

### **I.3 Primer on the Operating Budget Process**

#### **Starting Point: Targets/Current Services Budget (CSB)**

The CSB is a “fixed ceiling” technique of budget formulation that allows the Governor to designate the maximum amount an agency can request in its base budget for the next fiscal year (i.e. 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.

- Funds are removed for one-time expenditures.
- Annualizations are made to programs or activities that were not operational for the complete fiscal year.
- Adjustments are made to expenditures that are driven by a formula, caseload, or population change (mandates and entitlements).
- Funds may be added to implement newly enacted legislation, including funding mandates, and to cover the costs of any new facilities that are due to open.
- Funds may also be removed to reflect a change in policy or sunset of statute.
- Multi-year funding commitments are honored.

The CSB, or 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.

OBA implements all target detail via adjustments in the DBM budget system BARS (Budget Analysis and Reporting System), and agencies can both review the data in BARS and receive a target memo provided by OBA summarizing the target and changes made. The target memo also includes the agency’s budget submission due date, which is determined to allow DBM to process and review the large magnitude of data entailed with all State agency budget submissions. **Requests for extensions to the submission due date must be made by agency heads and submitted to DBM Deputy Secretary Marc Nicole and OBA Executive Director Andrew Pierce.**

#### **Budget Request and Submission**

For situations where there is one CSB figure for the entire agency, the agency head will determine the allocation of the CSB to agency units, whose administrators will in turn reappropriate that amount to the various elements and programs within the individual units. Agencies are encouraged to allocate resources through strategic planning to achieve outcome-based results.

Agencies prepare their budgets in accordance with the format and instructions prescribed by the Secretary of Budget and Management in this document.

The budget requests, including detailed explanations, are submitted to OBA in BARS from August through October. This data is submitted with actuals for the prior fiscal year along with any realignments to the current year’s budget that have a net zero impact, by fund type, on program-level appropriations.

## **OBA Review, Meetings**

Once agencies submit their budget requests to DBM, OBA analysts check submission data for technical flaws (such as negative expenditure amounts or incorrectly budgeted scheduled subobjects) and work with agencies to correct those issues. Then, analysts review the requests, analyze year-to-year changes in each agency's budget and assess any deficiency, over-the-target, and reduction proposals submitted by agencies. Analysts determine if changes should be recommended to DBM leadership. During this time, analysts may ask agencies about spending trends, performance, and other budget-related topics. Analysts are often working on tight schedules during this period, so timely responses are much appreciated.

Once analysts complete their review of agency budgets, they report to DBM management with any recommended changes or requests for agency comment. At this point, DBM management and other staff will meet internally to finalize decisions regarding an agency's budget. This may involve inviting agencies to meet with DBM management to discuss an agency's request and DBM's proposed recommendations. In these situations, DBM will provide agencies with a copy of the DBM analysis several days in advance of the meeting. After these meetings, final recommendations are sent to the Governor.

## **Spending Affordability Committee (SAC)**

This committee was established during the 1982 session and 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.

Specifically, this report includes the following recommendations:

- 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 (aka Rainy Day Fund)
- Structural (aka long-term) balance goal.

The SAC examines the following in making recommendations:

- Continuation of current laws
- Recognition of inflation
- Removal of one-time expenses & non-recurring PAYGO
- 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

## **Governor's Budget Submission**

The State constitution requires the Governor to annually present a balanced budget to the General Assembly shortly after it convenes in regular session. In essence, the figure for the total proposed appropriations shall not exceed the figure for total estimated revenues as determined by the Bureau of Revenue Estimates (balanced budget).

### Budget Books

The Governor's funding decisions are incorporated into the budget using the BARS system and are characterized as the Governor's Allowance. This allowance, in effect, is the Governor's "request" to the General Assembly to spend that amount of money for the purpose specified.

The allowances, which are set at the program level by fund type, are grouped by department/agency, and then included in a two-volume set of budget books. 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, has as 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 (a) goals and objectives of the agency's strategic plan and measures of performance (Managing for Results) and (b) personnel detail that lists each position classification and the number of positions in each class together with the total salary for the previous, current, and next fiscal year.

A separate Budget Highlights book is provided that describes key aspects of the budget and the Governor's main priorities.

### Budget Bill

The Governor submits the budget bill in accordance with the provisions of Article III, Section 52 of the Constitution of Maryland.

The budget bill is introduced in each house of the General Assembly by the presiding officers on the third Wednesday of January. This date is extended to the tenth day of the legislative session every four years for the newly elected governor. The legislative session formally begins the second Wednesday of January.

Although the budget bill is introduced independently in both the Senate and House of Delegates, the printed version of the first reader includes both bill numbers. One house passes the budget bill first in one year and by prearranged schedule the other house passes the bill first in the next year.

