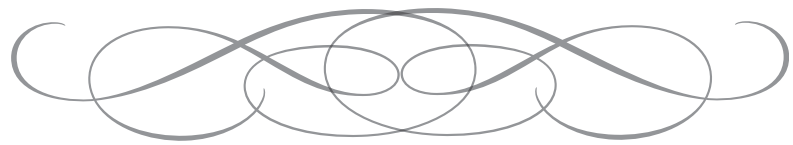


Spending Affordability Committee



2012 Interim Report



Annapolis, Maryland
December 2012

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December 13, 2012

The Honorable Martin O'Malley
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor O'Malley:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2012 interim. These recommendations were adopted by the committee at its meeting on December 13, 2012. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2014 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

The Spending Affordability Committee has completed its assigned tasks. As required by law, the recommendations of the committee have been submitted to the Governor and the Legislative Policy Committee.

We are most appreciative of the time and effort expended by each member of the committee. A special note of thanks and appreciation is extended to the members of the Citizens Advisory Committee for their valuable assistance and input.

Sincerely,

Delegate John L Bohanan, Jr.
Presiding Chair

Senator James E. DeGrange, Sr.
Senate Chair

Enclosure

JLB:JED/ESS/kjl

December 13, 2012

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
The Honorable Michael E. Busch, Co-Chairman
Members of the Legislative Policy Committee

Ladies and Gentlemen:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2012 interim. These recommendations were adopted by the committee at its meeting on December 13, 2012. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

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Presiding Chair

Senator James E. DeGrange, Sr.
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Enclosure

JLB:JED/ESS/kjl

**Maryland General Assembly
Spending Affordability Committee
2012 Interim
Membership Roster**

**Delegate John L. Bohanan, Jr., Presiding Chair
Senator James E. DeGrange, Sr., Senate Chair**

Senators

David R. Brinkley
George C. Edwards
Robert J. Garagiola
Edward J. Kasemeyer
Richard S. Madaleno, Jr.
Nathaniel J. McFadden
Thomas M. Middleton
Thomas V. Mike Miller, Jr.
E. J. Pipkin

Delegates

Kumar P. Barve
Talmadge Branch
Michael E. Busch
Norman H. Conway
Adelaide C. Eckardt
Sheila E. Hixson
Adrienne A. Jones
Anthony J. O'Donnell
Samuel I. Rosenberg

Citizens Advisory Committee

Dana M. Jones
Robert R. Neall

Committee Staff

Erika S. Schissler

Support Staff

Kimberly J. Landry

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2012 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and include the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Efforts to close the structural budget gap have been the focus of the committee's recommendations in recent years. The committee's prior recommendations and legislative action on the operating budget are reflected in the table on the following page.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.9 and 7.7%. The unprecedented increases under the Bridge to Excellence in Public Schools Act raised spending as a percentage of income during the period of 2004 to 2008. Personal income dropped significantly in calendar 2009, causing a spike in the ratio to 7.6%, the highest level since 1990. Conversely, rising income and reduced State spending caused the ratio to drop to 7.3% in 2010; the rate has fluctuated between 7.3 and 7.4% since.

The committee notes that the State's budgetary outlook shows modest improvement as the State and nation slowly continue the recovery from the national recession that began in December 2007. The actions taken in the First Special Session of 2012 to increase certain taxes and the voter approval of an expanded gaming program at the November 2012 election have improved the overall revenue and general fund outlook. Looming on the horizon, however, is uncertainty about potential actions – or inaction – at the federal level to deal with the “fiscal cliff,” which could significantly affect the State budget, revenue generation, and workforce.

The committee's statutory responsibility is to consider spending in relation to the State's economy. In its review of the State's economy, the committee considered income and wealth factors in developing a broad understanding of Maryland's economic position. In determining the spending recommendation, the committee has considered economic performance, revenue estimates, and budget requirements.

**Spending Affordability Committee's Prior Recommendations and
Legislative Action on the Operating Budget
(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1983	9.00%	\$428.0	5.70%	\$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000 ¹	6.90%	803.0	6.87%	800.0
2001 ²	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005 ³	6.70%	1,037.1	6.69%	1,036.3
2006 ³	9.60%	1,604.7	9.57%	1,599.0
2007	7.90%	1,450.0	7.51%	1,378.4
2008	4.27%	848.7	4.16%	826.8
2009 ⁴	0.70%	145.7	0.19%	39.2
2010 ⁴	0.00%	0.0	-3.00%	-626.9
2011	Reduce FY 2012 structural deficit by 33⅓%		36.9%/46.0% ⁵	
2012	Reduce FY 2013 structural deficit by 50.0%		50.6%	

¹2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

²Methodology revised effective with the 2001 session.

³The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

⁴Legislative action calculation includes federal funds under the American Recovery and Reinvestment Act of 2009 used in lieu of ongoing general fund spending.

⁵Spending reduction/total reduction.

