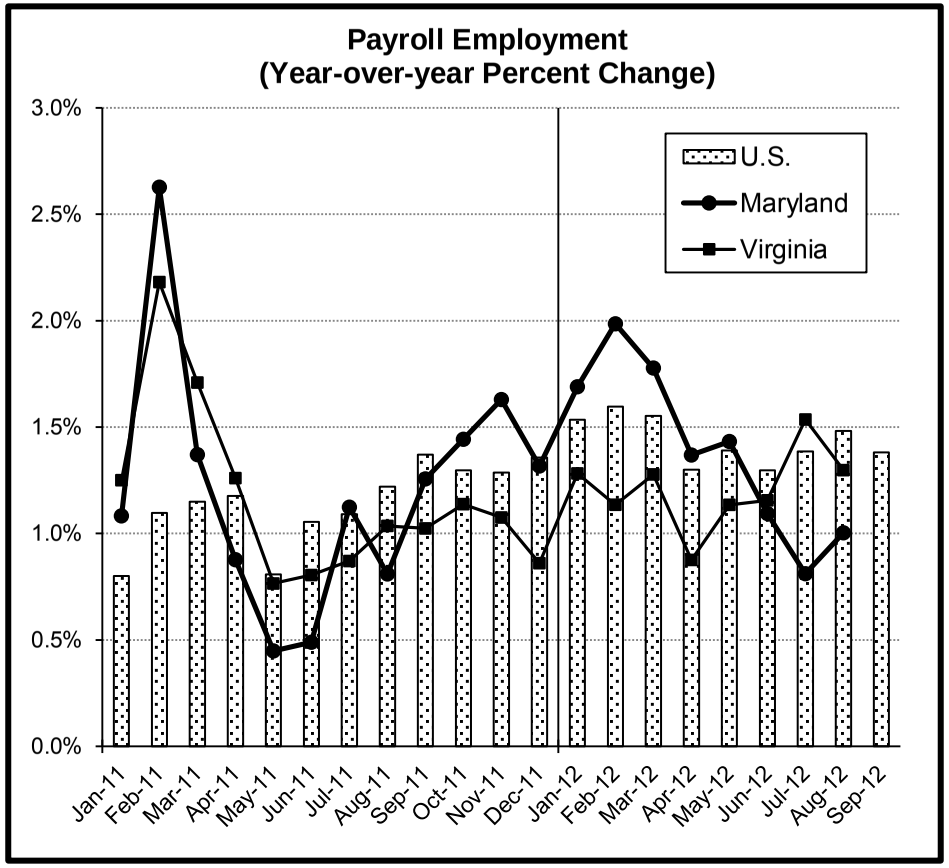
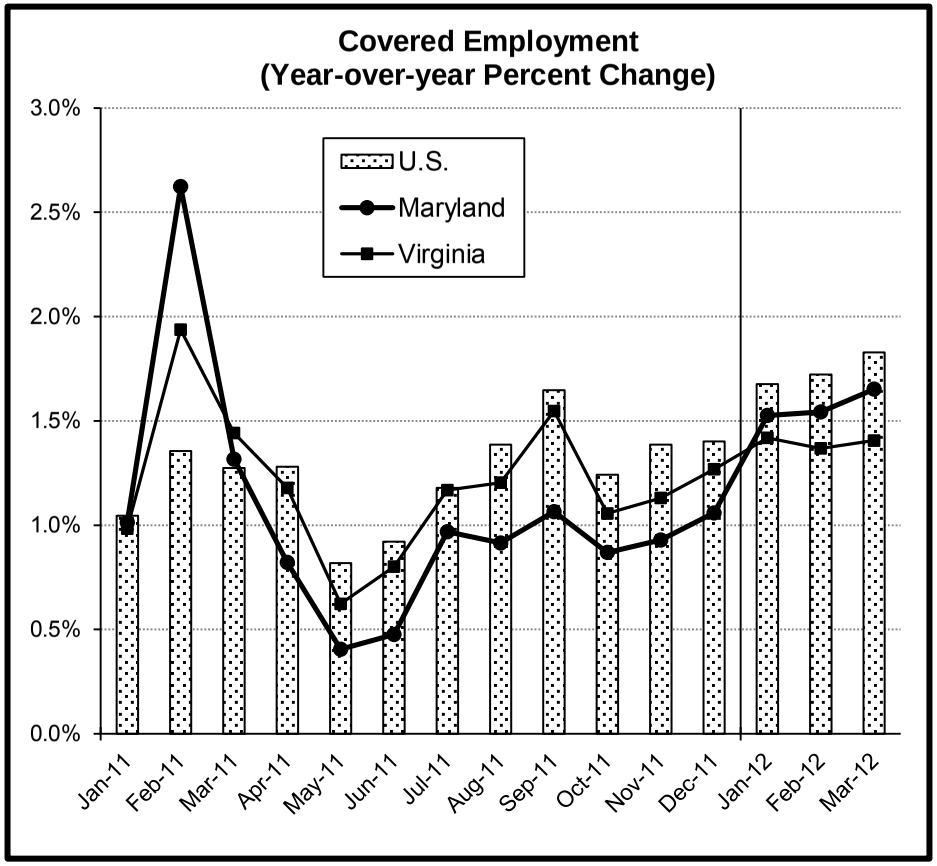
Spending Affordability Briefing

