

March 22, 2011

Budget Week

This week is a busy week, we will be having double sessions separated by Committee voting sessions. Those of us who are not on the Appropriations Committee had our first look at the House Budget bill on Monday night.

The House Appropriations proposal is a conservative spending plan that recognizes the tough fiscal times that the State faces, while investing in the State's future, by supporting the State's education and transportation system.

This is a bipartisan budget plan. House Appropriations accepted 13 individual recommendations from the Republican budget plan, totaling almost \$85 million in reductions for this year's budget, and, in several cases, cut beyond those recommendations.

Conservative Spending Plan

- Reduces \$2B structural deficit by 40% - an improvement over the Governor's proposal – by cutting ongoing spending by nearly \$800M
- Balances the budget without raising new taxes, but adopts modest fees to support the transportation system and other services
- Maintains a 5% Rainy Day Fund (\$642M).
- Leaves \$123M cash balance, a greater fund balance than proposed by the Governor. This leaves the State with a total of over \$800M in cash reserves
- Reduces General Fund spending to about the same level of spending three years ago in 2008 (FY09)
- Eliminates \$7B in long-term retiree healthcare liability over the next 10 years

Restores Funding to Education

- Restores \$58.5M in K-12 education spending, to bring per pupil funding back to FY11 levels. We worked to ensure that the restoration of this funding was fair and equitable – benefitting every county in the State
- Provides funding to limit a tuition increase to 3% and funding for community colleges to lower tuition.

Supports Transportation System

- Provides an additional \$13M to counties and municipalities for road maintenance funding
- Raises modest fees on certificate of title on new vehicle purchases and vanity tags to replace \$50M to the Transportation Trust Fund. This action was taken instead of a gas tax (supported by the Chamber and business organizations), given the high price of gas right now.

- Requires any new transfer from the Transportation Trust Fund be repaid within 5 years, to protect the long-term sustainability of the State's transportation system. While almost all of the General Funds have been repaid to the Transportation Trust Fund over the past 28 years, a robust transportation system is the key to attracting businesses to Maryland
- Require increased fare box recovery for mass transit.

Eliminating Government Regulation

- Rejects a tax on bad drivers, as proposed by Governor O'Malley
- Adopts budget language requiring State Highway Administration, Department of the Environment and Natural Resources and the Department of Business and Economic Development to report on the timeliness of execution of construction and building permits.
- Cuts 650 vacant positions, saving the State \$27 million
- Maintains small business loan funding and loan guaranty programs through DBED

Maintains Commitment to State Employees

- No furloughs for the first time in three years. State employees have absorbed over \$500M in reductions to benefits and salaries, as a result of the global recession.
- One-time \$750 bonus, which also has less of an impact to the State's General Fund than instituting the COLA or merit increases, and rewards State employees who have each lost an average of \$3,100 in pay over the last three years.
- Ensures long-term sustainability of the State's pension system, including preserving a defined benefit system and relieving some burden on retirees from the Governor's proposal

REFORMING THE RETIREMENT SYSTEM

Pension costs are one of the biggest cost drivers in the budget, with an estimated overall State liability of \$1.5B in General Funds for FY12. There are three factors driving underfunding of the pension system:

- the 2006 pension enhancement, which was unanimously passed by the legislature in 2006 and was signed by Governor Ehrlich, making retroactive enhancements for state employees/teachers;
- steady increases in the teacher salary base at the local level, partially funded by the State's Thornton program; and
- the declines in the retirement system assets because of the global recession. The retirement system experienced a loss of \$4 billion from October 2007 to June 2008.

The House made the decision not to uniformly shift the teacher pension liability to local school systems, but instead, took steps to reform the pension system. The House plan does require local jurisdictions to assume some of the costs associated with administering the teacher's pension plan, totaling \$17M divided across 24 jurisdictions.

The House made a commitment to (1) maintain a defined benefit pension system and (2) identify a way to relieve some of the burden on retirees for prescription costs from the Governor's proposal, both while increasing the viability and sustainability of the pension system long-term. The House proposal:

Makes changes to vesting requirements

- *New* employees will vest at 10 years instead of the current 5 years. The early retirement age for new employees is moved from 55 to 60 years of age. Currently, 17 states have greater than 5 years vesting requirement.
- *New* employees will have to be 65 years old with 10 years of employment, or have 30 years of service regardless of age, to collect a benefit.

Aligns Prescription Drug Benefits for Active & Retired Employees

- Retiree co-pays will be increased slightly to align with the cost to current employees, the out-of-pocket cap will be increased from \$700 to \$1000, instead of \$4550, under the budget as introduced,
- Monthly premiums for retirees will increase slightly, on average \$10/month.
- This plan still requires retirees to enroll in the Medicare Part D benefit by 2020, and will reduce almost half of the pension system's unfunded liability.
- Beginning in FY13, the State will reinvest savings from these reforms back into the retirement system to reduce the unfunded liability by more than \$1 billion over the next 6 years and achieve 80% funding of the system by FY23.

Employee Contributions

- Increase all employee pension contributions from 5% to 7%. Current employees will retain the 1.8% multiplier. New employees will have a 1.5% multiplier.
- 17 states have a higher employee contribution rate than Maryland

Balancing Retirement Benefits Across All Systems

- Law Enforcement Officers Pension System will pay the same as State employees and teachers.
- Judges will also contribute an additional 2%, bringing their total to 8% contribution rate.
- The General Assembly Compensation Commission will review legislative pension proposals.
- Increasing vesting requirements to 10 years for all systems (except judges, due to statutory requirements).

The House will vote on the budget this week and it will crossover to the Senate for their consideration, approval and then reconciliation with the House, if necessary.

While these last weeks will be hectic, please do not hesitate to call or email my office about any issue or bill that concerns you. I can be reached at Pamela.beidle@house.state.md.us or at 410-841-3370 if I can be of any assistance.

During the session, I get thousands of letters and emails, be sure to include your name and address when you write to me. My staff -Vincent Lamartina and Nancy Lipin Crawford - and I read each and every piece of correspondence and will get back to you as soon as possible.

For more frequent updates about my activities in Legislative Session 2011, please visit my Facebook page, Delegate Pam Beidle.

I am looking forward to visiting your community meetings again soon.

Best regards,

Pamela G. Beidle
State Delegate