Primer on the Operating Budget Process

This guide serves as a companion to the Office of Budget Analysis (OBA)'s annual Budget Instructions by providing context on Maryland's operating budget process, explaining key budget concepts, and describing the roles of State agencies, the Department of Budget and Management (DBM), the Governor, and the General Assembly in developing the State budget. It is intended as a year-round reference and does not establish submission requirements or deadlines.

Overview of the Maryland Operating Budget Process

Maryland develops its operating budget through a year-round process involving State agencies, DBM, the Governor, and the General Assembly. Agency budget requests serve as the foundation of this process, informing the development of the Governor's proposed budget and subsequent legislative review. The budget cycle begins with the development of Current Services Budget (CSB) targets and concludes with enactment of the State budget and publication of the Fiscal Digest.

The major phases of the operating budget process are:

1. Development of Current Services Budget (CSB) Targets
2. Agency Budget Development and Submission
3. DBM Review and Executive Decision-Making
4. Governor's Budget Proposal
5. Legislative Review and Enactment
6. Budget Implementation

The sections that follow describe each phase in greater detail and explain the major decisions and participants involved throughout the process.

Phase 1: Development of Current Services Budget (CSB) Targets

The CSB is a “fixed ceiling” technique of budget formulation that allows the Governor to designate the maximum amount of state funds an agency can request in its base budget for the next fiscal year (also referred to as the budget target). The legislative appropriation for the current fiscal year is used as a starting point for computing the CSB budget for the next fiscal year.

The following are typical adjustments made to compute the CSB budget:

- Removing funds for one-time expenditures in the current year.
- Annualizing expenditures for programs or activities that were not operational for the entirety of the current fiscal year.
- Adjusting expenditures that are driven by a formula, caseload, or population change (e.g., mandates and entitlements).
- Adding funds to implement newly enacted legislation, including funding mandates, and to cover the costs of any new facilities that are due to open.
- Removing funds to reflect a change in policy or sunsetting mandate.
- Continuing multi-year funding commitments.

The budget target for an agency usually only applies to general funds, but certain special funds also receive targets. OBA formulates the CSB for each department and independent agency or component unit as necessary. Some agencies also receive targets at a lower level, usually to reflect mandates, entitlements, or the Governor’s initiatives.

After targets are finalized, DBM enters the target adjustments into the Budget Analysis and Reporting System (BARS) and provides each agency with a Target Memo summarizing the budget target, significant adjustments, and other information necessary to begin budget development. Agencies should refer to the annual Budget Instructions for submission deadlines and procedural requirements associated with the Target Memo.

Phase 2: Agency Budget Development and Submission

Following receipt of their target, agencies begin developing their annual operating budget requests. Using the funding levels established by DBM as the foundation, agency leadership allocates available resources across programs, organizational units, and activities based on operational priorities, statutory responsibilities, and strategic goals. Agencies are encouraged to use strategic planning and performance information to align available resources with desired outcomes.

During budget development, agencies evaluate whether the budget target is sufficient to support ongoing operations and identify any proposed adjustments. Requests for funding above the established target, known as over-target requests, are developed to address priorities or emerging needs that cannot be accommodated within the target. Agencies may also identify anticipated deficiencies in the current fiscal year that require additional appropriations to meet existing obligations.

Agency budget requests are prepared and submitted through BARS. Budget submissions include proposed appropriations for the upcoming fiscal year, supporting narratives and justifications for significant funding changes, prior fiscal year actual expenditures, and any net-zero realignments to the current fiscal year's legislative appropriation by fund type and program. The annual Budget Instructions establish the specific submission requirements, supporting documentation, timelines, and deadlines for agency budget requests.

Phase 3: DBM Review and Executive Decision-Making

Once agencies submit their budget requests, OBA begins a comprehensive review of each submission. This review is designed to ensure that agency requests are technically accurate, fiscally sound, and aligned with the Governor's budget priorities and statewide fiscal objectives.

The review begins with a technical assessment of each submission. OBA analysts verify that budget requests are complete, comply with budget policies, and are free of technical errors within BARS. Following the technical review, analysts conduct a detailed evaluation of each agency's request. This analysis includes reviewing year-to-year funding changes, expenditure trends, staffing levels, workload and caseload changes, performance information, and the justification for proposed enhancements, reductions, deficiencies, and over-target requests. Throughout this process, analysts will request additional information or clarification from agencies to better understand operational needs and funding requirements.

