

# THE WEEKLY WHIP

TUESDAY, January 13, 2009

## **FY09 BUDGET/FY10 FISCAL OUTLOOK**

Our nation is facing one of the worst economic downturns since the Great Depression. This national economic crisis is affecting state and local governments across the country. Nationally, home sales are down 18.5% in 2008 and down 33.5% in Maryland. The national unemployment rate rose to 7.2% in December. Although still below the national average, Maryland's unemployment rate rose to 5.3% in November. Personal income has grown only 4.6% in the U.S. this year and 5.4% in Maryland.

There are 29 states across the country facing a collective \$48B deficit in FY09. Maryland is in a better position than many states to weather this crisis and continue to fund our priorities such as education, healthcare and public safety.

The final budget of the previous administration had a 12.5% increase in spending (FY07), the highest increase in over a decade. All told, spending increased 30.1% under the prior administration, setting the stage for last year's special session.

The result of this spending would have led to a deficit in Maryland of almost \$4B had we not enacted cuts and revenues during the past two years. **Since January of 2007, Governor O'Malley and the legislature have cut nearly \$2.2 billion from the state budget.** Current estimates place the deficit at \$1.9 billion for FY10. The biggest drivers of this deficit are weak personal income tax (\$182M) and sales tax collections (\$280M).

### **Maryland is #1 in Education**

Education Week recently ranked Maryland #1 in United States in K-12 education in its' 2009 Quality Counts Annual Report. Maryland had previously been ranked #3. Investment in early education and college readiness is a crucial component to our success. Since passage of the Bridge to Excellence Act in 2002, education funding has increased 82%. Governor O'Malley and the legislature began this term by fully funding the Thornton commission formula, which accounts for 1/3 of the state's entire general fund.

## **Steps already taken to mitigate impacts of the economic downturn on state government:**

- Governor O'Malley's first two budgets have grown only 5.4% and 3.9% respectively, a near inflation rate.
- Last year, the House Appropriations Committee pushed for a \$243M fund balance above the \$749M Rainy Day Fund.
- The Board of Public Works cut \$280M in July and another \$345M in October for FY09.
- Governor O'Malley required all eligible state employees to take at 2-5 day furlough based on salary schedule, saving the state an estimated \$34 million in payroll. President Miller and Speaker Busch also implemented a mandatory furlough plan for legislative staff and encouraged legislators to consider donating a portion of their salary equal to 1-5 days of furlough.
- The Spending Affordability Committee recommended a 0.7% (\$146M) budget increase for FY10, a historically low level that will require the legislature to make significant budget cuts. In order to preserve current service levels, Maryland would need a budget increase of \$1.175B.
- There is a surplus of \$366M in an income tax refund reserve account that is eligible for transfer to the general fund.
- With Maryland's Triple-A bond rating for over 40 years still intact, The Capital Debt Affordability Committee raised the ceiling to a maximum of \$1.11B. We are committed to a robust capital budget that will include \$250M in school construction to put Marylanders to work and continue to provide quality education for our children.

The House of Delegates is the chamber that begins work on the budget first this year. The magnitude of this challenge will require us to scrutinize every expenditure and make the tough decisions necessary to close the \$1.9B deficit while still protecting our priorities of education, healthcare and public safety. Maryland is constitutionally required to balance the budget at end of the fiscal year. It is our duty to make sure that Maryland state government continues to work on behalf of every Marylander, particularly in these tough economic times. The current economic recovery package proposed by Democratic Congressional Leaders, if passed, may provide some state aid that could factor in to FY10 budget planning.

### Important Dates

Jan. 21 <sup>st</sup>	Final day for Governor to introduce budget bill
Jan. 27 <sup>th</sup>	14 <sup>th</sup> day – Senate and House Bill Request Guarantee Date
Jan. 29 <sup>th</sup>	Governor delivers the State of the State Address (noon)
Feb. 2 <sup>nd</sup>	20 <sup>th</sup> day – Final date for Governor to introduce capital budget bill
Feb. 13 <sup>th</sup>	House Bill Introduction Date
Feb. 22 <sup>nd</sup>	“Green Bag” appointments submitted by Governor

## Governor O’Malley introduces 2009 Smart, Green, and Growing Legislative Initiatives

Yesterday, Governor O'Malley announced his Smart, Green and Growing Legislative Initiatives. Based on the recommendations of the *Task Force on the Future for Growth and Development in Maryland*, created under HB 773 in the 2007 legislative session, Governor O’Malley will be introducing six bills during the 2009 legislative session. They will include:

1. Strengthening local government Comprehensive Plans to protect communal investment in the plans and maintain their integrity by overturning the *Terrapin Run* case;
2. Modernizing the State’s Planning Visions to address current challenges and expand them to include priorities such as economic development, housing, and public participation;
3. Collecting good information on how Maryland is growing to inform local, regional and state planning through Smart Growth Measures or Markers;
4. Reauthorizing, greening, and enhancing the Maryland Heritage Structure Rehabilitation Tax Credit Program; and
5. Broadening public revenue sources that can be used for Tax Increment Financing for Transit Oriented Development.
6. Providing regulatory authority to establish Aquaculture Enterprise Zones while revising shellfish leasing terms, streamlining the process for aquaculture businesses to flourish in Maryland.

This was the first announcement of the Administration’s legislative package. Several others are expected in the coming weeks.

## Maryland makes significant gains in college affordability

Kiplinger has released their 100 Best Values in Public Colleges and four Maryland Public Schools made the list. The University of Maryland College Park was ranked No. 9. St. Mary’s College of Maryland came in at No. 32, followed by Salisbury University at No. 68 and Towson University at No. 90.

Kiplinger has also recently named two of Maryland’s private institutions to their list of top 100 best private school values. Among universities, Johns Hopkins University came in at No. 18 followed by Loyola College at No. 47.

In addition, five of Maryland’s public schools also made the Princeton Review’s and USA Today College Affordability Report’s Top 100. They are: Towson University, University of Maryland-Baltimore County, United States Naval Academy, St. Mary’s College of Maryland, and Salisbury University.

Maryland has not raised college tuition since the 2006 academic year. Over that time, Maryland has gone from having the 6<sup>th</sup> highest public institution tuition rate to 16<sup>th</sup>.