

F10A
Secretary
Department of Budget and Management

Operating Budget Data

(\$ in Thousands)

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$8,786	\$9,321	\$9,157	-\$164	-1.8%
Contingent & Back of Bill Reductions	0	0	-286	-286	
Adjusted General Fund	\$8,786	\$9,321	\$8,871	-\$450	-4.8%
Special Fund	9,556	12,083	12,125	42	0.3%
Contingent & Back of Bill Reductions	0	0	-52	-52	
Adjusted Special Fund	\$9,556	\$12,083	\$12,073	-\$10	-0.1%
Reimbursable Fund	219	170	88	-82	-48.1%
Adjusted Reimbursable Fund	\$219	\$170	\$88	-\$82	-48.2%
Adjusted Grand Total	\$18,562	\$21,574	\$21,032	-\$543	-2.5%

- Contingent reductions reduce the fiscal 2010 allowance by \$338,680. Reductions are \$154,437 by deleting 3.0 positions, \$88,168 by reducing deferred compensation contributions, \$60,054 by reducing contractual payroll, and \$36,021 by rebidding contracts.
- The adjusted fiscal 2010 allowance is approximately \$543,000 less than the working appropriation. Increases in health care and pension costs are offset by decreases attributable to contingent reductions, position transfers, reduced telecommunications charges, and other reductions.

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

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Personnel Data

	<u>FY 08</u> <u>Actual</u>	<u>FY 09</u> <u>Working</u>	<u>FY 10</u> <u>Allowance</u>	<u>FY 09-10</u> <u>Change</u>
Regular Positions	199.80	207.80	202.80	-5.00
Contractual FTEs	<u>19.41</u>	<u>16.30</u>	<u>20.20</u>	<u>3.90</u>
Total Personnel	219.21	224.10	223.00	-1.10

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	4.10	1.99%
Positions and Percentage Vacant as of 12/31/08	14.80	7.12%

- Fiscal 2009 position increases are attributable to new positions at the Central Collection Unit.
- The fiscal 2010 allowance transfers 2 positions from the Office of Budget Analysis to the Governor’s Office, and another 3 positions are abolished as part of an across-the-board action to eliminate 1,000 positions statewide.

Analysis in Brief

Major Trends

Central Collection Unit Profits: The unit collects delinquent debts, claims, and accounts due State government. Profits are defined as revenues in excess of operating costs. After increasing in fiscal 2008, profits are projected to decline in fiscal 2009. **The department should brief the committees on why profits are expected to decline in fiscal 2009.**

Fleet Management: The department manages the State’s motor vehicle fleet. Fleet management’s Managing for Results goal is ambiguous and too narrowly defined to demonstrate success. **It is recommended that the department develop and publish fleet management performance measures that evaluate if the fleet is managed cost effectively or meets environmental goals.**

Issues

Impact of Federal Fiscal Stimulus on Maryland Governments: Federal legislation increases funds for education, Medicaid, and discretionary spending by \$2.2 billion. Education and Medicaid funds can be used to support certain general fund spending. The Administration has proposed a plan to appropriate these federal funds. The plan provides the largest share of funds to offset revenue write-downs. A substantial sum also supports spending. The plan also reduces the projected fiscal 2011 budget deficit by \$83 million, leaving a \$630 million deficit. **The department should address plans for reducing the fiscal 2011 budget deficit. The department should also brief the committees on the Administration’s efforts to implement transparent oversight of this spending.**

Budget Reconciliation and Financing Act of 2009 Proposes to Transfer an Additional \$10 Million of the Central Collection Fund’s Balance into the General Fund: The Administration has introduced legislation that proposes to transfer \$10 million in excess Central Collection Unit funds to the general fund. **It is recommended that the reconciliation bill automatically require the transfer of excess balances to the general fund, obviating the need for future legislation.**

Submission of Contingent Reduction Bills and Managing for Results Performance Report: State law requires that all bills necessary to balance the State budget be submitted when the State budget is submitted. State law also requires that a Managing for Results performance report be submitted each January. In both cases, the agency has failed to comply with the law. **The department should brief the committees on why this legislation was not submitted with the operating budget, as required by law. The department should brief the committees on the status of the Managing for Results statewide plan.**

Recommended Actions

1. Amend Section 17, which limits the use of certain appropriations for their intended purpose.
2. Add a section applying across-the-board reductions in the Executive Branch to higher education institutions, unless otherwise specified.
3. Add a section providing for an accounting of workers' compensation funds.
4. Add a section requiring consistent reporting of federal monies received by the State.
5. Add a section that defines the policies under which federal funds may be used in the State budget.
6. Add a section that requires a report on indirect costs.
7. Add a section that requires the Administration to submit a general fund forecast.
8. Add a section that requires consistent reporting of fiscal 2009, 2010, and 2011 budget data.
9. Add a section that requires reporting on interagency agreements.
10. Add a section that defines the budget amendment process.
11. Add a section that requires the maintenance of accounting systems for certain programs.
12. Add a section denying the payment of a Secretary's or Acting Secretary's salary when his/her nomination as Secretary has been rejected by the Senate.

F10A
Secretary
Department of Budget and Management

Operating Budget Analysis

Program Description

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

- **Executive Direction** manages the department. It includes executive staff, Attorneys General, and the Equal Employment Opportunity program.
- **Division of Finance and Administration** is responsible for the accounting, budgeting, payroll, and purchasing functions of the department.
- **Central Collection Unit (CCU)** collects delinquent debts, claims, and accounts due to State government.
- **Division of Procurement Policy and Administration** provides centralized review and approval or rejection of procurement of services for Executive Branch agencies. The Administration also procures vehicles and manages State fleet operations.
- **Office of Budget Analysis** analyzes State agency programs, expenditures, revenues, and performance. The office recommends funding allocations and develops the operating budget with legal requirements and the Administration's directions.
- **Office of Capital Budgeting** develops an annual capital budget, prepares a five-year *Capital Improvement Program*, and reviews the master plans of State agencies.

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

Performance Analysis: Managing for Results

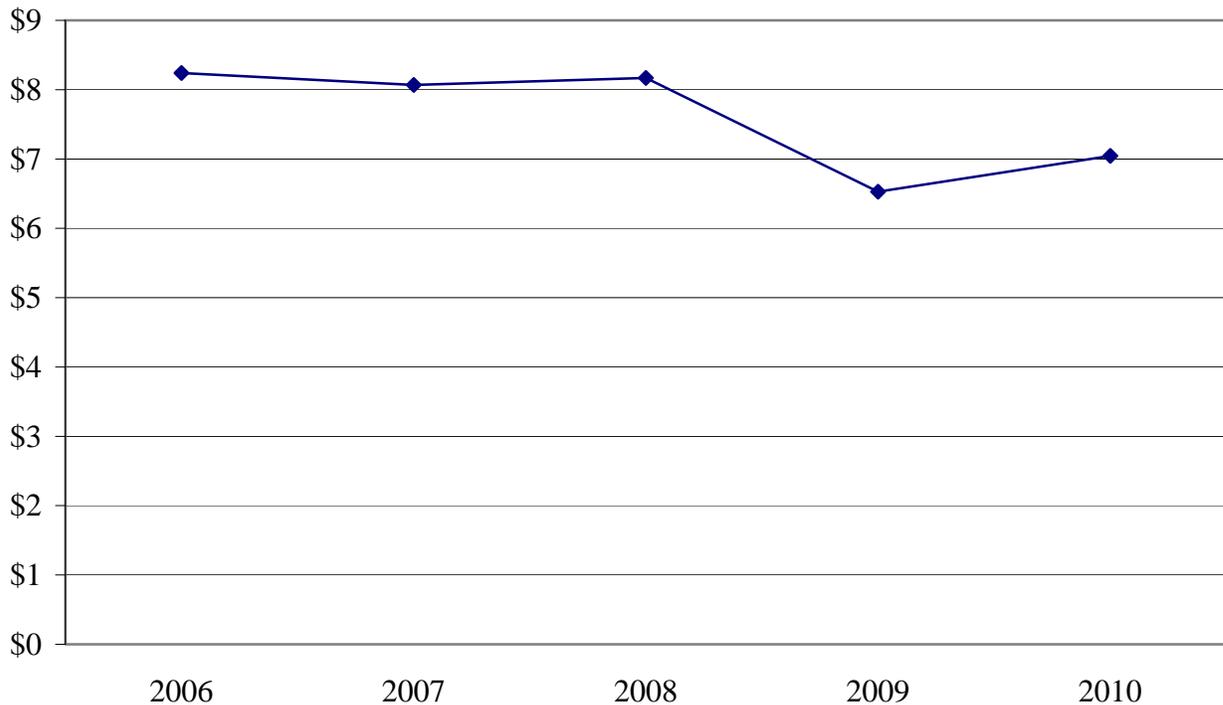
Managing for Results (MFR) is an Executive Branch initiative that measures State agency performance. The initiative requires agencies to develop strategic plans which include missions, visions, goals, objectives, and performance measures. With respect to DBM, Central Collection Unit and Fleet Management MFR data is evaluated. MFR data relating to the Office of Capital Budgeting is discussed in the Capital Budget Overview.

Debt Collection

CCU collects delinquent debts, claims, and accounts due to State government. Its mission is to collect these receivables in the “quickest and most effective manner while employing the highest professional standards.” Typical debts collected include student tuition and fees, restitution for damage to State property, reimbursement for institutional care, local health department fees, workers’ compensation premiums, and State grant overpayments. It does not collect nontax debts, such as unpaid child support payments. Collections are deposited into the Central Collection Fund (CCF).

