Energy Administration	Provides loans for energy conservation projects. The funds assist with studies, design, construction, and special services. State agencies use the State Agency Loan Program. Nonprofit organizations, local governments, and businesses use the Jane E. Lawton Conservation Loan Program.
Water Quality Revolving Loan Fund	Provides low-interest loans to counties and municipalities to finance wastewater treatment plant improvements, failing septic systems, and nonpoint source projects such as urban stormwater control projects.
Supplemental Assistance Program	Provides grant assistance to communities unable to afford the local share of compliance-related improvements to the wastewater system infrastructure and the elimination of failing septic systems in older communities.
Drinking Water Revolving Loan Fund	Provides low-interest loans to counties and municipalities to finance drinking water supply improvements and upgrades.
Water Supply Assistance Fund Program	Provides grants (up to 87.5%) to assist small communities in the acquisition, construction, rehabilitation, and equipping of publicly owned water supply facilities.
Hazardous Substance Cleanup Program	Provides for the 10% State participation in the federal Superfund program to remediate sites. Also provides funds (up to 100%) to clean up other uncontrolled waste sites within the State not eligible for Superfund program funding.
Enhanced Nutrient Removal Program	Provides grants (up to 100%) to local governments to implement enhanced nutrient removal technology at the 67 major sewage treatments plants in the State.
Biological Nutrient Removal Program	Provides grants (by administrative policy up to 50%) to counties and municipalities for the removal of nutrients from the discharge of sewage treatment plants.
Chesapeake and Atlantic Coastal Bays Nonpoint Source Fund	Provides funds from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund to support nonpoint source capital projects that previously were funded under the Small Creeks and Estuaries Restoration Program and the Maryland Stormwater Pollution Control Program.

Exhibit 8.5 (Continued)

Higher Education	
Community Colleges	Provides grants to local governments based on a cost-sharing formula for the construction or improvement of community colleges.
Housing and Community Development	
Community Legacy Program	Provides technical and financial assistance to assist in neighborhood revitalization efforts in areas that are at risk of physical, economic, or social deterioration.
Neighborhood Business Development Program	Provides gap financing for small businesses in support of community-based economic development in designated revitalization areas. Up to 70% of funds are for loans to private firms and 30% for grants to nonprofit organizations.
Community Development Block Grants	Provides competitive grants to local governments in jurisdictions that do not receive direct federal funding. The grants are used to expand affordable housing and economic opportunities, revitalize neighborhoods, and improve community facilities and services.
Shelter and Transitional Housing Facilities Program	Provides grants to local governments and nonprofit organizations to acquire, design, construct, renovate, and equip emergency shelters and transitional housing for homeless individuals and families.
Rental Housing Programs	Provides low-interest or deferred payment loans for rental housing developments serving very low-income households.
Homeownership Programs	Provides below-market interest rate mortgage loans to very low-income individuals for the purchase of homes, as well as downpayment and closing cost assistance for first-time homebuyers.
Special Loan Programs	Provides below-market rate loans for the construction or repair of single-family homes or small multi-family facilities, indoor plumbing, lead paint abatement, energy conservation, and group home financing. Loans are made to families of low and moderate incomes.
Partnership Rental Housing Program	Provides deferred payment loans to local government housing authorities for low-income rental housing construction and rehabilitation. The funds are also used to provide financing to private developers that agree to include some units for disabled individuals.

Exhibit 8.5 (Continued)

Planning	
Maryland Historical Trust Capital Grant Fund and Revolving Loan Fund	Provides grants and/or loans to nonprofit preservation foundations, organizations, and individuals to encourage historical preservation. A preservation easement on the improved property is required.
Heritage Structure Rehabilitation Tax Credit	Provides Maryland income tax credits equal to 20% of the qualified capital costs expended in the rehabilitation of a single-family, owner-occupied residence, 20% of the costs for the rehabilitation of a certified historic structure (25% if certain energy efficiency standards are met), and 10% of the costs for the rehabilitation of a qualified rehabilitated structure.
African American Heritage Preservation Program	Chapter 278 of 2010 established the African Preservation Program to identify and preserve buildings, communities, and sites of historical and cultural importance to the African American experience in Maryland. Beginning in fiscal 2012, $1.0 million is to be included in the capital budget for African American heritage preservation grants. Program grants to businesses, individuals, or political subdivisions require matching funds from any combination of federal, county, municipal, or private sources and may not exceed 50% of a project's total cost.
Natural Resources	
Waterway Improvement Program	Provides funds to local jurisdictions to finance projects that expand and improve recreational boating.
Community Parks and Playgrounds	Provides grants to municipalities and Baltimore City to restore or create community parks and playgrounds in priority funding areas.
Rural Legacy	Provides funding for the purchase of conservation easements and fee simple acquisition of land in designated protection areas.
Program Open Space	Provides up to 100% of the cost of the acquisition of open space areas throughout the State and up to 90% of the cost for the development of local outdoor recreational areas if acquisition goals have been met.

Note: The last four categories are typically funded through pay-as-you-go due to federal law restrictions concerning eligible uses of tax-exempt bonds.

Source: Department of Legislative Services

Public School Construction

State and local governments share financial responsibility for funding the public school construction program. The Interagency Committee on School Construction was created to oversee the program, but the Board of Public Works has final approval of school construction allocations to the local jurisdictions.

Each October, the Governor announces proposed funding for school construction for the upcoming fiscal year. The interagency committee transmits this information to local jurisdictions and requests their capital improvement programs. Interagency committee staff review the capital programs and recommend to interagency committee members which projects should be funded based on certain criteria. Each December, the interagency committee develops a list of eligible projects and decides which of those projects should be recommended to the Board of Public Works for approval. The interagency committee must recommend an initial allocation of 75% of the Governor's preliminary allocation for school construction before December 31 of each year.

