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Governor's Fiscal Year 2013 Budget: What's In It For Kids

Mind the Gap: Protect Gains By Sustaining and Expanding Investments in Maryland's Families

Executive Summary

Like a blown-out tire, when it comes to investments in Maryland's families, funding in the administration's budget is flat, with new money for school construction the notable exception. Maryland's gap between the wealth of the state and the well-being of its children and youth persists.[1] At the same time, by combining thoughtful investments in proven front-end programs with robust accountability measures, the state has made progress in many areas.

Maryland has sustained aggressive support for spending both in the classroom and on school construction and modernization. And the state's public schools continue to lead the nation. In addition, the stubbornly high infant mortality rate has recently gone down; and there are fewer children and youth removed from their home and fewer placed in expensive institutional settings, in both foster care and juvenile justice.

Unfortunately, recent cuts, including to Medicaid and other health care programs, and cost shifts to local governments, including a partial shift of teacher retirement costs in the Governor's budget, threaten to erode recent progress and widen the state's gap between wealth and child well-being. State leaders could reach consensus around further enhanced revenues and avoid or limit the need for these costly shifts of responsibility to already pinched local budgets.

Governor's Fiscal Year (FY) 2013 Budget Overview

The administration deals with a projected budget gap of more than $1 billion in the budget for the upcoming Fiscal Year (FY) 2013 with a combination of cuts, cost shifts and new revenue. Overall, the budget does deal with about 1/2 of the state's ongoing structural deficit, but a lingering fiscal gap of more than $420 million would remain for future years. This year's budget includes more than $325 million in deficiency spending to make up for underfunding in the current budget. And legislative analysts identify potential underfunding in the FY 2013 fiscal plan of more than $150 million.[2] Capital funding for new youth detention facilities in Baltimore City and Cheltenham is deferred.[3] Smart investments in the state's future include more than $351 million for public school construction as well as a large infusion of state funds to partly deal with a shortfall in the federal Temporary Aid to Needy Families (TANF) block grant.

Cost-containment measures in the Medicaid program include $72 million related to reimbursing fewer inpatient services and $60 million from starting tiered co-payments for outpatient services, as well as $80.4 million from a cumulative rate reduction of 2.5% for Managed Care Organizations.[4] For the first time, the Governor's budget also shifts a portion of teacher retirement costs to local jurisdictions. Combined with various local revenue increases, the net effect would be a cut of $162 million in state aid to cash-strapped local jurisdictions.[5]

The budget includes new and enhanced revenue items, including limiting income tax itemized deductions and personal exemptions for people earning more than $100,000; repeal of certain corporate tax credits; applying the sales tax to internet affiliate sales; and increasing the tobacco tax rate to 70% for tobacco products other than cigarettes.[6]

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[1] The Annie E. Casey Foundation's 2011 KIDS COUNT Data Book includes state rankings for child well-being as well as family income and is online at http://datacenter.kidscount.org/databook/2011/OnlineBooks/2011KCDB_FINAL.pdf

[2] For much more detail on the operating budget, see the "Fiscal Briefing" from the Department of Legislative Services (DLS), January 24, 2012, http://mlis.state.md.us/2012rs/budget_docs/all/Operating/Fiscal_Briefing.pdf

[3] See DLS "Capital Budget Fiscal Briefing, January 2012, http://mlis.state.md.us/2012rs/budget_docs/all/Capital/Fiscal_Briefing.pdf

[4] See DLS Analysis of the FY 2013 Maryland Executive Budget, "DHMH Overview," page 15-16. All DLS analyses of the FY 2013 budget are at http://mlis.state.md.us/2012rs/budget_docs/all/Operating/Operating_Analysis_doc.htm

[5] See DLS Fiscal Briefing, page 31.

[6] DLS Fiscal Briefing, page 35-36.