The unit’s goal is to maximize returns on collections. With respect to this goal, one objective is to increase or maintain profits annually. **Exhibit 1** shows that profits dipped slightly in fiscal 2007 and increased again in fiscal 2008. Profits are projected to decline again in fiscal 2009 and increase again in fiscal 2010. **The department should brief the committees about why profits are expected to decline in fiscal 2009.**

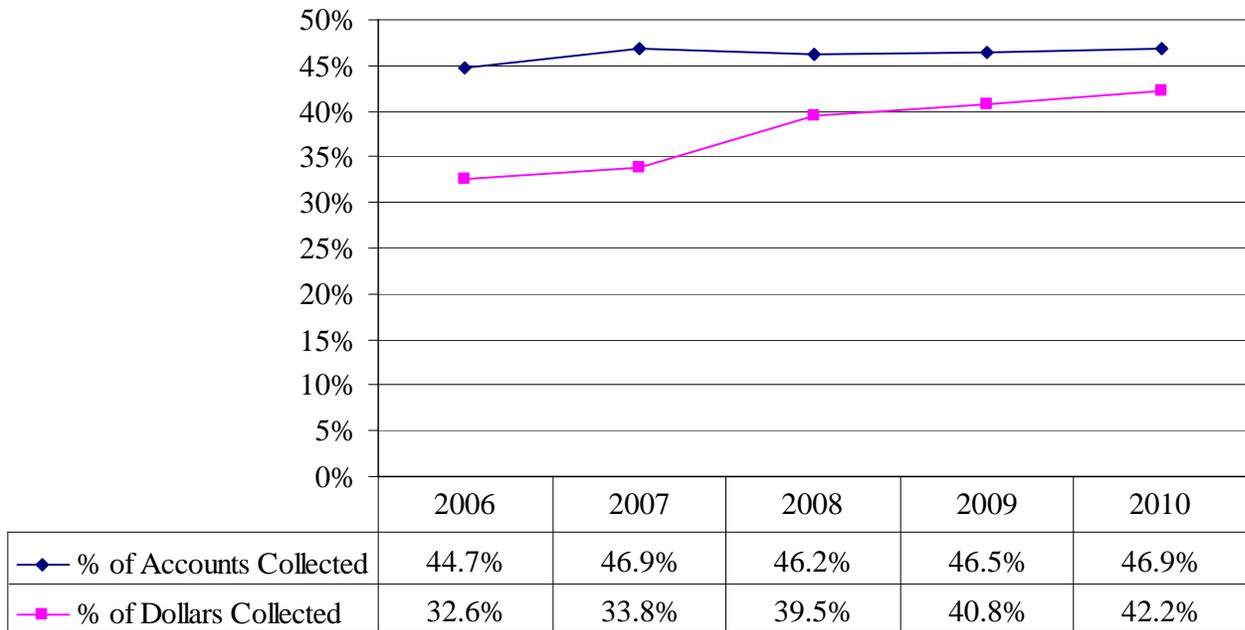
Exhibit 1
Central Collection Unit Net Profits
Fiscal 2006-2010
(\$ in Millions)



Source: Department of Budget and Management, February 2009

Another set of objectives relate to what percentage of debt owed to the State is being collected. The unit has two such objectives: to collect some or all of the debt of at least 40% of the accounts; and to collect at least 33% of the debt from the total value of referrals received. **Exhibit 2** shows that the unit met the objective to collect at least 40% of debt in fiscal 2006 to 2008 and estimates that it will meet the objective in fiscal 2009 and 2010. With respect to the objective to collect at least 33% of the value of delinquent receivables, the unit did not meet this objective in fiscal 2006 but met it in 2007 and 2008 and estimates that it will meet it again in fiscal 2009 and 2010.

Exhibit 2
Central Collection Unit
Debt Accounts Collected and Percent of Dollar Debt Collected
Fiscal 2006-2010

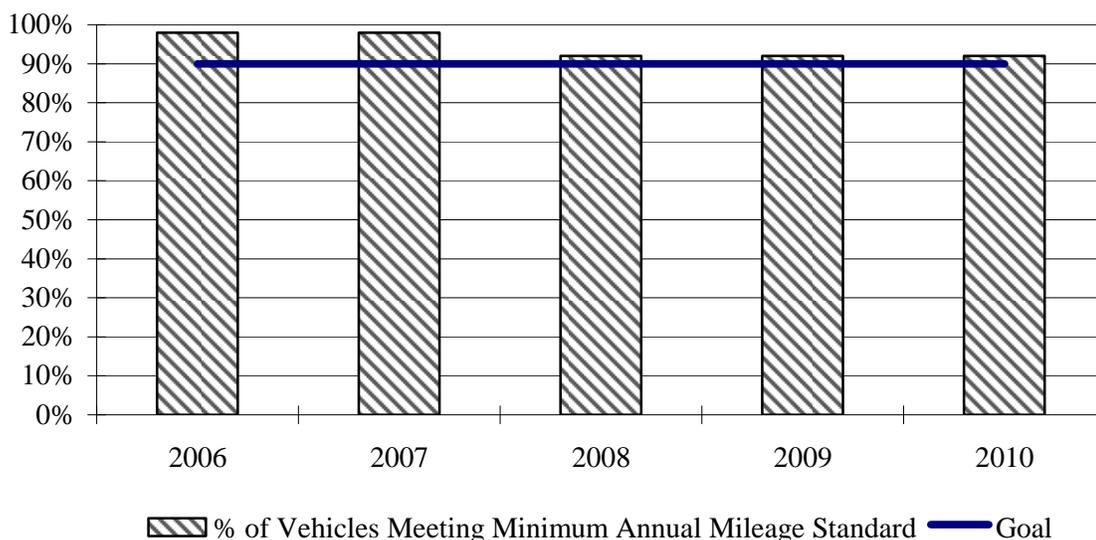


Source: Governor’s Budget Books

Fleet Management

The Division of Procurement Policy and Administration has a Fleet Administration Unit that manages the State’s motor vehicle fleet. The unit’s goal is that “State agencies use fleet vehicles efficiently.” It has developed an objective that at least 90% of State vehicles be driven the minimum number of official miles. **Exhibit 3** shows that DBM has met this objective since fiscal 2006 and estimates that it will meet it again in fiscal 2009 and 2010. The department attributes the decline in fiscal 2008 to efforts by the administration to encourage “operational/behavioral changes ... to reduce the carbon footprint of the State vehicle fleet.”

**Exhibit 3
Percent of Vehicles Meeting Minimum Driving Standards
Fiscal 2006-2010**



Source: Governor’s Budget Books

This one performance measure does not adequately address fleet management’s mission. The measure is ambiguous because it is unclear if increasing the percentage is desirable or undesirable. The measure is also too narrow to demonstrate success. Efficiently managing the fleet involves more than just measuring the amount of vehicles that meet minimum driving standards. Fleet management should be cost effective and, as the explanation for the decline in fiscal 2008 suggests, there are also environmental concerns. **It is recommended that the department develop and publish fleet management performance measures that evaluate if the fleet is managed cost effectively or meets environmental goals.**

Fiscal 2009 Actions

Impact of Cost Containment

To date, cost containment actions approved by the Board of Public Works in June and October 2008 have reduced DBM’s fiscal 2009 working appropriation by approximately \$528,000, consisting of \$469,000 in general fund appropriations and over \$58,000 in special fund appropriations. General fund reductions are largely attributable to personnel reductions such as deleting a position (\$88,000) and keeping positions vacant (\$218,000). The remaining reductions

were achieved by reducing administrative costs such as printing, advertising, and travel. Special fund reductions were attributable to deleting a position (\$37,000) and reducing administrative costs. To reduce general fund spending, cost containment also substituted special funds for general funds. In October 2008, DBM identified \$150,000 in these fund swaps.

Proposed Budget

Exhibit 4 shows that DBM's fiscal 2010 allowance is approximately \$543,000 less than the fiscal 2009 working appropriation, after adjusting for contingent reductions. Though some areas of the budget (such as fringe benefits and CCU operations) are increasing, these costs are offset by across-the-board reductions, reduced charges from other agencies, position transfers, and collections system development costs. Specific cost increases are attributable to:

- ***Continued Growth in Personnel Fringe Benefits:*** health insurance and pension costs add approximately \$432,000 to the allowance;
- ***CCU Operating Cost Increases:*** collections employees performance bonuses and rent increase expenditures by approximately \$135,000; and
- ***Overtime, Turnover, and Contractual Employee Costs:*** reductions in overtime and contractual full-time equivalent employees are offset by adding funds that reduce the turnover rate, increasing expenditures by approximately \$29,000.

These cost increases are offset by:

- ***Statewide Across-the-board Reductions:*** Other Post Employment Benefits, as well as contingent reductions listed on the cover page (Section 18 position, Section 21 deferred compensation, Section 23 contractual position, and Section 24 rebidding contract reductions) reduce the allowance by approximately \$578,000;
- ***Reduced Charges from Other Agencies:*** telecommunications costs, Annapolis Data Center, and Office of Administrative Hearing charges are reduced by approximately \$346,000;
- ***Position Transfers to Governor's Office:*** transferring positions to the Governor's Office and annualizing salary and fringe benefits reduce spending by approximately \$166,000; and
- ***Collection System Development:*** as the new collection system project moves from development to implementation, a reduced need for consulting services is offset somewhat by the need for a contractual project manager, reducing expenditures by approximately \$113,000.

This fiscal 2010 allowance also reflects a change in the distribution of funds supporting DBM. Cost containment actions swapped the funding source for local area network, Office of Personnel Benefits and Pension, and project management charges from the general fund to the special funds. In fiscal 2010, this swap totaled approximately \$362,000.

