

# The State of Working Maryland

## 2010

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The Maryland Budget and Tax Policy Institute



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## **Executive Summary**

The state of working families in Maryland has deteriorated, and the prospects for the future are shaky, unless state and national governments take strong action to promote a broadly-shared recovery.

The current economic downturn is notable not just for the severity of economic contraction but also for the length of decline. In the nine previous recessions on record, by seven quarters (21 months) after the official start of the recession, the economy had actually grown by an average of 4% compared to its pre-recession peak.<sup>1</sup>

This has not yet occurred since the 2007-2009 recession; making it the worst known recession in the nation's history. As of the third quarter of 2010, inflation-adjusted GDP remained 0.6% below its pre-recession peak.

Since 2000, median household income in Maryland increased only 6% in inflation-adjusted terms, from \$65,325 to \$69,272 (in 2009 dollars). The average annual increase was only 6/10 of 1% over the decade. Moreover, the median household income in Maryland actually declined in 2009 compared with both 2007 and 2008.

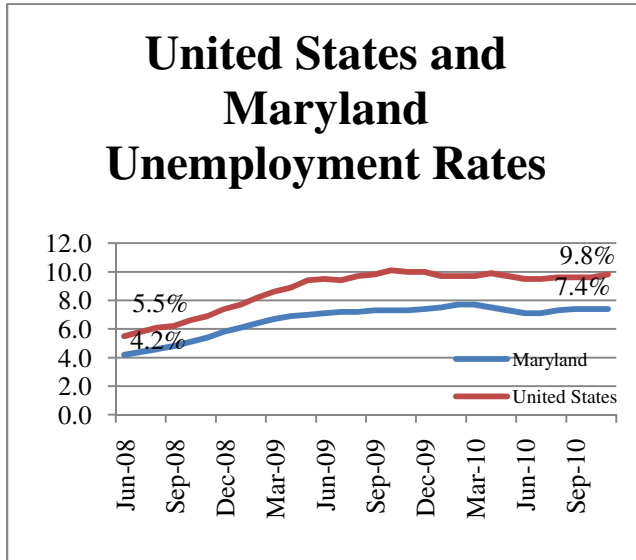
Over the last decade, the rate of poverty in Maryland has risen from 7.4% in 2000 to 9.1% in 2009. Maryland's unemployment rate stands at 7.4% - the higher level since 1983. By numerous indicators detailed in this report, working families in Maryland are hurting, even as Maryland has retained its ranking as the wealthiest state in the nation. Business profits and stock prices have recovered, but employment and median incomes have not. The national and state economies are on a path to a "jobless recovery." The danger Maryland faces is that most of the gains of the economic recovery will flow to the wealthiest Marylanders. New jobs will be few, and those that emerge will have lower wages and fewer benefits than before the recession.

Public policy has a crucial role to play in addressing this danger. National and state governments must promote the development of jobs that can support families. They must support initiatives in training and education to prepare workers for 21st century job demands. They must vigorously implement the Patient Protection and Affordable Care Act. They must reinforce investments in transportation, child care and housing affordability that make it possible for people to work. They must make public benefits accessible and efficient, by implementing "no wrong door" processes for obtaining benefits and by outlawing discrimination on the basis of source of income. They must support the ability of working people to organize and bargain collectively for improved wages and benefits.

The economy remains fragile and is performing well below its potential. Major deficit reduction should not be on the table until the recovery is firmly on track, that is, until unemployment has dropped and is on a downward trajectory. The public structures that support a strong economy must be financed by revenue measures that are adequate to the state's needs and that reflect individuals' and businesses' ability to pay.

Maryland's strong economy won't just happen by itself -- it will be guided by our public policies. Maryland and the nation need to make the wise choices now that will lay the foundations for broadly shared prosperity, not a jobless recovery that mainly benefits those who are already doing well.

**Employment and Unemployment**



Source: Bureau of Labor Statistics<sup>2</sup>

The unemployment rate measures the share of workers in the labor force who do not currently have a job but are actively looking for work. As of November 2010, the Maryland unemployment rate of 7.4%, while double the pre-recession level, was considerably lower than the United States rate of 9.8%. The United States unemployment rate remains almost as high as it was in November 2009, when it reached 10%. Maryland's unemployment rate decreased over the last year, although the number of permanent new jobs has been disappointing. The ratio of job seekers to job openings has decreased over the last year, although it remains high.<sup>3</sup> In October, 41.8% of all unemployed workers in the U.S. had been jobless for over six months.<sup>4</sup>

Unemployment Rate and Historical Highs for Maryland, District of Columbia and Virginia for October 2010		
	Total Number of Civilian Unemployed	Unemployment Rate
United States	15,119,000	9.6%
Maryland	218,256	7.4%
District of Columbia	32,142	9.7%
Virginia	283,011	6.8%
	Historical High Date	Historical High Rate
United States	Dec. 1982	10.8%
Maryland	Nov. 1982	8.4%
District of Columbia	Jan. 2010	12%
Virginia	Jan. 1983	7.8%

Source: Bureau of Labor Statistics<sup>5,6</sup>

Underemployment includes three classifications of persons: unemployed workers who are actively looking for work, involuntarily part-time workers who want full-time work but have had to settle for part-time hours, and marginally attached workers who want and are available for a job but are not actively looking. Together they provide a more comprehensive measure of slack in the labor market than the narrower “unemployment” count. In 2009, Maryland’s underemployment rate nearly doubled to 12.2% compared to 6.3% in 2007. The trend is nearly the same for the nation. The nation’s underemployment rate was 16.2% in 2009, up from 8.3% in 2007.<sup>7</sup>

In Maryland, female workers were marginally better off than their male counterparts during 2009 with an unemployment rate of 6.1% compared to 8% for men. In terms of disparate employment outcomes amongst ethnic minorities, the underemployment rate for the Hispanic population is notably higher than both whites and African Americans.

<b>Labor Force Statistics by Demographic in 2009 in Maryland</b>			
	<b>Unemployment rate</b>	<b>Underemployment rate</b>	<b>Part-time for economic reasons</b>
<b>All</b>	7.1%	12.2%	17.7%
<b>Gender</b>			
Male	8.0%	13.1%	21.7%
Female	6.1%	11.1%	14.9%
<b>Age</b>			
16-24 yrs	15.4%	24.1%	15.0%
25-54 yrs	5.8%	10.6%	22.1%
55 yrs and older	5.6%	9.2%	10.3%
<b>Race / ethnicity</b>			
White	5.9%	10.2%	13.6%
African-American	9.3%	14.1%	19.2%
Hispanic	7.6%	19.2%	46.8%
<b>Education</b>			
Less than high school	15.4%	27.7%	29.7%
High school	10.5%	17.0%	26.9%
Some college	6.3%	11.1%	15.1%
Bachelor's or higher	3.6%	6.1%	10.3%

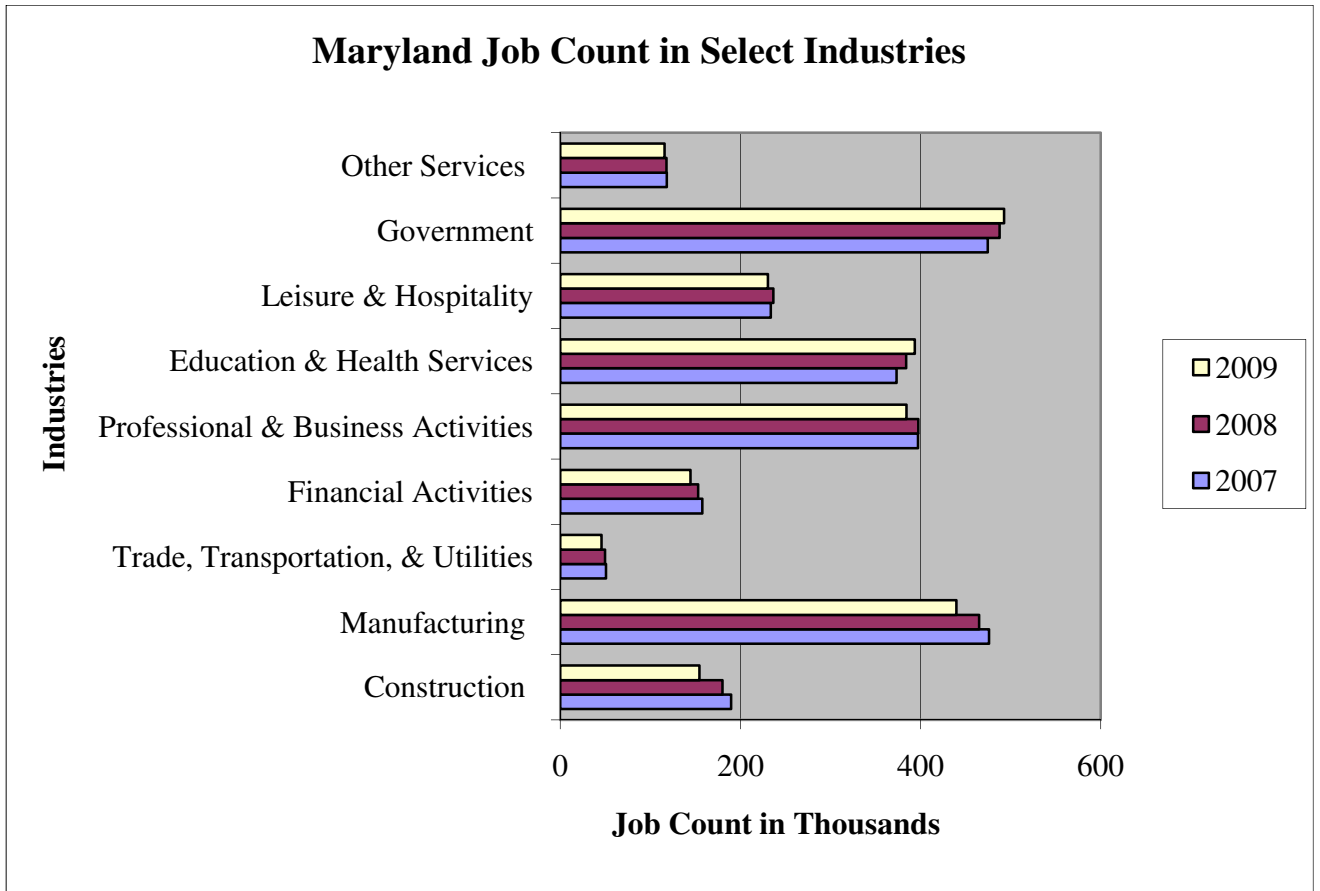
Source: Economic Policy Institute Analysis of Current Population Survey<sup>8</sup>

