



Maryland

**DEPARTMENT OF BUDGET
AND MANAGEMENT**

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Governor

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Lieutenant Governor

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Secretary

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Deputy Secretary

**DEPARTMENT OF BUDGET AND MANAGEMENT – SECRETARY
FY 2025 Budget Hearing**

**Testimony of
Helene Grady, Secretary
Department of Budget and
Management**

**Senate Budget and Taxation Committee
February 27, 2024**

**House Appropriations Committee
March 1, 2024**

The Administration appreciates the thorough analysis put forward by the Department of Legislative Services (DLS).

The mission of the Department of Budget and Management (DBM) is to assist the Governor, State agencies, and their employees in providing effective, efficient, and fiscally sound government to the citizens of Maryland. We support agency efforts to achieve results by helping them obtain the fiscal, capital, and personnel resources needed to provide services to Maryland citizens. We are dedicated to providing advice and assistance with professionalism, state-of-the-art technology, modern management techniques, and teamwork. DBM supports Maryland's State government workforce with competitive benefits and opportunity for growth.

DBM's responses to the DLS recommendations in the analysis are below. We are available to answer any questions.

EZ Pass Debt Collection Activities: The DBM Central Collection unit (CCU) should comment on the resumption of EZPass debt collection activities and any backlog of such cases.

EZPass placed approximately 2 million toll-violation debts with CCU between July 11, 2023, and November 14, 2023. The total value of those placements is \$63.5 million. It is our understanding that this inventory represents a fraction of the delinquent toll-violation debts eligible for placement with CCU. We are working with MDTA to resume placements on additional delinquent inventory in the future.

ARPA Funding: DBM should brief the committees on any plans to reallocate unspent funds to other purposes.

DBM is happy to provide the General Assembly with an update on the State's ARPA spending. As of December 31, 2023, the State has spent \$3.24 billion, or 87.2%, of the \$3.72 billion award. State spending increased by almost \$100 million since the end of fiscal year 2023. Progress in spending has been made across all State agencies with significant increases in broadband and education programs. DBM meets quarterly with those agencies with sizable unspent balances to check on the progress of spending. Adjustments have been made to reallocate funding in cases where projects have finished, or it appears that an agency will not be able to spend their entire allocation.

DBM would also like to report that the State has obligated 94.9% of its award as of December 31, 2023. As noted in the DLS analysis this is particularly important as all states are required to have 100% of their awards obligated by the end of calendar year 2024. To make sure that the State meets this deadline, DBM will be meeting with every agency with unobligated funds over the next month. The purpose of these meetings is to work with agencies to develop plans to ensure all funds are obligated in a timely fashion or to reallocate funds to programs where the funding can be spent. Any funding that is reallocated will be processed via budget amendment providing the General Assembly an opportunity to review the new spending plan.

Funding of Entitlements and Mandates: DBM should comment on the projected underfunding and describe the agency's proposed strategy to address the projected underfunding.

DBM agrees with the projected shortfall estimated by DLS for the Medicaid Program in FY 2024 and FY 2025. DBM is considering including funding in a supplemental budget to correct for two distinct errors in the Medicaid budget, but this decision will depend on where revenue estimates land with the March Board of Revenue Estimates meeting. DBM respectfully disagrees with the projected shortfall for foster care, and we believe those costs are budgeted appropriately in the Governor's Allowance.

DLS Recommendations and DBM Responses

- 1) DLS recommends adoption of budget bill language restricting \$200,000 in general funds from the DBM Office of the Secretary executive direction program pending submission of a report outlining previous, current, and future ARPA oversight activities in the interest of using all available resources to enhance State government. The report should also outline spending as of September 30, 2024.**

DBM concurs.

- 2) DLS recommends that DBM develop MFR goals, objectives, and measures for outputs and outcomes relevant to the Audit and Financial Compliance Unit for the fiscal 2026 budget submission.**

DBM concurs with the development of MFR measures for the Audit and Financial Compliance Unit (AFCU) to be submitted with the fiscal 2026 budget submission. DBM wants to note that MFR measures will relate specifically to the job duties and function of the unit, not the outcomes of repeat audit findings statewide. The AFCU offers support and consultation but does not have authority or direct responsibility for addressing repeat audit findings in other State agencies.