Exhibit 4
Proposed Budget
Department of Budget and Management - Secretary
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Fund</u>	<u>Reimb.</u> <u>Fund</u>	<u>Total</u>
2009 Working Appropriation	\$9,321	\$12,083	\$170	\$21,574
2010 Allowance	<u>9,157</u>	<u>12,125</u>	<u>88</u>	<u>21,371</u>
Amount Change	-\$164	\$42	-\$82	-\$204
Percent Change	-1.8%	0.3%	-48.1%	-0.9%
Contingent Reductions	-\$286	-\$52	\$0	-\$339
Adjusted Change	-\$450	-\$10	-\$82	-\$543
Adjusted Percent Change	-4.8%	-0.1%	-48.2%	-2.5%

Where It Goes:

Personnel Expenses

Transfer 2.0 positions to Governor’s Office	-\$166
Across-the-board reduction to delete 3.0 positions (Section 18)	-154
Across-the-board reduction to deferred compensation match (Section 21)	-88
Employee and retiree health insurance pay-as-you-go costs	288
Other Post Employment Benefits’ unfunded liability	-240
Retirement contribution	144
Adjust salary and fringe benefit expenditures, including annualization of DoIT transfers	-153
Projected increased incentive bonuses for CCU	50
Reduced overtime	-27
Additional accrued leave payout.....	10
Workers’ compensation premium assessment	13
Turnover adjustments.....	89
Other fringe benefit adjustments.....	1

Central Collection Unit Special Fund Expenses

Contractual project manager	107
Reduced collections system development consulting costs	-220
Allocation of additional information technology and DBM Personnel fund swap costs	180
Statewide Department of Information Technology Telecommunications Charges	-56
Rent	85

Other General Fund Changes

Across-the-board contractual positions reduction (Section 23)	-60
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F10A – DBM – Secretary

Where It Goes:

Across-the-board re-bid contract reduction (Section 24).....	-36
Statewide Department of Information Technology Telecommunications Charges	-131
Office of Administrative Hearings allocation.....	-137
Reduced contractual services payroll.....	-33
Annapolis Data Center charges.....	-22
Other Changes	13
Total	-\$543

CCU: Central Collection Unit
 DBM: Department of Budget and Management
 DoIT: Department of Information Technology

DBM's position count is also being reduced in the fiscal 2010 allowance. **Exhibit 5** shows that the reduction is attributable to 2 positions deleted in October 2008 cost containment, 5 positions transferred to other agencies, and 3 positions deleted in Section 18.

Exhibit 5
DBM Position Changes
Fiscal 2009 Legislative Appropriation to Fiscal 2010 Allowance

<u>Program</u>	<u>Position</u>	<u>Action</u>	<u>PIN Count</u>
Fiscal 2009 Legislative Appropriation Position Count			212.80
OBA	Budget Analyst	October Cost Containment	1.00
Central Collection Unit	Office Clerk	October Cost Containment	1.00
Executive Direction	Assistant Attorney General	Transfer Positions to DoIT	1.00
Finance and Administration	Program Manager	Transfer Positions to DoIT	1.00
Central Collection Unit	Computer Network Specialist	Transfer Positions to DoIT	1.00
Fiscal 2009 Working Appropriation Subtotal			207.80
OBA	Administrator	Transfer to Gov.'s Office	1.00
OBA	Administrator	Transfer to Gov.'s Office	1.00
Fiscal 2010 Allowance Subtotal			2.00
n/a	n/a	Section 18 Reductions	3.00
Adjusted Fiscal 2010 Allowance			202.80

DBM: Department of Budget and Management
 DoIT: Department of Information Technology
 OBA: Office of Budget Analysis
 PIN: Position Identification Number

Source: Department of Budget and Management, February 2009

Issues

1. Impact of Federal Fiscal Stimulus on Maryland Governments

On February 17, 2009, President Barack H. Obama signed the American Recovery and Reinvestment Act (ARRA) into law. The Congressional Budget Office estimates that the ARRA increases federal spending by \$575 billion and reduces federal tax collections by \$212 billion between 2009 and 2019. This issue examines the effect of the spending provision of the legislation on governmental units in Maryland.

ARRA's provisions support state programs by investing in infrastructure, funding education programs, supporting human services programs, and providing discretionary funds to states. **Exhibit 6** shows that the Department of Legislative Services' (DLS) initial review of the ARRA identifies almost \$4.0 billion in formula funding provided to Maryland governments.

The funds identified are the ARRA appropriations that are distributed by formula to Maryland State and local governments. **Appendix 4** provides a description of each program listed in the exhibit. The ARRA also funds programs for which State and local governments must competitively bid to receive grants. At this time, it is not possible to determine the fiscal impact that competitively bid appropriations will have on Maryland.

Administration Plan for Federal Stimulus Funds

On February 20, 2009, the Administration announced a plan to spend the federal stimulus funds. The plan applies \$2.2 billion in Medicaid, Discretionary Fiscal Stabilization, and Education Fiscal Stabilization funds. **Exhibit 7** shows that 21% of the ARRA funds had already been recognized in the budget submitted by the Administration in January.

The Bureau of Revenue Estimates (BRE) is scheduled to meet again on March 12, 2009. It is anticipated that BRE will reduce the amount of revenues that the general fund is projected to realize. The Administration's plan also recognizes the economy's continued poor performance and assumes another \$800 million less in revenues from fiscal 2009 to 2011.

DLS is concerned that the plan does not provide a sufficient fund balance. Indications suggest that the economy is continuing to worsen. There is still a considerable risk that revenues will underperform. The plan also does not adequately address the fiscal 2011 projected shortfall. Even if the economy does not deteriorate further, the Administration's forecast shows a \$630 million deficit at the end of fiscal 2011. The bottom line is that the influx of \$2.2 billion in federal funds improves the general fund forecast by \$83 million, when compared to the budget submitted in January.

The department should address plans for reducing the fiscal 2011 budget deficit.

Exhibit 6
Impact of Federal Recovery and Reinvestment Act on Maryland
State Fiscal 2009-2011
(\$ in Millions)

<u>Program</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
Potentially Helpful to the State General Fund				
Fiscal Stabilization - Education	\$0.0	\$296.0	\$425.2	\$721.2
Fiscal Stabilization - Discretionary	0.0	80.2	80.2	160.5
Medicaid	398.3	563.9	300.7	1,262.9
Subtotal	\$398.3	\$940.1	\$806.1	\$2,144.5
Education Grants Appropriated in the State Budget				
Special Education	\$26.0	\$104.0	\$78.0	\$208.0
Title 1	22.5	89.8	67.4	179.7
Education Technology	1.0	4.2	3.1	8.3
Subtotal	\$49.5	\$198.0	\$148.5	\$396.0
Other Relief Appropriated in the State Budget				
State Energy Programs	\$7.2	\$28.7	\$21.5	\$57.5
Weatherization	0.0	35.0	30.6	65.6
Community Services Block Grant	1.7	6.9	5.1	13.7
Homelessness Prevention	0.0	2.9	2.9	5.7
Community Development Block Grant	0.0	2.2	0.0	2.2
Foster Care	3.2	12.9	9.7	25.9
Food Assistance	28.7	114.7	86.0	229.4
Temporary Assistance for Needy Families	3.7	14.6	11.0	29.2
Ind. Living, Homeless Educ. & Work Study	0.5	2.1	1.6	4.2
Child Care & Development Block Grant	3.0	12.0	9.0	24.0
Vocational Rehabilitation	0.8	3.3	2.5	6.6
Workforce Inv./Dislocated Workers	4.4	17.6	13.2	35.3
UI State Administration Grants	1.5	6.2	1.5	9.2
Preventive Health BG/Immunization	0.5	2.0	1.5	4.0
Byrne Grants/Public Safety Grants	0.0	20.0	13.4	33.4
Subtotal	\$55.3	\$281.2	\$209.5	\$545.9
Infrastructure Appropriated in the State Budget				
Highways	\$53.9	\$269.4	\$107.8	\$431.0
Transit Capital	22.4	89.6	67.2	179.3
HOME Investment Partnerships Program	0.0	23.6	8.1	31.7
Clean Water	24.1	72.2	0.0	96.3
Drinking Water	6.8	20.3	0.0	27.0
Subtotal	\$107.1	\$475.1	\$183.0	\$765.2
Federal Grants Not Appropriated in the State Budget				
Local Homelessness Prevention	\$0.0	\$8.4	\$8.4	\$16.8
Local Community Development Block Grant	0.0	6.4	6.4	12.8
Head Start	7.9	0.0	0.0	7.9
Local Byrne Grants	0.0	9.5	6.3	15.8
Public Housing	0.0	48.4	0.0	48.4
Subtotal	\$7.9	\$72.7	\$21.1	\$101.8
Total	\$618.1	\$1,967.1	\$1,368.3	\$3,953.5

Source: Department of Legislative Services, March 2009

Exhibit 7
Sources and Uses of ARRA Funds
Medicaid and Fiscal Stabilization
Fiscal 2009 to 2011
(\$ in Millions)

<u>Sources</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>	<u>% of Total</u>
Enhanced Medicaid Match	\$420	\$560	\$300	\$1,280	59%
Fiscal Stabilization – Discretionary	0	80	80	160	7%
Fiscal Stabilization – Education	0	296	425	721	33%
Total	\$420	\$936	\$805	\$2,161	100%
Uses					
Federal Funds Assumed in Budget	0	350	350	700	32%
Revenue Write-down	300	300	200	800	37%
Deficiencies and Restored Reductions	89	161	176	426	20%
Other Spending	38	151	63	252	12%
Increase End-of-year Fund Balance	-7	24	66	83	4%
Subtotal	\$420	\$986	\$855	\$2,261	
Legislative Reductions	0	-50	-50	-100	-5%
Total Uses	\$420	\$936	\$805	\$2,161	100%