Economy

The recession that began in December 2007 officially ended in June 2009. Maryland's employment peaked in February 2008 and bottomed out in February 2010 for a total peak to trough decline of 5.6%, or 145,000 jobs. Since then, the State has added almost 122,500 jobs. Recently revised data shows that nominal personal income fell 2.2% in 2009, the first decline in the post-World War II period. In the first six months of 2012, personal income was up 3.8%, and wage and salary income was up 4.1%.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since December 2011. BRE's new forecast was little changed from December with the only major change relating to the payroll tax cut. In December, BRE assumed the payroll tax cut would expire at the end of 2011 which, at the time, was current law. The tax cut was extended through 2012, and BRE's September forecast reflected the tax cut expiring at the end of 2012. Because payroll taxes are subtracted in the calculation of personal income, the tax cut raised personal income, and its expiration will lower it. BRE in both its December and September forecasts included an estimate of the direct effect of federal sequestration budget cuts scheduled to take effect in 2013. In December 2012, BRE issued a new economic forecast that again reflected only minor changes. BRE increased its forecast of dividend and capital gains income in 2012 to reflect individuals realizing income in advance of the scheduled federal tax increases in 2013.

Revenues

Fiscal 2012 general fund revenues were above the estimate by \$229.7 million. General fund revenues totaled \$14.3 billion in fiscal 2012, an increase of 5.3% over fiscal 2011. Both the sales tax and the highway user revenue were impacted in fiscal 2012 by legislative changes that distort the year-over-year growth rate. In the sales tax, the tax on alcohol beverages was increased from 6.0 to 9.0%, and the distribution to the Transportation Trust Fund was eliminated. The share of highway user revenue going to the general fund was lowered in fiscal 2012 to 11.3% from 23% in fiscal 2011. Adjusted for these law changes, baseline general fund growth in fiscal 2012 was 4.6%.

Fiscal 2013 general fund revenues through November are up 8.5% over fiscal 2012. This includes revenues that will be transferred to the Budget Restoration Fund as required by the Budget Reconciliation and Financing Act of 2012. Changes in the distribution of corporate income revenues distort the year-to-year comparison. In fiscal 2013, the share of the corporate income tax going to the Transportation Trust Fund drops to 9.5% (excluding the first 15.15% of net receipts) from 24.0% in fiscal 2012. Adjusting for that law change, general fund revenues are still up a strong 7.7%. In September, BRE raised its estimate for fiscal 2013 general fund revenues by \$180.6 million but also lowered the expected growth rate over fiscal 2012 from 5.0 to 4.6% (calculated before the transfer of \$276.5 million to the Budget Restoration Fund). In December, BRE raised its general fund estimate for fiscal 2013 by \$127.1 million which includes

2012 Spending Affordability Committee Report

\$32.9 million in revenues of a one-time nature. Projected ongoing revenue growth over fiscal 2012 was increased from 4.6 to 5.2%. BRE increased the revenue estimate for fiscal 2014 by \$33.7 million but lowered the projected growth over fiscal 2013 from 2.7% to 2.1%.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2012 and the voter approval of an expansion to the State's gaming program, the committee is currently projecting an ending general fund balance of \$609.2 million at the close of fiscal 2013. This projected balance takes into account anticipated spending shortfalls requiring fiscal 2013 deficiency appropriations totaling \$123.0 million. Areas which are expected to require deficiency funding include foster care, energy assistance, and child support enforcement programs in the Department of Human Resources; student assessment contracts; provider payments and residential expenses in the Department of Juvenile Services and the Department of Health and Mental Hygiene; and personnel and operating expenses in several agencies.

The baseline estimate for fiscal 2014 projects general fund appropriations growth of 9.4%, but much of this growth – \$430.3 million – is to fund programs that were funded by the Budget Restoration Fund created for fiscal 2013 only during the First Special Session of 2012. When general fund spending is considered in the context of other general-fund-like special funds (the Budget Restoration Fund, the Higher Education Investment Fund, the Education Trust Fund, and special funds in the Medicaid program), spending increases by 6.2%, or \$1.0 billion. State spending for the education aid formulas increase by \$95.0 million due primarily to a 1.0% increase in the per-pupil foundation amount. Even with the contribution by local school boards, State expenditures for teacher retirement are projected to increase by \$97.6 million. In Medicaid, modest rate and enrollment increases require an additional \$95.7 million. Other human services programs overall will increase \$66.6 million; mandated cost increases, the uncertainty of federal funds, and enrollment growth in some programs are offset by caseload decreases for foster care and temporary cash assistance. Funds and positions have been included in the baseline estimates to open the Dorsey Run Correctional Facility. General fund costs associated with the video lottery program increase by \$9.4 million for machine leasing and maintenance, largely to outfit the facility at Rocky Gap.