After completing their analyses, OBA analysts develop recommendations for DBM leadership. These recommendations are reviewed through an internal executive branch process that may involve discussions among DBM, the Governor's Office, and agency leadership regarding budget priorities, fiscal constraints, and policy considerations. When appropriate, DBM schedules budget meetings with agencies to review significant funding requests, proposed adjustments, and other budget issues. Prior to these meetings, agencies are provided with DBM's analysis to facilitate productive discussions. Following the executive review process, DBM finalizes its budget recommendations and submits them to the Governor for consideration during development of the Governor's proposed budget.

Phase 4: Governor's Budget Proposal

Following DBM's review of agency budget requests, the Administration develops the Governor's proposed budget by balancing agency funding needs with statewide fiscal conditions, revenue projections, statutory requirements, and the Governor's policy priorities. This phase culminates in the Governor's submission of a balanced budget to the General Assembly at the beginning of the legislative session.

Spending Affordability Committee (SAC)

The Spending Affordability Committee (SAC) plays an important role in informing the State's budget development process. Established by the General Assembly in 1982, the committee is composed of the President of the Senate, the Speaker of the House, Majority and Minority leaders of the Senate and the House, the chairpersons of the four standing fiscal committees, and other members selected by the presiding officers. The committee must report to the Legislative Policy Committee and Governor by December 20 of each year with recommendations for fiscal goals for the budget to be considered in the next legislative session.

The committee's recommendations address broad fiscal policy rather than individual agency budgets. These recommendations include:

- A level of state spending
- A level of new debt authorization
- A level of state personnel
- The use of any anticipated surplus
- End-of-year General Fund balance
- End-of-year balance in the Revenue Stabilization Account (known as the Rainy Day Fund)
- Structural (long-term) balance goal

In developing its recommendations, the committee considers factors such as:

- Continuation of current laws
- Recognition of inflation
- Removal of one-time expenses & non-recurring Pay-As-You-Go (PAYGO) expenditures
- Identification of deficiencies
- Observation of federal mandates and multi-year commitments
- Funding of prior session legislation
- Recognition of workload changes
- Annualization of program costs
- New facility costs
- Adjustment of employee turnover

While SAC does not determine individual agency appropriations, its recommendations help establish the overall fiscal framework within which the Governor's budget is developed.

Governor's Proposed Budget

Article III, Section 52 of the Maryland Constitution requires the Governor to submit a balanced budget to the General Assembly each year shortly after the legislative session convenes in regular session. The

Governor's proposed appropriations may not exceed the State's estimated revenues, as determined by the Bureau of Revenue Estimates.

In developing the proposed budget, the Governor considers agency budget requests, DBM recommendations, statewide fiscal conditions, revenue forecasts, statutory funding requirements, and Administration priorities. The funding levels approved by the Governor become known as the Governor's Allowance, representing the Administration's recommended appropriations for the upcoming fiscal year.

Budget Books

The Governor's Allowance is presented through the State's budget books Organized by department, agency, and program, the budget books present detailed information on each proposed appropriation, including prior year actual expenditures, the current legislative appropriation, and the Governor's proposed allowance by fund type and spending object. Digital versions of these books are accessible through the DBM website. Each agency’s allowance carries an alphanumeric code, which determines the placement of an agency’s budget in the two volumes.

With each allowance is a description of the program for which funds will be appropriated. Information is provided showing what each program spent the previous fiscal year, its current fiscal year appropriation, and the proposed allowance for the upcoming fiscal year. This detail is provided at the spending-object level. For each program, the budget book also shows fund type and fund source data.

Beyond this budget detail in the books, DBM publishes additional information online including goals and objectives of the agency’s strategic plan and measures of performance (Managing for Results), as well as a separate Budget Highlights book which describes key aspects of the budget and the Governor’s main priorities.

Budget Bill

The Governor's proposed budget is submitted to the General Assembly as the annual Budget Bill in accordance with Article III, Section 52 of the Maryland Constitution. The legislative session begins on the second Wednesday in January, and the Budget Bill is introduced in both the Senate and the House of Delegates shortly thereafter. During the first year of a new gubernatorial administration, the Constitution provides additional time for submission of the proposed budget.

The budget bill is introduced independently in both chambers, and the first reader (i.e., the bill as printed for the first time with its bill number and committee assignment) includes both bill numbers. One chamber passes the budget bill first in one year and, by prearranged schedule, the other chamber passes the bill first in the next year.