As the following table shows, Baltimore City is the hardest hit major jurisdiction within Maryland, with a higher unemployment rate than the current national average. Other counties, notably Calvert, Howard, and Montgomery, have considerably lower unemployment rates, ranging from 5.2% to 5.4%, much lower than the Maryland statewide average. The counties with the lowest unemployment rates also have some of the highest family median incomes among Maryland counties.

<b>Unemployment Rates for Maryland Counties (not seasonally adjusted)</b>			
	<b>Oct-08</b>	<b>Oct-09</b>	<b>Oct-10</b>
United States	*6.6	*10.1	*9.6
<b>Maryland</b>	<b>*5.1</b>	<b>*7.3</b>	<b>*7.4</b>
Allegany County	6.0	8.1	8.5
Anne Arundel County	4.4	6.7	6.4
Baltimore City	7.5	10.5	10.2
Baltimore County	5.1	7.7	7.6
Calvert County	3.9	6.0	5.4
Caroline County	5.8	9.0	8.4
Carroll County	4.1	6.5	6.4
Cecil County	5.9	8.5	9.0
Charles County	4.2	6.1	5.8
Dorchester County	6.9	10.7	9.4
Fredrick County	4.2	6.4	5.9
Garrett County	4.6	7.2	7.8
Harford County	4.6	7.2	7.2
Howard County	3.6	5.5	5.2
Kent County	5.4	7.6	7.5
Montgomery County	3.8	5.7	5.2
Prince George's County	5.1	7.3	7.0
Queen Anne's County	4.5	6.7	6.7
Somerset County	7.1	9.7	9.4
St. Mary's County	4.0	6.0	5.7
Talbot County	4.7	7.0	7.0
Washington County	6.4	9.6	9.7
Wicomico County	6.0	8.3	8.3
Worcester County	7.4	9.8	10.9

Source: Bureau of Labor Statistics <sup>9</sup> (\*Note: U.S. and Maryland unemployment rates are seasonally adjusted, while seasonally adjusted rates are not available on the county level.)

As illustrated in the table below, *Maryland's Job Count in Select Industries in 2010*, most industries experienced employment losses between 2007 and 2009. The only sectors that experienced a gain in employment were education and health services and government. But with the end of federal stimulus funding imminent, public sectors job losses can be expected to increase at both the state and local levels.

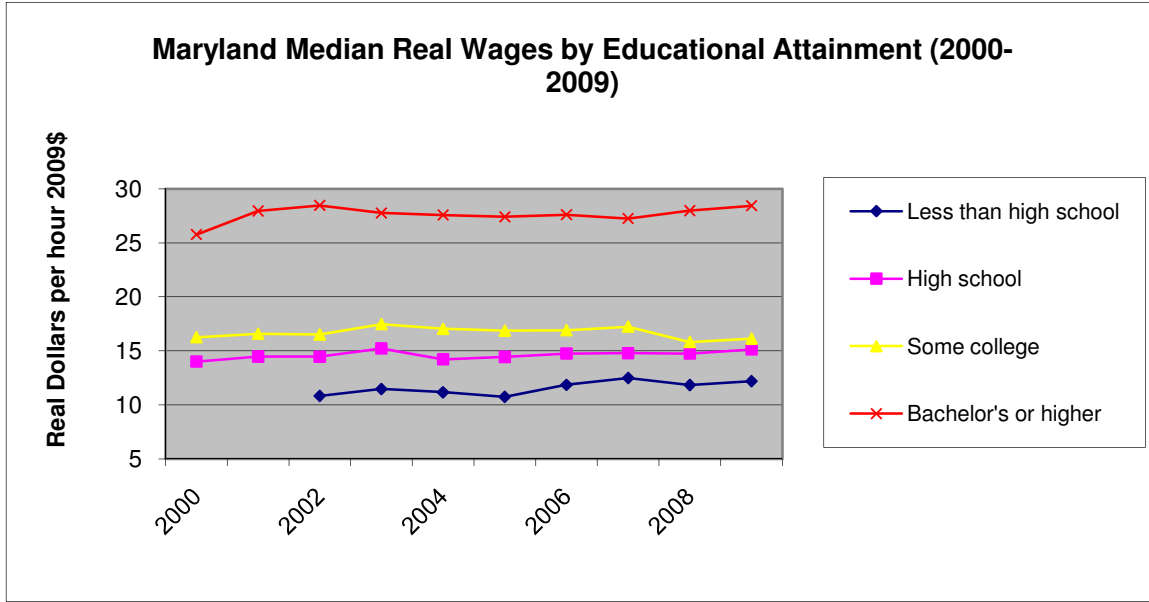


Source: Bureau of Labor Statistics<sup>10</sup>

### Household Income and Wage Disparities

For the past three consecutive years, Maryland has ranked number one in the nation in the category of median household income, which was \$69,272 in 2009, a drop of nearly \$1,200 from 2007's \$70,248. Maryland median household income varies widely among counties, ranging from \$102,000 in Howard County to \$39,000 in Baltimore City.<sup>11</sup>

Real hourly wages in Maryland, after growing well from 2000 to 2007, have grown much more slowly overall since that time, even dropping for male workers, Hispanic workers, and most workers with less than a Bachelor's degree



Source: Economic Policy Institute analysis of Current Population Survey Data<sup>12</sup>

There remains a persistent wage gap between women and men; women earned around 8.7 percent less than men in 2009. As illustrated in the table below, the male-female wage gap grew from 2000 to 2007 and then narrowed considerably from 2007 to 2009.