A number of mandated formulas have been held in check by provisions in recent budget reconciliation and financing acts, which expire for fiscal 2014. Increases are accounted for, therefore, in the police aid formula, local health departments, the tourism board, and the State Arts Council, among others. Similarly, formula funding for certain segments of the State's higher education system add a combined \$31.4 million. In addition, based on current statute, the fiscal 2014 estimate includes appropriations to the Reserve Fund to satisfy the requirement that an amount equivalent to the unappropriated surplus above \$10.0 million be appropriated to the Rainy Day Fund (\$321.3 million) and to repay a portion of a previous transfer of Program Open Space funds (\$50.0 million). An appropriation of \$50.0 million is made to the Dedicated Purpose Account for the first required payment to replace funds borrowed from the Local Income Tax Reserve Account.

2012 Spending Affordability Committee Report

State personnel costs, including higher education, increase by \$174.0 million in general funds. A 2% general salary increase effective January 1, 2013, is annualized, adding \$31.1 million, and a 3% increase effective January 1, 2014, adds \$52.2 million. Per the current collective bargaining agreement, merit pay increases would resume in April 2014, at a cost of \$20.4 million. Health insurance costs rise by \$25.8 million, and employee retirement costs grow by \$41.8 million.

The committee projects the State will close fiscal 2013 with a balance of \$702.6 million in the Rainy Day Fund, which represents 4.7% of general fund revenues. When combined with a general fund balance of \$609.2 million, the total combined cash balance is projected at \$1.3 billion. With the statutorily mandated appropriation projected for fiscal 2014, the Rainy Day Fund is projected to meet the 5.0% requirement.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2013 session:

1. Operating Budget Spending Limit and Sustainability

The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. In its 2010 report, the committee recognized that the extraordinary fiscal issues of recent years – plummeting revenues, huge mid-year spending reductions, massive federal assistance, and extensive reliance on one-time supports – necessitated a new approach. As such, rather than establish a growth limit, the committee recommended that measurable progress be made in reducing the State's structural deficit over the remainder of this term. Specifically, the committee recommended that the budget for fiscal 2012 reduce the estimated structural deficit by 33⅓%. Similarly, in its 2011 report, the committee recommended that the fiscal 2013 budget reduce the estimated \$1.1 billion structural deficit by at least 50%.

The baseline projection for fiscal 2014 results in an estimated structural deficit of \$383.2 million, which is estimated to narrow to approximately \$133.9 million in fiscal 2017 when the full impact of legislative actions and authorized gaming revenues are realized. **In recognition of this outlook, the committee recommends that the fiscal 2014 budget as introduced and enacted resolve at least \$200.0 million of the general fund structural gap.**

With this reduction, the committee believes that any residual budget gap will be within normal budget management tolerances. Accordingly, absent extraordinary circumstances affecting public finances, it is the committee's intent to shift focus from the structural deficit to its more customary focus on limiting the growth of State supported

ongoing spending in relation to economic growth. It is hoped that diligent adherence to that task, along with the maintenance of adequate reserves and fiscal flexibility, will mitigate budget problems going forward.

2. Rainy Day Fund and Fund Balance

In addition to its general fund recommendations, the committee also continues to recommend a prudent use of the Revenue Stabilization Account (“Rainy Day” Fund) to address general fund needs. The committee projects a Rainy Day Fund balance at the end of fiscal 2014 of \$767.3 million, which would maintain the balance at 5% of estimated fiscal 2014 general fund revenues. The Governor will be required to include \$321.3 million for the Rainy Day Fund in the fiscal 2014 allowance, based on the unappropriated general fund surplus above \$10.0 million from the fiscal 2012 closeout. (The Governor is also required to include \$50.0 million of the unappropriated general fund surplus in the Dedicated Purpose Account to partly repay a transfer from Program Open Space.)

The committee recommends that the balance in the Rainy Day Fund be maintained at or above 5% of estimated revenue. In addition, the fiscal 2014 budget should result in a general fund ending balance of at least \$200.0 million. These combined balances are essential to protect State services due to the budgetary and economic uncertainty.

3. Capital Budget

A. General Obligation (GO) Debt

The Capital Debt Affordability Committee (CDAC) has recommended that a maximum of \$1.075 billion in GO bonds may be authorized at the 2013 session. Although the recommended level of new authorizations is the same amount authorized in the 2012 session, it represents a \$150 million increase over what the committee had planned for the 2013 session in its 2011 report. CDAC’s recommendation is that \$150 million be added to the authorization annually for fiscal 2014 to 2018, for a total increase of \$750 million over the amount previously planned. This level of authorization keeps debt service costs and overall debt outstanding within the committee’s affordability limits. **The committee concurs in the limit recommended by CDAC for fiscal 2014 and recommends that the capital plan presented by the Governor adhere to the debt affordability criteria in each year of the plan. The committee further recommends that the \$150 million additional authorization as recommended by CDAC should be exclusively committed to economically stimulative, job producing projects.**

B. Higher Education Debt

For fiscal 2014, the University System of Maryland intends to issue up to \$32 million in academic debt, the same amount as issued in fiscal 2013. This total includes \$5 million to support a long-term campus-wide infrastructure improvement program at the University of Maryland, College Park, which began in fiscal 2013. This level of issuance will result in a debt

2012 Spending Affordability Committee Report

service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2014. **The committee concurs in the recommendation of CDAC that \$32 million in new academic revenue bonds may be authorized at the 2013 session for the University System of Maryland.**

4. State Employment

Personnel costs comprise approximately 20% of the State operating budget; the use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 79,331 at the start of fiscal 2013. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 50,271 in fiscal 2013. More than 3,300 positions have been added in higher education during this period.