In January, the Board of Public Works hears appeals from local jurisdictions and votes on interagency committee recommendations. The list of projects approved by the board becomes part of the State's proposed capital budget. The proposed budget is then submitted to the General Assembly for approval. Beginning in 2008, the interagency committee was required to submit recommendations by March 1 equal to 90% of the school construction allocation submitted by the Governor in the capital budget. In May, the board allocates any remaining school construction funds to school construction projects recommended by the interagency committee.

Exhibit 8.6 shows the State's share of eligible school construction costs by county. This share is based on a formula that includes local wealth, the proportion of low-income students, enrollment growth, whether a county is economically distressed, and the local funding effort by counties. The formula is updated every three years. The next update will occur in 2010 and will set the State shares for fiscal 2013 through 2015.

Local Detention Facilities

Under the local jail program, the State provides grants to local governments for a portion of construction costs of local jail facilities. Grants are made for 50% of costs, except for capacity necessitated by sentencing changes enacted in 1986 requiring inmates serving sentences of up to one year to be held in local detention centers. Based on certain criteria, 100% of per-bed costs are paid by the State.

Exhibit 8.6
Public School Construction Program
State Share of Eligible School Construction Costs
Fiscal 2009-2012

		Implementation			
County	**2009**	**2010**	**2011**	**2012**	
Allegany	90%	91%	91%	91%	
Anne Arundel	50%	50%	50%	50%	
Baltimore City	97%	94%	94%	94%	
Baltimore	50%	50%	50%	50%	
Calvert	69%	64%	61%	61%	(1)
Caroline	89%	86%	86%	86%	
Carroll	65%	61%	61%	61%	
Cecil	70%	75%	75%	75%	
Charles	70%	77%	77%	77%	
Dorchester	77%	72%	71%	71%	(1)
Frederick	72%	72%	72%	72%	
Garrett	70%	65%	60%	59%	(2)
Harford	65%	60%	59%	59%	(1)
Howard	58%	61%	61%	61%	
Kent	50%	50%	50%	50%	
Montgomery	50%	50%	50%	50%	
Prince George's	69%	73%	73%	73%	
Queen Anne's	70%	65%	60%	55%	(2)
St. Mary's	72%	75%	75%	75%	
Somerset	97%	92%	88%	88%	(1)
Talbot	50%	50%	50%	50%	
Washington	65%	73%	73%	73%	
Wicomico	81%	87%	87%	87%	
Worcester	50%	50%	50%	50%	

(1) Percentage change is phased in over two fiscal years.
(2) Percentage change is phased in over three fiscal years.

Note: On October 17, 2007, the Board of Public Works approved a three-year implementation of the new State shares beginning in fiscal 2010.

Source: Public School Construction Program

Non-State-administered Programs

Unlike the State-administered program, which is overseen by State agencies and departments, grants for non-State-administered capital projects are requested and overseen by local government and private organizations. Individual bond bills are classic examples of non-State administered capital projects.

Individual Bond Bills and Other Special Projects

Individual bond bills are authorized for projects that are initiated by members of the General Assembly. The authorizations include various cultural, historic, health, educational, and economic development projects not funded by the previously mentioned State programs. Generally, the authorizations require the recipient to provide matching funds equal to the State funds and to convey an historic easement, if applicable, to the Maryland Historical Trust.

In addition to small, local projects, the State funds a percentage of capital costs for projects at private higher educational facilities and private hospitals. Traditionally, the State has assisted private higher educational institutions in the construction of educational facilities. Generally, the assistance may represent up to 50% of construction costs. Although the General Assembly had always included private hospitals in the special project category, in 1994, the General Assembly began a program to fund up to $5 million annually for private hospitals. These projects are submitted to the Governor for inclusion in the annual capital budget bill.

Capital Budget Authorizations

The capital budget is funded by debt, through the sale of bonds, and by the use of current funds known as pay-as-you-go. In fiscal 2011, the *Capital Improvement Program* totaled $3.1 billion. Of this amount, $1.5 billion, or 50%, was financed by debt. Exhibit 8.7 displays a four-year history of authorizations by major category for all fund sources.

Exhibit 8.7
Summary of Capital Funding Authorized 2007-2010 Sessions
All Funds
($ in Millions)

	2007 Session (FY 2008)	2008 Session (FY 2009)	2009 Session (FY 2010)	2010 Session (FY 2011)	Subtotal	Total
Uses of Funds						
State Facilities						$209.8
Facilities Renewal	$13.0	$14.3	$22.4	$10.4	$60.1	
Other	24.7	56.4	52.8	15.8	149.7	
Health/Social						179.9
State Facilities	19.7	50.9	19.8	5.8	96.2	
Private Hospitals	5.0	5.0	5.0	5.0	20.0	
Other	12.4	17.7	10.7	22.9	63.7	
Environment						2,320.1
Natural Resources	248.4	110.8	209.2	137.1	705.5	
Agriculture	83.4	56.8	42.9	46.1	229.2	
Environment	238.6	300.7	349.9	453.1	1,342.3	
MD Environmental Service	1.0	11.9	7.2	0.0	20.1	
Energy	3.5	2.2	10.0	7.3	23.0	
Public Safety						274.4
State Corrections	36.8	20.2	73.9	17.8	148.7	
Local Jails	12.9	19.8	17.5	5.5	55.7	
State Police	0.3	2.5	64.7	2.5	70.0	
Education						1,288.8
School Construction	388.5	327.4	266.4	250.0	1,232.3	
Other	15.1	4.1	18.5	18.8	56.5	
Higher Education						1,279.8
University System	172.4	190.4	161.7	234.8	759.3	
Morgan State University	8.7	11.9	44.8	30.5	95.9	
St. Mary's College of MD	1.1	4.6	1.7	0.0	7.4	
Community Colleges	61.4	81.1	87.5	78.7	308.7	
Private Colleges/Univ.	8.0	9.0	9.0	8.0	34.0	
UMMS	10.0	26.0	28.5	10.0	74.5	