Education

After four years of flat funding, the governor included a 1% inflationary increase in direct state aid to public schools and provides full funding of the Geographic Cost of Education Index. But the proposed 50/50 cost-sharing plan for teacher retirement would cut state aid by $239 million, which is partially offset by boosted local revenue.[7] Because of an accounting rule about how public budgets must account for future retirement costs; the impact on local budgets will be heightened. The budget also includes $7.2 million in deficiency federal spending for FY 2012, $7 million for rehabilitation services, and $100,000 each for juvenile education and math, science and language assistance programs.[8]

The state continues to invest in school construction and modernization with $351.4 million in new FY 2013 General Obligation (GO) Bonds as well as $15.3 million in QZABs, a bond financed with a federal tax credit. $50 million of this funding is set aside to pay for energy efficiency projects.[9] The current FY 2012 capital budget includes $47.5 million in supplemental PAYGO funds for school construction from the boost in the sales tax on alcoholic beverages.[10] In addition, the Aging Schools Program receives $6.1 million in the FY 2013 budget[11]. Despite the state funding, many local jurisdictions faced with past cuts in state aid, reduced funding for facilities and capital projects. After years of improvement, the state recently slipped in one key measure of the aging of school facilities.[12]

Health

Compared to the growth in health care costs overall, the Medicaid budget increases just slightly to $7.077 billion in total funds. The budget funds increased money for enrollment and utilization increases and eligibility expansions; but balances these increases with cost-containment measures. These reductions in services and provider rates can pinch access for recipients. Maryland Children's Health Program spending goes down $9 million to $199.8 million, due to children transitioning into the expanding Medicaid program. The state continues to use Federal grant funding to develop its Health Benefit Exchange and other upcoming implementation needs related to the 2010 federal health care reform law, the Patient Protection and Affordable Care Act (PPACA). Even with the eligibility expansion of the Medicaid program, the large federal match for the newly eligible enrollees and other savings lead legislative analysts to forecast a related General Fund savings of $262 million from FY 2014 through FY 2017.[13]

There is an $8.4 million increase in funding for the Alcohol and Drug Abuse Administration; however, accounting for a transfer to the Primary Adult Care (PAC) program to pay for substance abuse services for PAC clients, the increase is just $1.4 million and goes to boost problem gambling funding. Money for community mental health services goes down $2.4 million in this budget, with an increase in the number of people receiving services offset by cost-containment measures.

This year's mental health budget includes $3.2 million in deficiency spending for the current budget for community alternatives to institutionalization and $14.1 million to make up for underfunding rolled over from the last budget. According to legislative analysts, the remaining deficit in mental health funding may be up to $27.5 million.[14]

Unlike related flat or cut funding, the number of individuals seeking substance abuse treatment and mental health treatment is steadily increasing. The upcoming expansion of Medicaid related to PPACA will likely further increase the number of individuals receiving these services. So cuts or flat funding leads to pinched budgets at the provider level – where services are available in the community. With PPACA's upcoming expansion of Medicaid, ample provider capacity is vital to health care reform implementation.

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[7] DLS Fiscal Briefing, page 29
[8] DLS Fiscal Briefing, page 14
[9] DLS Capital Budget Fiscal Briefing, Exhibit 17, page 23.
[10] For a break-out of the supplemental PAYGO money by region, see DLS FY 2013 analysis of Interagency Committee on School Construction, Exhibit 3.
[11] See "Maryland FY 2013 Budget Highlights," Department of Budget and Management, January 2012, page 15
[12] See DLS analysis of Interagency Committee on School Construction, page 4. In FY 2011, 7 local education agencies were below the state average for facility aging and 1 LEA was at the state average, while in fiscal 2010 6 LEAs were below the state average.
[13] For much more detail on the implementation of PPACA and break-out of related costs and savings, See DLS FY 2013 analysis, "DHMH Mental Hygiene Benefits Exchange Administration.
[14]See DLS FY 2013 analysis, "DHMH Mental Hygiene Administration," Exhibit 9.

While too many infants in Maryland do not survive to reach their first birthday, the state has made recent progress. The infant mortality rate declined from 7.2 per 1,000 live births in 2009 to 6.7 in 2010 for all races, and from 13.6 in 2009 to 11.8 in 2010 for African-Americans.[15] Even with the recent progress, the infant mortality rate among African-Americans is nearly three times higher than for White babies. In the 2011 KIDS COUNT Data Book, which tracked 2009 data, Maryland ranked 42nd in Infant Mortality and 41st in the rate of births with low-birth weight (LBW) babies.[16]

The Governor's budget reduces funding for Family Planning services, which limit unplanned pregnancies that are more likely to result in LBW babies, by $1.6 million. A $2 million increase in federal grants for the Maternal, Infant and Early Childhood Home Visiting Program and a $500,000 increase in the Children's Medical Services Program are offset by an $89,000 cut to the Babies Born Healthy program and $300,000 cuts to both medical day care services and maternal and child health systems improvements, such as infant mortality reviews. Funding for the Women, Infants and Children (WIC) nutrition goes up $2.5 million, mostly due to the rising cost of food.