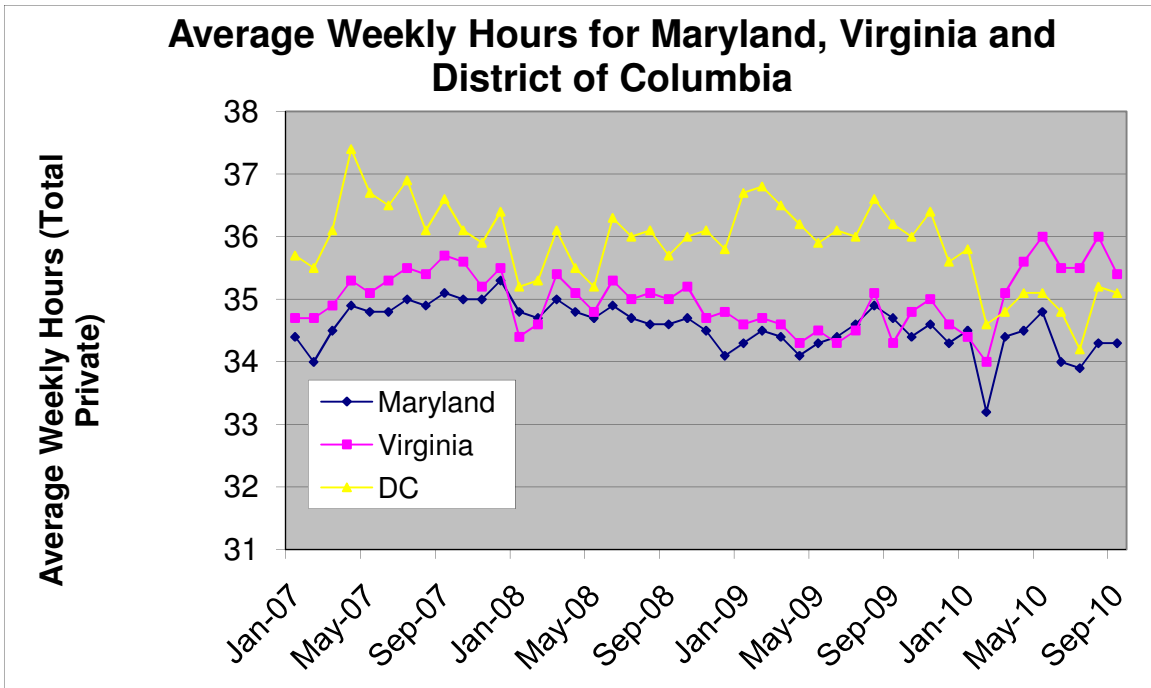
50th percentile (Median) Wages by Demographic by Year in Maryland										
(In 2009 Real Dollars)**										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>All</b>	\$17.34	\$18.03	\$18.17	\$18.74	\$18.36	\$18.68	\$18.41	\$18.88	\$18.81	\$19.00
<b>Gender</b>										
Male	\$18.59	\$19.75	\$19.92	\$20.37	\$20.39	\$19.87	\$20.03	\$20.43	\$19.91	\$19.99
Female	\$16.10	\$16.35	\$17.09	\$17.39	\$16.69	\$17.45	\$17.11	\$17.51	\$17.39	\$18.25
<b>Race / ethnicity</b>										
White	\$18.76	\$19.68	\$19.91	\$20.87	\$21.21	\$20.79	\$20.35	\$20.68	\$20.75	\$21.14
African American	\$15.71	\$15.95	\$16.55	\$17.80	\$16.27	\$16.41	\$16.68	\$16.80	\$16.33	\$17.59
Hispanic					\$11.37	\$12.23	\$13.48	\$15.04	\$14.18	\$14.28
<b>Education</b>										
Less than high school			\$10.83	\$11.47	\$11.17	\$10.74	\$11.85	\$12.49	\$11.83	\$12.19
High school	\$14.01	\$14.47	\$14.46	\$15.22	\$14.22	\$14.44	\$14.75	\$14.79	\$14.75	\$15.13
Some college	\$16.26	\$16.58	\$16.51	\$17.47	\$17.04	\$16.87	\$16.91	\$17.24	\$15.82	\$16.13
Bachelor's or higher	\$25.77	\$27.96	\$28.47	\$27.77	\$27.58	\$27.41	\$27.61	\$27.25	\$27.99	\$28.44

Source: Economic Policy Institute analysis of Current Population Survey<sup>13</sup>

Net earnings, which declined 3.7 percent nationally in 2009, rose 0.7 percent in Maryland and 0.3 percent in Virginia compared with 2008. The gains in Maryland largely reflect earnings inflows associated with commuters who work in the District of Columbia;

wages and salaries paid by employers located in Maryland and Virginia fell 0.1 percent and 0.5 percent respectively.<sup>14</sup>

Another impact of the recession has been the shrinking workweek. As the graph shows below, the period since the start of the recession saw a general downward trend in Maryland, Virginia, and the District of Columbia, though Virginia has recently seen a rebound. Weekly hours declined by 0.4 in Maryland and 1.1 in the District of Columbia over the last year while increasing by 1.1 in Virginia. The average change for the Maryland-Virginia-DC area for this time period was a decline of 0.13 in weekly hours.



Source: Bureau of Labor Statistics<sup>15</sup>

### Poverty

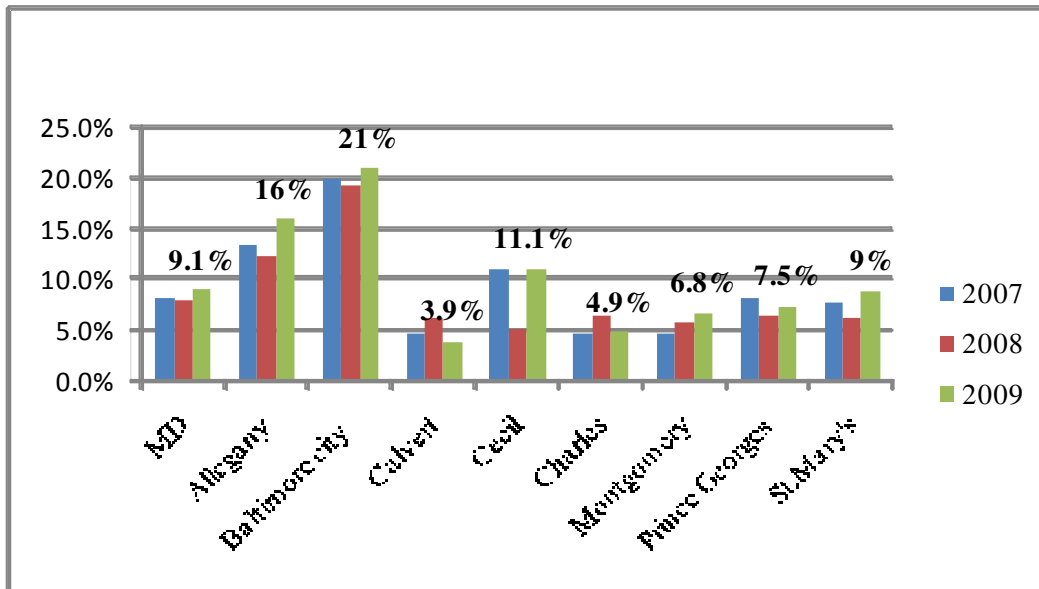
The poverty rate measures all types of persons living in poverty -- children, wage-earners, retirees, etc. Maryland's 2009 poverty rate of 9.1 percent is significantly lower than the national rate of 14.1 percent, though higher than the 8.0% recorded for 2008. This means that about 505,000 Marylanders had an income that was below the poverty level. Calvert and Howard counties had the lowest rates of poverty, with 3.9% of people living below the poverty line and Baltimore City had the highest, with 21.0%. Baltimore City's poverty rate is the same as the state of Mississippi's.

Poverty Status 2009 for Select Maryland Counties			
	Below Poverty Level	Total	Percentage of Below Poverty Level
Allegany County	10,393	64,935	16.0%
Anne Arundel County	35,426	504,584	7.0%
Baltimore City	129,796	618,469	21.0%
Baltimore County	64,796	772,440	8.4%
Calvert County	3,369	87,339	3.9%
Carroll County	10,732	166,661	6.4%
Cecil County	11,128	99,923	11.1%
Charles County	6,882	140,942	4.9%
Frederick County	12,330	222,517	5.5%
Harford County	14,499	240,074	6.0%
Howard County	10,948	278,472	3.9%
Montgomery County	65,286	960,990	6.8%
Prince George County	61,019	811,643	7.5%
St. Mary County	8,787	97,916	9.0%
Washington County	18,703	138,822	13.5%
Wicomico County	11,406	89,435	12.8%
Maryland	505,286	5,559,336	9.1%

Source: Census Bureau. 2009 American Community Survey<sup>16,17</sup>

*Maryland's Diverse Landscape*

Maryland's highest poverty areas include both cities and rural areas. According to the Rural Maryland Council, "rural jurisdictions share common characteristics that set them apart from their suburban and urban counterparts, such as geographic isolation, lack of transportation, and lack of access to and availability of health care. The state definition of rural is articulated in the Annotated Code of Maryland and includes 18 of the 24 jurisdictions in Maryland."<sup>18</sup>



Source: Census Bureau. 2009 American Community Survey<sup>19</sup>

*Increases in Poverty Varies by Jurisdiction*

Statewide, poverty increased 0.8 percentage points from its pre-recession level (2007 to 2009). The chart above shows that five out of eight counties shown had increased poverty levels; whereas, one county (Cecil County) remained constant and two counties (Calvert and Prince Georges' counties) actually had decreased poverty levels between 2007 and 2009.