Exhibit 8.7 (Continued)

	2007 Session (FY 2008)	2008 Session (FY 2009)	2009 Session (FY 2010)	2010 Session (FY 2011)	Subtotal	Total
Housing/Community Development						340.1
Housing	67.9	90.5	94.9	78.7	332.0	
Other	2.4	1.1	4.3	0.3	8.1	
Economic Development						83.8
Economic Development	44.0	18.5	7.0	14.3	83.8	
Local Projects						390.8
Administration	41.6	40.2	50.7	25.8	158.3	
Legislative	23.1	26.2	21.3	17.6	88.2	
InterCounty Connector	0.0	0.0	55.0	89.3	144.3	
Transportation						6,728.3
Transportation	1,753.3	1,739.4	1,720.2	1,515.4	6,728.3	
De-authorizations						-92.9
De-authorizations	-19.8	-2.6	-30.8	-39.7	-92.9	
Total	**$3,277.4**	**$3,237.0**	**$3,426.7**	**$3,061.8**	**$13,002.9**	**$13,002.9**
Sources of Funds						
Debt						
General Obligation	$821.1	$935.0	$1,110.0	$1,144.5	$4,010.6	
Revenue Bonds	530.0	521.0	454.0	382.0	1,887.0	
Subtotal	**$1,351.1**	**$1,456.0**	**$1,564.0**	**$1,526.5**	**$5,897.6**	
Current Funds (PAYGO)						
General	$42.5	$30.9	$7.1	$10.8	$91.3	
Special	1,027.4	1,048.8	612.6	634.4	3,323.2	
Federal	856.3	701.2	1,243.0	890.1	3,690.6	
Subtotal	**$1,926.2**	**$1,780.9**	**$1,862.7**	**$1,535.3**	**$7,105.1**	
Total Funds	**$3,277.3**	**$3,236.9**	**$3,426.7**	**$3,061.8**	**$13,002.7**	

UMMS: University of Maryland Medical System

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

Source: Department of Legislative Services

Chapter 9.
The Capital Budget Process and Debt Affordability

The General Assembly's action on the capital budget is somewhat different than the operating budget in that a portion of the financing for the capital budget is through the issuance of bonds, not tax revenues, and items may be added as well as deleted from the bond program by the General Assembly. Also, unlike the operating budget, the Governor can veto specific line items or the entire bill. Like the operating budget, work on the capital budget is a continuing process.

Capital Budget Process

The capital budget cycle includes three continuing phases similar to the operating budget: formulation, legislative consideration, and execution. Exhibit 9.1 graphically presents these phases, which are explained below.