ARRA: American Recovery and Reinvestment Act

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

Source: Governor’s Office, February 20, 2009 Press Release

Oversight of Federal Stimulus Spending

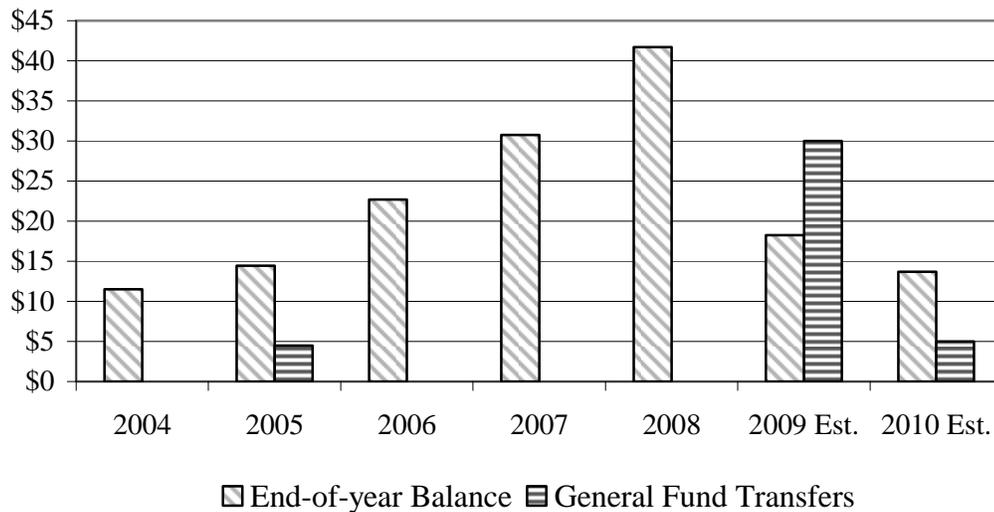
The ARRA was enacted in the second year of a recession. Current economic data suggests that projected general fund revenues receipts will be written down in March. The goal of the legislation was to support essential services and provide a stimulus for the economy. When such a substantial sum of funds is provided during a deepening recession, the administrators of these funds should be accountable for how the funds are spent. The federal government has committed to making the spending of these funds transparent. A number of other states are developing oversight structures such as State web sites, whose goal, in part, is to promote transparency. **The department should brief the committee in the Administration’s efforts to implement transparent oversight of this spending.**

2. Budget Reconciliation and Financing Act of 2009 Proposes to Transfer an Additional \$10 Million of the Central Collection Fund’s Balance into the General Fund

CCU collects delinquent debts, claims, and accounts due to State government. Sections 3-301 to 3-306 of the State Finance and Procurement Article require that the collections be deposited into the CCF and that collections support CCU operations.

As discussed previously in the MFR section, collections have been exceeding expenditures. **Exhibit 8** shows that the CCF balance increased from \$11.5 million at the end of fiscal 2004 to \$41.7 million at the end of fiscal 2008. State law does not allow for a consistent transfer of excess fund balances from the CCF to the general fund. Instead, legislation is required to transfer funds. Chapter 430 of 2004 was enacted to transfer \$4.5 million from the CCF to the general fund. Another \$25.0 million was transferred in Chapter 417 of 2008. House Bill 101/Senate Bill 166 (Budget Reconciliation and Financing Act of 2009) proposes to transfer \$5.0 million in fiscal 2009 and \$5.0 million in fiscal 2010 from the CCF to the general fund. If approved, the end-of-year fiscal 2010 fund balance is projected to be \$13.7 million.

Exhibit 8
Central Collection Fund End-of-year Balance and General Fund Transfers
Fiscal 2004-2010
(\$ in Millions)



Source: Department of Budget and Management, February 2009

As discussed in the MFR section, CCU is projected to generate at least \$6.5 million annually in profits. These funds will accumulate until such time as legislation transferring the funds is enacted. **To simplify the transfer of excess funds from the CCF to the general fund, it is recommended that the General Assembly pass legislation requiring the transfer of excess funds. The proposed language will be discussed at the bill hearings for Senate Bill 166 and House Bill 101 (Budget Reconciliation and Financing Act of 2009). Specifically, the following language is recommended to be added to Section 3-306 of the State Finance and Procurement Article:**

(H) ANY BALANCE IN THE FUND AT THE END OF JUNE 30 OF EACH FISCAL YEAR IN EXCESS OF 10 PERCENT OF THE ACTUAL EXPENSES OF OPERATING THE CENTRAL COLLECTION UNIT FOR THAT FISCAL YEAR REVERTS TO THE GENERAL FUND.

3. Submission of Contingent Reduction Bills and Managing for Results Performance Report

Submission of Bills Required to Balance the State Budget

Section 7-106 of the State Finance and Procurement Article requires that the Administration submit each bond or revenue bill necessary to balance the State budget by the third Wednesday in January (the same day that the budget bill is to be submitted).⁽¹⁾ The fiscal 2010 budget bill assumes contingent reductions totaling \$8 million derived from legislation allowing 12-hour shifts at the Department of Public Safety and Correctional Services and another \$1 million from legislation referred to as the Health Program Integrity Act. This legislation has not yet been submitted. **The department should brief the committees on why this legislation was not submitted with the operating budget, as required by law.**

Annual Performance Report

Section 3-1002 of the State Finance and Procurement Article requires that DBM provide the budget committees an annual Managing for Results performance report each January. The report has not yet been received by the budget committees. **The department should brief the committees on the status of this report.**

⁽¹⁾ An exception is made in the case of a newly elected Governor's first session. As with the budget bill, bond or revenue bills required to balance the budget may be submitted 10 days after the convening of the General Assembly in a new Governor's first session.

Recommended Actions

1. Amend the following section:

Section 17 Using Funds for Their Intended Purpose

SECTION 17. AND BE IT FURTHER ENACTED, That funds appropriated to the various State agency programs and subprograms in Comptroller Objects 0152 (Health Insurance), 0154 (Retirees Health Insurance Premiums), 0157 (Other Post Retirement Benefits), 0175 (Workers' Compensation), 0217 (Health Insurance – Maryland Department of Transportation only), 0305 (DBM Paid Telecommunications) and 0322 (Capital Lease Telecommunications) are to be utilized for their intended purposes only. ~~The expenditure or transfer of these funds for other purposes requires the prior approval of the Secretary of Budget and Management.~~ Notwithstanding any other provision of law, the Secretary of Budget and Management may transfer amounts appropriated in Comptroller Objects 0152, 0154, 0305, and 0322 between State departments and agencies by approved budget amendment in fiscal year 2008 and fiscal year 2009. All funds budgeted in or transferred to Comptroller Objects 0152 and 0154, and any funds restricted in this budget for use in the employee and retiree health insurance program that are unspent shall be credited to the fund as established in accordance with Section 2–516 of the State Personnel and Pensions Article of the Annotated Code of Maryland. Any funds restricted in this budget to be utilized for other postretirement benefits that are unspent shall be credited to the Postretirement Health Benefits Trust Fund as established in accordance with Section 34-101 of the State Personnel and Pensions Article of the Annotated Code of Maryland.

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

Explanation: This amendment makes it possible for the Office of Legislative Audits to track the disposition of funds in statewide subobjects 0152, 0154, 0157, 0175, 0217, 0305, and 0322. The language also deletes a provision that allows the Secretary of Budget and Management to transfer these funds for other purposes. This provision allows the Administration to eliminate spending shortfalls without legislative oversight. For example, fiscal 2001 budget shortfalls were eliminated by transferring \$9.6 million from the workers' compensation account and \$1.6 million from health insurance account. To promote fiscal accountability, the Department of Legislative Services recommends that the budget committees strike this provision.

2. Add the following section:

Section __ Across-the-board Reductions and Higher Education

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

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

3. Add the following section:

Section __ Injured Workers’ Insurance Fund Accounts

SECTION __. AND BE IT FURTHER ENACTED, That the Comptroller of the Treasury’s General Accounting Division shall establish a subsidiary ledger control account to debit all State agency funds budgeted under subobject 0175 (workers’ compensation coverage) and to credit all payments disbursed to the Injured Workers’ Insurance Fund (IWIF) via transmittal. The control account shall also record all funds withdrawn from IWIF and returned to the State and subsequently transferred to the general fund. IWIF shall submit monthly reports to the Department of Legislative Services concerning the status of the account.

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

Information Request	Author	Due Date
Report on status of ledger control account	IWIF	Monthly beginning on July 1, 2009

4. Add the following section:

Section __ Reporting Federal Funds

SECTION __. AND BE IT FURTHER ENACTED, That the Governor’s budget books shall include a summary statement of federal revenues by major federal program sources supporting the federal appropriations made therein along with the major assumptions underpinning the federal fund estimates. The Department of Budget and Management (DBM) shall exercise due diligence in reporting this data and ensure that they are updated as appropriate to reflect ongoing congressional action on the federal budget. In addition, DBM

shall provide to the Department of Legislative Services (DLS) data for the actual, current, and budget years listing the components of each federal fund appropriation by Catalog of Federal Domestic Assistance number or equivalent detail for programs not in the catalog. Data shall be provided in an electronic format subject to the concurrence of DLS.

