
Analysis of Fiscal 2009 Budget Reductions

Approved by the Board of Public Works on June 25, 2008

**Presentation to the
Senate Budget and Taxation Committee**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

July 8, 2008

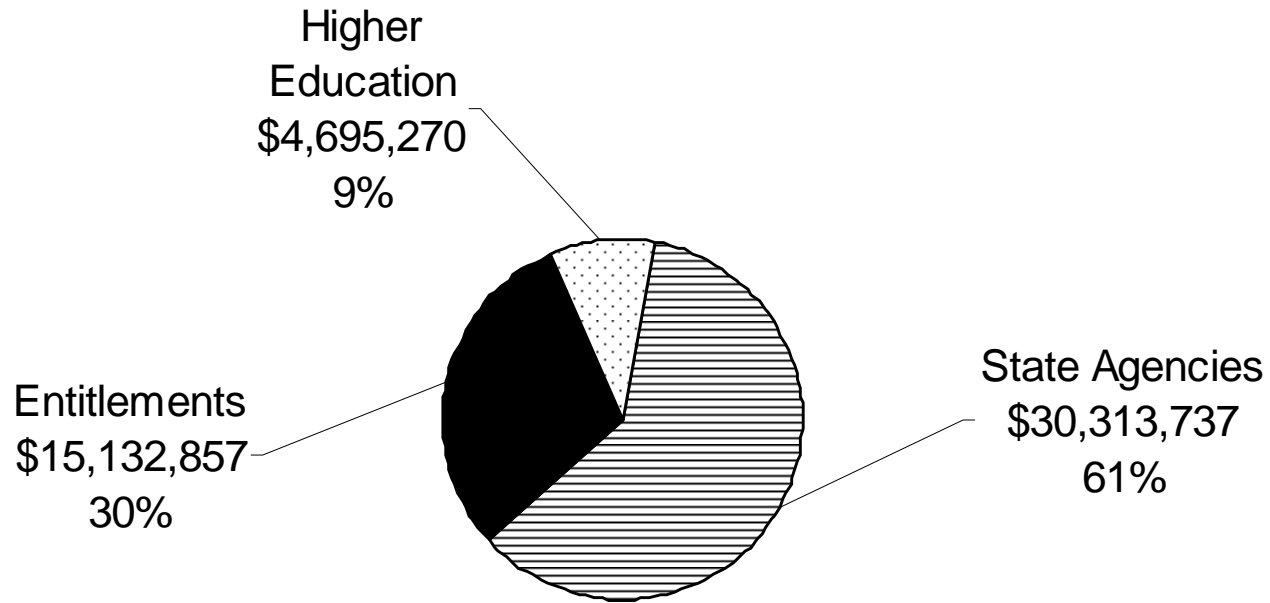
Background – Computer Services Sales Tax Repeal

- Chapter 10 of 2008 repealed the expansion of the sales tax to certain computer services.
- Revenue lost from this repeal was replaced by a combination of:
 - a three-year increase in the income tax rate for net taxable income in excess of \$1 million;
 - a five-year modification in the portion of the sales tax dedicated to the Transportation Trust Fund (from 6.5 to 5.3 percent); and
 - \$50 million in ongoing budget reductions.

Implementing the \$50 Million Reduction

- Section 5 expressed the intent that by July 1, 2008, the Governor present to the Board of Public Works (BPW) a schedule for reduction of at least \$50 million in ongoing general fund expenditures from the fiscal 2009 State budget.
- Section 7-213 of the State Finance and Procurement Article authorizes the Governor to withdraw up to 25 percent of funding via BPW, with certain exemptions.