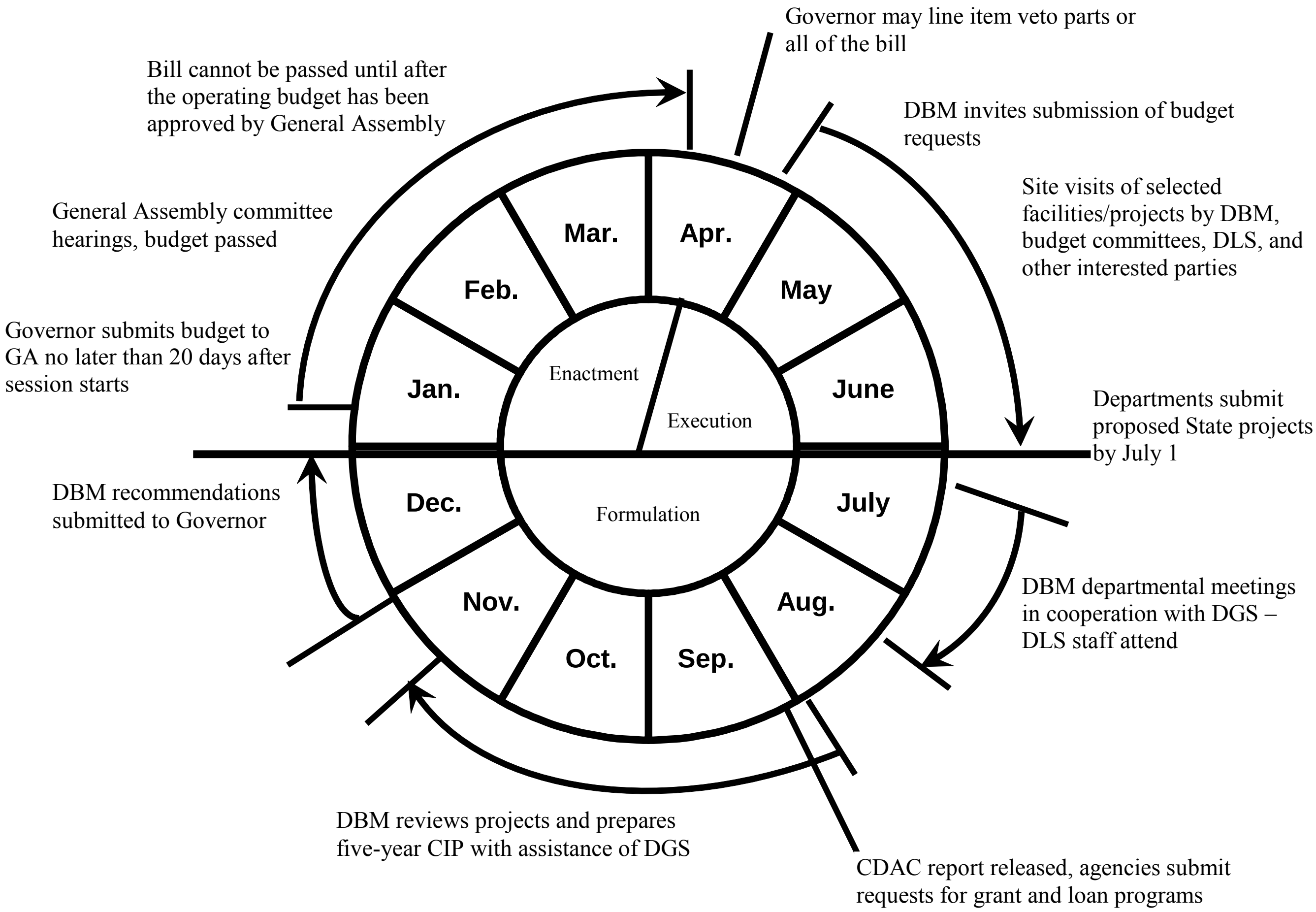
Formulation

The formulation phase begins when the departments and agencies proposing capital improvements prepare capital budget requests. Project requests are submitted to the Department of Budget and Management, Division of Capital Budgeting no later than September 1 for introduction at the upcoming legislative session. Agencies utilize the Department of Budget and Management's Capital Budget Information System (commonly referred to as CBIS) to submit project requests.

During the summer, the Capital Debt Affordability Committee meets to analyze the State's debt status and to make recommendations to the Governor and the General Assembly as to the maximum amount of new general obligation debt that should be authorized during the upcoming session of the General Assembly. By early November, after considering the committee's recommendations (which are due October 1), the Governor prepares a preliminary allocation of the amount of debt to authorize for State-owned facilities, public school construction, and other grants and loans. The preliminary allocations, which are required pursuant to Section 8-113 of the State Finance and Procurement Article, may be modified by the Governor as new information or priorities change.

In November, the Department of Legislative Services presents an independent analysis of debt affordability to the Spending Affordability Committee. The report is also

Exhibit 9.1
Capital Improvement Program Budget Cycle



CDAC: Capital Debt Affordability Committee
CIP: Capital Improvement Program
DBM: Department of Budget and Management
DGS: Department of General Services
DLS: Department of Legislative Services
GA: General Assembly

Source: Department of Legislative Services

provided to the budget committees. This report, *Effect of Long-term Debt on the Financial Condition of the State*, includes a recommended amount of new debt authorization for the forthcoming session of the legislature and responds to the recommendations of the Capital Debt Affordability Committee.

The report also includes:

- an analysis of the State's debt affordability based on the Capital Debt Affordability Committee's criteria;
- an analysis of the revenues supporting general obligation bond debt;
- an analysis of functions that influence general obligation bond debt costs; and
- an analysis of the State's special authority revenue debt.

After reviewing the Department of Legislative Services' report, the Spending Affordability Committee includes a recommendation on the appropriate level of new general obligation debt authorization for the coming year in its report to the Governor and the General Assembly.

By the end of November, the Department of Budget and Management, Division of Capital Budgeting has refined its analysis of the State's capital needs and makes recommendations to the Governor with respect to the General Construction Program and administration programs. The recommendations include a draft of the *Five-year Capital Improvement Program* (commonly referred to as the CIP). During this time, the public school construction program is simultaneously developed by the Interagency Committee on School Construction, generally working within the preliminary allocation set by the Governor in November. Higher educational institutions may also begin to draft legislation at this time to increase higher education's debt ceiling and authorize academic facilities to be funded by tuition bonds.

Legislative Consideration

Following the Governor's decisions and review by the Department of Budget and Management, the capital budget is presented to the General Assembly. Section 8-114 of the State Finance and Procurement Articles requires that the capital budget bill be introduced by the presiding officer of each house as an administration bill by the twentieth day of the session. Regarded as a supplementary appropriations bill, the capital budget bill is assigned to the budget committees (Senate Budget and Taxation Committee and the House Appropriations Committee) and may not be finally acted upon until the operating budget bill has been passed (usually one week prior to adjournment).

The State budget books contain the Administration's *Five-year Capital Improvement Program*, which details the total amount of State general obligation debt to be authorized in the five-year planning cycle, including the funding and purpose for each capital project and program. The *Capital Improvement Program* also reflects pay-as-you-go (PAYGO) funding included in the operating budget. PAYGO capital projects are reviewed in the same manner as capital projects authorized in the Maryland Consolidated Capital Bond Loan; however, legislative action is taken at the time the operating budget is considered and is limited to the legal constraints on the legislature with respect to the operating budget.

The Maryland Consolidated Capital Bond Loan bill is analyzed by the legislative staff of the Department of Legislative Services in a manner similar to the analysis of the operating budget. Recommendations are presented to the budget committees and also are contained in a volume of the *Analysis of the Maryland Executive Budget*. The committees may review proposed projects in the bill at the same time the operating budget is being reviewed or may utilize a separate capital budget subcommittee.