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

Information Request	Author	Due Date
Report of components of each federal fund appropriation	DBM	With submission of fiscal 2011 budget

5. Add the following section:

Section __ Federal Fund Spending

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

- (1) State agencies shall administer these federal funds in a manner that recognizes that federal funds are taxpayer dollars that require prudent fiscal management, careful application to the purposes for which they are directed, and strict attention to budgetary and accounting procedures established for the administration of all public funds.
- (2) For fiscal 2010, except with respect to capital appropriations, to the extent consistent with federal requirements:
 - (a) when expenditures or encumbrances may be charged to either State or federal fund sources, federal funds shall be charged before State funds are charged; this policy does not apply to the Department of Human Resources with respect to federal funds to be carried forward into future years for child welfare or welfare reform activities, or to the Department of Health and Mental Hygiene with respect to funds to be carried forward into future years for the purpose of reducing the waiting list for community services for individuals with developmental disabilities or with respect to funds to be carried forward into future years for HIV/AIDS-related activities, or to the Maryland State Department of Education with respect to funds to be carried forward into future years for child care;

- (b) when additional federal funds are sought or otherwise become available in the course of the fiscal year, agencies shall consider, in consultation with the Department of Budget and Management, whether opportunities exist to use these federal revenues to support existing operations rather than to expand programs or establish new ones; and
- (c) the Department of Budget and Management shall take appropriate actions to effectively establish these as policies of the State with respect to administration of federal funds by executive agencies.

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

- 6. Add the following section:

Section __ Indirect Costs Report

SECTION __. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall provide an annual report on indirect costs to the General Assembly in January 2010 as an appendix in the Governor’s fiscal 2011 budget books. The report shall detail by agency for the actual fiscal 2009 budget the amount of statewide indirect cost recovery received, the amount of statewide indirect cost recovery transferred to the general fund, and the amount of indirect cost recovery retained for use by each agency. In addition, it shall list the most recently available federally approved statewide and internal agency cost recovery rates. As part of the normal fiscal/compliance audit performed for each agency once every three years, the Office of Legislative Audits shall assess available information on the timeliness, completeness, and deposit history of indirect cost recoveries by State agencies. Further provided that for fiscal 2010, excluding the Maryland Department of Transportation, the amount of revenue received by each agency from any federal source for statewide cost recovery may only be transferred to the general fund and may not be retained in any clearing account or by any other means, nor may DBM or any other agency or entity approve exemptions to permit any agency to retain any portion of federal statewide cost recoveries.

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

Information Request	Author	Due Date
Annual report on indirect costs	DBM	With submission of the Governor’s fiscal 2011 budget books

7. Add the following section:

Section __ Executive Long-term Forecast

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

Explanation: This annual language provides for the delivery of the Executive’s general fund forecast and defines the conditions under which it is to be provided., requiring that recovered funds may only be transferred to the general fund.

Information Request	Author	Due Date
Executive’s general fund forecast	Department of Budget and Management	With submission of the Governor’s fiscal 2011 budget books

8. Add the following section:

Section __ Reporting on Budget Data and Organizational Charts

SECTION __. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that all State departments, agencies, bureaus, commissions, boards, and other organizational units included in the State budget, including the Judiciary, shall prepare and submit items for the fiscal 2011 budget detailed by Comptroller subobject classification in accordance with instructions promulgated by the Comptroller of the Treasury. The presentation of budget data in the State budget books shall include object, fund, and personnel data in the manner provided for in fiscal 2010 except as indicated elsewhere in this Act; however, this shall not preclude the placement of additional information into the budget books. For actual fiscal 2009 spending, the fiscal 2010 working appropriation, and the fiscal 2011 allowance, the budget detail shall be available from the Department of Budget and Management’s (DBM) automated data system at the subobject level by subobject codes and classifications for all agencies. To the extent possible, except for public higher education institutions, subobject expenditures shall be designated by fund for actual fiscal 2009 spending, the fiscal 2010 working appropriation, and the fiscal 2011 allowance. The agencies shall exercise due diligence in reporting this data and ensuring correspondence

between reported position and expenditure data for the actual, current, and budget fiscal years. This data shall be made available upon request and in a format subject to the concurrence of the Department of Legislative Services (DLS). Further, the expenditure of appropriations shall be reported and accounted for by the subobject classification in accordance with the instructions promulgated by the Comptroller of the Treasury.

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

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

Explanation: This annual language provides for consistent reporting of fiscal 2009, 2010, and 2011 budget data, and provides for the submission of department, unit, agency, office, and institutions' organizational charts to the Department of Legislative Services with the allowance.

9. Add the following section:

Section __ Interagency Agreements

SECTION __. AND BE IT FURTHER ENACTED, That it is the intent of the General Assembly that on or before August 1, 2009, each State agency and each public institution of higher education shall report to the Department of Budget and Management (DBM) any agreements in place for any part of fiscal 2009 between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000 over the term of the agreement. Further provided that DBM shall provide direction and guidance to all State agencies and public institutions of higher education as to the procedures and specific elements of data to be reported with respect to these interagency agreements, to include at a minimum:

- (1) a common code for each interagency agreement that specifically identifies each agreement and the fiscal year in which the agreement began;
- (2) the starting date for each agreement;
- (3) the ending date for each agreement;

- (4) a total potential expenditure, or not-to-exceed dollar amount, for the services to be rendered over the term of the agreement by any public institution of higher education to any State agency;
- (5) a description of the nature of the goods and services to be provided;
- (6) the total number of personnel, both full-time and part-time, associated with the agreement; and
- (7) contact information for the agency and the public institution of higher education for the person(s) having direct oversight or knowledge of the agreement.

Further provided that DBM shall submit a consolidated report to the budget committees and the Department of Legislative Services by December 1, 2009, that contains information on all agreements between State agencies and any public institution of higher education involving potential expenditures in excess of \$100,000, that were in effect at any time during fiscal 2009.

Explanation: The language requires all State agencies and public institutions of higher education to report on all interagency agreements between State agencies and public institutions of higher education having a total potential expenditure over the term of the agreement in excess of \$100,000. This applies only to agreements for the purchase of goods and/or services and does not apply to grants or space agreements between State agencies and public institutions of higher education. Further, it requires that the Department of Budget and Management (DBM) submit a consolidated report on all agreements by December 1, 2009, to the budget committees and the Department of Legislative Services.

Information Request	Author	Due Date
Consolidated report on all interagency agreement	DBM	December 1, 2009

10. Add the following section:

Section __ Budget Amendments

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

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

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- (a) appropriating funds available as a result of the award of federal disaster assistance;
 - (b) transferring funds from the State Reserve Fund – Economic Development Opportunities Fund for projects approved by the Legislative Policy Committee; and
 - (c) appropriating funds for Major Information Technology Development Project Fund projects approved by the budget committees.
- (2) Budget amendments increasing total appropriations in any fund account by \$100,000 or more may not be approved by the Governor until (i) that amendment has been submitted to the Department of Legislative Services (DLS) and (ii) the budget committees or the Legislative Policy Committee have considered the amendment or 45 days have elapsed from the date of submission of the amendment. Each amendment submitted to DLS shall include a statement of the amount, sources of funds and purposes of the amendment, and a summary of impact on budgeted or contractual position and payroll requirements.
- (3) Unless permitted by the budget bill or the accompanying supporting documentation or by other authorizing legislation, and notwithstanding the provisions of Section 3-216 of the Transportation Article, a budget amendment may not:
- (a) restore funds for items or purposes specifically denied by the General Assembly;
 - (b) fund a capital project not authorized by the General Assembly provided, however, that subject to provisions of the Transportation Article, projects of the Maryland Department of Transportation shall be restricted as provided in Section 1 of this Act;
 - (c) increase the scope of a capital project by an amount 7.5 percent or more over the approved estimate or 5 percent or more over the net square footage of the approved project until the amendment has been submitted to DLS and the budget committees have considered and offered comment to the Governor or 45 days have elapsed from the date of submission of the amendment. This provision does not apply to the Maryland Department of Transportation; and
 - (d) provide for the additional appropriation of special, federal, or higher education funds of more than \$100,000 for the reclassification of a position or positions.
- (4) A budget may not be amended to increase a federal fund appropriation by \$100,000 or more unless documentation evidencing the increase in funds is provided with the

amendment and fund availability is certified by the Secretary of Budget and Management.

- (5) No expenditure or contractual obligation of funds authorized by a proposed budget amendment may be made prior to approval of that amendment by the Governor.
- (6) Notwithstanding the provisions of this section, any federal, special, or higher education fund appropriation may be increased by budget amendment upon a declaration by the Board of Public Works that the amendment is essential to maintaining public safety, health, or welfare, including protecting the environment or the economic welfare of the State.
- (7) Further provided that the fiscal 2010 appropriation detail as shown in the Governor’s budget books submitted to the General Assembly in January 2010 and the supporting electronic detail shall not include appropriations for budget amendments that have not been signed by the Governor, exclusive of the Maryland Department of Transportation pay-as-you-go capital program.
- (8) Further provided that it is the policy of the State to recognize and appropriate additional special, higher education, and federal revenues in the budget bill as approved by the General Assembly. Further provided that for the fiscal 2011 allowance the Department of Budget and Management shall continue policies and procedures to minimize reliance on budget amendments for appropriations that could be included in a deficiency appropriation.