Actions during fiscal 2013 affect the current number of authorized positions. The legislature has required that an additional 100 positions be abolished by January 1, 2013; the distribution of these reductions by agency is not yet known. Conversely, 33 positions have been created to date by the Board of Public Works, and 243 positions have been added in higher education as authorized by statute.

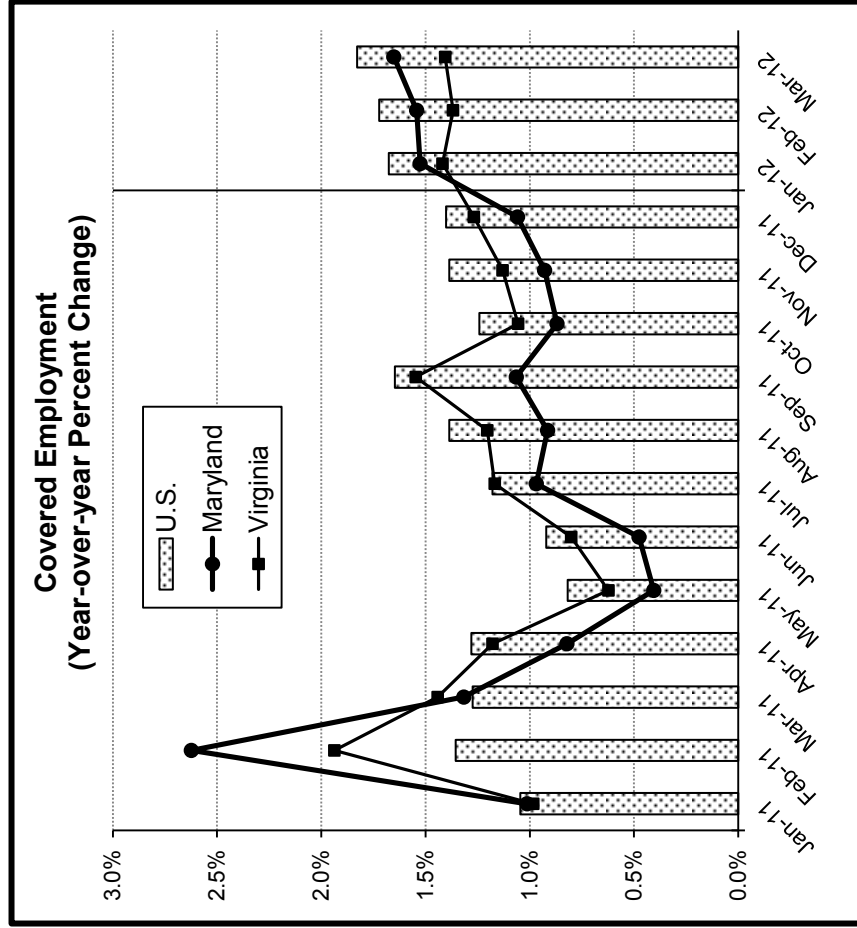
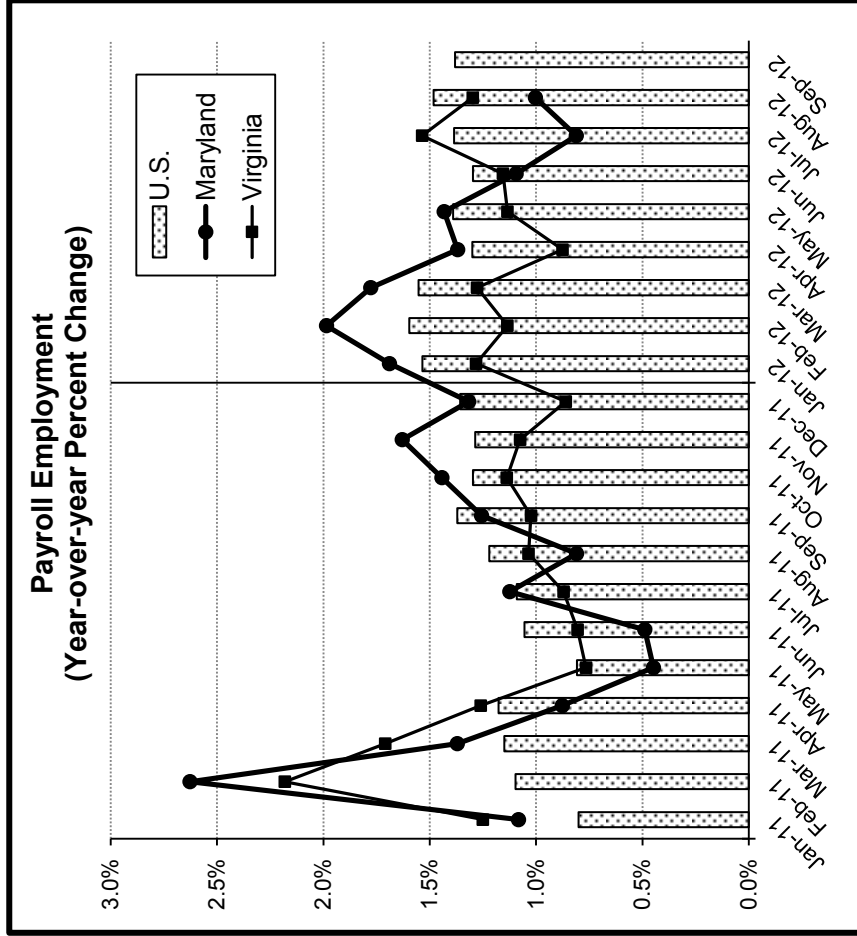
The Department of Legislative Services has estimated the need for a total workforce of 79,626 positions for fiscal 2014, which includes positions to open new facilities, implement legislation, and address certain workload demands. **The committee finds that 79,626 positions are appropriate for the delivery of State services given the State's fiscal condition. The fiscal 2014 budget should not exceed this maximum number of positions across all functions (including the Executive, Legislative, and Judicial branches, and higher education). New activities, including the operation of new facilities and implementation of legislation, should be accommodated within this cap. Exceptions to this limit may be made only to address critical security issues in State facilities; to convert long-term contractual employees to regular State positions, when supported by special or federal funds; for positions necessary to increase State revenues; and for positions required to implement the Maryland Health Benefit Exchange.**