The House Appropriations Committee reviews the capital budget in the same subcommittees that review the operating budget. The subcommittees then make recommendations to the Capital Budget Subcommittee that in turn reports to the full committee. The individual bond bills (*e.g.*, local bond bills) for special projects, however, are heard by the full committee with recommendations developed by the Capital Budget Subcommittee. The Senate Budget and Taxation Committee has a separate capital budget subcommittee that reviews and makes recommendations to the full committee on the capital budget bill. Individual bond bills are reviewed by the full Senate Budget and Taxation Committee. In both chambers, individual bond bills are heard separately from hearings on the capital budget bill on what is commonly referred to as "Bond Bill Saturday." Following Bond Bill Saturday, individual bond bills are voted on by the committees as they deliberate on the capital budget bill (Maryland Consolidated Capital Bond Loan). Prior to the 2004 legislative session, individual bond bills were voted out of committee separately. Similarly, during the 2008 legislative session, the committees began considering requests to amend prior authorizations within a single bill (referred to as the omnibus prior authorization bill) rather than through the passage of separate bills. Prior authorizations introduced after the introduction date of the omnibus bill are simply amended into the omnibus bill.

Decisions concerning capital projects and committee amendments to the capital budget bill generally are not made until committee action on the operating budget bill is completed. The committees bring the capital budget bill to the floor in a manner similar to that described for the operating budget bill (*i.e.*, a reprint of the bill incorporating committee amendments and a report explaining each amendment). While no longer the common practice, unlike the operating budget bill, each house may move its own capital budget bill.

Unlike the operating budget, the General Assembly also has the power to modify the capital budget bill within broad parameters. The projects proposed by the Governor may be deleted, the amounts allocated for specific purposes of a project may be increased or decreased, and the General Assembly may add specific projects and dollar amounts. The capital budget bill must contain an effective date (usually June 1 of the session year), and it is not enacted until signed by the Governor. The Governor has veto power or may exercise partial (line item) veto of the capital budget bill although such action is rarely taken.

Execution

The execution phase of most approved capital projects is managed by the Department of General Services. In addition, the University System of Maryland, the Maryland Environmental Service, Morgan State University, St. Mary's College of Maryland, and the Department of Public Safety and Correctional Services have been given autonomy to manage their own capital projects.

Capital projects progress through definable stages: a project program is developed, land is acquired, an architect is appointed and preliminary planning occurs, detailed plans are developed, and construction follows. Equipment essential to the operation of the facility is obtained. Finally, the capital project is accepted, staffed, and placed in operation. This process of execution takes considerable time under current practices. A period of four or more years may elapse between the time a project is submitted to the Division of Capital Budgeting and the State agency actually places it in operation.

Types of Tax-supported Debt

The State of Maryland has issued six types of tax-supported debt in recent years:

- general obligation debt, which pledges the full faith and credit of the State;

- bonds, notes, and other obligations issued by the Maryland Department of Transportation and backed by the operating revenues and pledged taxes of the department;

- bonds for transportation projects supported by anticipated federal highway aid (Grant Anticipation Revenue Vehicle Bonds) and issued by the Maryland Transportation Authority;

- lease and Conditional Purchase Financings;

- revenue bonds issued by the Maryland Stadium Authority secured by leases with the State; and

- Chesapeake Bay restoration bonds, which are secured by the revenue from a statewide fee and issued by the Maryland Water Quality Financing Administration.

As of June 2010, the Capital Debt Affordability Committee reported $1.1 billion in tax-supported debt service. Exhibit 9.2 shows how the State's debt service is distributed by debt type.

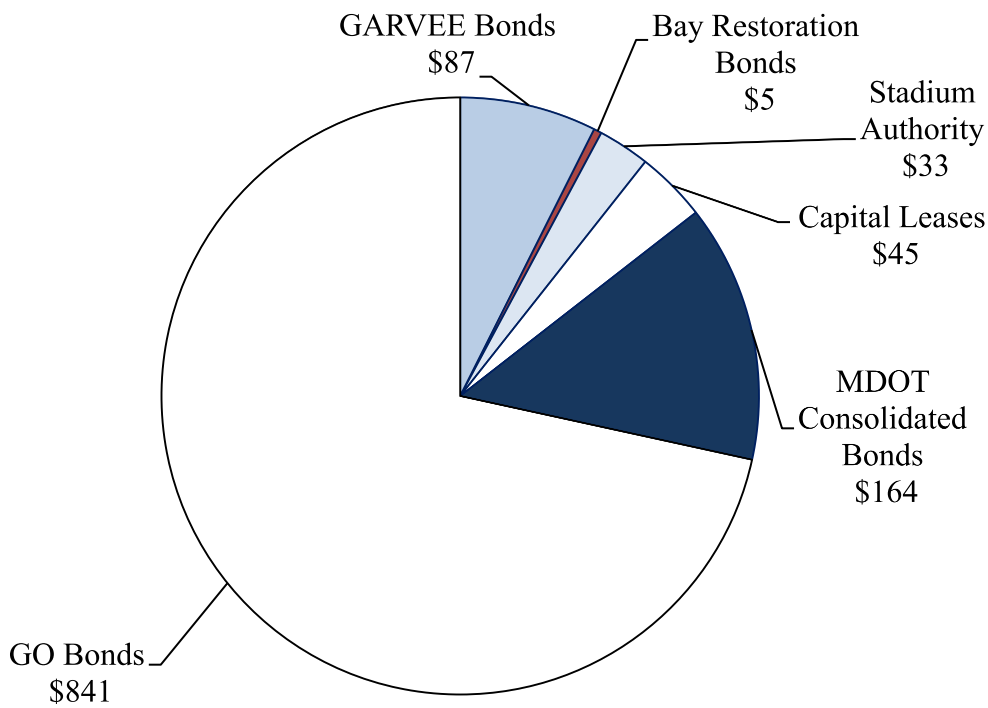
In addition to the tax-supported debt, there are various forms of non-tax-supported debt that are issued by State agencies and non-State public purpose entities. While this debt is not backed by the full faith and credit of the State, and is not included within the tax-supported debt limits, there has been some concern that a default in payment of debt service on this debt could negatively impact other Maryland debt. Non-tax-supported debt generally includes revenue bonds, which are issued to raise funds for a specific purpose, and conduit debt, which is debt that agencies or authorities issue on behalf of clients. (See Chapter 8 for more information on fund sources.)