*The Numbers Don't Tell The Whole Story*

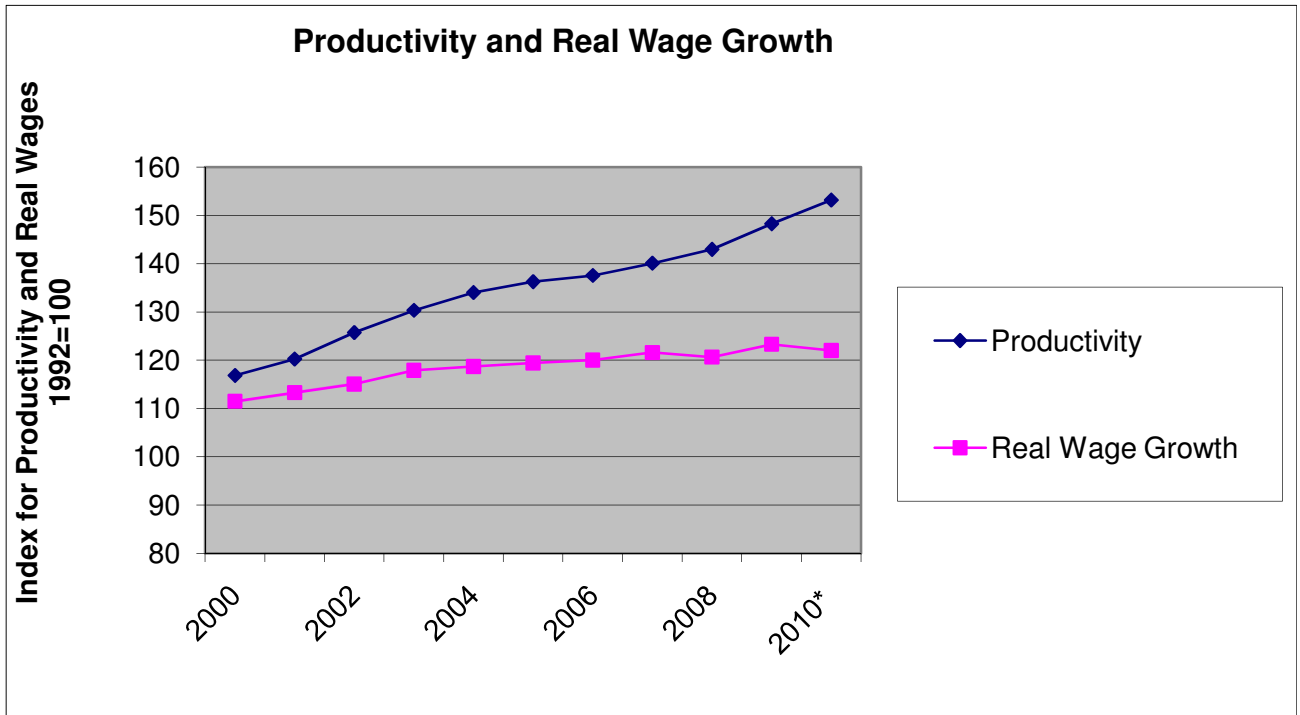
While the Census Bureau's official poverty data account for the cash income that households receive, including unemployment insurance (UI) benefits for jobless workers, they leave out any assistance that families receive in the form of tax credits or non-cash benefits, such as food stamps.<sup>20</sup>

This omission has a large effect on the poverty data for 2009 because the American Recovery and Reinvestment Act included substantial increases in tax credits for low-income working families and food stamp benefits in response to the economic downturn. Such assistance, which accounted for tens of billions of dollars in income to households, moderated the increase in and the severity of poverty for millions of Americans. This assistance is ignored in the official poverty data.<sup>21</sup>

## **Productivity**

Productivity has increased by 2.5% over the last year.<sup>22</sup> Advances in productivity, the ability to produce more with the same or less input, are a significant source of increased potential national income. The U.S. economy has been able to produce more goods and services over time, not by requiring a proportional increase of labor time, but by making production more efficient. Labor productivity, or output per hour, is calculated by dividing an index of real output by an index of hours worked by all persons, including employees, proprietors, and unpaid family workers.

Productivity numbers are only available at a national level. Productivity gains can hold the key to better living standards, higher wages, increased profits and low inflation if the benefits are shared equitably.<sup>23</sup> But productivity improvements did not translate into a real rise in living standards for wage-earning Americans during the last several years. The graph below shows that the gap between productivity and real wage growth widened considerably since 2000 and especially since 2007.

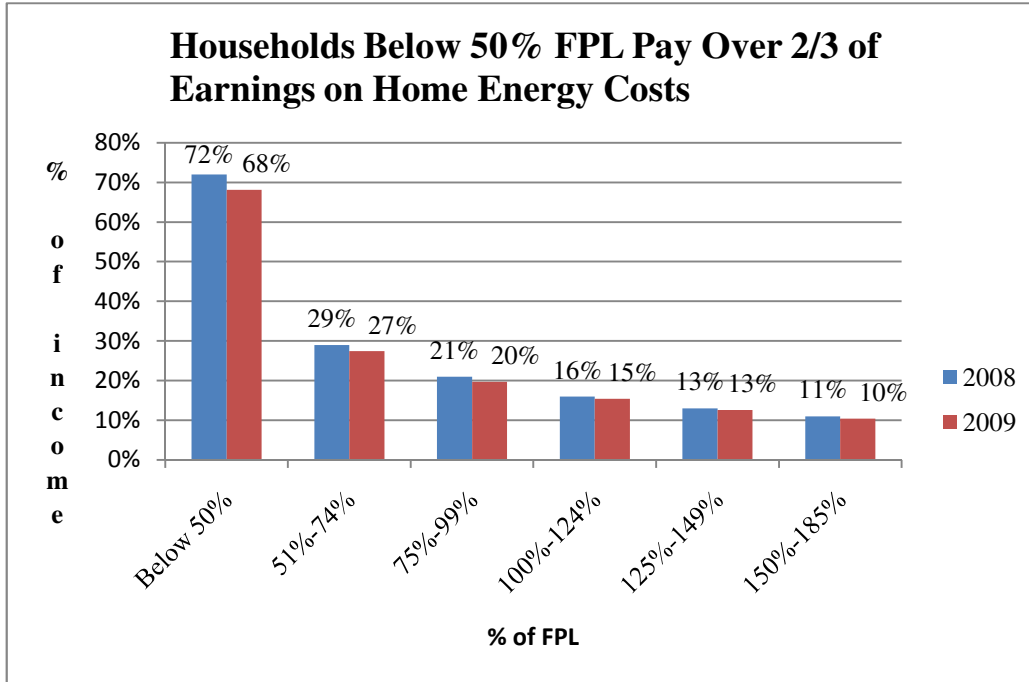


Source: Bureau of Labor Statistics<sup>24</sup> \*First Quarter Data

The nonfarm business sector labor productivity increased at a 2.5 percent annual rate during the third quarter of 2010, the U.S. Bureau of Labor Statistics reported, with output rising at 3.7 percent and hours rising 1.4 percent.<sup>25</sup> From the third quarter of 2009 to the third quarter 2010, output increased 2.3 percent while hours fell 3.8 percent.<sup>26</sup> The economy has been growing since last summer but companies have still been reluctant to rehire workers, choosing instead to push their slimmed-down work forces to produce more. That has translated into a sharp rise in productivity, which grew at annual rates of 7.6 percent, 7.8 percent and 6.3 percent in the second, third and fourth quarters of 2009.<sup>27</sup>

### Energy Cost

Home energy costs are high for households of low-to-moderate means. , Maryland households with incomes below 50 percent of the Federal Poverty Level (FPL) pay over two-thirds of their annual income simply for their home energy bills.<sup>28</sup> Even households with incomes between 150 and 185 percent of the FPL have energy bills above the percentage of income typically considered to be affordable. This affordability measure also examines the proportion of the heating/cooling gap that is covered by the gross federal Low-Income Home Energy Assistance Program (LIHEAP) allocation to Maryland and other states.<sup>29</sup> Fisher, Sheehan and Colton (2010) find that Maryland’s LIHEAP allocation has lost ground relative to its Home Energy Affordability Gap. From 2002 to 2009, the total Home Energy Affordability Gap increased by \$402.9 million.<sup>30</sup>



Source: Fisher, Sheehan & Colton. *The Home Energy Affordability Gap*. April 2010.<sup>31</sup>

In the past year, annual home energy costs in Maryland were \$2,879 and electric costs (other than cooling) were over two-fifths of the cost (\$1,228). When adding cooling (\$264) electricity costs are over half the costs.

*Gasoline: Yet Another Cost To Keeping A Job*

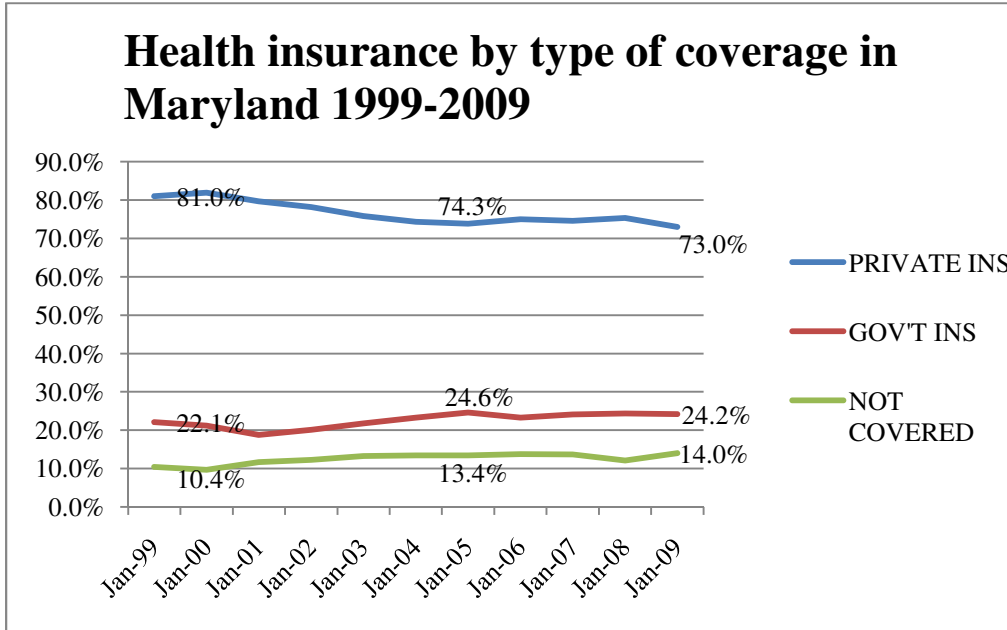
A reliable vehicle is crucial to obtaining and maintaining a job, and gasoline is yet another cost to getting to work. Regular grade gasoline prices have increased from 2009 to 2010. Regular-grade gasoline retail prices rose from an average \$2.35 per gallon in 2009 to an average \$2.77 per gallon in 2010, and they have risen above \$3 as 2010 comes to a close.<sup>32</sup>