Reductions by Budget Category



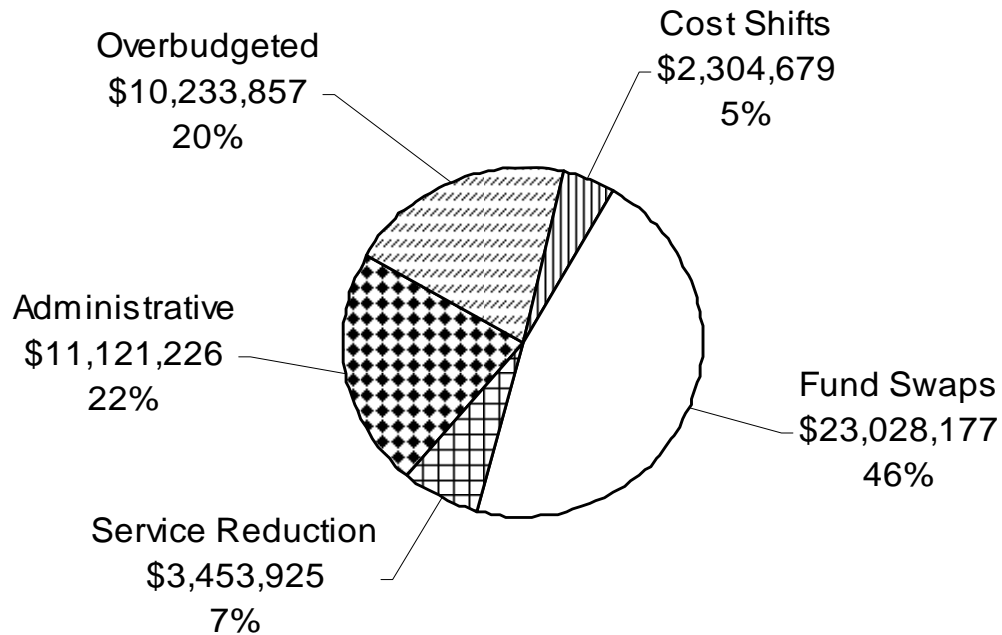
Source: Department of Legislative Services

Vacant Position Abolitions

	<u>Vacant Positions</u>
Education	7.0
Business and Economic Development	1.0
General Services	3.0
Human Relations	0.5
Total	11.5

Source: Department of Legislative Services

Nature of General Fund Reductions



Source: Department of Legislative Services

Nature of General Fund Reductions (Cont.)

- 70 percent of the actions do not impact services:
 - \$23.0 million in fund swaps;
 - \$10.2 million to reduce overbudgeted items; and
 - \$2.3 million in cost shifts.
- 30 percent of the actions may impact services:
 - \$11.1 million in administrative cost actions; and
 - \$3.5 million in service reductions.

Fund Swaps

- \$23.0 million in fund swaps to other sources:
 - \$14.3 million from other revenue sources credited to the employee health insurance fund:
 - \$4.0 million accounting adjustment for outstanding bills;
 - \$3.8 million prescription drug rebates;
 - \$2.9 million prescription drug rebate settlement;
 - \$1.6 million United Health Care unlevied capitation charges; and
 - \$2.0 million higher education payments and interest.

Fund Swaps (Cont.)

- \$4.7 million higher education funds originally budgeted for Other Post Employment Benefits replace general funds;
- \$3.1 million reduction to Medicaid to be replaced with special funds from the Cigarette Restitution Fund;
 - corresponding special fund cut to tobacco cessation programs and cancer research programs in the Cigarette Restitution Fund.
- \$0.9 million other actions.

Overbudgeted Items

- \$10.2 million total overbudgeted items:
 - \$8.2 million Medicaid;
 - Health Services Cost Review Commission hospital rates are lower than expected.
 - \$1.1 million Medicaid Primary Adult Care Program;
 - Limited experience with fairly new program indicates funds overbudgeted relative to costs.
 - \$0.9 million Medicaid;
 - Overbudgeted funds for State subsidized adoptions.

Cost Shifts

- \$2.3 million total cost shifts:
 - Department of Health and Mental Hygiene (DHMH) grant to Montebello Center at Kirnan:
 - Funding to be replaced by uncompensated care adjustment to hospital rates.

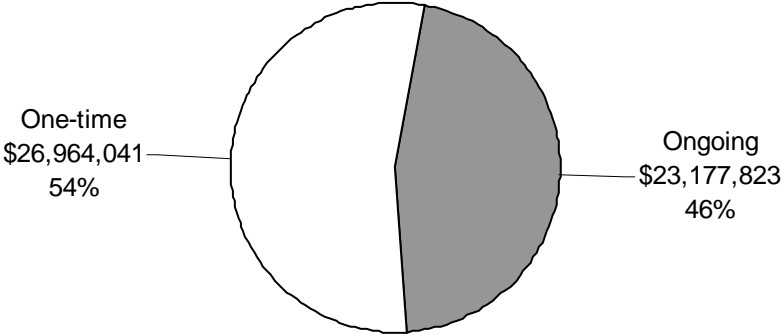
Administrative Reductions

- \$11.1 million total administrative reductions:
 - \$5.2 million in salary and benefit savings by holding positions vacant;
 - \$1.8 million in payments to Medicaid Managed Care Organizations to reflect service efficiencies;
 - \$1.8 million in operating reductions in Maryland State Department of Education; and
 - other items:
 - State Police replacement vehicles;
 - DHMH Potomac forensic and Finan Center patient mix; and
 - general operating reductions, position abolitions.