Capital Debt Affordability Committee

Creation of the Capital Debt Affordability Committee was an outgrowth of two events: the dramatic increase in outstanding debt during the mid-1970s and the release of the Department of Fiscal Services' two-year study in 1974 on the State's debt picture titled *An Analysis and Evaluation of the State of Maryland's Long-Term Debt: 1958-1988*.

In response to this study and the rising level of State debt, the 1978 session of the General Assembly adopted the current State Finance and Procurement Article, Section 8-104, which created the committee as a unit of the executive department. The members currently are the Treasurer (Chair), the Comptroller, the Secretary of the Department of Budget and Management, the Secretary of the Maryland Department of

Exhibit 9.2
Tax-supported Debt Service Distribution by Type
($ in Millions)



GARVEE: Grant Anticipation Revenue Vehicle
GO: General Obligation
MDOT: Maryland Department of Transportation

Source: Preliminary *Report of the Capital Debt Affordability Committee*, June 2010

Transportation, and one public member appointed by the Governor. The 2005 capital budget bill amended the State Finance and Procurement Article to add the chairmen of the Capital Budget Subcommittees of the Senate Budget and Taxation Committee and House Appropriations Committee as non-voting members.

The committee is required to review the size and condition of State debt on a continuing basis and to submit to the Governor, by October 1 of each year, an estimate of the total amount of new general obligation debt that prudently may be authorized for the next fiscal year. Although the committee's estimates are advisory only, the Governor is required to give due consideration to the committee's findings in determining the total authorizations of new State debt and in preparing a preliminary allocation for the next fiscal year. The committee is required to consider:

- the amount of additional general obligation debt that will be authorized during the next fiscal year;
- capital program needs during the next 5 fiscal years;
- projected debt service requirements for the next 10 years;
- criteria established or used by recognized bond rating agencies in judging the quality of State bond issues;
- on a continuing basis, the size and condition of higher education debt, taking into account any debt issued for academic facilities as part of the committee's affordability analysis;
- other factors relevant to the ability of the State to meet its projected debt service requirements for the next 5 years or relevant to the marketability of State bonds; and
- the effect of new authorizations on each of the factors enumerated above.

Tax-supported Debt

In keeping with a narrow interpretation of its statutory charge, the Capital Debt Affordability Committee's efforts through 1986 focused mainly on bringing the State's general obligation debt in line with certain parameters. In 1987, however, the committee began to adopt a more comprehensive view of State debt that included all tax-supported debt in addition to general obligation debt. Tax-supported debt includes general obligation bonds, consolidated transportation bonds, Grant Anticipation Revenue Vehicle bonds, Maryland Stadium Authority Bonds, and Bay Restoration Fund Revenue Bonds. (See Chapter 8 for more information on tax-supported debt.)

The committee's decision to adopt a broader view regarding the type of debt reviewed was driven by the fact that both the rating agencies and the investment community took a more comprehensive view of Maryland's debt when analyzing the State's obligations. A second reason for adopting a more comprehensive view of debt was that other forms of long-term commitments were becoming more common. Lease obligations, particularly lease purchases, were at least more visible, if not more widely used.

Debt affordability is measured by the ability of the State to pay debt service when due. A careful and comprehensive determination takes into account the demand for capital projects, the relationship between debt authorization and debt issuance, available and potential funding mechanisms, overall budgetary priorities, and revenues. One of the challenges of debt management is to provide sufficient funds to meet growing capital needs within the framework of the State's debt capacity.

Exhibits 9.3 and 9.4 show that the debt levels for the past 10 years have remained within the affordability guidelines.

Exhibit 9.3

State Tax-supported Debt Outstanding

Relationship to Personal Income

(Affordability Standard = 4%)

($ in Thousands)

Fiscal Year	Total Tax Supported Debt	Debt as % of Personal Income
2002	$4,725,716	2.38
2003	5,412,554	2.63
2004	5,809,143	2.64
2005	6,066,893	2.60
2006	6,470,664	2.63
2007	7,109,233	2.72
2008	7,582,481	2.80
2009	8,676,855	3.16
2010	9,460,200	3.34
2011	10,069,967	3.41

Source: *Report of the Capital Debt Affordability Committee*, 2009

Exhibit 9.4
State Tax-supported Debt Service
Relationship to Revenues
(Affordability Standard = 8%)
($ in Thousands)

Fiscal Year	Total Tax Supported Debt Service	Debt Service as % of Revenues
2002	$673,757	5.86
2003	698,751	6.15
2004	751,179	5.93
2005	790,157	5.54
2006	841,625	5.55
2007	845,840	5.40
2008	930,869	5.56
2009	1,011,643	6.20
2010	1,103,815	6.92
2011	1,185,587	7.16

Source: *Report of the Capital Debt Affordability Committee*, 2009

The General Assembly has been effective in controlling new debt authorizations in recent years. Exhibit 9.5 displays recommended and actual levels of authorizations over the past 10 years.