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

October 17, 2012

LABOR MARKET

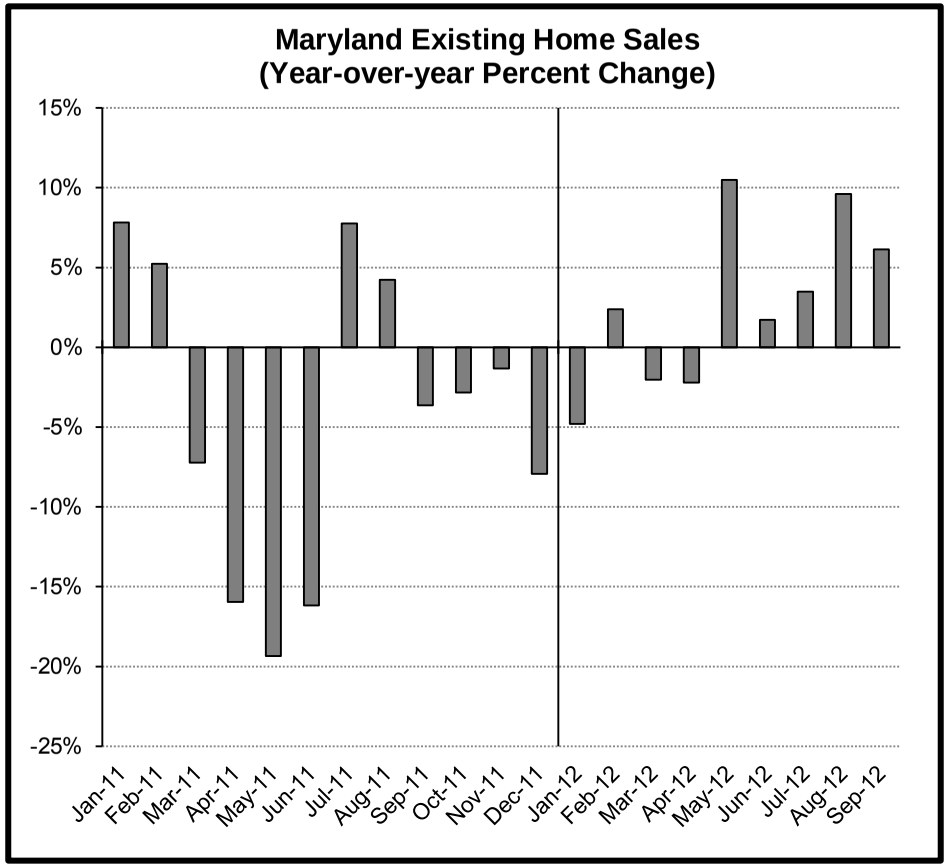


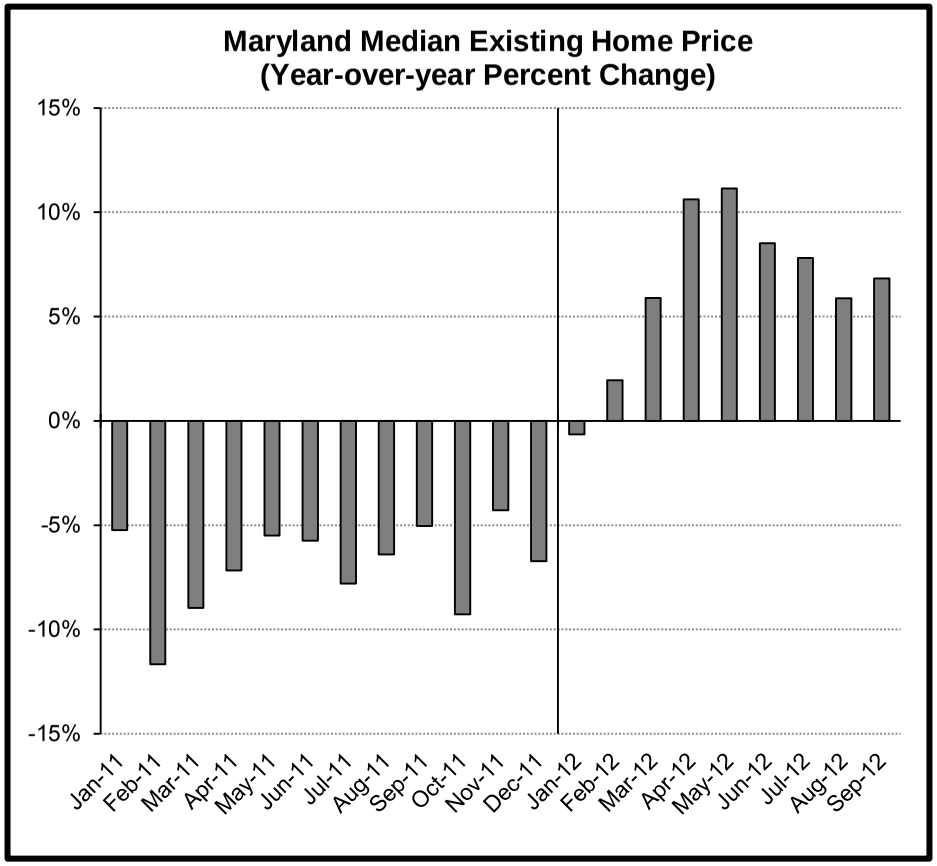


Payroll employment data comes from the monthly Current Establishment Survey (CES). This series shows Maryland employment growth accelerating through the second half of 2011 and into the first quarter of 2012. Maryland grew faster than both the United States and Virginia over this time period. Growth in Maryland then sharply decelerated, much more so than for the United States or Virginia. As the CES data comes from a survey, it is subject to sampling errors which sometimes results in significant revisions as more accurate data becomes available.

Covered employment comes from the Quarterly Census of Employment & Wages (QCEW) and reflects all private and government employers covered by unemployment insurance laws. The QCEW is used to revise the monthly survey data each year. Available through March, the QCEW series shows that Maryland employment growth did not outpace either the United States or Virginia in the second half of 2011. Maryland in fact grew slower. In the first quarter of 2012, Maryland employment grew slightly slower than the United States but a bit faster than Virginia.

HOUSING MARKET

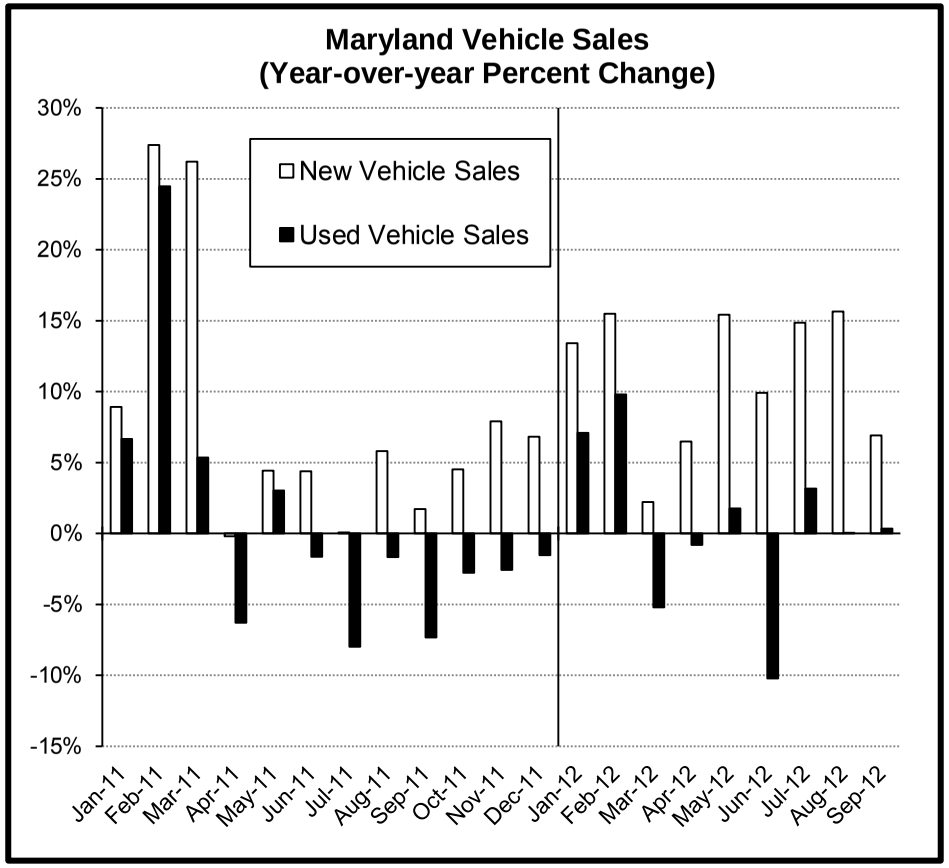


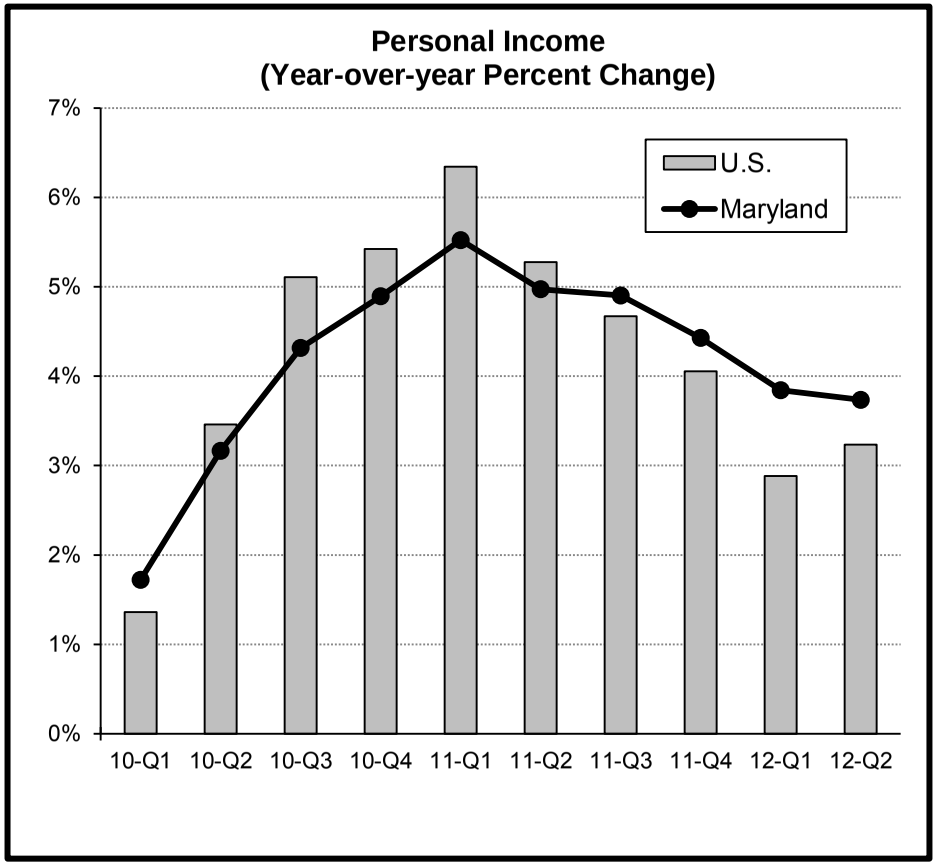


The federal homebuyers tax credit, which expired in June 2010, pumped up home sales in the first half of 2010. Consequently, home sales in the first half of 2011 fell significantly from those levels. Between August 2011 and April 2012, sales were down on a year-over-year basis in every month except February 2012 which saw a small increase. Since April, sales have been up every month with a 6.1% increase in September.

Statewide, the median existing home price fell on a year-over-year basis for 54 months from August 2007 to January 2012. In February 2012, the State saw its first increase in the median home price in 4½ years. The median price was up almost 2.0% compared to February 2011. Prices continued to increase in subsequent months, rising 6.8% in September. The inventory of homes for sale is down around 25.0% from 2011 levels which may be a factor behind the growth in the median price.