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

11. Add the following section:

Section __ Maintenance of Accounting Systems

SECTION . AND BE IT FURTHER ENACTED, That:

- (1) The Secretary of Health and Mental Hygiene shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2009 in program M00Q01.03 Medical Care Provider Reimbursements have been disbursed for services provided in that fiscal year and shall prepare and submit the periodic reports required under this section for that program.
- (2) The State Superintendent of Schools shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2009 to program R00A02.07 Students With Disabilities for Non-public Placements have been disbursed for services provided in that fiscal year and to prepare periodic reports as required under this section for that program.

- (3) The Secretary of Human Resources shall maintain the accounting systems necessary to determine the extent to which funds appropriated for fiscal 2009 in program N00G00.01 Foster Care Maintenance Payments have been disbursed for services provided in that fiscal year and to prepare the periodic reports required under this section for that program.
- (4) For the programs specified, reports shall indicate total appropriations for fiscal 2009 and total disbursements for services provided during that fiscal year up through the last day of the second month preceding the date on which the report is to be submitted and a comparison to data applicable to those periods in the preceding fiscal year.
- (5) Reports shall be submitted to the budget committees, the Department of Legislative Services, the Department of Budget and Management, and the Comptroller on November 1, 2009, March 1, 2010, and June 1, 2010.
- (6) It is the intent of the General Assembly that general funds appropriated for fiscal 2009 to the programs specified that have not been disbursed within a reasonable period, not to exceed 12 months from the end of the fiscal year, shall revert.

Explanation: This annual language requires the maintenance of accounting systems for certain programs, states the intent of the General Assembly that general funds not disbursed be reverted, and requires reporting of disbursements by the Department of Health and Mental Hygiene (DHMH), the Maryland State Department of Education (MSDE), and the Department of Human Resources (DHR).

Information Request	Authors	Due Date
Report on appropriations and disbursements in M00Q01.03, R00A02.07, and N00G00.01	DHMH MSDE DHR	November 1, 2009 March 1, 2010 June 1, 2010

12. Add the following section:

Section __ Secretary’s or Acting Secretary’s Nomination and Salary

SECTION . AND BE IT FURTHER ENACTED, That no funds in this budget may be expended to pay the salary of a Secretary or Acting Secretary of any department whose nomination as Secretary has been rejected by the Senate or an Acting Secretary who was serving in that capacity prior to the 2009 session whose nomination for the Secretary position was not put forward and approved by the Senate during the 2009 session.

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

Current and Prior Year Budgets

Current and Prior Year Budgets DBM - Office of the Secretary (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2008					
Legislative Appropriation	\$9,280	\$9,780	\$0	\$255	\$19,315
Deficiency Appropriation	0	330	0	0	330
Budget Amendments	-107	105	0	8	6
Cost Containment	-197	-11	0	0	-208
Reversions and Cancellations	-191	-647	0	-43	-882
Actual Expenditures	\$8,785	\$9,557	\$0	\$219	\$18,561
Fiscal 2009					
Legislative Appropriation	\$9,367	\$11,343	\$0	\$170	\$20,880
Cost Containment	-469	-58	0	0	-528
Budget Amendments	423	799	0	0	1,222
Working Appropriation	\$9,321	\$12,083	\$0	\$170	\$21,574

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

Fiscal 2008

Fiscal 2008 actual spending totaled \$18.6 million, which is approximately \$754,000 less than the legislative appropriation. General fund actual expenses totaled \$8.8 million, which is approximately \$494,000 less than budgeted. The reduction was attributable to budget amendments (which transferred resources to the new Department of Information Technology and provided funds for the general salary increase), cost containment (which reduced personnel, contractual information technology, and supply expenses), and reversions (which primarily attributable to contractual employee and travel reductions).

Special fund actual expenditures totaled \$9.6 million, which is approximately \$224,000 less than budgeted. CCU received a deficiency appropriation of \$330,000 to support a new vendor payments program with the federal government. Budget amendments provided funding for the general salary increase. Cancelled funds were primarily attributable to salary and wage costs, which were less than anticipated due to high vacancy rates.

Reimbursable fund expenditures totaled approximately \$219,000. Additional funds attributable to the general salary increase were offset by cancelled funds resulting from ending a media research contract.

Fiscal 2009

The fiscal 2009 working appropriation totals \$21.6 million, which is approximately \$694,000 more than the legislative appropriation. Cost are reduced approximately \$528,000 in the June and October 2008 cost containment actions described earlier in the analyses. General fund budget amendments add just over \$423,000 to the working appropriation by providing for the general salary increase for DBM employees. A budget amendment also provides \$186,000 in general funds to support the general salary increase at the Office of Administrative Hearings (OAH). These general funds are transferred to the OAH as reimbursable funds.

Special fund budget amendments add almost \$800,000. \$500,000 of these costs are attributable to a memorandum of understanding with the Comptroller's Office to implement a 1% fee through a federal vendor offset program. The amendment is consistent with actions taken at the June 2008 cost containment. The remaining special fund amendments support special funds replacing general fund support of local area network costs and the general salary increase.

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

<u>Object/Fund</u>	<u>FY08 Actual</u>	<u>FY09 Working Appropriation</u>	<u>FY10 Allowance</u>	<u>FY09 - FY10 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	199.80	207.80	205.80	-2.00	-1.0%
02 Contractual	19.41	16.30	20.20	3.90	23.9%
Total Positions	219.21	224.10	226.00	1.90	0.8%
Objects					
01 Salaries and Wages	\$ 13,720,141	\$ 15,975,917	\$ 15,986,486	\$ 10,569	0.1%
02 Technical and Spec. Fees	623,583	570,638	633,030	62,392	10.9%
03 Communication	1,582,687	1,476,563	1,283,996	-192,567	-13.0%
04 Travel	41,552	35,500	42,300	6,800	19.2%
07 Motor Vehicles	14,253	25,072	7,734	-17,338	-69.2%
08 Contractual Services	1,938,781	2,878,917	2,705,178	-173,739	-6.0%
09 Supplies and Materials	236,436	225,000	190,000	-35,000	-15.6%
10 Equipment – Replacement	53,740	42,700	100,850	58,150	136.2%
13 Fixed Charges	350,989	344,141	421,050	76,909	22.3%
Total Objects	\$ 18,562,162	\$ 21,574,448	\$ 21,370,624	-\$ 203,824	-0.9%
Funds					
01 General Fund	\$ 8,786,324	\$ 9,321,200	\$ 9,156,996	-\$ 164,204	-1.8%
03 Special Fund	9,556,371	12,083,223	12,125,328	42,105	0.3%
09 Reimbursable Fund	219,467	170,025	88,300	-81,725	-48.1%
Total Funds	\$ 18,562,162	\$ 21,574,448	\$ 21,370,624	-\$ 203,824	-0.9%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Fiscal Summary
Department of Budget and Management – Secretary

<u>Unit/Program</u>	<u>FY08 Actual</u>	<u>FY09 Wrk Approp</u>	<u>FY10 Allowance</u>	<u>Change</u>	<u>FY09 - FY10 % Change</u>
01.01 Executive Direction	\$ 1,452,032	\$ 1,570,562	\$ 1,392,156	-\$ 178,406	-11.4%
01.02 Division of Finance and Administration	2,223,103	2,299,422	1,976,607	-322,815	-14.0%
01.03 Central Collection Unit	9,556,371	12,083,223	12,125,328	42,105	0.3%
01.04 Division of Procurement Policy and Administration	1,995,164	1,988,720	2,177,625	188,905	9.5%
05.01 Budget Analysis and Formulation	2,364,461	2,570,668	2,561,845	-8,823	-0.3%
06.01 Capital Budget Analysis and Formulation	971,031	1,061,853	1,137,063	75,210	7.1%
Total Expenditures	\$ 18,562,162	\$ 21,574,448	\$ 21,370,624	-\$ 203,824	-0.9%
General Fund	\$ 8,786,324	\$ 9,321,200	\$ 9,156,996	-\$ 164,204	-1.8%
Special Fund	9,556,371	12,083,223	12,125,328	42,105	0.3%
Total Appropriations	\$ 18,342,695	\$ 21,404,423	\$ 21,282,324	-\$ 122,099	-0.6%
Reimbursable Fund	\$ 219,467	\$ 170,025	\$ 88,300	-\$ 81,725	-48.1%
Total Funds	\$ 18,562,162	\$ 21,574,448	\$ 21,370,624	-\$ 203,824	-0.9%

Note: The fiscal 2009 appropriation does not include deficiencies. The fiscal 2010 allowance does not include contingent reductions.

Programs Funded in the American Recovery and Reinvestment Act

Potentially Helpful to the State General Fund

Fiscal Stabilization – Education

The ARRA requires that 82.8% of the Fiscal Stabilization funds support education. Maryland expects to receive a total of \$721.2 million. These funds must first be used to support elementary and secondary school reductions to the current budget that result in spending below the fiscal 2008 spending levels. Since Maryland has increased spending, this does not apply. Remaining funds must be used to support State formula increases in fiscal 2010 and 2011 for elementary and secondary education or to restore reductions made to State higher education funding below fiscal 2008 or 2009 levels. Any unused funds are required to be distributed consistent with the Title I formula.

Fiscal Stabilization – Discretionary

The ARRA allows that 18.2% of the Fiscal Stabilization funds support other government services. Maryland expects \$160.5 million in fiscal 2010 and 2011.

Medicaid

Medicaid is a joint federal and State program that provides medical assistance to indigent and medically indigent individuals. The federal government provides federal funding to support a share of the total costs based on a state's Federal Medical Assistance Percentage (FMAP). Maryland's FMAP is 50%. The fiscal 2010 allowance includes \$3,253.3 million in federal funds.

The ARRA provides additional funding for services provided between October 1, 2008, and December 31, 2010; nine quarters in fiscal 2009 to 2011. DLS estimates that Maryland will receive an additional \$891.8 million attributable to a 6.2% increase to FMAP.