History of Debt Affordability Criterion

In 1979, the Capital Debt Affordability Committee adopted three criteria to evaluate debt affordability: State debt outstanding cannot exceed 3.2% of State personal income; State debt service cannot exceed 8.0% of State revenues; and new authorizations should be kept in the range of redemptions of existing debt. When the criteria were adopted, the State did not meet either the debt outstanding or debt service criterion. Debt outstanding was 5.4% of personal income, and debt service was 11.3% of revenues in fiscal 1979. By adopting a policy to limit authorizations by redemptions, the committee limited new authorizations. This criterion was referred to as the "get out of debt"

Exhibit 9.5
History of Recommended Debt Level to Authorization

Legislative Session	Recommended Debt Level	Actual Authorization	Variance
2001	$505,000,000	$504,979,500 [1]	-$20,500
2002	720,000,000	720,000,000 [2]	0
2003	740,000,000	740,000,000 [2]	0
2004	655,000,000	655,000,000	0
2005	670,000,000	670,000,000 [1]	0
2006	690,000,000	690,000,000	0
2007	810,000,000	810,000,000 [1]	0
2008	935,000,000	935,000,000	0
2009	1,110,000,000	1,110,000,000	0
2010	1,140,000,000	1,144,543,000	4,543,000 [3]

[1] Excludes the following amounts in Qualified Zone Academy Bonds that are considered outside the general obligation bond debt limit because the State is responsible for the principal amount only: $8.27 million in 2001; $9.4 million in 2005; and $11.1 million in 2007. Bond holders get federal tax credits in lieu of interest payments.

[2] Authorization is consistent with the recommendation of the Spending Affordability Committee that the debt limit be increased by up to $200 million above the amount recommended by the Capital Debt Affordability Committee. The Spending Affordability Committee recommendation was made to allow the replacement of previously appropriated general fund pay-as-you-go.

[3] During its deliberations, the Capital Debt Affordability Committee did not consider the issuance of $4.5 million in Qualified Zone Academy Bonds for the Aging Schools Program. Previously, these bonds were not counted against the debt limit as there was little concern that the State would breach the debt limit. Per federal guidelines, the unissued Qualified Zone Academy Bonds, which were from a 2008 federal authorization, would have expired in December 2010 had they remained unissued. Excluding the $4.5 million in Qualified Zone Academy Bonds, the amount authorized by the General Assembly remained within the affordability guidelines.

Source: Department of Legislative Services

criterion. The debt affordability process achieved its goal to reduce debt outstanding and debt service costs. By fiscal 1987, debt outstanding was less than 3.2% of personal income, and debt service was less than 8.0% of revenues.

In 1987, the committee determined that the criterion limiting new authorizations to redemptions was no longer an applicable guideline. The goal of reducing debt had been met and the committee's objective was no longer to reduce debt, but rather to maintain a stable capital program. At the time, the high ratings of the State's debt indicated that the existing level of debt and the planned increases were acceptable to the rating agencies. The criterion also tied annual authorizations to amount of debt issued as much as 15 years before, thereby producing highly variable bond authorizations, which is inconsistent with a stable capital program. For these reasons, the committee dropped this criterion.

In its November 2008 report to the General Assembly, the committee again recommended to change the affordability criteria. As it reviewed the criteria, the committee consulted with rating agencies, investment bankers, and its financial advisor. The Capital Debt Affordability Committee met in public a half dozen times in 2007 and 2008 to discuss debt policy and the criteria. The committee determined that two criteria were no longer appropriate and recommended revising the criteria so that:

- State debt outstanding not exceed 4% of State personal income; and

- State debt service not exceed 8% of State revenues.

No change was made to the limit on debt service, and the debt outstanding limit was increased. By maintaining debt service at 8% of revenues, the new affordability policy does not increase the amount of tax resources that will be supporting debt service. The policy does increase the amount of total debt that the State may issue. This total debt has been increasing in recent years, as the State expanded GO bond authorizations and issued new kinds of debt that was not supported by the State's general fund (such as bay restoration bonds and Grant Anticipation Revenue Vehicles). The new policy accommodates these new bonds without expanding the annual resources committed to pay debt service.

Appendix 1

Extract from State of Maryland Constitution
Article III, Sec. 52.

Section 52. How appropriations to be made; budget.

(1) The General Assembly shall not appropriate any money out of the Treasury except in accordance with the provisions of this section.

(2) Every appropriation bill shall be either a Budget Bill, or a Supplementary Appropriation Bill, as hereinafter provided.

(3) On the third Wednesday in January in each year, (except in the case of a newly elected Governor, and then not later than ten days after the convening of the General Assembly), unless such time shall be extended by the General Assembly, the Governor shall submit to the General Assembly a Budget for the next ensuing fiscal year. Each Budget shall contain a complete plan of proposed expenditures and estimated revenues for said fiscal year and shall show the estimated surplus or deficit of revenues at the end of the preceding fiscal year. Accompanying each Budget shall be a statement showing: (a) the revenues and expenditures for the preceding fiscal year; (b) the current assets, liabilities, reserves and surplus or deficit of the State; (c) the debts and funds of the State; (d) an estimate of the State's financial condition as of the beginning and end of the preceding fiscal year; (e) any explanation the Governor may desire to make as to the important features of the Budget and any suggestions as to methods for reduction or increase of the State's revenue.

(4) Each Budget shall embrace an estimate of all appropriations in such form and detail as the Governor shall determine or as may be prescribed by law, as follows: (a) for the General Assembly as certified to the Governor in the manner hereinafter provided; (b) for the Executive Department; (c) for the Judiciary Department, as provided by law, as certified to the Governor; (d) to pay and discharge the principal and interest of the debt of the State in conformity with Section 34 of Article III of the Constitution, and all laws enacted in pursuance thereof; (e) for the salaries payable by the State and under the Constitution and laws of the State; (f) for the establishment and maintenance throughout the State of a thorough and efficient system of public schools in conformity with Article 8 of the Constitution and with the laws of the State; and (g) for such other purposes as are set forth in the Constitution or laws of the State.