CONSUMER MARKET





Vehicle sales were weak even prior to the recession, falling each year from 2005 to 2009. Sales grew 4.2% in 2010 and 2.2% in 2011. New vehicles sales grew stronger than used sales in 2011: new car sales were up 7.3% in 2011 while used car sales fell 0.1%. That pattern has continued in 2012 with new car sales up 10.8% and used car sales flat in the first nine months. Total vehicles sales in 2012 are up 3.5%, or around 24,000 vehicles. The average new vehicle price is up 2.1% in 2012, while the averaged used price is up 5.1%.

Income growth accelerated in 2010 with income up 3.5% in Maryland and 3.8% nationally. In 2011, income growth slowed during the year for both Maryland and the United States. For the year as a whole, personal income in both Maryland and the United States was up around 5.0%. The first quarter of 2012 saw the weakest growth for both the United States and Maryland since the beginning of 2010. In the second quarter, U.S. personal income growth accelerated slighty to 3.4%. Maryland growth in the second quarter was around 3.7%, just slightly slower than the first quarter.

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar	Employment		Personal Income	
Year	Dec. 2011	Sep. 2012	Dec. 2011	Sep. 2012
2009	-3.0%	-2.9%	-1.6%	-2.2%
2010	-0.4%	-0.2%	3.9%	3.5%
2011*	1.1%	1.1%	5.4%	5.0%
2012E	0.9%	0.9%	2.9%	3.8%
2013E	0.9%	0.9%	3.5%	3.3%
2014E	1.5%	1.5%	4.5%	4.5%
2015E	1.8%	1.8%	5.3%	5.1%

Calendar	Wage & Salary Income	
Year	Dec. 2011	Sep. 2012
2009	-0.8%	-0.8%
2010	2.3%	2.1%
2011*	4.4%	3.6%
2012E	3.4%	3.8%
2013E	3.4%	3.4%
2014E	3.5%	3.5%
2015E	4.2%	4.2%

* Calendar 2011 is an estimate for the December 2011 forecast.

Source: Board of Revenue Estimates

Fiscal 2012 General Fund Revenues

($ in Millions)

Source	FY 2011 Actual	Fiscal 2012 Estimate*	Fiscal 2012 Actual	Fiscal 2012 Difference	FY 2011-2012 Percent Change Estimated	FY 2011-2012 Percent Change Actual
Personal Income Tax	$6,643.4	$6,997.7	$7,114.7	$117.0	5.3%	7.1%
Sales and Use Tax [1]	3,656.0	4,018.5	4,039.3	20.8	9.9%	10.5%
State Lottery	499.4	502.7	536.3	33.6	0.7%	7.4%
Corporate Income Tax	571.3	580.5	646.5	66.0	1.6%	13.2%
Business Franchise Taxes	210.2	209.2	207.2	-2.0	-0.5%	-1.4%
Insurance Premiums Tax	285.9	298.9	304.0	5.1	4.5%	6.3%
Estate and Inheritance Taxes	216.0	200.4	196.9	-3.5	-7.3%	-8.9%
Tobacco Tax	407.6	407.5	411.4	3.9	0.0%	0.9%
Alcohol Beverage Tax	30.4	30.5	31.0	0.5	0.3%	1.9%
Motor Vehicle Fuel Tax	5.0	5.0	5.0	0.0	0.0%	0.0%
District Courts	86.9	80.8	79.4	-1.4	-7.0%	-8.6%
Clerks of the Court	29.3	33.5	35.1	1.6	14.5%	20.1%
Hospital Patient Recoveries	74.2	68.0	66.4	-1.6	-8.4%	-10.6%
Interest on Investments	58.4	30.0	17.9	-12.1	-48.6%	-69.3%
Miscellaneous	386.2	378.4	380.0	1.6	-2.0%	-1.6%
Subtotal	**$13,160.3**	**$13,841.6**	**$14,071.1**	**$229.5**	**5.2%**	**6.9%**
Highway User Revenue [2]	377.1	186.5	186.7	0.2	-50.5%	-50.5%
Total Revenues	**$13,537.4**	**$14,028.2**	**$14,257.8**	**$229.7**	**3.6%**	**5.3%**

* From the Board of Revenue Estimates, December 2011, with adjustments for action at the 2012 legislative session.

[1] The Budget Reconciliation and Financing Act of 2011 (Chapter 397) eliminated the 5.3% distribution to the Transportation Trust Fund beginning in fiscal 2012. Senate Bill 994 (Chapter 571) and House Bill 1213 (Chapter 572) increased the sales tax on alcohol beverages from 6.0 to 9.0% which raised $76 million in fiscal 2012. Adjusted for these law changes, baseline sales tax revenue growth was 2.7% and total general fund revenues were up 4.8% (excluding highway user revenue).

[2] The Budget Reconciliation and Financing Act of 2010 (Chapter 484) established a distribution from the Gasoline and Motor Vehicle Revenue Account to the general fund of 19.5% in fiscal 2010, 23.0% in fiscal 2011, and 20.4% in fiscal 2012. The Budget Reconciliation and Financing Act of 2011 lowered the fiscal 2012 distribution to 11.3% and eliminated the distribution starting in fiscal 2013.

Fiscal 2013 General Fund Revenues

($ in Millions)

Source	FY 2012	FY 2013	$ Difference	% Difference
	Fiscal Year through September			
Personal Income Tax	$1,291.1	$1,397.3	$106.1	8.2%
Sales and Use Tax [1]	655.3	680.5	25.2	3.9%
State Lottery	123.1	118.9	-4.2	-3.5%
Corporate Income Tax [2]	113.1	208.0	94.9	83.9%
Business Franchise Taxes	40.9	38.9	-2.0	-4.8%
Insurance Premiums Tax	73.8	78.2	4.4	6.0%
Estate and Inheritance Taxes	59.0	46.8	-12.1	-20.6%
Tobacco Tax	85.1	84.2	-0.9	-1.1%
Alcohol Beverage Tax	5.1	5.2	0.1	2.8%
District Courts	21.8	22.2	0.4	1.9%
Clerks of the Court	9.4	12.1	2.6	28.1%
Interest and Miscellaneous [3]	22.0	34.3	12.3	55.7%
Total Revenues	**$2,499.6**	**$2,726.5**	**$226.9**	**9.1%**

(1) Data reflects sales tax revenue remitted to the Comptroller from August through September which were collected by retailers from July through August.

(2) The Budget Reconciliation and Financing Act of 2011 lowered the Transportation Trust Fund's share of the corporate income tax from 24.0% of net receipts (excluding the first 15.15%) to 9.5% in fiscal 2013. Adjusted for this law change, general fund corporate income tax receipts would be up $65.1 million (57.6%), and total general fund revenues would be up $197.1 million (7.9%).

(3) Includes interest on investments, hospital patient recovery revenues from Medicare, insurance, and sponsors; and other miscellaneous revenues.

Note: Fiscal 2013 revenues are shown before transfers to the Budget Restoration Fund required by the Budget Reconciliation and Financing Act of 2012 (Chapter 1, 2012 First Special Session).

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2012 Actual	FY 2013 Estimate March	FY 2013 Estimate Sept.	FY 2013 Estimate Difference	% Change Over FY 2012	FY 2014 Estimate	% Change Over FY 2013
Personal Income Tax [1]	$7,114.7	$7,552.9	$7,650.6	$97.7	7.5%	$7,967.3	4.1%
Sales and Use Tax	4,039.3	4,125.7	4,127.7	2.0	2.2%	4,259.4	3.2%
State Lottery	536.3	514.1	536.4	22.4	0.0%	543.8	1.4%
Corporate Income Tax [2]	646.5	741.3	821.8	80.4	27.1%	783.9	-4.6%
Business Franchise Taxes	207.2	208.9	208.9	0.0	0.8%	210.7	0.9%
Insurance Premiums Tax	304.0	308.1	311.6	3.5	2.5%	319.3	2.5%
Estate and Inheritance Taxes	196.9	217.6	214.8	-2.8	9.1%	218.8	1.9%
Tobacco Tax [1]	411.4	411.9	415.1	3.2	0.9%	414.1	-0.3%
Alcohol Beverage Tax	31.0	31.1	31.6	0.5	2.0%	32.2	2.0%
Motor Vehicle Fuel Tax	5.0	13.0	13.0	0.0	160.0%	5.0	-61.5%
District Courts	79.4	80.8	78.6	-2.2	-1.0%	79.0	0.5%
Clerks of the Court	35.1	34.3	37.9	3.6	7.8%	37.7	-0.5%
Hospital Patient Recoveries	66.4	68.0	70.0	2.0	5.4%	68.0	-2.8%
Interest on Investments	17.9	35.0	10.0	-25.0	-44.2%	15.0	50.0%
Miscellaneous	380.0	384.5	379.8	-4.7	0.0%	363.3	-4.4%
Subtotal	**$14,071.1**	**$14,727.3**	**$14,907.8**	**$180.6**	**5.9%**	**$15,317.5**	**2.7%**
Highway User Revenue [3]	186.7	0.0	0.0	0.0	-100.0%	0.0	
Total Revenues	**$14,257.8**	**$14,727.3**	**$14,907.8**	**$180.6**	**4.6%**	**$15,317.5**	**2.7%**

[1] Fiscal 2013 and 2014 reflect the impact of the The State and Local Revenue Financing Act of 2012 (Chapter 2 of the 2012 First Special Session). Personal income tax rates were increased and exemptions lowered for certain taxpayers. Fiscal 2013 reflects a one and half year impact. The tax on other tobacco products was increased 15 to 30%. Fiscal 2013 reflects the rate increase and the payment of the floor tax.