**Health**

Health care coverage is a vital work support for Maryland families. The absence of health care coverage hampers workers’ ability to afford quality care. The lack of health insurance keeps workers off the job when they are sick, reducing productivity and wages. Yet, as wages lose pace and health care costs rise, more and more families are not able to afford private insurance. The most recent U.S. Census Bureau Current Population Survey suggests that over the 2-year average 2008-09, roughly 14 out of 100 Marylanders lacked health coverage.<sup>33</sup>

**Private insurance coverage declines.** The rising cost of health insurance certainly plays a major role in declining coverage rates. Employer-provided health insurance continued to decline nationwide. The percentage of Marylanders with private insurance coverage was 73 percent in 2009 versus 81.9 percent of coverage in 2000. According to Families USA (March 2010) over the past decade (2000 through 2009), family health insurance premiums for Maryland workers rose 2.9 times faster than their median earnings. One of

the reasons premiums have become so burdensome for middle-class families is that they include a “hidden health tax” covering the uncompensated care provided to the uninsured and amounting to, on average, \$1,017 for each family with coverage in 2008.<sup>34</sup>

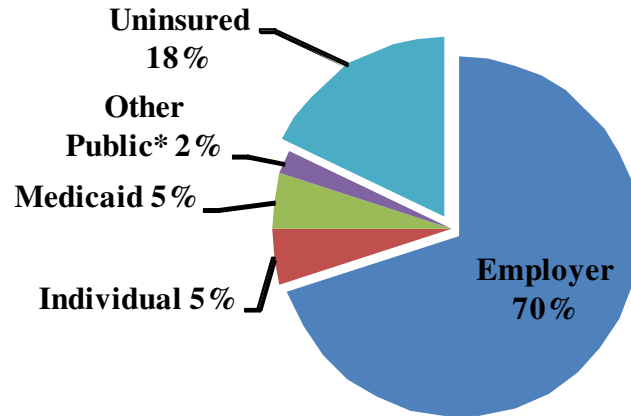


Source: Economic Policy Institute analysis of 2009 Current Population Survey data. (Note: Total adds to over 100% because private and government insurance are not mutually exclusive)

Where employer-provided coverage has eroded, government programs have been a vital safety net. Due to Maryland’s health coverage expansion in 2007, 200,000 children, adults, and seniors now have health care coverage (including working Marylanders insured through the small business grant program that was a part of this law). Maryland expanded Medicaid coverage for low-income parents up to 116 percent of the Federal Poverty Line (about \$21,240 annually for a family of three) in July 2008; as of October 2010, nearly 70,000 more parents are insured as a result.

**How Does Maryland Measure Up?** Kaiser Family Foundation’s state’s ranking for health care coverage to lower income working adults ranks Maryland 14<sup>th</sup> best in the country.<sup>35</sup> In terms of health care coverage for adult population ages 19-64 years old, Maryland ranks 29<sup>th</sup>, leaving 18% of these Marylanders uninsured.<sup>36</sup>

## Health Insurance Coverage of Adults in Maryland 19-64, (2008-2009)



Source: Kaiser Family Foundation. StateHealthFacts.org<sup>37</sup> (\*“Other Public” includes individuals covered through the military or Veterans Administration in federally-funded programs such as TRICARE, as well as some non-elderly Medicare enrollees.)

### How Marylanders benefits from the Patient Protection and Affordable Care Act (ACA)

The Affordable Care Act or ACA became law in March 2010. ACA will require most U.S. citizens and legal residents to have health insurance and will establish a state-based system of health benefit exchanges through which individuals can purchase coverage, with financial support for those between 133 and 400% of the federal poverty level, and expanding Medicaid eligibility to those with incomes below that level.<sup>38</sup> A number of provisions in the ACA require states to design and operate coordinated, technology-supported enrollment processes to assist Americans who lack access to affordable employer-based coverage in obtaining health coverage through Medicaid, the Children’s Health Insurance Program (CHIP), or the new exchange.<sup>39</sup>

Among the various provisions of the ACA that will be advantageous for working Marylanders are making health care more affordable to families, covering the uninsured, lessening out-of-pocket costs, and protecting coverage when individuals get sick.

*Making health care more affordable to families* – Marylanders with moderate incomes (up to \$88,200 for a family of four in 2009) will receive sliding-scale subsidies to use toward the purchase of a high-quality health insurance plan. This will protect Maryland families from having to spend too great a share of their incomes on health insurance premiums, co-pays, and other out-of-pocket costs.<sup>40</sup>

*Covering the uninsured* – According to Families USA, under health reform, 497,000 Maryland residents will gain coverage by 2019.<sup>41</sup> The path to coverage will depend on

each resident's situation: Some will enroll in coverage through their employers, while others will obtain coverage through a new marketplace, called an exchange, in which insurers must play by new rules to make sure that consumers receive quality coverage.<sup>42</sup> The new law also requires states to expand Medicaid to all non-elderly individuals with incomes up to 133 percent of the poverty line, or about \$29,000 for a family of four.<sup>43</sup> To minimize the financial burden on states, the federal government will pay 96 percent of the cost of expanding Medicaid over the next ten years. This is much higher than the federal government's normal share of Medicaid costs—57 percent, on average.<sup>44</sup>

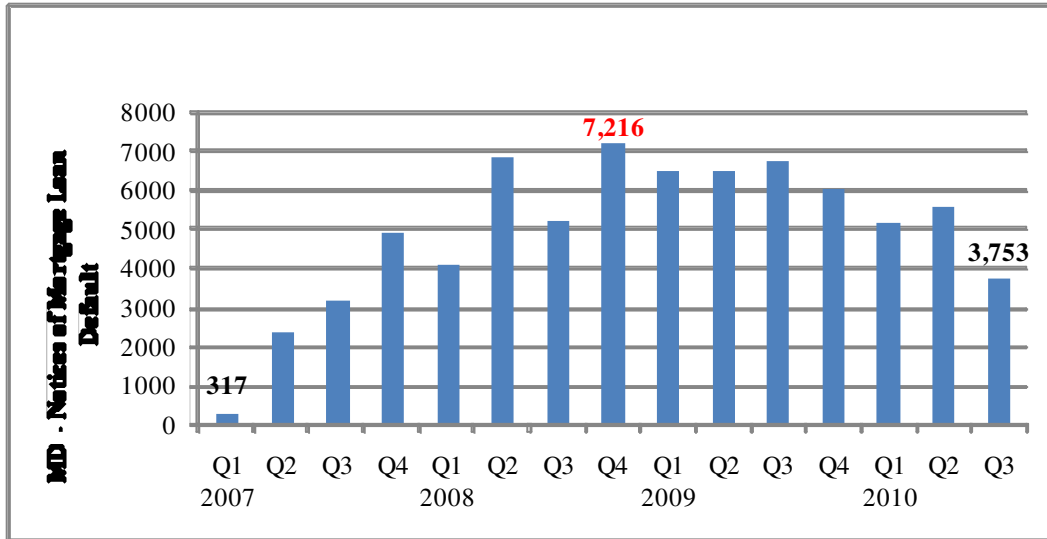
*Lessening out-of-pocket costs* – Insurance plans will have to place caps on how much Marylanders are required to spend out of their own pockets for care. These caps will be set on a sliding scale, so that lower-income people will have greater protection from out-of-pocket costs. Furthermore, Marylanders will also receive income-based help for paying copayments and other cost-sharing.<sup>45</sup>

**Affordable Care Act implementation in Maryland.** In order to implement health reform, Maryland's Governor established the Maryland Health Care Reform Coordinating Council (HCRCC). The Council is charged with making policy recommendations and designing implementation strategies to keep Maryland among the leading states in expanding quality, affordable health care while reducing waste and controlling costs.<sup>46</sup> The Council also serves as a venue for government transparency by inviting the public to attend workgroup meetings and public hearings and provide written and oral comments.