- 3) **DLS recommends removing language in the budget bill that would reduce general funds to the Office of Budget and Analysis by \$40,000 contingent on a provision in the Budget Reconciliation and Financing Act (BRFA) that eliminates the mandate to print budget volumes.**

DBM concurs.

- 4) **DLS recommends the adoption of committee narrative requesting DBM to submit complete fiscal 2026 subobject detail by program for Comptroller Objects 08 and 12 by the third Wednesday of January 2025 in an electronic form subject to the concurrence of DLS.**

DBM concurs.

- 5) **DLS recommends amending Section 2 to limit appropriation that can be placed into contingency reserve to items restricted by the General Assembly.**

DBM does not concur with this proposed limitation on the Secretary's authority to manage the budget and would ask the committees to accept the language in this section in the budget as introduced. In addition, to simplify our administrative processes, DBM suggests that beginning with the FY 2025 budget, the budget committees notify the Comptroller directly, rather than routing notification through DBM, regarding approval of the release of funds restricted by the General Assembly. DBM will continue to monitor the release of funds and produce the list of withheld allotments (Exhibit D in the Fiscal Digest).

- 6) **DLS recommends amending Section 17 to disallow transfers to other purposes and make it possible for the Office of Legislative Audits to track the disposition of funds in restricted statewide subobjects.**

DBM does not concur with the recommendation to disallow transfers from restricted objects of expenditure to other purposes as in very limited circumstances this can be a useful budget management tool. The language permitting the Secretary of Budget and Management to approve the transfer of funds from various statewide allocations for other purposes had been included in annual budget bills for several years prior to FY 2016. Given that, DBM respectfully requests the committees reject the analyst's recommendation and allow the new Administration to resume this authority.

- 7) **DLS recommends authorizing the transfer of \$65 million in fiscal 2024 and \$100 million in fiscal 2025 from the Revenue Stabilization Account (Rainy Day Fund) to the Maryland Department of Health (MDH) Medical Care Programs Administration and \$34 million in fiscal 2025 from the Rainy Day Fund to the Department of Human Services Foster Care Maintenance Program to address underfunding that materializes. If the maximum transfers are made, this action would reduce the balance in the Rainy Day Fund to \$2.1 billion, or about 8.8% of general fund revenues.**

DBM concurs. Even though DBM is considering proposing supplemental budget funding for the identified Medicaid shortfall, our ability to do that will depend in part on where revenue estimates land with the March Board of Revenue Estimates meeting, and we are also concerned there is significant risk of additional shortfalls across Medicaid (including MCHIP) and MDH Developmental

Disabilities Administration that could materialize in FY 2024 and FY 2025. For these reasons, we support the recommendation to authorize some drawdown of the Rainy Day Fund in both years should the shortfalls in MDH or DHS materialize.

- 8) DLS recommends adding a section that provides for the delivery of the Executive's General Fund, transportation, Blueprint for Maryland's Future Fund, and higher education forecasts.**

DBM concurs.

- 9) DLS recommends adding a section that 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.**

DBM concurs.

- 10) DLS recommends adding a section requiring reporting on federal funds received by the State.**

DBM concurs.

- 11) DLS recommends adding a section defining the use of federal funds in the budget.**

DBM concurs.

- 12) DLS recommends adding a section requiring consistent presentation of budget data and organizational charts.**

DBM concurs.

- 13) DLS recommends adding a section requiring reporting on interagency agreements and approval by the Department of Budget and Management.**

DBM concurs.

- 14) DLS recommends adding a section defining the budget amendment process.**

DBM concurs.

- 15) DLS recommends adding a section requiring the maintenance of accounting systems for certain programs.**

DBM concurs.

- 16) DLS recommends adding a section requiring notification of competitive grant applications with a State commitment and quarterly reports summarizing competitive grant applications.**

DBM concurs. The Moore-Miller Administration is committed to pursuing all additional competitive

federal funding made available through the Infrastructure Investment and Jobs Act and the Inflation Reduction Act where those opportunities align with the Administration's goals and priorities. DBM understands the General Assembly's interest in tracking the Administration's application activity for new federal funding when awards will require the allocation of additional State resources. DBM will work with all State agencies and strive to meet the 10-day notification period and will provide quarterly application summary reports as requested.