The Budget Bill consists of three primary components:

1. Proposed appropriations, which identify recommended funding for each unit of State government.
2. Budget language, which establishes conditions, restrictions, and other provisions governing the use of appropriated funds. The Legislature can and does amend this section through restrictions on appropriations, across-the-board cuts, re-appropriations of funding cut from elsewhere in the budget, and additional language
3. Budget Summary Table, which provides a statewide summary of estimated revenues, expenditures, and projected general fund balances.

Together, these components present the Governor's comprehensive financial plan for the upcoming fiscal year and serve as the basis for legislative budget deliberations.

Budget Reconciliation and Financing Act (BRFA)
In some years, the Governor also submits a Budget Reconciliation and Financing Act (BRFA) alongside the Budget Bill. Unlike the Budget Bill, which appropriates funding, the BRFA proposes statutory changes needed to implement or support the Governor's financial plan. The BRFA may seek to balance the budget through the suspension, reduction, or elimination of statutorily mandated funding, or through a change in the State's tax code. Because these policy changes directly affect the State's fiscal plan, the Budget Bill and BRFA are typically considered together during the legislative session.

Phase 5: Legislative Review and Enactment

Following submission of the Governor's proposed budget, the General Assembly begins its review of the State's financial plan. The legislative review process is supported by the Department of Legislative Services (DLS), whose analysts conduct independent evaluations of agency budgets, fiscal assumptions, and policy proposals. DLS analysts work closely with agencies and DBM to gather information, assess funding requests, and develop recommendations for the budget committees.

Supplemental Budget
In some instances, the Governor may submit one or more Supplemental Budgets during the legislative session. Supplemental budgets are allowable in accordance with State Finance and Procurement Article, Section 7-102 of the annotated Code of Maryland.

Supplemental Budgets are used to modify the proposed budget after its initial submission and may address issues such as funding emergencies, newly identified needs, pending legislation, technical corrections, or the appropriation of additional available revenues. Supplemental Budgets are considered by the General Assembly alongside the Governor's original budget proposal and may be submitted at any point before final passage of the Budget Bill.

Legislative Review
Shortly after the Governor submits the proposed budget, DLS provides a fiscal briefing to the budget committees outlining the major components of the Governor's financial plan, significant funding changes, major policy proposals, and any BRFA legislation submitted alongside the budget. These briefings provide legislators with an overview of the Administration's budget priorities and the fiscal outlook for the upcoming year. The budget overview presents extensive data concerning expenditures by highlighting new programs and significant program changes introduced in the budget. Additionally, the overview summarizes the positions being created or abolished in the budget.

Maryland underwent a major budget process change beginning with the FY 2024 budget. Prior to the FY 2024 budget, the Governor introduced a balanced budget and the General Assembly could only reduce that budget. Starting with the FY 2024 budget, due to the passage of Maryland Question 1 on the 2020 ballot which amended Article II Section 17 and Article III Sections 14 and 52 of the Maryland Constitution, the process is as follows:

- The General Assembly may now increase, reduce, or add to the budget, or restrict funding for different purposes, although restrictions are likely to be less common given their ability to add to the budget.
- The legislature must pass a budget that is equal to or less than the budget proposed by the Governor. Any restricted, or fenced-off, funding is left to the Governor's discretion to release.
- Under the new constitutional amendment, the Governor may issue line-item vetoes on items that the General Assembly added to the budget.
- The General Assembly must still enact a balanced budget.

The constitutional amendment also established a process through which the Governor may exercise a line-item veto on appropriations added by the General Assembly. As a result, the modern budget process provides the legislature with greater flexibility to shape the State's spending plan while preserving the Governor's constitutional role in budget development and execution.

Department of Legislative Services (DLS) Analysis

Following the fiscal briefing, DLS analysts conduct detailed reviews of agency budgets and legislative proposals. Similar to the review performed by DBM during the executive budget process, legislative analysts evaluate spending trends, staffing levels, program performance, funding requests, and proposed policy changes. Throughout this process, DLS analysts work directly with agencies and DBM to obtain additional information and better understand budgetary and operational issues.

The analyses developed by DLS form the basis for legislative budget deliberations and provide recommendations to the budget committees regarding agency funding levels, policy concerns, and potential budget amendments.

Legislative Budget Hearings

The Senate Budget and Taxation Committee and the House Appropriations Committee conduct public hearings on agency budgets throughout the legislative session. These hearings provide legislators with an opportunity to review agency operations, discuss budget requests, examine policy issues, and ask questions regarding program performance and funding needs.