### **Housing Affordability in Maryland**

For many employed, low-income Marylanders, adequate and affordable housing is too often out of reach. The Governor's Interagency Council on Homelessness advises that a household spend 30% or less of its combined income for rent (or mortgage) and utilities.<sup>47</sup> In Maryland, the income and rent limits to qualify for housing vouchers is 30% of area or state median income adjusted for family size. For example, a three-person household's income limit is \$23,150 and the maximum gross rent is \$579.36.<sup>48</sup> Although it is recommended that rent equal about 30%, almost half (49.2%) of renting households in Maryland spend 30% or more of household income on rent and utilities.<sup>49</sup> Maryland allows landlords to discriminate against potential tenants based upon their legal source of income (e.g. housing choice vouchers, SSDI/SSI, etc.).

To date, notices of mortgage loan default are down nearly half (-47.9%) from their peak in the fourth quarter of 2008. Nevertheless, notices still remain far higher than pre-recession levels. Out of Maryland's 3,753 notices of mortgage default sent to Maryland households in the third quarter of 2010, 1215 went to households in Prince George's County alone. The second largest share went to Montgomery County (465) with Baltimore City coming in third, with 345 notices.



Source: DHCD analysis of *RealtyTrac* Foreclosure Activity in Maryland 3rd Quarter 2010<sup>50</sup>

State laws have been passed to address the growth of foreclosure activities, including a law enacted in 2008 to increase the foreclosure period from an average of two weeks to 135 days, giving homeowners substantially more time to cure their delinquent status<sup>51</sup> and a mediation law which went into effect on July 1, 2010, which requires mortgage lenders and servicers to be more responsive to homeowners facing foreclosure.<sup>52</sup> These are effective policy changes that, in time, can help stabilize Maryland’s housing market and help families. However, more aggressive action may need to take place in order to keep Maryland homeowners in their homes.

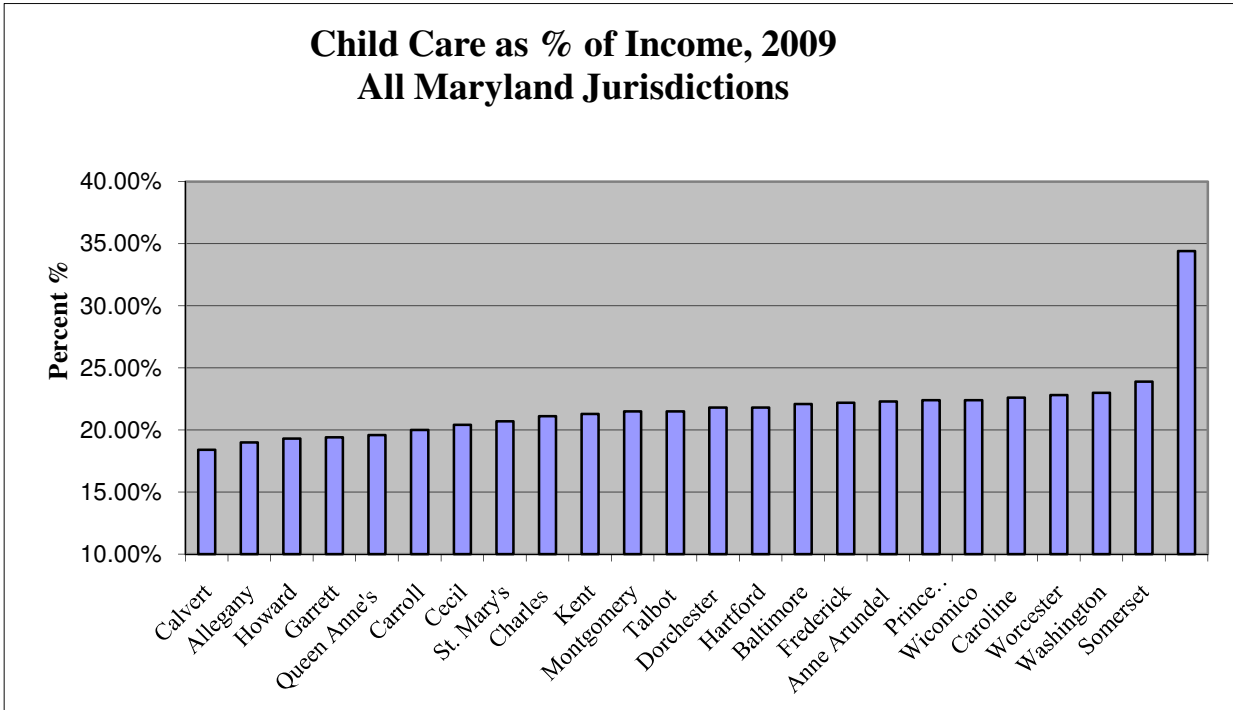
### Child Care

Total Number of Children in Maryland (Estimates)					
	2005	2006	2007	2008	2009
<b>Total Children</b>	890,000	910,000	915,000	880,000	870,000
<b>0-4 Years</b>	360,000	380,000	395,000	350,000	345,000
<b>5-9 Years</b>	380,000	390,000	370,000	410,000	385,000
<b>10-11 Years</b>	150,000	140,000	150,000	120,000	140,000

Source: Maryland Child Care Resource Network Data Demographic Report 2010<sup>53</sup>

Child care is an unaffordable necessity for most working Marylanders. In Maryland, 75% of children under age 12 (projected to be more than 610,000 children in 2014) may require childcare while their mothers are at work.<sup>54</sup> More reasonable childcare is needed for families to work and flourish during this time after a recession. Annual child care for two children can range from \$9,485 in Allegany County to \$22,885 in Montgomery County. In many cases, a fifth of a family’s total annual income goes to childcare alone. According to the table below, households in most counties in Maryland spend 20-24% of

their annual income on childcare; Baltimore City residents spend close to 35% of household income on childcare.



Source: Maryland Child Care Resource Network Data Demographic Report 2010<sup>55</sup>

The U.S. Department of Health and Human Services recommends that parents should not spend more than 10% of their income on child care.<sup>56</sup>

The Maryland Child Care Subsidy Program, formerly Purchase of Care, helps limited-income families pay for childcare while parents work or attend school or job training. The amount of the voucher given to each family is based on household income, the amount of child care needed, and the age of the children.<sup>57</sup> For a family to be considered eligible with two children, their maximum annual income would have to be \$35,702 or less.

The voucher is a coupon given to a parent for use in purchasing child care from a provider. Eligible families receive a voucher from the local department of social services to take to the provider of their choice, either a regulated (licensed center or regulated home) or informal (self arranged) provider.<sup>58</sup> The vouchers are valid for a maximum of 12 months from the effective date. Prices of vouchers vary by number of children and total family income. A voucher co-payment is the amount that the parent is assigned to pay to the provider towards the cost of child care by the local department of social services. As shown below for a family of four, their subsidy and co-payments are based on total income.

<b>Family of Four Voucher Payments</b>			
<b>Income</b>	<b>Co-Payment Level</b>	<b>Subsidy</b>	<b>Copay</b>
\$0-13,702	A	\$ 155.65	\$ 7.22
\$13,702-16,339	B	\$ 151.32	\$ 11.55
\$16,339-17,974	C	\$ 144.10	\$ 18.77
\$17,974-19,607	D	\$ 135.43	\$ 27.44
\$19,607-21,241	E	\$ 126.77	\$ 36.10
\$21,241-22,875	F	\$ 116.66	\$ 46.21
\$22,875-24,509	G	\$ 106.55	\$ 56.32
\$24,509-28,185	H	\$ 97.88	\$ 64.99
\$28,185-31,861	I	\$ 93.55	\$ 69.32

Source: Maryland Public Schools: Child Care Subsidy Branch<sup>59</sup>

## **Policy Recommendations to Improve Economic Opportunities for Maryland's Working Families**

As the state and national economies struggle to recover, there are several short-term policies that are needed to help ensure growth is more widely shared, as was commonly the case in the decades prior to 1980. Government policies can reward work and build the middle class in three basic ways: by assuring that employment pays enough to support a decent standard of living through policies like minimum wage and EITC, by protecting work-support programs like child care, transit, and workforce development that enable more Marylanders to achieve economic independence, and by investing in the basic foundations of growth such as education, infrastructure, and health care.

### **State Implementation of Federal Health Reform**

Proper state-level implementation of the newly-enacted Patient Protection and Affordable Care Act (ACA) will ensure that Maryland fully benefits from this legislation that is likely to constitute the biggest federal boost to working families' standard of living since the 1965 passage of Medicare and Medicaid. By better protecting Marylanders from high health care costs and ensuring affordable access to quality care, full implementation of the ACA will address one of the primary causes of household bankruptcies while also bringing billions of federal dollars into Maryland's economy.

Since so much of the ACA's impact is determined at the state level through state-run exchanges and state-level regulation of private health insurers, it is crucial that Maryland move aggressively to follow best practices in establishing its exchange and preparing to make full use of its new regulatory authority.

### **Use ½% of Federal Transportation Funding for Training**

The U.S. Department of Transportation allows states to use up to ½ of one percent of federal surface transportation and bridge funds for training and supportive services. The goal of the provision is to improve access to transportation jobs for under-represented and disadvantaged populations. In FY2009, Maryland received \$236 million in federal surface transportation and bridge funds. Taking advantage of ½ of 1 percent of these funds would have allowed for over \$1 million in workforce training.