2012 Spending Affordability Committee Report

Part 1

Economic Outlook

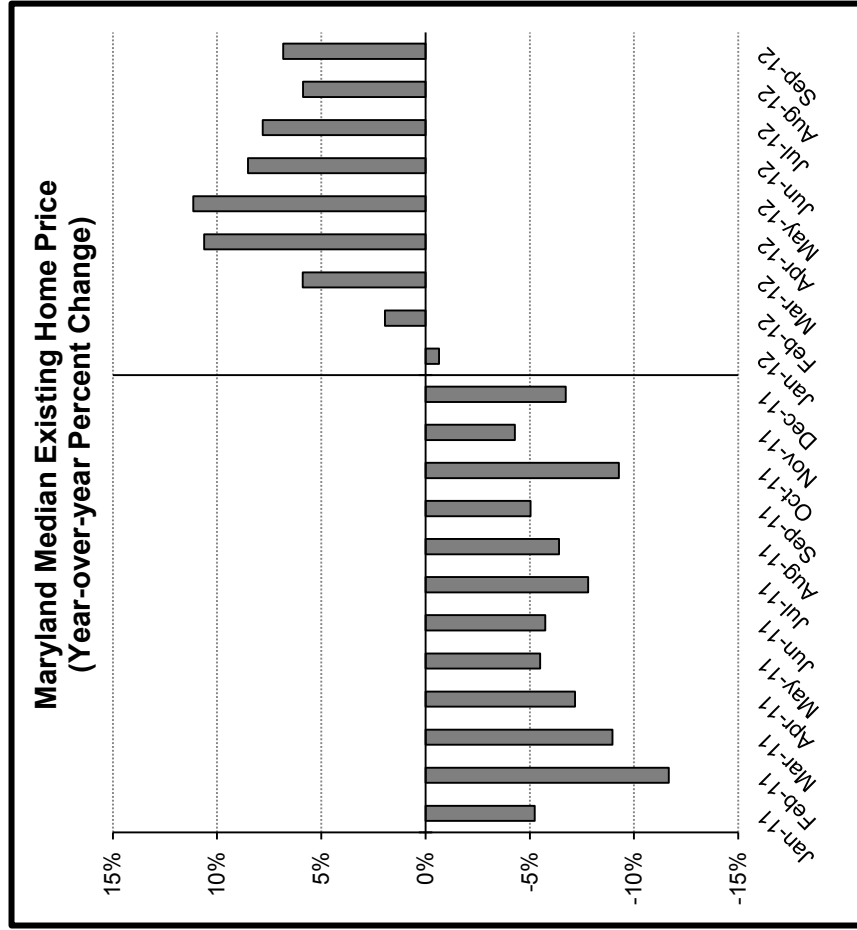
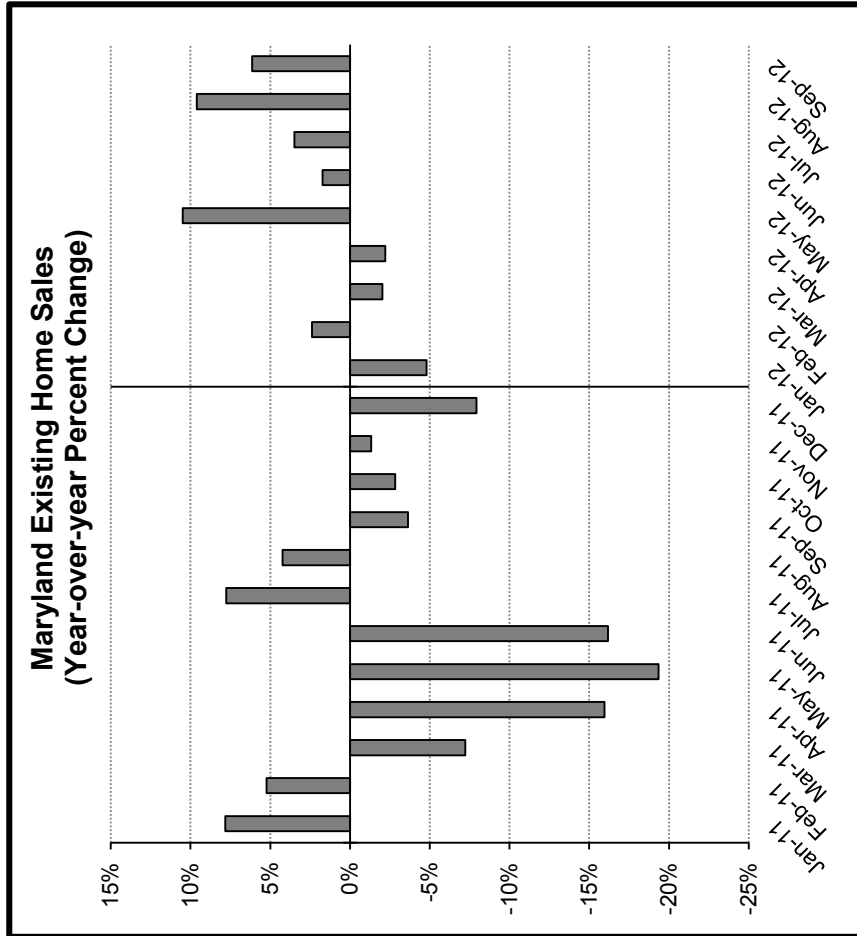
LABOR MARKET