The structure of budget hearings may vary from year to year. Hearings may be conducted by subcommittees, full budget committees, or joint committees depending on the needs of the legislative session. Agency leadership, budget staff, DLS analysts, and DBM representatives typically participate in these hearings to provide information and respond to questions from legislators. The information gathered during the hearing process informs committee deliberations and ultimately shapes legislative recommendations on the State budget.

Committee/Subcommittee Decisions

After the budget hearings are completed, the decisions concerning the appropriation and expressions of legislative intent and fiscal policy for each agency are determined. The following are the types of decisions that can occur:

- The most prominent form of reduction is the "line-item" reduction. The item being eliminated is specifically identified and the resulting action is applied to the object classification in the program. These reductions are made in the same section where proposed agency appropriations are indicated.

- In some instances, an overall reduction is made to one or more agency's allowance and the specific items or functions to be affected are left to the discretion of the agency or department. This action permits the General Assembly to exercise overall financial control and to set fiscal policy without interfering with the management of the agency. These types of reductions are proposed in separate sections at the back of the budget bill, after the listing of proposed appropriations.
- When the legislature wants to add funding for a particular purpose, it will use funding reduced from elsewhere in the budget and add it back in, along with language specifying the use of the funds. The FY 2024 budget was the first fiscal year the legislature had this authority; these additions are provided in a separate section at the back of the budget bill rather than in the same part where reductions were made.
- In addition to appropriation changes, the committees also propose language for inclusion in the budget bill placing limitations on the expenditure of funds or expressing legislative intent as to the use of funds. This can take two forms:
    - Fencing, a practice by the General Assembly of restricting the expenditure of appropriated funds to a specific purpose (either in the same program or in another program).
    - Restricted funding, the General Assembly may choose to make certain funding contingent upon agencies completing an action, such as submitting a report (i.e., a JCR report). This funding will not be released until the legislature has reviewed that report, confirmed to DBM that the funding is released, and DBM has notified the General Accounting Division (GAD) in the Comptroller's Office to that effect.

When the budget committees arrive at their final position on the budget bill, the DLS Office of Policy Analysis prepares the respective committee reports. The two reports differ according to which chamber moves the budget bill.

First Chamber Action
When the first chamber's budget committee has completed its deliberation and its report is prepared, the chairman is ready to bring the bill to the floor. This occurs around the end of the ninth week of the legislative session.

Recent practice has been to report the bill out of the committee and then delay the debate (lay the bill over) for two to three days. This additional time permits members to review the recommended amendments and other supporting documentation.

Second Chamber Action
When the bill is received in the second chamber, the bill is referred to the budget committee for review and comment by any member of that committee. The changes made as a result of the action in the first chamber are explained to the committee by DLS.

Committee amendments, which differ from the first chamber amendments, are applied to the bill, and the committee report and reprint of the bill are completed. The bill is brought to the floor for second reading around the end of the eleventh week of the session.

The bill is then laid over to permit time for review and study. If the second chamber does not further amend the budget bill, it is enacted upon passage at this point. However, if the second chamber has amended the bill, the amended bill must be returned to the first chamber. At this point the first chamber must accept the bill as amended, or a conference committee must be called to resolve differences.

Conference Committee
The conference committee is composed of three members of each chamber, and is, by rule, restricted to dealing only with those amendments that have not received concurrence in both chambers. The conference committee recommendations must be accepted in their entirety by each chamber. If they are not, the conference committee must be reinstituted, or another appointed.

Governor's Signature
Following passage of the budget bill by the legislature, the Governor can sign the bill with no revisions or veto specific items changed by the legislature. If the Governor vetoes items, the General Assembly can then vote to override that veto.

Joint Chairmen's Report (JCR)
The Office of Policy Analysis at DLS prepares the Joint Chairmen's Report (JCR) detailing every action taken by the General Assembly upon the budget bill and submits the report to the chairmen of both budget committees. Compiling this report usually takes 3 weeks to a month after the budget bill passes.

The report contains an explanation of each budget alteration and statements of legislative policy and intent that were accepted by the General Assembly, and includes the status of the budget as enacted by the General Assembly. The report is used by each agency to comply with legislative direction in executing its budget and preparing studies or special reports required by the General Assembly.