[2] The Budget Reconciliation and Financing Act of 2011 lowered the Transportation Trust Fund's share of the corporate income tax from 24.0% of net receipts (excluding the first 15.15%) to 9.5% in fiscal 2013. In the fiscal 2014, the share will rise to 19.5%

[3] The Budget Reconciliation and Financing Act of 2010 (Chapter 484) established a distribution from the Gasoline and Motor Vehicle Revenue Account to the general fund of 19.5% in fiscal 2010, 23.0% in fiscal 2011, and 20.4% in fiscal 2012. The Budget Reconciliation and Financing Act of 2011 lowered the fiscal 2012 distribution to 11.3% and eliminated the distribution starting in fiscal 2013.

Note: The estimate from March has been adjusted for actions taken at the 2012 legislative session. The fiscal 2013 estimates from both March and September show general fund revenues before the transfer of $276.5 million to the Budget Restoration Fund required by the Budget Reconciliation and Financing Act of 2012 (Chapter 1, 2012 First Special Session).

Source: Board of Revenue Estimates

Potential Fiscal 2013 General Fund Deficiencies
($ in Millions)

Human Resources: Deferred payment of fiscal 2012 expenditures ($35.7 million); underattainment of SEIF, EUSP, and federal funds for energy assistance and child support enforcement programs ($11.5 million); legal services and foster care caseloads ($5.1 million); and document imaging system ($2.0 million)	$54
Education: Student assessments	18
Public Safety: Overtime expenses ($9.0 million); inmate food ($2.0 million); supplies and materials ($2.0 million); equipment for cell phone managed access contract ($1.4 million); motor vehicle expenses ($0.8 million); inmate wages ($0.7 million); and local jail medical expenses ($0.5 million)	16
Juvenile Services: Per-diem payments ($9.0 million); staffing shortages and increased turnover ($2.5 million); and non-residential program ($0.7 million)	12
Health and Mental Hygiene: Community provider payments shortfall in fiscal 2012 ($9.2 million) and institutional expenses ($0.4 million)	10
Higher Education: Health manpower and statewide programs grants ($6.2 million) and community college optional retirement program ($3.4 million)	10
Other: Public Defender ($1.1 million); General Services ($0.6 million); Comptroller ($0.6 million); and Veterans Affairs ($0.5 million)	3
Total	**$123**

EUSP: Electric Universal Service Program
SEIF: Strategic Energy Investment Fund

2014 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- Current laws, policies, and practices are continued.
- Inflationary increases are recognized.
- Large one-time purchases and nonrecurring pay-as-you-go expenditures are removed.
- Anticipated deficiencies are identified.
- Federal mandates and multi-year commitments are observed.
- Legislation adopted at the prior session is funded.
- Nondiscretionary changes in workload are recognized.
- Full year costs of programs started during the previous year are included.
- Positions and operating expenses associated with new facilities are recognized.
- Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	FY 2012	FY 2013	FY 2014	Percent Change FY 2013-2014
Pupil Enrollment*	821,106	823,452	826,848	0.4%
Medicaid	723,004	736,570	746,264	1.32%
Medicaid Expansion to Parents	84,908	102,188	112,407	10.00%
Children's Health	103,011	109,506	112,157	2.42%
Expansion under Affordable Care Act			135,233	n/a
Temporary Cash Assistance	72,413	62,759	54,112	-13.8%
Foster Care/Adoption/Guardianship	15,913	16,139	16,270	0.8%
Adult Prison Population	21,361	21,916	22,007	0.4%

* Data for fiscal 2012, 2013, and 2014 reflect September 2010, September 2011, and September 2012 (est.) full-time equivalent enrollments.

2014 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance payments (6.1%).
- Medical contracts and supplies (4.6%).
- Prescription drugs for State facilities (4.6%).
- Postage (2.5%).
- Natural gas, propane, and electricity (5.0%).
- Food (1.4%).

Employee Compensation

- 3.0% general salary increase implemented on January 1, 2014, and the reinstatement of employee increments in April 2014.

Other Assumptions

- Cost increases for the University System of Maryland and Morgan State University are allocated between general funds and tuition and fees based on the fiscal 2012 ratio of general funds to tuition and fees; a 5% tuition increase is assumed.

State Expenditures – General Funds
($ in Millions)

Category	Work. Appr. FY 2012	Leg. Appr. FY 2013	Baseline FY 2014	FY 2013 to FY 2014 $ Change	FY 2013 to FY 2014 % Change
Debt Service	$0.0	$0.0	$160.0	$160.0	n/a
County/Municipal	186.6	159.0	237.7	78.7	49.5%
Community Colleges	263.3	249.4	302.2	52.8	21.2%
Education/Libraries	5,620.2	5,454.6	5,761.1	306.5	5.6%
Health	38.3	37.3	38.2	0.9	2.5%
Aid to Local Governments	***$6,108.4***	***$5,900.3***	***$6,339.2***	***439.0***	***7.4%***
Foster Care Payments	237.7	234.3	236.5	2.1	0.9%
Assistance Payments	87.8	81.7	49.8	-31.9	-39.1%
Medical Assistance	2,469.0	2,389.7	2,611.9	222.1	9.3%
Property Tax Credits	81.8	82.0	86.2	4.2	5.1%
Entitlements	***$2,876.4***	***$2,787.7***	***$2,984.3***	***196.5***	***7.0%***
Health	1,446.3	1,465.3	1,553.8	88.6	6.0%
Human Resources	276.5	275.2	344.8	69.6	25.3%
Systems Reform Initiative	23.5	16.9	20.6	3.7	21.5%
Juvenile Services	269.2	263.0	280.3	17.4	6.6%
Public Safety/Police	1,275.3	1,294.3	1,392.7	98.4	7.6%
Higher Education	1,133.9	1,105.3	1,215.1	109.8	9.9%
Other Education	382.3	337.5	399.1	61.7	18.3%
Agric./Natl. Res./Environment	105.8	103.6	109.0	5.4	5.2%
Other Executive Agencies	547.1	579.8	645.0	65.3	11.3%
Legislative	82.9	78.3	76.8	-1.5	-1.9%
Judiciary	368.6	387.4	406.9	19.5	5.0%
State Agencies	***$5,911.4***	***$5,906.5***	***$6,444.3***	***537.8***	***9.1%***
Deficiencies	0.0	123.0	0.0	-123.0	-100.0%
Total Operating	**$14,896.2**	**$14,717.6**	**$15,927.8**	**$1,210.2**	**8.2%**
Capital [1]	54.5	0.7	7.3	6.6	942.9%
Reserve Funds	15.0	27.8	421.3	393.5	1417.6%
Appropriations	**$14,965.7**	**$14,746.0**	**$16,356.4**	**$1,610.3**	**10.9%**
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	**$14,935.7**	**$14,716.0**	**$16,326.4**	**$1,610.3**	**10.9%**