Another \$371.0 million is expected based on a temporary increase to states with high unemployment rates. States whose quarterly unemployment rate has increased by 1.5% since the recession began qualify for additional increases. This amount could increase if the State unemployment rate continues to climb. These federal funds may be used in the place of general funds.

Education Grants Appropriated in the State Budget

Special Education

The Individuals with Disabilities Education Act (IDEA) authorizes federal grants for State and local education agencies to support educational programs for individuals with disabilities. IDEA funds programs for preschool, elementary, and secondary levels. Regulations require a Maintenance of Effort (MOE) that is 100% of the second prior fiscal year (actual expenditures).

The fiscal 2010 allowance includes \$196.9 million in federal funds for IDEA. Maryland expects to receive an additional \$208.0 million. The ARRA does not provide much detail about MOE, so it is unclear if there will be new regulations or if these funds will be subject to current IDEA regulations. The ARRA language suggests that the U.S. Secretary of Education is allowed to modify MOE requirements so that federal Fiscal Stabilization funds can support IDEA MOE requirements.

Title I

Title I provides funds to local school systems based on the number of children receiving free or reduced price meals. Regulations require a MOE that is 90% of the second prior fiscal year (actual expenditures). Current Title I regulations include strict “supplement not supplant” rules which require the school system to use the funds to enhance programs.

The fiscal 2010 allowance includes \$193.3 million in federal funds for Title I. Maryland expects to receive \$179.7 million for Title I. This is in addition to the funding provided in the allowance. The ARRA does not provide much detail about MOE, so it is unclear if there will be new regulations or if these funds will be subject to current Title I regulations. The ARRA language suggests that the U.S. Secretary of Education is allowed to modify MOE requirements so that federal Fiscal Stabilization funds may support Title I maintenance of effort requirements.

Education Technology

Federal education technology funds support equitable access and effective use of technology in primary and secondary schools. The fiscal 2010 allowance includes \$3.4 million in educational technology federal funds, almost all of which are appropriated in the School Technology program. There are no general funds appropriated. The ARRA includes another \$8.3 million for this program to supplement current federal fund activities.

Other Relief Appropriated in the State Budget

State Energy Programs

The State Energy Program provides grants to each state to deploy new renewable energy and energy efficiency technologies. Maryland's grants will be received by the Maryland Energy Administration (MEA), and 20% matching funds are required. Maryland is expecting to receive \$57.5 million from the ARRA, and the matching requirement is suspended. MEA has a \$1.1 million federal fund appropriation in the fiscal 2010 allowance.

Weatherization

The Weatherization Assistance Program (WAP), administered by the U.S Department of Energy, receives additional funding to reduce energy costs for low-income households by increasing the energy efficiency of their homes. Maryland will receive an estimated \$65.6 million in the ARRA. The additional funding will be provided to the Department of Housing and Community Development (DHCD), which directs the assistance to county agencies and nonprofit organizations. The legislation also loosens income restrictions, allowing the program to reach more homes by increasing the income requirements (from 125 to 200% of federal poverty levels) and the amount that may be spent per unit. Funding would have to be obligated within 18 months.

There are \$4.3 million in special funds, \$2.6 million in federal funds, and \$750,000 in reimbursable funds in the WAP fiscal 2010 allowance. The federal funds increase program spending by almost 10 times. The federal guidelines allow up to 20% of federal funds to be used to support administrative costs. The program may well require a substantial administrative effort to spend the federal funds.

Community Services Block Grant Program

The Community Services Block Grant Program (CSBG) is federally funded and requires no State match, although Maryland allocates a small amount of general and special funds to the program. The State allocates money to local governments, which allocate it to Community Action Agencies (CAAs) based on competitive grants. The federal legislation alters the program requirements, such that CAAs receiving grants must provide services that target individuals with incomes at 200% of the federal poverty guideline, rather than 125%.

The CSBG fiscal 2010 allowance includes \$10.3 million in federal funds, \$348,350 in special funds and \$70,466 in general funds. Maryland receives an additional \$14.0 million in the ARRA. DHCD plans to use the stimulus money to increase grants to currently funded CAAs in fiscal 2009 and 2010.

Homelessness Prevention

The Federal Emergency Shelter Grant (FESG) program provides assistance to shelter facilities for operational costs, assists individuals requiring short-term homeless prevention with direct payments, and funds the rehabilitation or remodeling of buildings to be used as shelters. The federal stimulus package includes \$22.5 million to Maryland, of which \$5.7 million will pass through DHCD's Division of Neighborhood Revitalization and be awarded to smaller counties that do not receive aid directly from the federal government. The remainder will be awarded directly to local governments and will not be appropriated in the State budget. State and local government must spend at least 60% of the grants in two years. The fiscal 2010 allowance includes \$600,000 for FESG grants.

Community Development Block Grant Program

The Community Development Block Grant Program (CDBG) in DHCD's Division of Neighborhood Revitalization provides competitive grants to local governments for use in revitalizing neighborhoods, expanding affordable housing and economic opportunities, and improving community facilities and services. The ARRA provides an additional \$15.0 million, of which \$12.8 million supports local governments and would not be appropriated in the State budget. Grant recipients must use funds to support projects that can award contracts within 120 days. The remaining \$2.2 million will be appropriated in DHCD's budget and will support infrastructure projects. The CDBG fiscal 2010 budget includes \$11.0 million in federal funds.

Foster Care

Federal Title IV-E Foster Care grants support out-of-home care for children under the jurisdiction of state child welfare agencies. The federal funds support payments on behalf of children and administrative costs but may not be used to support social services on behalf of children, such as counseling. The federal share of maintenance payments are equal to a state's FMAP (ranging from 50 to 83%) while the federal share of training costs is 75%, and the federal share of administrative costs is 50%.

The fiscal 2010 allowance includes \$184.2 million – \$176.2 million in the Department of Human Resources and \$8.0 million in the Department of Juvenile Services. The ARRA provides another \$25.9 million.

Food Assistance

The federal Supplemental Nutrition Assistance Program (formerly known as the Food Stamp Program) provides nutrition for qualified individuals based on income, family size, and other factors. Benefits are provided through electronic debit cards, which are used in retail stores. The ARRA expands benefits so that able-bodied adults without dependents are not subject to stricter requirements to receive benefits through September 30, 2010. Previously, they were required to be in work-related

activities other than job search to receive benefits. The ARRA provides an additional \$219.0 million to support benefits and \$4.2 million to administer the program. The fiscal 2010 allowance of the Department of Human Resources (DHR) includes \$500.0 million in federal funds.

The National School Lunch Program assists states in making school lunches available. Free lunches are available to children whose household income is at or below 130% the federal poverty line and reduced lunches are available for children between 130 and 185% of the federal poverty line. The Maryland State Department of Education's (MSDE) fiscal 2010 allowance includes \$116.2 million and the ARRA provides an additional \$4.2 million.

The federal Emergency Food Assistance Program supports administrative and commodity costs associated with providing food for needy individuals, which includes homeless, unemployed, welfare recipients, and low-income individuals. Priority is given to grants awarded to local organizations that provide nutrition assistance to relieve situations of emergency or distress. The fiscal 2010 allowance does not include any federal funds for these purposes. The ARRA provides \$1.3 million.

Maryland receives federal money for senior nutrition programs, including congregate meals and home delivered meals. The State match requirement is 5%, and the local match is 10%. Senior nutrition program funds are distributed by formula. The fiscal 2010 allowance for home delivered meals is \$10.9 million in federal funds and \$1.8 million in general funds. Maryland expects to receive another \$2.2 million from the ARRA. The Maryland Department of Aging advises that it has the capacity to spend additional stimulus money, but local agencies might have trouble (for example, additional volunteers may be needed).

Temporary Assistance for Needy Families

Federal Temporary Assistance for Needy Families (TANF) funds support a wide variety of services whose goal is that children can be cared for in their own home, reduce dependency by promoting job preparation, work and marriage, reduce out-of-wedlock pregnancies, and encourage the formation and maintenance of two-parent families. The funds support services and cash assistance.

Grants are awarded as block grants with an MOE requirement. The fiscal 2010 allowance includes \$233.5 million in federal funds administered by DHR and another \$32.5 million administered by MSDE. The ARRA provides an additional \$29.2 million.

Independent Living, Homeless Education, and Work Study

The federal Chafee Foster Care Independence Program provides grants to assist foster care youth make the transition from foster care to self-sufficiency. The program supports education and training, youth mentors, as well as housing and financial services. The State must provide a 20% match. The DHR allowance includes \$4.3 million in federal funds in the fiscal 2010 allowance. The ARRA provides an additional \$249,000.

The federal Education for Homeless Children and Youth program provides grants to educational agencies to support educational success of homeless students. Examples include tutoring services, school supplies, and professional development for educators to heighten sensitivity for homeless students needs. The ARRA provides approximately \$822,000. The MSDE allowance includes approximately \$843,000 in federal funds in fiscal 2010.

The Federal Work Study Program (FWSP) provides part-time employment for undergraduate, graduate, and professional students that are enrolled or accepted for enrollment as students. The program encourages students to participate in community services. The employer is required to contribute 25% of the funding. The State's fiscal 2010 allowance does not include any FWSP funding. The ARRA provides \$3.1 million.

Child Care and Development Block Grant

Child Care and Development Block Grants provide federal funds for states to support child care assistance for low-income families. The grants do not have a match requirement and cannot be used to supplant State funds. The grants are awarded through a formula that takes into account the number of children under the age of five, the number of children receiving school lunch assistance, and per capita income.