A few states have already taking advantage of this provision, including Michigan, Missouri, and Wisconsin, which have implemented training programs without legislative action. Michigan uses the funds to fully-fund their Road Construction Apprenticeship Readiness Program. Wisconsin has leveraged training funds to support training programs linked to specific projects around the state, using a 120-hour prep curriculum that links to subsidized OJT. Missouri has committed the full ½ of one percent to create training pathways on two major highway projects in St. Louis and Kansas City. Maryland should also take advantage of this provision in order prepare under-represented and disadvantaged workers in this field.

Maryland can make this provision come to pass via administrative action or passing enabling legislation.

### **Educate and Train Young People for Good Jobs**

A high school degree is not enough to get a good job anymore. Through 2016, over three-quarters of job openings will require training beyond a high school diploma. But not enough Marylanders are getting this level of preparation – currently only 37% of Maryland workers have obtained the job training or education to fill those jobs.<sup>60</sup> To address this challenge, Maryland state government in 2010 set a goal of guaranteeing every Marylander access to two years of education or training after high school, making use of Maryland’s extensive network of universities, community colleges, apprenticeships, and vocational schools. However, the state has been cutting funding for community college and job training programs because government revenues are falling short. Tuition costs are going up, and scholarship funding can’t keep pace.

In order to reduce poverty and increase wages, education, training and access to careers that offer rewarding family wages as well as a career ladder are necessary. Employment data show a very strong relationship between how much education people have and how much they earn. Statistics from the U.S. Department of Labor show that Americans with bachelor's degrees earn 64 percent more than Americans who do not have education beyond a high school diploma.<sup>61</sup> Moreover, a large number of job openings are projected to be in the “middle-skills<sup>62</sup>” or “high-skills” category. Middle-skill jobs require some training beyond high school, but not a four-year degree.

In order to reach the goal that all Marylanders acquire at least two-years of post-secondary education, Maryland Governor Martin O’Malley introduced the Skills2Compete (S2C) campaign to Maryland. The national Skills2Compete campaign seeks to connect low-skill workers with the training and education they need – and the resources to finance it – so they can move up to at least the middle-skills level.

While Skills2Compete is well-intentioned, more has to be done to ensure that more Marylanders are accessing higher education or professional certificates more. For instance, attaining financial aid remains a problem for many low-to-moderate income Marylanders.

The State of Maryland offers several need-based financial aid programs. The program with the highest annual maximum award is Howard P. Rawlings Guaranteed Access Grant (GA), which is a component of the Education Excellence Awards program that covers up to 100 percent of need when combined with the Federal Pell grant for the State’s lowest income students.

The GA grant can be a significant help for traditional college students who graduate from high school and attend colleges or universities within the first year of graduation. However, the eligibility criteria disqualify low-income nontraditional students who take more than a year off before applying to college (e.g. to work fulltime, to attend to family

emergencies, etc.). Therefore, expanding the eligibility for the Guaranteed Access Grant by allowing low-income individuals with GEDs or who have waited beyond their senior year to be eligible for this important need-based financial aid will increase the likelihood of success of the Skills2Compete campaign.

Maryland's competitive advantage lies in its well educated, productive, innovative workforce. To maintain this edge, the state needs to redeploy existing resources, expand eligibility for student aid, and add funds to assure that every young Marylander has a real opportunity for schooling and training beyond high school.

### **Restore the Minimum Wage**

The federal minimum wage peaked in 1968 at just over \$10 per hour in current, inflation-adjusted terms. Since then, even as the nation's inflation-adjusted per capita GDP has grown by two-thirds, the minimum wage has actually fallen by nearly 30% to only \$7.25 per hour. Fourteen states have recognized the inadequacy of the federal minimum wage by enacting higher state minimum wages. Two localities, San Francisco, CA and Santa Fe, NM, have both set their local minimum wages at about \$10 per hour. Maryland should join them.

Raising the state minimum wage would not only ensure that Marylanders can escape poverty through work, it would also boost the economy by bolstering the purchasing power of lower-paid workers at a time when weak consumer spending is the biggest factor in the current anemic recovery. It would also recognize that the cost of living in Maryland is among the highest in the nation -- the minimum wage here simply does not go as far as in states like Alabama or Mississippi.

### **End Housing Discrimination**

Low-income renters should be able to live in neighborhoods where they feel safe and where there are good economic opportunities. But for families that need housing vouchers to help pay rent, some neighborhoods are off-limits because landlords will not consider them as tenants. Source-of-income discrimination disproportionately affects single parents, people with disabilities, veterans, low-wage workers and people of color. Maryland should enact legislation to prohibit housing discrimination based on source of income.

The bill does not prevent landlords from determining applicants' ability to pay by verifying their income, evaluating the applicant's financial stability and security, or evaluating the applicant's tenant history. But it would mean families can't be denied a lease just because they are going to pay with a housing voucher. Twelve states and the District of Columbia already have this protection in their laws, as do three Maryland counties -- Frederick, Howard and Montgomery.

### **Protect the Path to Independence**

Several existing programs are essential for working people to get jobs and remain employed. In balancing the budget, Maryland must not cut back on these important investments.

**Child Care.** The state child care subsidy is absolutely vital to low-income families struggling to enter or remain in the workforce. The State should adequately fund child care assistance for working parents, and should not impose a freeze on enrollment.

The last time the State froze enrollment, in January 2003, the freeze lasted two and three-quarter years. At one point, more than 20,000 children were on the wait list—a higher number than the program was serving at that time. Freezing child care subsidies leaves low-income working parents with few options, none of them good. They may pull older children out of school, leave the young ones to fend for themselves at home or in shopping malls, or avail themselves of more dangerous, often illegal, child care options.

Maryland’s commitment to restoring jobs must include adequate funding for the child care subsidy. Additional cuts to the Division of Early Childhood Development budget—specifically to the State’s networks of Family Support Centers and Child Care Resource Centers—may also threaten important support programs for low-income families and child care providers.

**Transit.** A safe, reliable and interconnected public transportation system is crucial for low-income residents to get to work, to access services, and to benefit from Maryland’s high quality of life. The Maryland Transit Administration and the Washington Metropolitan Area Transit Authority are the key resources for connecting low-income Marylanders with employment opportunities and services. Although MTA and WMATA saw increases in their most recent budgets, the Department of Legislative Services reports that the increase is not sufficient to sustain current levels of service.

Funding is needed to maintain service levels and to keep fares affordable for working people.

Two large proposed transit projects are under consideration to expand mass transit in the state: the “Red Line” in the Baltimore area and the “Purple Line” in the national capital area. These projects will improve access to employment opportunities and services for people who cannot afford private vehicles or are unable to drive. Federal and state financing will be needed to move forward with these projects.

**Earned Income Tax Credit.** The Earned Income Tax Credit (EITC) is commonly referred to as America’s biggest poverty-fighting program. It rewards work and is more valuable than food stamps, Medicaid, or temporary cash assistance programs. The EITC adds to – not replaces -- other poverty fighting programs. The EITC is targeted to help low- and moderate-income working parents. It is refundable, so that if the calculation of

the credit brings a households tax liability below zero, they receive a net payment from the government.

In addition to the federal EITC, 23 states and the District of Columbia have instituted their own EITCs. Marylanders who claim the federal EITC on their tax return may be entitled to the state EITC. The credit averages around \$500, but can be as high as \$2300 for a parent with three or more children. The Maryland earned income tax credit will either reduce or eliminate the amount of the state and local income tax that filers owe. Workers whose credit exceeds their tax can have part of their credit paid to them as a tax refund. There were 360,000 recipients of the state EITC in tax year 2008, receiving a total of \$190 million.

It is important to preserve this targeted tax credit which helps working people make ends meet.

Many working parents who qualify for the EITC don't claim it. The state should enact legislation to require employers to provide specified notification to employees who may be eligible for the state earned income tax credit. This proposal does not directly affect state and local finances or operations. The small business effect is minimal, according to the Department of Legislative Services.

### **A Balanced Approach to Balancing the Budget - Revenue Measures**

Maryland has within its reach a number of reasonable revenue options that would be a productive part of the balanced approach needed to preserve public structures that working Marylanders depend on --not just next year, but well beyond.

**Income Tax- Leave the Current Million-Dollar Tax Bracket in Place** In 2008, the legislature enacted a three-year temporary tax increase on the highest income households. The rate on income above \$1 million a year for married and single filers became 6.25%. The 5.5% rate that had applied to all income over \$500,000 still applies to income between \$500,000 and \$1 million.

Without further legislative action, this revenue source automatically lapses at the end of calendar year 2010. When the three-year tax bracket was put in place, no one knew the recession would be so long and deep or that the recovery would be so weak. The state should extend the million-dollar tax bracket for another three years. This would add \$70 million to \$90 million in revenues each year.

**Alcoholic Beverages – A Dime-a-Drink for Health Programs** Maryland has among the lowest taxes on alcoholic beverages of any state. The tax on liquor of \$1.50 a gallon – about 30 cents for a .75 liter bottle -- has not changed since 1955. The median among all states is \$3.75 per gallon.