Child Welfare

The Maryland Department of Human Resources (DHR) has successfully decreased the number of children entering foster care and the number of children in care that are placed in expensive group homes or other institutional settings. Spending on foster care payments to providers dropped from more than $350 million in both FY 2008 and FY 2009 to just under $330 million in FY 2010 and $299 million in FY 2011. Unfortunately, by using the money to fill budget gaps, the state missed the opportunity to re-invest the substantial savings in proven programs to keep more children safely at home and more families intact[17]

The state still has a chance to make up for this missed opportunity. Legislative analysts project a surplus in budgeted funds for foster care payments of more than $40 million in total funds, and $29.4 million in General Funds, for FY 2012 and FY 2013.[18] As the analyst points out, despite the tight state budget, these funds should not be transferred, due to the uncertain and changing nature of the foster care caseload, the uncertain extent of future federal reimbursement under the Title IV-E program, and the need for flexibility in TANF allocations for foster care. Rather than compound unwise budget choices made in the past, the legislature should add flexibility to allow for the money for foster care payments to be transferred for child welfare services that keep families together.

With rising health care and gas expenses, flat funding in the FY 2013 budget for local child welfare services, including staff costs, make this recommended flexibility all the more important. While the number of funded local child welfare staff positions is also flat from FY 2012 to FY 2013, the declining foster care caseloads help DHR make further progress towards meeting recommended caseload ratios for these staff.

Despite the progress, flat or pinched funding has led to halted progress and missed benchmarks for the well-being of children in the child welfare system. For the first time in many years, DHR missed its goal related to the number of children who are victims of abuse and neglect while in foster care. DHR also reported a slight decline in the rate of reunification for foster children and a small increase in the rate of children who do reunify with their family that re-enter foster care within 12 months[19].

Juvenile Justice – At-Risk Youth

With sustained and effective local advocacy focused on the unwise choice to construct a new juvenile jail in Baltimore City, $41.1 million in planned capital debt for this project as well as $23.5 million in planned debt for a new detention facility at Cheltenham is deferred in this year's Capital Budget. The administration has not included any capital debt for these two projects in the $290.5 million in new capital debt requested to be authorized by the 2012 Maryland Capital Consolidated Loan Program.

[15]See Maryland FY 2013 Operating Budget, Department of Health and Mental Hygiene, Family Health Administration, Volume II, page 149. The FY 2013 Operating Budget is available at http://dbm.maryland.gov/agencies/operbudget/Pages/2013ProposedOperBudget.aspx.
[16]See 2011 KIDS COUNT Data Book.
[17] For more background, see ACY's February 2011 "What's In It For Kids," at http://acy.org/upimages/FY2012%20Budget%20Issue%20Brief.pdf and ACY's March 2009 issue brief "Lost Savings" analyzing the anticipated and at-that-point unrealized savings, available at http://acy.org/upimages/Lost_Savings.pdf
[18] See DLS FY 2013 analysis.
[19]Maryland FY 2013 Operating Budget, Department of Human Resources, Volume II, pages 373-374.

Like many recent years, funding in the operating budget for juvenile justice is flat. Accounting for a $5.9 million deficiency for FY 2012, due to overtime and facility maintenance expenses, the Department of Juvenile Services' (DJS) operating budget goes up $100,000, to $274.5 million for FY 2013.

Like the flat agency funding, outcomes measuring progress for juvenile youth are stalled. For example, the recidivism rates particularly re-arrest rates, for youth released from residential placements have remained steadily and stubbornly high, between 52% and 57% - since FY 2005. Reported DJS Managing for Results data show declining caseloads across the system and particularly in expensive settings, like detention, and basically flat funding over the last several budgets.

While DJS expects the number of Intake cases and youth in committed programs to remain relatively steady, the MFR data reports anticipated drops in the number of youth admitted to detention, shelter programs, and pending placement as well as in the number of youth on Informal Supervision, Probation and Aftercare. DJS also reports that the length of stay in pending placement and detention is expected to drop. At the same time, the flat funding in the current budget was insufficient, and the FY 2013 DJS budget needed to include a $5.9 million deficiency for FY 2012. Despite these changes and shifts in the DJS caseload, the FY 2013 budget is again flat-funded.