Phase 6: Budget Implementation

Following enactment, DBM updates appropriations in BARS, publishes the Fiscal Digest, and agencies begin operating under the enacted budget.

Once the specific budget changes are identified, OBA, in consultation with the agencies, makes specific adjustments within BARS. In some instances, the General Assembly will make a statewide percentage reduction in an object category and allow the Governor to designate the allocation of the reduction among the state agencies.

Once the adjustments have been allocated, DBM prepares and publishes the Fiscal Digest by the beginning of the fiscal year (July). The digest includes the following:

- Summary of the status of the general funds
- Estimate of revenues for the coming fiscal year
- Details of the appropriations for operating purposes
- A schedule of withheld allotments
- A summary of authorized positions
- A listing of deficiency appropriations for the current fiscal year
- Summary of the enacted capital budget.

The digest consolidates all modifications to each appropriation--changes made by the Governor through supplemental budgets and the changes made by the General Assembly--and reflects the final legislative appropriation.

Appendix A: Key Budget Concepts

Board of Public Works (BPW)
A three-member panel (Governor, Comptroller, and Treasurer) charged with ensuring that significant State expenditures are necessary and appropriate. Specifically, the Board:

- approves the expenditure of all general obligation (GO) bond funds
- approves the expenditure of funds for capital improvements except for State roads, bridges, and highways
- approves the sale, lease, or transfer of State real and personal property
- controls procurement policy, adopts procurement regulations, and approves most contracts exceeding $200,000
- preserves and protects the State's submerged lands, shoreline, and tidal wetlands and issues licenses to dredge or fill wetlands

The Governor can present a Board item that reduces an appropriation (program level) by up to 25% (commonly referred to as "cost containment" or "BPW reductions").

Contingent Fund
A general fund reserve in the BPW budget available to increase an agency's appropriation in the event of an emergency or other reason.

- DBM monitors/recommends/controls disbursements from the Contingent Fund. Any use of the fund must be proposed to DBM and DBM prepares the BPW item.
- Upon approval from the BPW, transfers from the contingent fund are made by budget amendment (processed by DBM).

State Reserve Fund
Comprised of the:

- Dedicated Purpose Account (DPA), which was created for the purpose of retaining appropriations for multi-year expenditures or to address certain fiscal contingencies.
- Revenue Stabilization Account (Rainy Day Fund), retaining revenues for future fiscal shortfalls.
- Catastrophic Event Fund (Stormy Day Fund), established for the purpose of enabling the State to respond without undue delay to a natural disaster or catastrophic event.

The Economic Development Opportunities Program Account (commonly known as the Sunny Day Fund) was previously included within the State Reserve Fund. The program was renamed the Strategic Closing Fund and transferred to the Maryland Department of Commerce.

Mandates
A statutory or constitutional requirement that a specific amount be appropriated or a specific formula be used to calculate the appropriation. To truly be a mandate, the legislation must state "shall" (i.e. "the Governor *shall* include XXX in the budget") and it must be a specific dollar amount or be a formula that is calculable at the time of budget submission in January each year.

Statewide Controlled Subobjects
"Statewides" are charges that apply to most agencies and go towards covering certain statewide costs. Usually, they fund the costs of a central control agency that provides services throughout the State (ex:

DBM or the Department of Information Technology (DoIT)). Because DBM needs to ensure that those central control agencies are adequately funded, DBM “controls” their allocation in the budget, making sure that every agency budgets correctly by fund type. Each of these statewide subobjects has a fee schedule that is determined by various factors, including some that are set in statute.

For these statewides, BARS ensures that agencies submit their budget request with exactly what was in the Legislative Appropriation (by agency by fund type). The reason is because if an agency was able to realign funding elsewhere within their budget target, the Administration would have to provide additional funding to make up the difference for the central cost. In other words, these statewide costs are part of what makes up the CSB, and an agency’s target assumes that they budgeted the same as the appropriation. However, agencies are able to realign the charges between units/programs/subprograms in their request should they choose so, provided the net amount by fund type does not change.

In late November/early December, DBM updates these statewide schedules to support centralized costs in the Allowance. DBM undergoes the following process:

1. Reaches out to agencies to determine whether the fund types supporting the statewides should change based on the specific fee schedule allocation.
2. Uses these revised funding splits combined with the updated statewide allocation schedule (i.e., split between agencies) and the Allowance for the central charge to update every agency’s charge in BARS.

More detail on the allocation process and instructions for budgeting each statewide controlled subobject is in Budget Instructions.