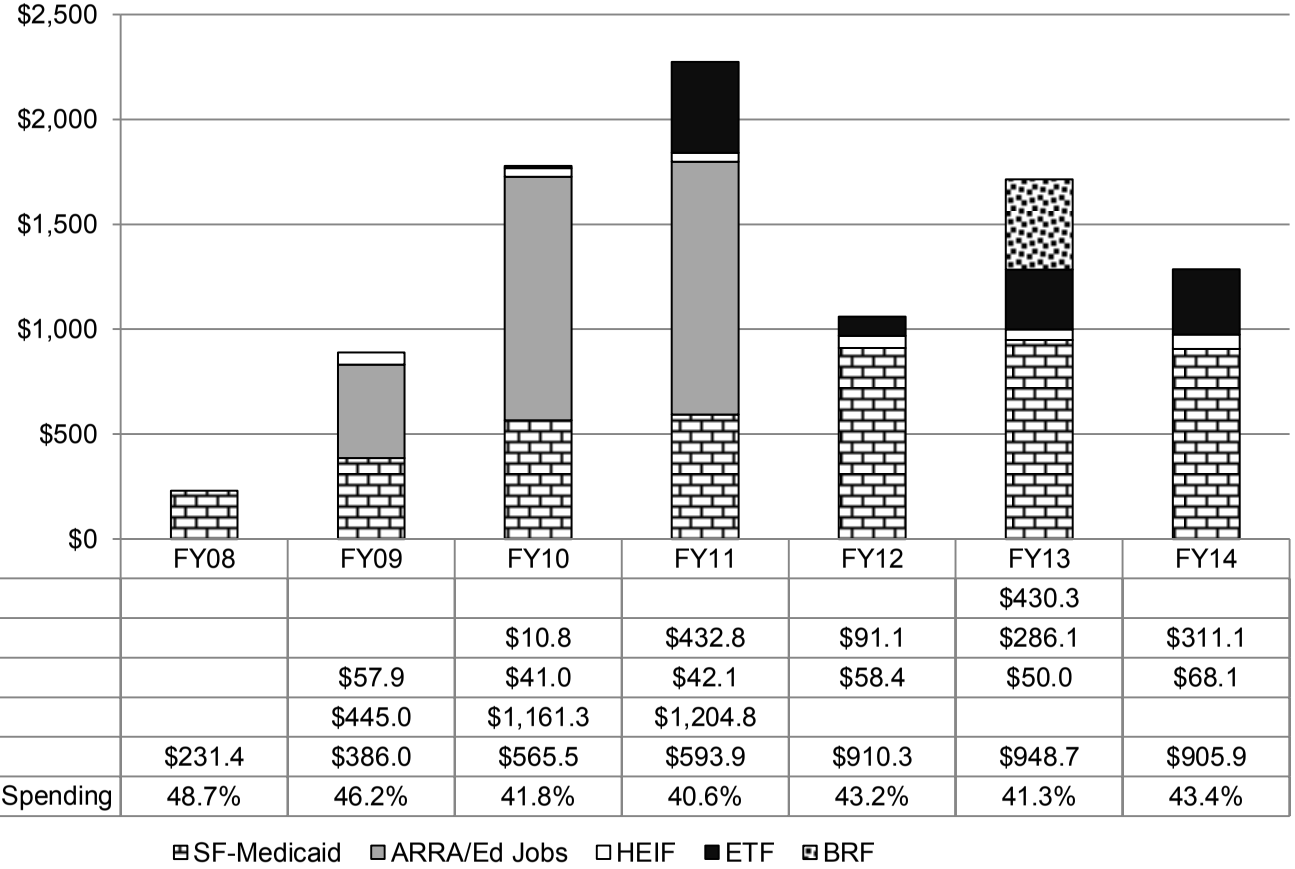
[1] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2012 working appropriation includes deficiencies, targeted reversions, and legislative reductions to the deficiencies.

Use of Special and Federal Funds for Major Programs has Skewed General Fund Budgets in Recent Years

Fiscal 2008-2014

($ in Millions)



	FY08	FY09	FY10	FY11	FY12	FY13	FY14
BRF						$430.3	
ETF			$10.8	$432.8	$91.1	$286.1	$311.1
HEIF		$57.9	$41.0	$42.1	$58.4	$50.0	$68.1
ARRA/Ed Jobs		$445.0	$1,161.3	$1,204.8			
SF-Medicaid	$231.4	$386.0	$565.5	$593.9	$910.3	$948.7	$905.9
GF as a % of Total Spending	48.7%	46.2%	41.8%	40.6%	43.2%	41.3%	43.4%

ARRA: American Recovery and Reinvestment Act
BRF: Budget Restoration Fund
ETF: Education Trust Fund
GF: general fund
HEIF: Higher Education Investment Fund
SF: special fund

State Expenditures – General Funds and Selected Special Funds*
($ in Millions)

Category	Work. Appr. FY 2012	Leg. Appr. FY 2013	Baseline FY 2014	FY 2013 to FY 2014 $ Change	FY 2013 to FY 2014 % Change
Debt Service	$0.0	$0.0	$160.0	$160.0	n/a
County/Municipal	186.6	209.1	237.7	28.6	13.7%
Community Colleges	263.3	269.3	302.2	32.9	12.2%
Education/Libraries	5,711.4	5,876.7	6,072.2	195.5	3.3%
Health	38.3	37.3	38.2	0.9	2.5%
Aid to Local Governments	***$6,199.5***	***$6,392.5***	***$6,650.3***	***257.9***	***4.0%***
Foster Care Payments	237.7	235.7	236.5	0.7	0.3%
Assistance Payments	87.8	81.7	49.8	-31.9	-39.1%
Medical Assistance	3,379.3	3,427.4	3,517.8	90.3	2.6%
Property Tax Credits	81.8	82.0	86.2	4.2	5.1%
Entitlements	***$3,786.7***	***$3,826.8***	***$3,890.2***	***63.3***	***1.7%***
Health	1,446.3	1,483.5	1,553.8	70.4	4.7%
Human Resources	276.5	275.2	344.8	69.6	25.3%
Systems Reform Initiative	23.5	16.9	20.6	3.7	21.5%
Juvenile Services	269.2	263.0	280.3	17.4	6.6%
Public Safety/Police	1,275.3	1,294.3	1,392.7	98.4	7.6%
Higher Education	1,192.2	1,193.8	1,283.3	89.5	7.5%
Other Education	382.3	353.1	399.1	46.0	13.0%
Agric./Natl. Res./Environment	105.8	103.6	109.0	5.4	5.2%
Other Executive Agencies	547.1	634.2	645.0	10.8	1.7%
Legislative	82.9	78.3	76.8	-1.5	-1.9%
Judiciary	368.6	387.4	406.9	19.5	5.0%
State Agencies	***$5,969.7***	***$6,083.3***	***$6,512.4***	***429.2***	***7.1%***
Deficiencies	0.0	123.0	0.0	-123.0	-100.0%
Total Operating	**$15,956.0**	**$16,425.6**	**$17,213.0**	**$787.4**	**4.8%**
Capital [(1)]	54.5	7.7	7.3	-0.4	-5.2%
Reserve Funds	15.0	27.8	421.3	393.5	1417.6%
Appropriations	**$16,025.5**	**$16,461.1**	**$17,641.5**	**$1,180.5**	**7.2%**
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	**$15,995.5**	**$16,431.1**	**$17,611.5**	**$1,180.5**	**7.2%**

* Selected special funds include the Budget Restoration Fund, the Education Trust Fund, the Higher Education Investment Fund, and special funds in Medicaid.

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2012 working appropriation includes deficiencies, targeted reversions, and legislative reductions to the deficiencies.

Components of Budget Change
General Fund and Selected Special Funds
($ in Millions)

	Fiscal 2013	Fiscal 2014	Difference
General Funds	$14,623.0	$16,356.4	$1,733.4
General Fund Deficiencies (estimated)	123.0	0.0	-123.0
Budget Restoration Funds	430.3	0.0	-430.3
Education Trust Fund	286.1	311.1	25.0
Higher Education Investment Fund	50.0	68.1	18.2
Special Funds in Medicaid	948.7	905.9	-42.8
Combined Effect and Growth	**$16,461.1**	**$17,641.5**	**$1,180.5**

Ongoing Requirements/Entitlements	
Debt service – general funds to supplement property tax revenues	$160.0
Teachers retirement payments	97.6
Medical assistance – modest enrollment and rate increases	95.7
Education and library aid formulas	95.4
Community college formulas – increase in enrollment and per-pupil funding	26.9
Restoration of State Aid for Police Protection grant	22.1
Mandated provider rate increases for Mental Hygiene and Developmental Disabilities	19.1
Mental Hygiene Administration – enrollment, utilization, and rate increases	17.3
Development Disabilities Administration – annualize cost of new community placements	8.7
Community college retirement	6.2
St. Mary's College of Maryland and Baltimore City Community College mandated formulas	4.5
Property Tax Credit programs	4.2
Sellinger Formula for Aid to Private Colleges and Universities	3.7
County Library Retirement Payments	3.0
Foster Care payments – reduced institutional placements offset by provider rate increase	2.1
Disparity grant formula	1.5
Local health department funding	0.9
SEED School	0.4
Arts Council mandated formula	0.3
Repeal of National Board Certification Fee subsidy payments	-1.0
Temporary Cash Assistance payments – enrollment declines and stabilized federal funds	-31.9
New Legislative Requirements	
Optical scan voting system equipment and supplies (Chapters 547 and 548 of 2007)	$4.5
Education core content areas – accountability (Chapters 476 and 477 of 2012)	2.0
Other legislation	1.1
State Agency Costs	
Statewide Personnel Expenses (including higher education):	
Employee cost-of-living adjustment effective January 1, 2014	$52.2
Employee Retirement	41.8
Annualization of fiscal 2013 cost-of-living adjustment	33.8
Employee and Retiree Health Insurance	25.8
Merit pay increases effective April 2014	20.4