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.

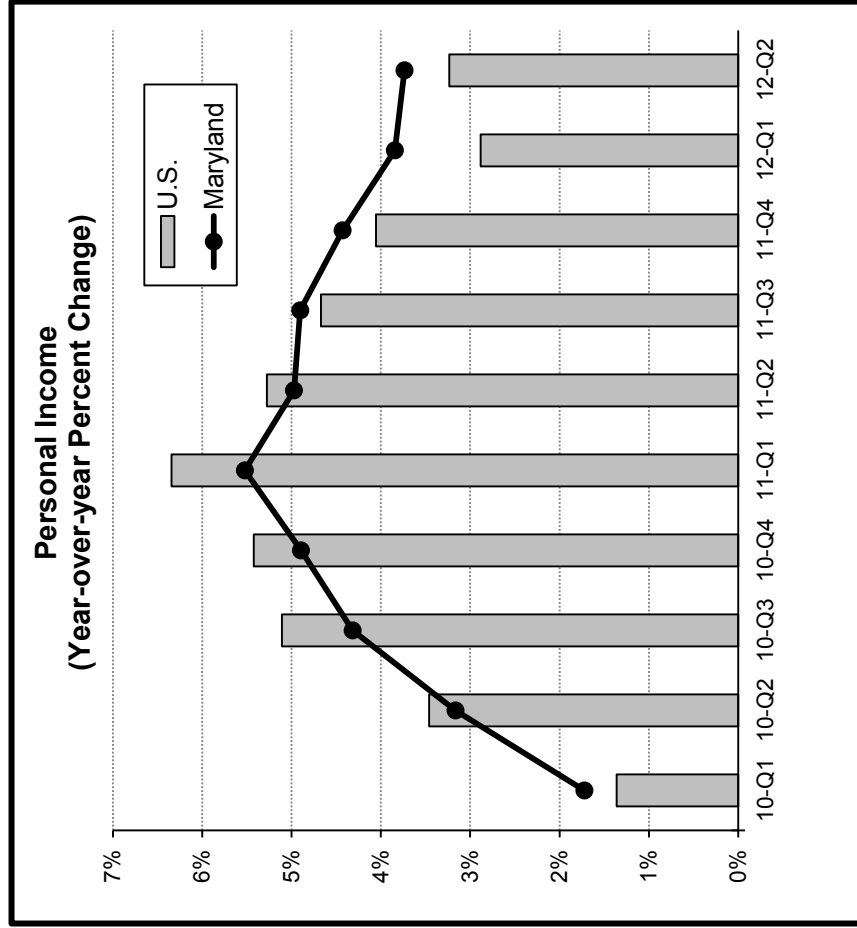
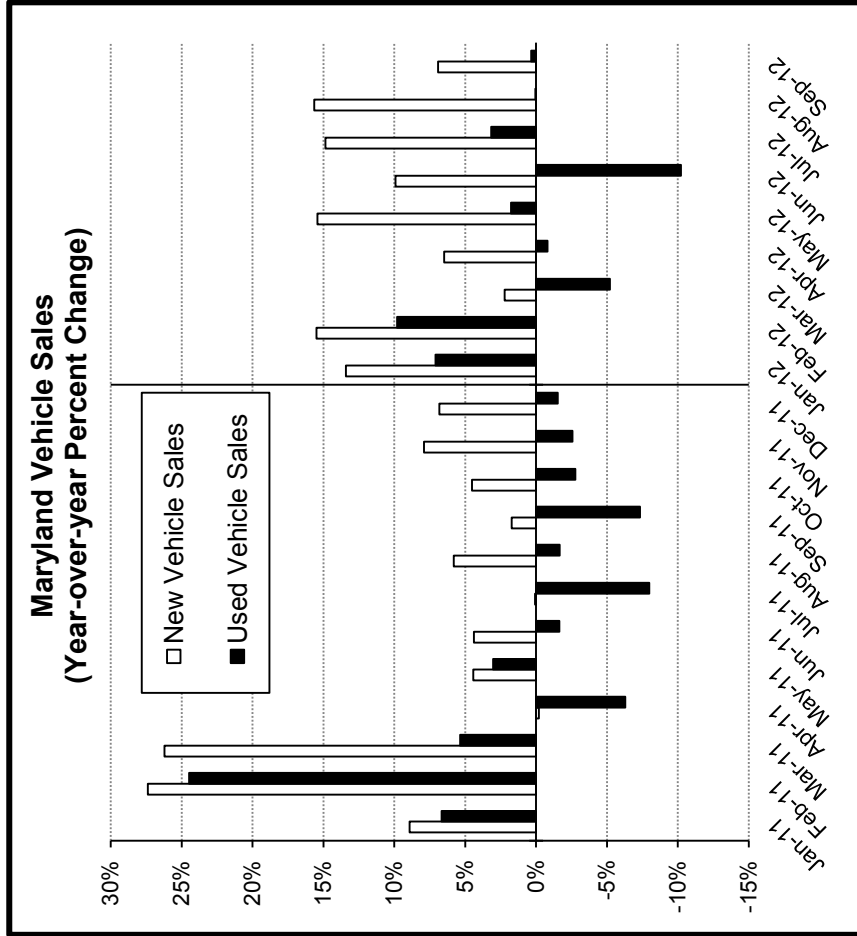
HOUSING MARKET