The budget bill has three major parts. The first part contains specific appropriations proposed for each unit of state government. This is the largest part of the bill.

The second part of the budget bill contains a number of sections that provide certain standard details pertaining to the expenditure of the appropriations contained in the first part. The Legislature can and does amend this section through restrictions on appropriations, across-the-board cuts, appropriating funding cut from elsewhere in the budget, and additional language in this section.

The third part of the budget bill is a one-page “Budget Summary Table” showing a summary of the general fund balance, estimated revenues, and expenditures during the current and coming fiscal years.

#### Budget and Reconciliation Financing Act (BRFA)

Sometimes, the Governor may propose amending existing statute to balance the proposed budget through a BRFA. The BRFA bill is separate from the budget bill but both bills are considered in tandem with one another. 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.

#### **Legislative Session**

##### Supplemental Budget

If the situation arises where the Governor may want to change or increase the budget bill, he can do this through a Supplemental Budget in accordance with State Finance and Procurement Article, Section 7-102 of the annotated Code of Maryland.

The supplemental budget amendments may be used to correct an oversight, fund pending legislation, use unappropriated revenue, or in case of an emergency. Supplemental budgets can be submitted any time before the budget bill passes. The Governor can choose to submit one supplemental budget, none, or multiple.

##### Legislative Review and Enactment – Changes in the FY 2025 Budget Process

Maryland is undergoing a major budget process change starting with the FY 2024 budget season. Previously, 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 where the General Assembly added to the budget.
- The General Assembly must still enact a balanced budget.

Shortly after the Governor introduces the budget, the Department of Legislative Services presents a fiscal briefing to the budget committees on the provisions and implications of the Governor’s proposed budget. This briefing would include an overview of the BRFA bill, should it exist.

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.

### Budget Analysis - Department of Legislative Services (DLS)

Legislative analysts communicate with the agencies, reviewing the budget request and obtaining information on any expenditure not adequately explained or justified. The budget bill is reviewed by the legislative analysts piece-by-piece, similar to the manner in which the analysts in DBM review agency requests.

### Legislative Budget Hearings

The budget committees (Senate Budget and Taxation and House Appropriations) hold public hearings on the budget bill following a schedule for various agencies prepared by DLS and approved by the chairmen of both committees. The structure of budget committee hearings has varied from session to session. Hearings may be held in sub-committees, by the chamber's entire budget committee, or jointly between both chambers' budget committees.

### 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. For the FY 2024 budget, which is the first fiscal year the legislature had this authority, these additions were 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, sent to DBM confirmation that the funding is released, and DBM notifies 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 house moves the budget bill.

#### *First House Action*

When the first house'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 House Action*

When the bill is received in the second house, 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 house are explained to the committee by DLS.

Committee amendments, which differ from the first house 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 about 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 house does not further amend the budget bill, it is enacted upon passage at this point. However, if the second house has amended the bill, the amended bill must be returned to the first house. At this point the first house 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 house, and is, by rule, restricted to dealing only with those amendments that have not received concurrence in both houses. The conference committee recommendations must be accepted in their entirety by each house. If they are not, the conference committee must be reinstated, 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

The Office of Policy Analysis at DLS prepares the Joint Chairmen's Report detailing every action taken by the General Assembly upon the budget bill and submits the report to the chairmen of both budget committees. Compiling it 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.

### **Fiscal Digest**

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, the Department of Budget and Management 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.

### **Other Key Operating Budget Components/Concepts**

#### Board of Public Works

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 by up to 25% (commonly referred to as “cost containment”).

### 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, 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.
- Economic Development Opportunity Fund (Sunny Day Fund), established for the purpose of acting on economic development opportunities beyond the capabilities of existing programs.
- 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.

### Mandates

A statutory or constitutional requirement that a specific amount be appropriated or a specific formula be used to calculate the appropriation. In order 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 on various factors, including some that are set in statute. For example, the State Retirement Agency (SRA) is funded by all entities with active employees in the pension system, so the schedule is based on those active employee counts.



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 for the agency.

In late November/early December, DBM updates these statewide schedules to support centralized costs in the Allowance. For example, if SRA requires additional funds to support their IT systems, subobject 0875 (the statewide for SRA administrative costs) must increase in other agencies to cover these charges. 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. In the case of the SRA charge, if more positions in a given agency are now supported by federal funds, it would make sense to increase the federal fund percentage for the 0875 charge.
2. Uses these revised funding splits combined with the updated statewide allocation schedule (i.e. split between agencies) and the Governor's Allowance for the central charge to update every agency's charge in BARS. NOTE that BARS automatically increases/decreases these charges based on where funding was in the request, so if an agency wants to realign the charges they should do so in the request or via budget amendment during the fiscal year.

More detail on the allocation process for each statewide controlled subobject is in Section A.1 of budget instructions.