The tax on beer and wine was last increased in 1972. Wine is taxed at 40 cents per gallon --about a dime for a one liter bottle -- and beer at nine cents per gallon -- about a nickel on a six-pack. The national medians are 69 cents for wine and 18 cents for beer. Overall, Maryland's alcohol tax rates are one half to one seventh the national median. Delaware's rates, for example, are 77% to 240% above Maryland's.

The proposed Lorraine Sheehan Act would increase the tax rate on alcoholic beverages. Raising the alcohol tax has the added benefit of reducing consumption of alcoholic beverages and therefore the harmful health and social effects of over-consumption of alcohol. The strategy of increasing price to reduce consumption would be particularly effective at reducing underage drinking.

The Lorraine Sheehan Act would increase Maryland's tax rates enough to reduce consumption and significantly reduce alcohol-related illness, drunk driving, and alcohol-related violence. Still, the tax would amount to only about ten to twelve cents per drink. The percentage increase in the prices of alcoholic beverages would be in the range of 6.9% to 8.3%. This should not represent an onerous cost for moderate adult consumers of alcohol.

At the same time, the measure would raise over \$200 million in annual revenue – even after accounting for decreased consumption. This revenue will be recycled into Maryland's economy to provide healthcare, treatment and prevention services.

The Lorraine Sheehan Act dedicates the revenue from the increased alcoholic beverage taxes to healthcare, mental health, addiction treatment and prevention as well as developmental disability services. As a general rule, the best fiscal policy practice is usually to avoid dedicated funds. However, in this case, the proposal to dedicate funds is reasonable. Dedicated fund sources should have a logical relationship with their uses. There is certainly a well-established connection between health care needs, mental illness, substance abuse, and alcohol consumption. Additional funds for these functions are needed desperately. The state should enact the Lorraine Sheehan Act in 2011.

**Fuel Tax – Funding for Transportation Needs, and Restoring Revenues for Education and Healthcare** The fuel tax is one of Maryland's main sources for funding the state's transportation infrastructure. At 23.5 cents per gallon, it is slightly below the national average and was last increased in 1992. Since then, 43 of the 50 states have increased their fuel taxes.

In its 2007 special session, the legislature decided not to increase the fuel tax, and instead directed that a portion of the state sales tax be diverted from the state's general fund to the transportation fund.

A 15-cent-per-gallon increase would provide about \$450 million in crucial revenue and still leave Maryland's fuel tax competitive with neighboring states. In 2011, this would restore approximately \$250 million to the general fund, where it would again support

education, healthcare, and other critical public needs. It would also provide \$200 million for transportation needs.

**Close Loopholes for Multi-state Corporations** It is common practice for large, multi-state corporations to use subsidiaries and affiliated companies in ways that reduce their state tax obligations. In effect, companies can move profits from one state to another on paper to take advantage of states with lower corporate tax rates. Increasingly, states are combating this by adopting what is called “combined reporting,” which requires such companies to add together the profits of these various entities and then pay taxes accordingly.

Calling on multi-state corporations to pay their fair share of taxes does more than raise needed revenue. It also adds equity to the system because businesses that are located entirely in a single state and lack the opportunities or resources to engage in interstate income-shifting today end up paying higher taxes than necessary to make up for revenue lost through other companies’ avoidance.

Clearly, combined reporting would provide a basis for taxing corporations that better reflects economic realities than the current system, and would be less prone to a range of manipulative practices used by some businesses to shelter income from Maryland taxes.

The Maryland Comptroller’s office has estimated that if combined reporting had been in effect in 2007, the state would have collected \$92 million to \$144 million in additional tax, depending on the details of the reform proposal. Much of this money represents taxes on profits that were hidden from Maryland tax through subsidiaries and affiliates. As a result of the reporting requirement established along with the Commission and implemented by the Comptroller, we now know that the revenue yield from CR is much greater than was estimated back in the special session of 2007 when this commission was established. That is significant in weighing the benefits of adopting CR against the additional compliance and enforcement efforts, and transition issues.

(Preliminary data for tax year 2008 shown that combined reporting would have cost the state money in that year. However, tax year 2008 reflects a low level of profits at the depth of the recession. The 2007 data is more nearly reflective of a normal year.)

Because of the depth and duration of the recession, Maryland faces recurring revenue shortfalls for several years in the future. While corporation profits have reached record levels nationally, growth in household incomes and consumer expenditures have been much weaker. We should not expect personal income tax and sales tax revenues to recover fully for years.

Combined reporting is a well-established practice around the country. With the recent enactment of combined reporting legislation in Wisconsin, 23 of the 45 states with corporate income and similar business taxes have implemented this critical policy. Closer to home, the District of Columbia also enacted combined reporting last year. In fact,

seven states and DC have enacted combined reporting since 2004. Combined reporting is a proven reform. Maryland will not be breaking any new ground with this proposal.

Maryland should implement corporation income tax combined reporting primarily because it is sound tax policy and also because it helps to level the playing field for Maryland businesses and consumers that today are being asked to pay more to make up for what large multi-state corporations avoid – or else to suffer the results of reduced services. Combined reporting would generate needed revenue for education, healthcare and other public structures and systems that benefit businesses and citizens. The state faces a fiscal outlook in which it will desperately need revenue for several years. Combined reporting is a revenue measure that also promotes fairness, and is in line with the tax policies in a preponderance of other states.

**Modernize Sales Taxes to Reflect Today's Economy** Maryland's 6% sales tax applies principally to purchases of tangible goods. Only a few services are subject to the state sales tax. According to the Federation of Tax Administrators, Maryland taxes 39 of 168 services included in FTA's survey of all states. This is less than the nationwide median of 47 services subject to tax. Maryland should make its sales tax more productive and equitable by expanding the purchases taxed to cover more services.

When Maryland's sales tax was enacted in 1947, households spent more money per year on goods than services. But that balance has shifted tremendously over the past 40 years. Today, services account for 45% of the typical household's spending while goods make up 32%. In 1970 it was the other way around: taxable goods were 39% of a household's purchases and services were 31%. Many of today's major service purchases, like cable TV, did not exist when the sales tax law was written. The revenue loss from an outdated sales tax is significant.

Aligning the sales tax to today's purchasing patterns could be accomplished without harming businesses or low-income households and still cover a broad range of consumer services. It should exclude predominantly business-to-business services (like freight transportation, payroll processing and advertising). Taxation of business-to-business services significantly distorts economic decisions, and may be more expensive to households, as taxes become invisibly embedded in final prices and basic services, which consume a large share of low-income households' spending (like medical, housing and child care expenses). Taxation of basic household services would disproportionately burden low-income households.

Maryland should develop a comprehensive plan that applies the sales tax broadly to services, and enumerates specific exceptions. This approach could raise as much as \$2 billion annually.

ENDNOTES

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- <sup>3</sup> “No jobs for more than three out of four unemployed workers” EPI Publications [http://www.epi.org/publications/entry/no\\_jobs\\_for\\_more\\_than\\_three\\_out\\_of\\_four\\_unemployed\\_workers/](http://www.epi.org/publications/entry/no_jobs_for_more_than_three_out_of_four_unemployed_workers/)
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- <sup>50</sup> DHCD analysis of *RealtyTrac* Foreclosure Activity in Maryland 3rd Quarter 2010 [http://www.mdhope.org/documents/PropertyForeclosureEventsinMaryland\\_10Q3.pdf](http://www.mdhope.org/documents/PropertyForeclosureEventsinMaryland_10Q3.pdf)
- <sup>51</sup> DHCD. Property Foreclosures in Maryland. Second Quarter 2008.
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- <sup>53</sup> Trends in Child Care 2010 Report; <http://www.mdchildcare.org/mdcfc/pdfs/trends.pdf>
- <sup>54</sup> Ibid.
- <sup>55</sup> Child Care Demographics 2010 Report; <http://www.mdchildcare.org/mdcfc/pdfs/demographics.pdf>
- <sup>56</sup> Ibid.
- <sup>57</sup> Child Care Subsidy Branch [http://www.msde.maryland.gov/MSDE/divisions/child\\_care/subsidy/ccs.htm](http://www.msde.maryland.gov/MSDE/divisions/child_care/subsidy/ccs.htm)
- <sup>58</sup> Ibid.
- <sup>59</sup> Ibid.
- <sup>60</sup> National Skills Coalition, *Maryland's Forgotten Middle-Skills Jobs*. 2010 <http://www.nationalskillscoalition.org/assets/reports/reports-/marylands-forgotten-jobs.pdf>
- <sup>61</sup> Bureau of Labor Statistics. Education Pays... [http://www.bls.gov/emp/ep\\_chart\\_001.htm](http://www.bls.gov/emp/ep_chart_001.htm)
- <sup>62</sup> According to Governor O'Malley's Skills2Compete campaign "Middle-skill jobs require some training beyond high school, but not a four-year degree. Despite the current economy, many employers report that they need middle- and high-skilled workers to fill vacant jobs." <http://www.skills.maryland.gov/middleskills.shtml>