The fiscal 2010 allowance includes \$16.4 million in federal funds, \$14.2 million of which is budgeted in MSDE Division of Early Childhood Development. Maryland expects another \$24.0 million in federal grants from the ARRA. The funds must be used to supplement, not supplant, State spending for children for low-income families, but there is no new MOE requirement.

Vocational Rehabilitation

The federal government provides grants for vocational rehabilitation. These funds support vocational training for individuals who are disabled. MSDE's fiscal 2010 allowance includes \$40.9 million in federal funds. The ARRA includes \$6.6 million. The matching requirement is waived, meaning that this will not require additional State funds.

Workforce Investment/Dislocated Workers

Federal Workforce Investment Act (WIA) Adult Program grants support State One Stop Career Centers by providing core (outreach, job search, or placement assistance), intensive (such as comprehensive assessments, individual plans and assessments, or career planning), and training (which includes both occupational and basic skills training) services. The federal funds do not have any matching requirements. The Department of Labor, Licensing, and Regulation's (DLLR) fiscal 2010 allowance includes \$11.2 million for WIA Adult Programs. The ARRA provides another \$5.0 million for these programs.

Federal Employment Services grants support local One Stop Career Centers. DLLR's fiscal 2010 allowance includes \$15.9 million for employment services programs. The ARRA provides another \$6.9 million for these programs.

Federal WIA Youth Activities grants support programs for low-income youth (ages 14 to 21) involving educational or occupational training, mentoring, and other activities that promote a successful transition into careers and productive adulthood. The federal funds do not have any matching requirements. DLLR's fiscal 2010 allowance includes \$9.1 million for WIA youth programs. The ARRA provides another \$11.7 million for these programs. The age of eligible participants is increased from 21 to 24.

Federal WIA Dislocated Worker grants provide services to employees that have lost their jobs and are unlikely to return to their previous industry or occupation. The funds also support previously self-employed individuals and homemakers who have been dependent on the income of another family member. The federal funds do not have any matching requirements. DLLR's fiscal 2010 allowance includes \$10.9 million for WIA dislocated worker programs. The ARRA provides another \$11.8 million for these programs.

Unemployment Insurance State Administration Grants

While State unemployment insurance tax collections support the payment of benefits, federal Unemployment Insurance grants support the administration of State unemployment insurance programs. The federal funds do not have any matching requirements. The fiscal 2010 allowance includes \$75.0 million in federal funds to support the administration of benefits. The ARRA provides an additional \$9.2 million to support administration, which are available through September 30, 2010.

Preventive Health Care Block Grant/Immunization

The Department of Health and Mental Hygiene budget include federal support for the Preventive Health Block Grant, chronic disease prevention, HIV/AIDS/STD² programs, environmental health, injury prevention, workforce development, vital statistics, and emerging infections. Federal funding includes support for immunizations, Preventive Health Block Grant, chronic disease prevention (categorical grants), HIV/AIDS/STDs, and emerging infections. Within the Family Health Administration, Maryland's federal funding includes the Preventive Health Block Grant (totaling \$1.8 million) with no required State match. The State expects an additional \$4.0 million for immunization. It is unclear at this point how much is included for the Preventive Health and Health Services Block Grant.

² Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome/Sexually Transmitted Diseases.

Byrne Grants and Other Public Safety Grants

Edward Byrne Memorial Justice Assistance Grants support State and local law enforcement projects. They may be used for a number of public safety programs including law enforcement, prevention, education, corrections, and drug treatment programs. They may not be used to supplant State funds. The ARRA includes \$42.9 million for Maryland's share of Byrne Grants. The Governor's Office of Crime Control and Prevention (GOCCP) advises that \$27.1 million will be appropriated in the State budget, and \$15.8 million will be received directly by local governments. The fiscal 2010 allowance includes \$2.5 million, and the fiscal 2009 working appropriation includes \$6.5 million.

The ARRA also increases Violence Against Women Formula Grants which support State and local government efforts to strengthen law enforcement and prosecution of violent crimes against women. The funds may be used for training programs, data systems, victim services, and other activities. The funds are used by law enforcement agencies, courts, and prosecutors. The fiscal 2010 allowance of GOCCP includes \$2.1 million. The ARRA provides an additional \$4.1 million for these grants.

Federal Crime Victims' Assistance grants support direct services to crime victims, such as domestic violence shelters, child abuse treatment programs, and support groups for survivors of homicide victims. The ARRA provides Maryland an approximately \$877,000 in additional funds. The programs are administered by DHR, which includes \$7.5 million in federal funds for these programs.

Federal Crime Victim Compensation grants fund services and compensation to victims of crime. Examples of services funded include medical expenses, lost wages, counseling services, and funeral expenses. These programs are administered by the Criminal Injuries Compensation Board of the Department of Public Safety and Correctional Services. Federal regulations require that the grant be limited to 60% of State support. Based on current budgeted amounts, the State has some capacity for additional federal funds. The fiscal 2009 working appropriation includes \$4.8 million in special funds and \$1.8 million in federal funds while the fiscal 2010 allowance includes \$4.6 million in special funds and \$2.5 million in federal funds. The ARRA provides Maryland an approximately \$588,000 in additional funds.

Infrastructure Appropriated in the State Budget

Highways

Highway and bridge funding supports the Maryland Department of Transportation's (MDOT) State Highway Administration capital program. Federal funds are projected to be \$431.0 million, half of which must be obligated within 120 days of the bill becoming law. Unobligated funds will be given to other states. At this point, it is unclear what kind of MOE requirements and waivers there

will be. MDOT advises that much of the initial funding will support resurfacing and bridge repair projects since the funds are more likely to be obligated within 120 days.

Transit Capital

Transit funding supports the Maryland Transit Administration's capital program by funding transit facility improvements and vehicle purchases. Maryland expects to receive \$179.3 million, half of which must be obligated within 180 days of the bill becoming law. Unobligated funds will be given to other states. At this point, it is unclear what kind of MOE requirements and waivers there will be.

HOME Investment Partnerships Program

DHCD advises that the federal Department of Housing and Urban Development plans to use funds authorized for the HOME Investment Partnerships Program to support the new Tax Credit Assistance Program (TCAP). The purpose of TCAP funds is to provide gap financing to projects approved for federal Low Income Housing Tax Credits (LIHTC) that are experiencing problems due to reductions in the amount of equity being raised by the tax credits in the financial markets. This will provide gap financing for those projects that were awarded LIHTCs in federal fiscal 2007 to 2009. HOME has a 25% matching requirement, but these funds will not have a matching requirement. The ARRA provides an estimated \$31.7 million for Maryland, of which 75% of the funds must be committed by February 2010.

Clean Water

The Maryland Department of the Environment's (MDE) Water Quality Revolving Loan Fund provides low interest loans to Maryland's local jurisdictions and private entities to be used for capital projects that improve water quality. The program is funded with special funds and federal funds.

The fiscal 2010 allowance includes \$16.5 million (another \$365,000 in federal funds supports administration). The ARRA provides \$96.3 million in additional federal funds. The bill has waived the 20% state matching requirements.

Drinking Water

MDE's Drinking Water Revolving Loan Fund provides low interest loans to Maryland's local jurisdictions and private entities for drinking water capital projects. The program is funded with special funds and federal funds. The fiscal 2010 allowance includes \$6.4 million (another \$2.8 million in federal funds supports administration and nonproject set-asides). The ARRA provides \$27.0 million in additional federal funds. The bill has waived the 20% state matching requirements.

Federal Grants Not Appropriated in the State Budget

Local Homelessness Prevention

The Federal Emergency Shelter Grant (FESG) program provides assistance to shelter facilities for operational costs, assists individuals requiring short-term homeless prevention with direct payments, and funds the rehabilitation or remodeling of buildings to be used as shelters. The federal stimulus package includes \$22.5 million to Maryland, of which \$5.7 million will pass through the Department of Housing and Community Development's Division of Neighborhood Revitalization and be awarded to smaller counties that do not receive aid directly from the federal government. The remainder will be awarded directly to local governments and will not be appropriated in the State budget.

Local Community Development Block Grant

State and local governments receive Community Development Block Grants. The grants support projects that revitalize neighborhoods, expand affordable housing and economic opportunities, and improve community facilities and services. The ARRA provides an additional \$15.0 million, of which \$12.8 million supports local governments and would not be appropriated in the State budget.

Head Start

Head Start disperses funds to 2,600 Head Start programs nationwide. While Maryland also funds Head Start programs through the State budget (\$3.0 million a year), a State match is not required to receive federal funds. Federal funding for Head Start has remained relatively stable (around \$78.0 million) over the past three years. Grants are issued to Head Start based on the number of children in poverty. The federal funds are received directly by providers and are not appropriated in the State budget. Maryland expects to receive \$7.9 million in Head Start funding from the ARRA. MSDE advises that money included in the stimulus will likely be used to increase the number of low-income children served under the program currently on waiting lists.

Local Byrne Grants

State and local governments receive Edward Byrne Memorial Justice Assistance Grants. The grants support state and local law enforcement projects, such as law enforcement, prevention, education, corrections, and drug treatment programs. They may not be used to supplant state or local funds. ARRA includes \$42.9 million for Maryland Byrne Grants. GOCCP advises that \$27.1 million will be appropriated in the State budget, and \$15.8 million will be received directly by local governments.

Public Housing

The federal Public Housing Capital Fund supports development, financing, and modernization of public housing projects. The funds are received by the local public housing agencies, and no funds are appropriated in the State budget. The ARRA provides \$48.4 million for these projects.