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 slightly 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 Year	Employment		Personal Income	
	<u>Dec. 2011</u>	<u>Sep. 2012</u>	<u>Dec. 2011</u>	<u>Sep. 2012</u>
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 Year	Wage & Salary Income	
	<u>Dec. 2011</u>	<u>Sep. 2012</u>
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

Part 2

General Fund Revenues

Fiscal 2012 General Fund Revenues

(\$ in Millions)

<u>Source</u>	FY 2011	Fiscal 2012		Difference	FY 2011-2012	
	<u>Actual</u>	<u>Estimate*</u>	<u>Actual</u>		<u>Estimated</u>	<u>Percent Change</u>
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)

<u>Source</u>	<i>Fiscal Year through September</i>		
	<u>FY 2012</u>	<u>FY 2013</u>	<u>\$ Difference</u>
Personal Income Tax	\$1,291.1	\$1,397.3	\$106.1
Sales and Use Tax ⁽¹⁾	655.3	680.5	25.2
State Lottery	123.1	118.9	-4.2
Corporate Income Tax ⁽²⁾	113.1	208.0	94.9
Business Franchise Taxes	40.9	38.9	-2.0
Insurance Premiums Tax	73.8	78.2	4.4
Estate and Inheritance Taxes	59.0	46.8	-12.1
Tobacco Tax	85.1	84.2	-0.9
Alcohol Beverage Tax	5.1	5.2	0.1
District Courts	21.8	22.2	0.4
Clerks of the Court	9.4	12.1	2.6
Interest and Miscellaneous ⁽³⁾	22.0	34.3	12.3
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		% Change Over FY 2012	FY 2014 Estimate	% Change Over FY 2013
		March	Sept.			
Personal Income Tax ⁽¹⁾	\$7,114.7	\$7,552.9	\$7,650.6	\$97.7	\$7,967.3	4.1%
Sales and Use Tax	4,039.3	4,125.7	4,127.7	2.0	4,259.4	3.2%
State Lottery	536.3	514.1	536.4	22.4	543.8	1.4%
Corporate Income Tax ⁽²⁾	646.5	741.3	821.8	80.4	783.9	-4.6%
Business Franchise Taxes	207.2	208.9	208.9	0.0	210.7	0.9%
Insurance Premiums Tax	304.0	308.1	311.6	3.5	319.3	2.5%
Estate and Inheritance Taxes	196.9	217.6	214.8	-2.8	218.8	1.9%
Tobacco Tax ⁽¹⁾	411.4	411.9	415.1	3.2	414.1	-0.3%
Alcohol Beverage Tax	31.0	31.1	31.6	0.5	32.2	2.0%
Motor Vehicle Fuel Tax	5.0	13.0	13.0	0.0	5.0	-61.5%
District Courts	79.4	80.8	78.6	-2.2	79.0	0.5%
Clerks of the Court	35.1	34.3	37.9	3.6	37.7	-0.5%
Hospital Patient Recoveries	66.4	68.0	70.0	2.0	68.0	-2.8%
Interest on Investments	17.9	35.0	10.0	-25.0	15.0	50.0%
Miscellaneous	380.0	384.5	379.8	-4.7	363.3	-4.4%
Subtotal	\$14,071.1	\$14,727.3	\$14,907.8	\$180.6	\$15,317.5	2.7%
Highway User Revenue ⁽³⁾	186.7	0.0	0.0	0.0	0.0	
Total Revenues	\$14,257.8	\$14,727.3	\$14,907.8	\$180.6	\$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