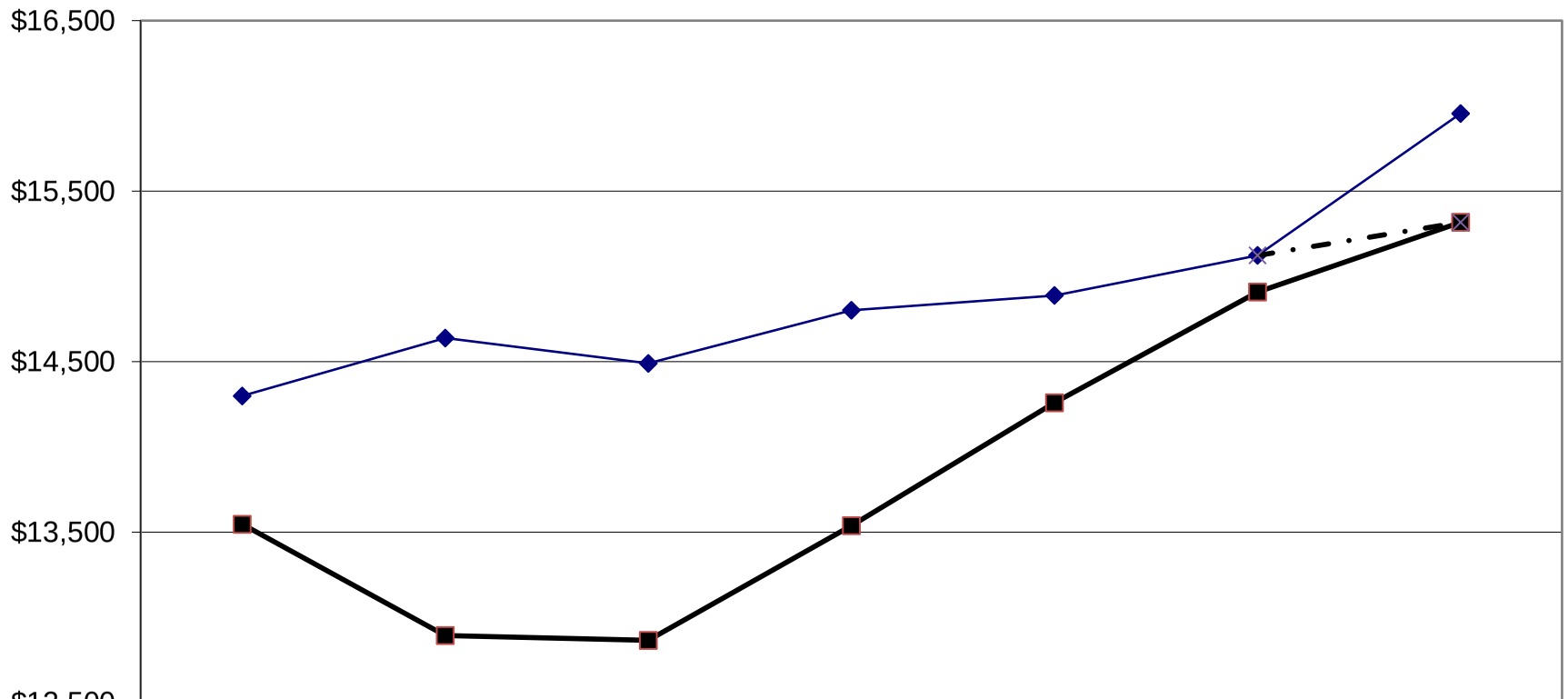
Components of Budget Change (Cont.)

Agency Programmatic and Operating Expenses:	
USM and Morgan State University enrollment growth and increases in certain mandatory costs revenues (excludes personnel expenses)	$25.5
Local Child Welfare Services Program Operations – general funds in lieu of federal funds	22.8
General funds in lieu of federal and special funds for Office of Home Energy Programs	21.2
General funds in lieu of county contributions for property assessment expenses	16.8
Video lottery terminal lease payments and debt service	9.4
Opening of Dorsey Run Correctional Facility; includes 117 positions	8.4
Increased scholarships, based on assumption of 5% tuition increase and general funds in lieu of carry-forward funds	8.2
Local Family Investment Program – general funds in lieu of federal funds	7.3
General funds in lieu of special funds for payment-in-lieu-of-taxes and operating expenses in Department of Natural Resources	4.2
Children's Cabinet Interagency Fund – reduced use of non-budgeted funds and replace with general funds	3.7
Removal of one-time funding for State Police CAD/RMS system	-1.0
Removal of one-time funding for War of 1812 celebrations	-2.0
Removal of one-time funding for MEDAAF	-4.5
Statewide Personnel System	-5.5
Removal of one-time deficiencies	-53.0
Other	7.4
Reserve Fund	
Rainy Day Fund sweeper of unappropriated fiscal 2012 general fund balance	$293.5
Repayment for previous transfer of POS funds to general fund	50.0
Repayment for transfer of Local Income Tax Reserve Account to the Education Trust Fund	50.0
Total	$1,180.5

MEDAAF: Maryland Economic Development Authority Assistance Fund
POS: Program Open Space
USM: University System of Maryland

Recent Budget Actions Have Reduced the Structural Deficit

Fiscal 2008-2014
($ in Millions)



	2008	2009	2010	2011	2012	2013	2014
Ongoing Spending	$14,298	$14,638	$14,489	$14,801	$14,888	$15,123	$15,955
Ongoing Revenues	$13,545	$12,893	$12,864	$13,537	$14,258	$14,908	$15,317
Structural Balance	-$753	-$1,745	-$1,625	-$1,264	-$630	-$215	-$638
1.3% Growth Rate						$15,123	$15,317

Fiscal 2009 through 2011 data reflects ongoing general fund spending supplanted by the American Recovery and Reinvestment Act of 2009. Fiscal 2013 data reflects ongoing spending and revenues associated with the Budget Restoration Fund.

General Fund: Recent History and Outlook

Fiscal 2012-2014
($ in Millions)

	2012 Actual	2013 Working	2014 Baseline
Funds Available			
Ongoing Revenues[1]	$14,258	$14,908	$15,317
Balances and Transfers	1,244	721	762
Short-term Revenues	0	0	0
Subtotal Funds Available	**$15,502**	**$15,628**	**$16,079**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies[1]	$14,888	$15,123	$15,955
One-time Spending	15	0	0
PAYGO Capital	48	1	0
Appropriations to Reserve Fund	0	23	371
Subtotal Spending	**$14,951**	**$15,146**	**$16,326**
Cash Balance/Shortfall	**$551**	**$482**	**-$247**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**-$630**	**-$215**	**-$637**
Ratio (Ongoing Revenues/Operating Costs)	**95.8%**	**98.6%**	**96.0%**
Reserve Fund Activity			
Appropriations to State Reserve Fund	$0	$23	$321
Transfers to General Fund	0	0	266
Estimated Rainy Day Fund Balance – June 30	**$673**	**$703**	**$766**
Total Cash (Rainy Day, General Fund Balance)	**$1,224**	**$1,185**	**$519**

PAYGO: pay-as-you-go

[1] Fiscal 2013 revenue and spending adjusted to include the Budget Restoration Fund.