In FY 2011, 290 youth were referred for evidence-based services that keep youth from committed placements and reduce recidivism; these include Multi-systemic Therapy (MST), Family Functional Therapy (FFT), and Multidimensional Treatment Foster Care. The Department reports a utilization rate of 88% of available slots. DJS estimates serving 355 youth in the current fiscal year and 300 in the upcoming budget year in these programs[20].

The Children's Cabinet Interagency Fund (CCIF) also includes funding for 13 MST slots and 36 FFT slots in both FY 2012 and FY 2013.[21] While the utilization rate is relatively high, the Department suggests it is closely monitoring the number of available slots and usage, and may subsequently reduce the number of evidenced-based practices slots, a move youth advocates believe is a step in the wrong direction for the state.

In addition to the interagency front-end money for MST and FFT in the CCIF budget, the budget for the Governor's Office of Crime Control and Prevention (GOCCP) includes $800,000 for Operation Safe Kids (OSK), a community-based program providing case management to high-risk youth who are identified to participate in the Violence Prevention Initiatives in Baltimore City and Prince George's County. Legislative analysts have recommended eliminating all of this OSK funding in the GOCCP budget. The Governor's budget also includes $1.5 million for OSK in the DJS budget.

The legislative analyst points to a 2008 DJS efficacy study that found little difference in outcomes between OSK and other DJS community-based programs[22] Local input and buy-in increase the likelihood of program success; OSK is collaboration between the Baltimore City Health Department and DJS. Any lack of a marginal difference in program success, as measured nearly 4 years ago, seems like insufficient reason to cut funding for a collaborative public safety project.

Further, as shown by this year's deficiency for DJS, it is not certain that DJS funding in the current budget is sufficient to meet current needs. Therefore, the $1.5 million in OSK funding in the DJS budget may be pinched. The legislature should not cut the $800,000 in funds for OSK in the GOCCP budget; but should restrict the GOCCP money pending an updated efficacy report for the budget committees later in this year.

Supports for Working Families

In difficult economic times, work support programs for working families and those trying to find work become all the more important. With the expected improving economy and dropping assistance payment caseloads, the FY 2013 budget includes a drop of $150 million in federal funds for the Supplemental Nutrition Assistance Program (SNAP), previously known as the "Food Stamps" program and $4 million decrease in overall funds for Temporary Cash Assistance payments. While any

[20] Maryland FY 2013 Operating Budget, Department of Juvenile Services, Volume III, page 615.
[21] Maryland FY 2013 Operating Budget, Governor's Office for Children, Volume I, page 227.
[22] See DLS FY 2013 analysis, Governor's Office of Crime Control and Prevention, page 13.

increases in the SNAP caseload over the projected baseline will be paid for with federal funds, a higher than expected TCA caseload would likely result in underfunding in state General Funds for TCA payments. Indeed, the actual FY 2011 TCA caseload was about 8,300 recipients above the projected budget baseline; and this budget included $12.1 million in deficiency spending for TCA payments.

The actual TCA caseload six months into FY 2012 is still 800 recipients above the baseline for this current budget.[23] Consolidating all TANF funds within the DHR budget, the FY 2013 spending plan also includes a deficiency allowance that swaps $25.8 million in planned TANF funding for TCA payments and $26.2 million in planned TANF spending in other parts of the budget for General Funds. Since this switch of funding sources is duplicated for FY 2013, the total impact of increased, and more sustainable, General Fund spending for previously TANF-funded programs is more than $100 million.

Conclusion

While the state has made important progress in many areas of child well-being and continues robust investment in school construction, flat funding or reduced spending in other areas threaten to erode this progress. Even with these gains, Maryland continues to have a large and stubbornly stable gap between the wealth of the state and the well-being of Maryland's children and youth. While the budget includes new revenue enhancements, particularly in the income tax as it applies to high-wage earners, the large cost shift for teacher retirement will further squeeze already pinched local budgets. The administration and legislative leaders should instead reach consensus on additional revenue enhancements and at least maintain the current level of investments in Maryland's families.

[23]DLS FY 2013 analysis, DHR Overview, page 10, and DLS FY 2012 analysis, DHR Overview, page 11, at http://mlis.state.md.us/2011rs/budget_docs/All/Operating/N00_-_DHR_Overview.pdf