(5) The Governor shall deliver to the presiding officer of each House the Budget and a bill for all the proposed appropriations of the Budget classified and in such form and detail as he shall determine or as may be prescribed by law; and the presiding officer of each House shall promptly cause said bill to be introduced therein, and such bill shall be known as the "Budget Bill." The Governor may, with the consent of the General Assembly, before final action thereon by the General Assembly, amend or supplement said Budget to correct an oversight, provide funds contingent on passage of pending legislation or, in case of an emergency, by delivering such an amendment or supplement to the presiding officers of both Houses; and such amendment or supplement shall thereby become a part of said Budget Bill as an addition to the items of said bill or as a modification of or a substitute for any item of said bill such amendment or supplement may affect.

(5a) The Budget and the Budget Bill as submitted by the Governor to the General Assembly shall have a figure for the total of all proposed appropriations and a figure for the total of all estimated revenues available to pay the appropriations, and the figure for total proposed appropriations shall not exceed the figure for total estimated revenues. Neither the Governor in submitting an amendment or supplement to the Budget Bill nor the General Assembly in amending the Budget Bill shall thereby cause the figure for total proposed appropriations to exceed the figure for total estimated revenues, including any revisions, and in the Budget Bill as enacted the figure for total estimated revenues always shall be equal to or exceed the figure for total appropriations.

(6) The General Assembly shall not amend the Budget Bill so as to affect either the obligations of the State under Section 34 of Article III of the Constitution, or the provisions made by the laws of the State for the establishment and maintenance of a system of public schools or the payment of any salaries required to be paid by the State of Maryland by the Constitution thereof; and the General Assembly may amend the bill by increasing or diminishing the items therein relating to the General Assembly, and by increasing or diminishing the items therein relating to the judiciary, but except as hereinbefore specified, may not alter the said bill except to strike out or reduce items therein, provided, however, that the salary or compensation of any public officer shall not be decreased during his term of office; and such bill, when and as passed by both Houses, shall be a law immediately without further action by the Governor.

(7) The Governor and such representatives of the executive departments, boards, officers and commissions of the State expending or applying for State's moneys, as have been designated by the Governor for this purpose, shall have the right, and when requested by either House of the General Assembly, it shall be their duty to appear and be heard with respect to any Budget Bill during the consideration thereof, and to answer inquiries relative thereto.

(8) Supplementary Appropriation Bill. Either House may consider other appropriations but both Houses shall not finally act upon such appropriations until after the Budget Bill has been finally acted upon by both Houses, and no such other appropriation shall be valid except in accordance with the provisions following: (a) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a Supplementary Appropriation Bill; (b) Each Supplementary Appropriation Bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be levied and collected as shall be directed in said bill; (c) No Supplementary Appropriation Bill shall become a law unless it be passed in each House by a vote of a majority of the whole number of the members elected, and the yeas and nays recorded on its final passage; (d) Each Supplementary Appropriation Bill shall be presented to the Governor of the State as provided in Section 17 of Article 2 of the Constitution and thereafter all the provisions of said section shall apply.

(9) Nothing in this section shall be construed as preventing the General Assembly from passing at any time, in accordance with the provisions of Section 28 of Article 3 of the Constitution and subject to the Governor’s power of approval as provided in Section 17 of Article 2 of the Constitution, an appropriation bill to provide for the payment of any obligation of the State within the protection of Section 10 of Article 1 of the Constitution of the United States.

(10) If the Budget Bill shall not have been finally acted upon by the Legislature seven days before the expiration of the regular session, the Governor shall issue a proclamation extending the session for some further period as may, in his judgment, be necessary for the passage of such bill; but no matter other than such bill shall be considered during such extended session except a provision for the cost thereof.

(11) For the purpose of making up the Budget, the Governor shall require from the proper State officials, (including all executive departments, all executive and administrative offices, bureaus, boards, commissions and agencies that expend or supervise the expenditure of, and all institutions applying, for State moneys and appropriations) such itemized estimates and other information, in such form and at such times as directed by the Governor. An estimate for a program required to be funded by a law which will be in effect during the fiscal year covered by the Budget and which was enacted before July 1 of the fiscal year prior to that date shall provide a level of funding not less than that prescribed in the law. The estimates for the Legislative Department, certified by the presiding officer of each House, of the Judiciary, as provided by law, certified by the Chief Judge of the Court of Appeals, and for the public schools, as provided by law, shall be transmitted to the Governor, in such form and at such times as directed by the Governor, and shall be included in the Budget without revision.

(12) The Governor may provide for public hearings on all estimates and may require the attendance at such hearings of representatives of all agencies, and for all institutions applying for State moneys. After such public hearings he may, in his discretion, revise all estimates except those for the legislative and judiciary departments, and for the public schools, as provided by law, and except that he may not reduce an estimate for a program below a level of funding prescribed by a law which will be in effect during the fiscal year covered by the Budget, and which was enacted before July 1 of the fiscal year prior thereto.

(13) The General Assembly may, from time to time, enact such laws not inconsistent with this section, as may be necessary and proper to carry out its provisions.

(14) In the event of any inconsistency between any of the provisions of this Section and any of the other provisions of the Constitution, the provisions of this Section shall prevail. But nothing herein shall in any manner affect the provisions of Section 34 of Article 3 of the Constitution or of any laws heretofore or hereafter passed in pursuance thereof, or be construed as preventing the Governor from calling extraordinary sessions of the General Assembly, as provided by Section 16 of Article 2, or as preventing the General Assembly at such extraordinary sessions from considering any emergency appropriation or appropriations.

(15) If any item of any appropriation bill passed under the provisions of this Section shall be held invalid upon any ground, such invalidity shall not affect the legality of the bill or of any other item of such bill or bills.

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