Service Reductions

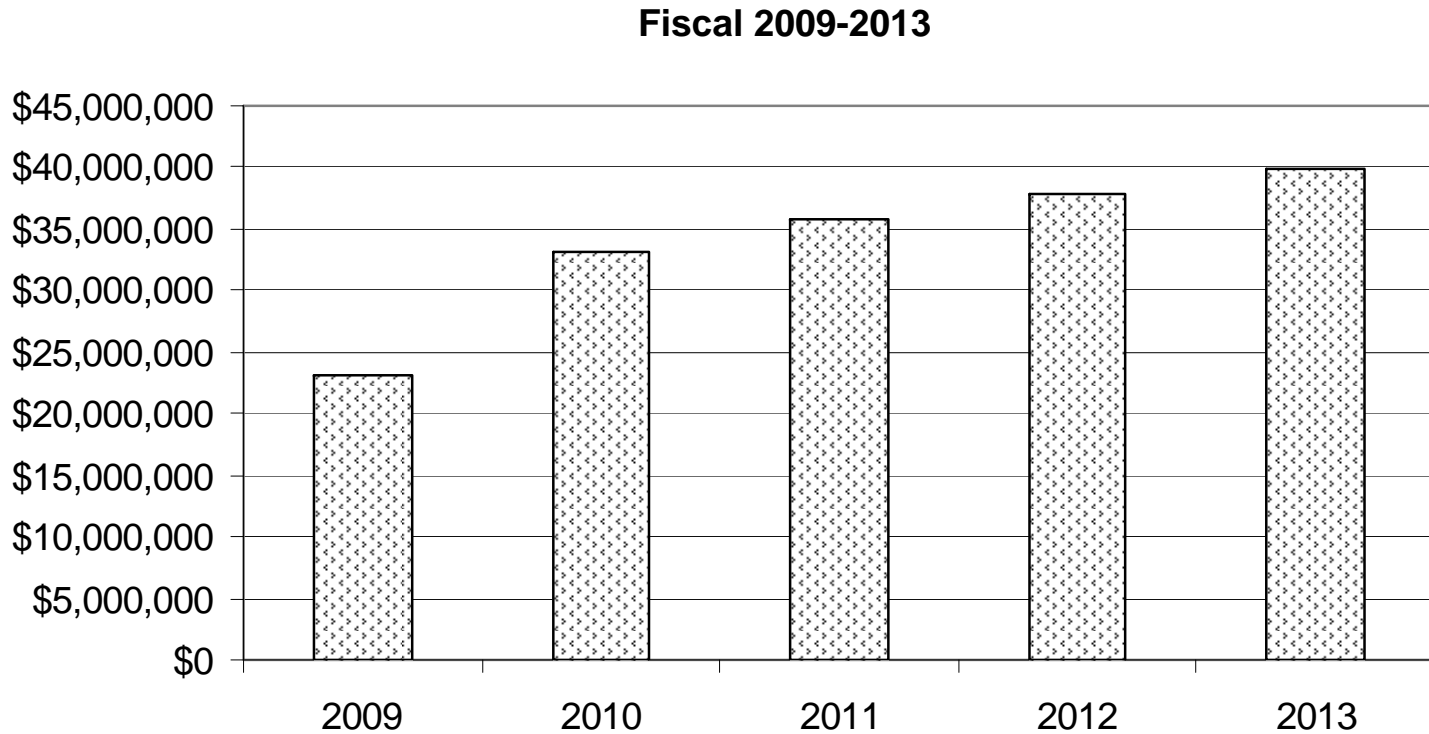
- \$3.5 million total service reductions:
 - \$2.5 million level funds Sellinger Aid to private colleges and universities at the 2008 level.
 - Matches proposed reduction in allowance.
 - Legislative action reduced \$3.1 million.
 - Smaller reductions implement:
 - 5 percent reduction in State Aided Educational Institutions (\$343,000).
 - 10 percent reduction in fine art grants to local education agencies (\$150,000).