State Aid by Governmental Entity

Amount and Percent of Total
State Funds
($ in Millions)

	FY 2014 State Aid Amount	Percent of Total
Public Schools	$6,008.1	86.7%
County/Municipal	509.1	7.3%
Community Colleges	302.2	4.4%
Libraries	70.2	1.0%
Local Health	38.2	0.6%
Total	**$6,927.9**	**100.0%**

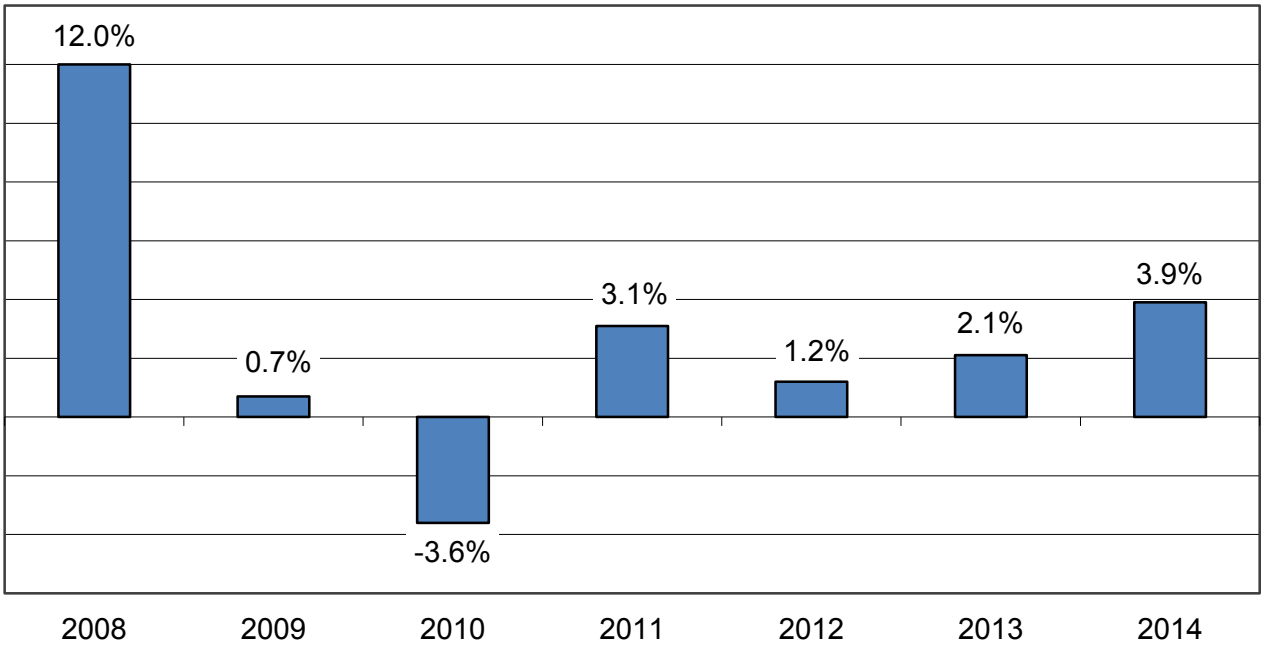
Change in State Aid
State Funds
($ in Millions)

	FY 2014 Aid Change	Percent Change
Public Schools	$166.8	2.9%
County/Municipal	53.1	11.7%
Community Colleges	32.9	12.2%
Libraries	3.5	5.2%
Local Health	0.9	2.5%
Total	**$257.3**	**3.9%**

State Aid by Major Programs
Fiscal 2012-2014
State Funds
($ in Millions)

	FY 2012	FY 2013	Baseline FY 2014	$ Change 2013-2014	% Change 2013-2014
Public Schools					
Foundation Program	$2,773.1	$2,810.4	$2,847.0	$36.6	1.3%
Supplemental Grant	47.9	47.7	46.5	-1.2	-2.4%
Geographic Cost Index	127.3	128.8	130.5	1.8	1.4%
Compensatory Aid	1,083.8	1,146.3	1,178.4	32.2	2.8%
Student Transportation	248.2	251.3	252.9	1.6	0.6%
Special Education – Formula Aid	264.3	266.5	270.4	3.9	1.5%
Special Education – Nonpublic Placements	112.8	113.9	116.4	2.5	2.2%
Limited English Proficiency Grants	162.7	177.4	193.1	15.7	8.8%
Guaranteed Tax Base	50.1	44.2	46.0	1.8	4.1%
Aging Schools Program	8.6	31.1	6.1	-25.0	-80.4%
Other Education Programs	69.9	68.2	67.6	-0.6	-0.9%
Subtotal Direct Aid	***$4,948.7***	***$5,085.7***	***$5,155.0***	***$69.3***	**1.4%**
Retirement Payments	833.0	755.5	853.0	97.5	12.9%
Total Public School Aid	**$5,781.7**	**$5,841.2**	**$6,008.1**	**$166.8**	**2.9%**
Libraries					
Library Aid Formula	$33.0	$33.7	$34.0	$0.3	0.9%
State Library Network	15.8	16.1	16.2	0.1	0.9%
Subtotal Direct Aid	***$48.8***	***$49.7***	***$50.2***	***$0.4***	**0.9%**
Retirement Payments	16.6	17.0	20.1	3.0	17.8%
Total Library Aid	**$65.4**	**$66.8**	**$70.2**	**$3.5**	**5.2%**
Community Colleges					
Community College Formula	$194.4	$199.2	$225.4	$26.3	13.2%
Other Programs	36.0	33.0	33.5	0.5	1.5%
Subtotal Direct Aid	***$230.4***	***$232.1***	***$258.9***	***$26.8***	**11.5%**
Retirement Payments	32.6	37.2	43.3	6.2	16.6%
Total Community College Aid	**$263.1**	**$269.3**	**$302.2**	**$32.9**	**12.2%**
Local Health Grants	**$38.3**	**$37.3**	**$38.2**	**$0.9**	**2.5%**
County/Municipal Aid					
Transportation	$154.2	$170.2	$175.2	$5.0	2.9%
Public Safety	88.2	90.6	112.7	22.1	24.4%
Program Open Space/Environment	9.1	15.3	32.6	17.3	112.6%
Disparity Grant	119.7	119.9	121.4	1.5	1.3%
Other Grants	16.7	59.9	67.2	7.3	12.2%
Total County/Municipal Aid	**$387.9**	**$456.0**	**$509.1**	**$53.1**	**11.7%**
Total State Aid	**$6,536.2**	**$6,670.6**	**$6,927.9**	**$257.3**	**3.9%**

Annual Change in State Aid to Local Governments
Fiscal 2008-2014



State Aid by Governmental Entity
($ in Millions)

	FY 2008	FY 2014	$ Change	% Change
Public Schools	$4,599.9	$5,155.0	$555.1	12.1%
Libraries	52.2	50.2	-2.0	-3.9%
Community Colleges	219.4	258.9	39.5	18.0%
Local Health	67.0	38.2	-28.8	-43.0%
County/Municipal	904.6	509.1	-395.4	-43.7%
Subtotal – Direct Aid	**$5,843.1**	**$6,011.4**	**$168.4**	**2.9%**
Retirement Payments	$602.9	$916.4	$313.6	52.0%
Total	**$6,445.9**	**$6,927.9**	**$482.0**	**7.5%**

Federal Budget Control Act Sequester

Budget Control Act (BCA) of 2011

- Requires $984 billion in cuts over fiscal 2013 to 2021:
  - roughly $109 billion per year, half from defense and half from nondefense; and
  - many mandatory and a few discretionary programs are exempt.
- Selection of programs exempt from sequestration:
  - most transportation programs;
  - Medicaid (vendor payments and administration);
  - Pell grants;
  - Children's Health Insurance Program (CHIP);
  - most child nutrition and Supplemental Nutrition Assistance programs;
  - most child care, child support enforcement, foster care, and adoption assistance programs;
  - Temporary Assistance for Needy Families; and
  - Abandoned Mine Reclamation Fund.
- Programs subject to sequestration:
  - education (elementary, secondary, vocational, higher)
  - employment and training
  - energy
  - environment
  - agriculture
  - justice

Federal Budget Control Act Sequester (Cont.)

- housing/community development
- social services (non-mandatory programs)
- health (non-Medicaid/CHIP programs)
- national forests/mineral leasing
- defense

- Across-the-board cuts will be used for fiscal 2013, the Office of Management and Budget reports percentage cuts to non-exempt funding as follows:
  - 8.2% to nondefense discretionary funding;
  - 2.0% to Medicare funding (plans and providers);
  - 7.6% to other nondefense mandatory funding;
  - 9.4% to defense discretionary funding; and
  - 10.0% to defense mandatory programs.

Estimated Federal Fund Reduction in Maryland Budget Due to Sequestration by Federal Agency

($ in Millions)

Federal Agency	Federal Fiscal 2013
Department of Agriculture	-$8.936
Appalachian Regional Commission	-0.010
Department of Commerce	-0.237
Department of Education	-45.447
Department of Energy	-0.044
Environmental Protection Agency	-4.782
Department of Health and Human Services	-30.976
Homeland Security	-0.927
Department of Housing and Urban Development	-15.209
Department of Interior	-0.175
Department of Justice	-0.797
Department of Labor	-9.647
Total	**-$117.602**

Note: Due to the three-month overlap with the federal fiscal year, these reductions may take effect during State fiscal 2013 and/or 2014.

Source: Federal Funds Information for States; Department of Legislative Services

Federal Budget Control Act Sequester (Cont.)