Ongoing vs. One-time Reductions



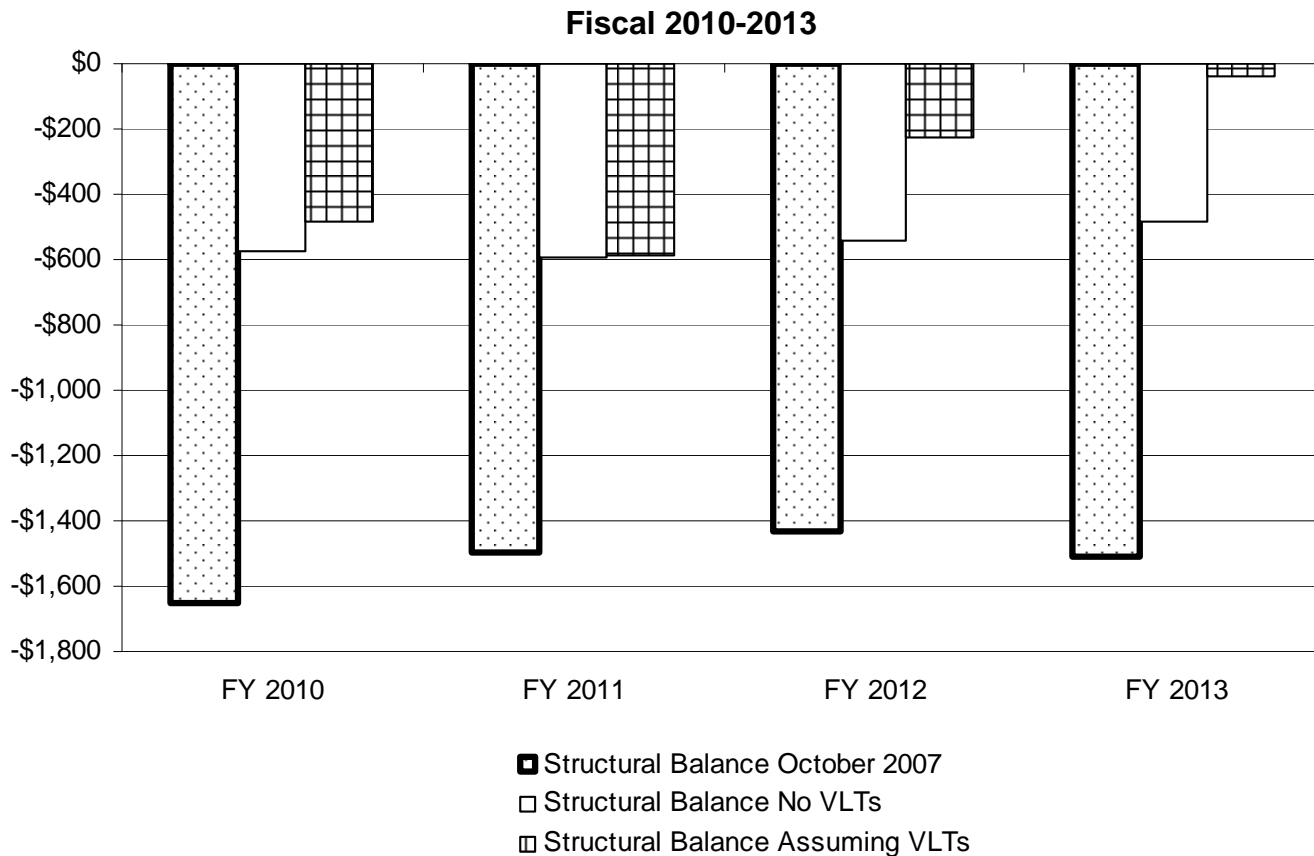
Source: Department of Legislative Services

Out-year General Fund Savings



Source: Department of Legislative Services

General Fund Forecast of Structural Balance with and without Slots vs. Pre-special Session



VLTs: video lottery terminals

Source: Department of Legislative Services