Fiscal Cliff

- Scheduled to occur at the end of calendar 2012:
  - expiring tax cuts;
  - other revenue measures;
  - reduced spending from the BCA Sequester; and
  - fiscal 2013 cost of renewing tax and spending policies (excluding the $109 billion BCA Sequester) is estimated to be $417 billion.
- Tax cuts and other items expiring on December 31, 2012 include:
  - the Bush era and the American Recovery and Reinvestment Act tax cuts;
  - 2.0% payroll tax holiday;
  - the Medicare Sustainable Growth Rate “Doc Fix”;
  - extended Unemployment Insurance benefits;
  - Alternative Minimum Tax “Patch”;
  - estate and gift tax rates; and
  - various tax extenders (alcohol fuel tax credit, research and experimentation tax credit, *et. al.*).

Can It Be Averted?

- Will Congress and the President modify the BCA and deal with other Fiscal Cliff items?
  - Various proposals, no agreement (explicit legislation required)

Alternate Forecast Scenarios

Maryland Payroll Employment

Calendar Year	Baseline Estimate [1]	BRE Sept. 2012[2]	DLS Sequester[3]	DLS Fiscal Cliff[4]	Difference Over Baseline BRE	Sequester	Fiscal Cliff
2011	2,544,511	2,544,511	2,544,511	2,544,511	0	0	0
2012	2,566,400	2,566,400	2,566,400	2,566,400	0	0	0
2013	2,592,000	2,589,600	2,546,100	2,538,500	-2,400	-45,900	-53,500
2014	2,640,300	2,628,400	2,590,600	2,580,100	-11,900	-49,700	-60,200

Maryland General Fund Personal Income and Sales Tax Revenues
($ in Millions)

Fiscal Year	Baseline Estimate	BRE Sept. 2012	DLS Sequester	DLS Fiscal Cliff	Difference Over Baseline BRE	Sequester	Fiscal Cliff
2011	$10,299	$10,299	$10,299	$10,299	$0	$0	$0
2012	11,154	11,154	11,154	11,154	0	0	0
2013	11,834	11,778	11,655	11,566	-56	-179	-268
2014	12,349	12,227	12,011	11,714	-122	-337	-635

[1] The baseline assumes the federal automatic budget reductions (sequestration) currently scheduled to go into effect in January 2013 are cancelled and the payroll tax cut and all provisions of the 2001/2003 federal tax legislation are extended indefintely.

[2] The BRE September 2012 forecast reflects the estimated direct impact from the federal sequestration budget reductions. It also reflects the assumption that the payroll tax cut and certain provisions of the 2001 federal tax legislation will expire at the end of 2012 per current law.

[3] The DLS sequester estimate is a simulation of the federal sequestration budget reductions using the REMI impact model. It also reflects the payroll tax cut and certain provisions of 2001 federal tax legislation expiring at the end of 2012.

[4] The DLS "fiscal cliff" estimate reflects the federal sequestration budget reductions, the expiration of the payroll tax cut, and all provisions of the 2001/2003 federal tax legislation expiring per current law. It also reflects the expiration of emergency unemployment insurance benefits, certain tax provisions from the 2009 federal stimulus legislation, and other tax provisions that are routinely extended such as the alternative minimum tax patch and the R&D tax credit. This collection of budget cuts and tax increases is commonly referred to as the "fiscal cliff." The estimate was done using Maryland economic forecasts from Moody's Analytics under the scenario that the full "fiscal cliff" takes effect permanently relative to a scenario where all provisions are extended indefintely.

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services
R&D: Research and Development

Status of the General Fund
Fiscal 2013
($ in Millions)

Starting Balance		**$551.2**
Revenues		
BRE Estimated Revenue September 2012	$14,907.8	
Total		**$14,907.8**
Transfers		
Sustainable Communities and Biotechnology Tax Credits	$12.4	
Budget Restoration Fund	157.4	
Total		**$169.8**
Funds Available		**$15,628.7**
Spending		
Fiscal 2013 Appropriation	$16,171.9	
DLS Estimated Deficiencies	123.0	
Reductions	-1,118.2	
Estimated Agency Reversions	-30.0	
Net Expenditures		**$15,146.7**
Ending Balance		**$482.0**

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

Status of the General Fund
Fiscal 2014
($ in Millions)

Starting Balance		**$482.0**
Revenues		
BRE Estimated Revenue September 2012	$15,317.5	
Total		**$15,317.5**
Transfers		
Sustainable Communities and Biotechnology Tax Credits	$13.7	
Revenue Stabilization Account	266.0	
Total		**$279.7**
Funds Available		**$16,079.2**
Spending		
Fiscal 2014 Baseline	$16,356.4	
Estimated Agency Reversions	-30.0	
Net Expenditures		**$16,326.4**
Ending Balance		**-$247.2**

BRE: Board of Revenue Estimates

State Reserve Fund Activity

Fiscal 2013 and 2014

($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/12	**$672.9**	**$0.0**	**$1.0**
Fiscal 2013 Appropriations	27.8	0.0	0.0
Supplemental Teacher Retirement Grants	-5.0		
Estimated Interest	7.0		
Estimated Balances 6/30/13	**$702.6**	**$0.0**	**$1.0**
Fiscal 2014 Appropriations	$321.3	$100.0	$0.0
Expenditures			
Program Open Space Repayment		-50.0	
Local Reserve Account Repayment		-50.0	
Transfers to General Fund (GF)			
Fiscal 2014 Budget Bill	-266.0		
Estimated Interest	8.5		
Estimated Balances 6/30/14	**$766.3**	**$0.0**	**$1.0**
Balance in Excess of 5% GF Revenues	**$0.5**		

State Expenditures – All Funds
($ in Millions)

Category	Work. Appr. FY 2012	Leg. Appr. FY 2013	Baseline FY 2014	FY 2013 to FY 2014 $ Change	FY 2013 to FY 2014 % Change
Debt Service	$1,067.4	$1,114.4	$1,204.3	$89.9	8.1%
County/Municipal	449.3	489.3	561.3	72.0	14.7%
Community Colleges	263.3	269.3	302.2	32.9	12.2%
Education/Libraries	6,471.5	6,673.6	6,869.1	195.5	2.9%
Health	42.8	41.8	42.7	0.9	2.2%
Aid to Local Governments	***$7,226.9***	***$7,474.0***	***$7,775.3***	***$301.3***	***4.0%***
Foster Care Payments	324.1	316.4	335.2	18.8	6.0%
Assistance Payments	1,397.3	1,243.0	1,262.3	19.3	1.6%
Medical Assistance	6,803.7	6,987.8	7,297.9	310.1	4.4%
Property Tax Credits	81.8	82.0	86.2	4.2	5.1%
Entitlements	***$8,606.9***	***$8,629.2***	***$8,981.6***	***$352.4***	***4.1%***
Health	3,036.5	3,144.0	3,232.7	88.7	2.8%
Human Resources	901.8	908.6	948.6	40.0	4.4%
Systems Reform Initiative	23.5	16.9	20.6	3.7	21.5%
Juvenile Services	283.4	274.0	289.7	15.8	5.8%
Public Safety/Police	1,520.5	1,539.8	1,654.7	114.9	7.5%
Higher Education	5,012.2	5,130.1	5,293.9	163.8	3.2%
Other Education	728.4	682.3	724.8	42.5	6.2%
Transportation	1,567.5	1,599.0	1,733.0	134.0	8.4%
Agric./Natl. Res./Environment	388.8	385.0	399.3	14.3	3.7%
Other Executive Agencies	1,779.6	1,855.0	1,719.9	-135.0	-7.3%
Legislative	82.9	78.3	76.9	-1.4	-1.8%
Judiciary	425.1	447.1	460.2	13.1	2.9%
State Agencies	***$15,750.0***	***$16,060.2***	***$16,554.4***	***$494.2***	***3.1%***
Deficiencies	0.0	179.7	0.0	-179.7	-100.0%
Total Operating	**$32,651.2**	**$33,457.5**	**$34,515.6**	**$1,058.2**	**3.2%**
Capital [(1)]	1,931.2	2,230.0	2,215.5	-14.5	-0.6%
Reserve Funds	15.0	27.8	421.3	393.5	1417.6%
Appropriations	**$34,597.4**	**$35,715.2**	**$37,152.4**	**$1,437.2**	**4.0%**
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	**$34,567.4**	**$35,685.2**	**$37,122.4**	**$1,437.2**	**4.0%**

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2012 working appropriation includes deficiencies, targeted reversions, and legislative reductions to the deficiencies. The fiscal 2013 legislative appropriation reflects $488.2 million in additional special fund spending that will be added by budget amendment to replace general fund reductions. This includes $430.3 million from the Budget Restoration Fund.