Maryland General Fund Revenue Forecast

(\$ in Millions)

Source	FY 2012 Actual	FY 2013 Estimate		% Change over FY 12	FY 2014 Estimate		% Change over FY 13		
		Sept.	Dec.		Sept.	Dec.			
Personal Income Tax ⁽¹⁾	\$7,114.7	\$7,650.6	\$7,686.1	\$35.5	8.0%	\$7,967.3	\$7,971.3	\$4.0	3.7%
Sales and Use Tax	4,039.3	4,127.7	4,131.6	3.9	2.3%	4,259.4	4,252.2	-7.2	2.9%
State Lottery	536.3	536.4	526.2	-10.3	-1.9%	543.8	528.2	-15.6	0.4%
Corporate Income Tax ⁽²⁾	646.5	821.8	892.6	70.9	38.1%	783.9	844.7	60.9	-5.4%
Business Franchise Taxes	207.2	208.9	203.4	-5.6	-1.9%	210.7	204.8	-5.9	0.7%
Insurance Premiums Tax	304.0	311.6	314.5	3.0	3.5%	319.3	319.2	-0.2	1.5%
Estate and Inheritance Taxes	196.9	214.8	217.8	3.0	10.6%	218.8	218.8	0.0	0.5%
Tobacco Tax ⁽¹⁾	411.4	415.1	417.8	2.7	1.6%	414.1	417.7	3.6	0.0%
Alcohol Beverages Tax	31.0	31.6	31.1	-0.5	0.3%	32.2	31.7	-0.5	2.0%
Motor Vehicle Fuel Tax	5.0	13.0	13.0	0.0	160.0%	5.0	5.0	0.0	-61.5%
District Courts	79.4	78.6	77.0	-1.6	-3.0%	79.0	76.2	-2.8	-1.0%
Clerks of the Court	35.1	37.9	40.0	2.1	13.8%	37.7	39.8	2.1	-0.5%
Hospital Patient Recoveries	66.4	70.0	60.9	-9.1	-8.3%	68.0	60.1	-7.9	-1.3%
Interest on Investments	17.9	10.0	10.0	0.0	-44.2%	15.0	15.0	0.0	50.0%
Miscellaneous	380.0	379.8	380.1	0.3	0.0%	363.3	366.4	3.1	-3.6%
Subtotal	\$14,071.1	\$14,907.8	\$15,002.1	\$94.3	6.6%	\$15,317.5	\$15,351.2	\$33.7	2.3%
Highway User Revenue ⁽³⁾	186.7	0.0	0.0	0.0	-100.0%	0.0	0.0	0.0	n.a.
GAAP Transfer ⁽⁴⁾	0.0	0.0	32.9	32.9	n.a.	0.0	0.0	0.0	-100.0%
Total Revenues	\$14,257.8	\$14,907.8	\$15,035.0	\$127.1	5.5%	\$15,317.5	\$15,351.2	\$33.7	2.1%

GAAP: Generally Accepted Accounting Principles

⁽¹⁾ Fiscal 2013 and 2014 reflect the impact of the State and Local Revenue Financing Act (Chapter 2 of the First Special Session of 2012). Personal income tax rates were increased and exemptions lowered for certain taxpayers. Fiscal 2013 reflects a one-and-a-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% 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% 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.

⁽⁴⁾ Transfer from the local income tax reserve account representing the amount by which the account was over funded at the end of fiscal 2012.

Note: The fiscal 2013 estimates from both September and December show general fund revenues before the transfer of \$276.5 million to the Budget Restoration Fund required by the Budget Reconciliation and Financing Act (Chapter 1 of the First Special Session of 2012).

Source: Board of Revenue Estimates

Part 3

General Fund Budget and Forecast

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)	<u>3</u>
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

	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>Percent Change FY 2013-2014</u>
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.

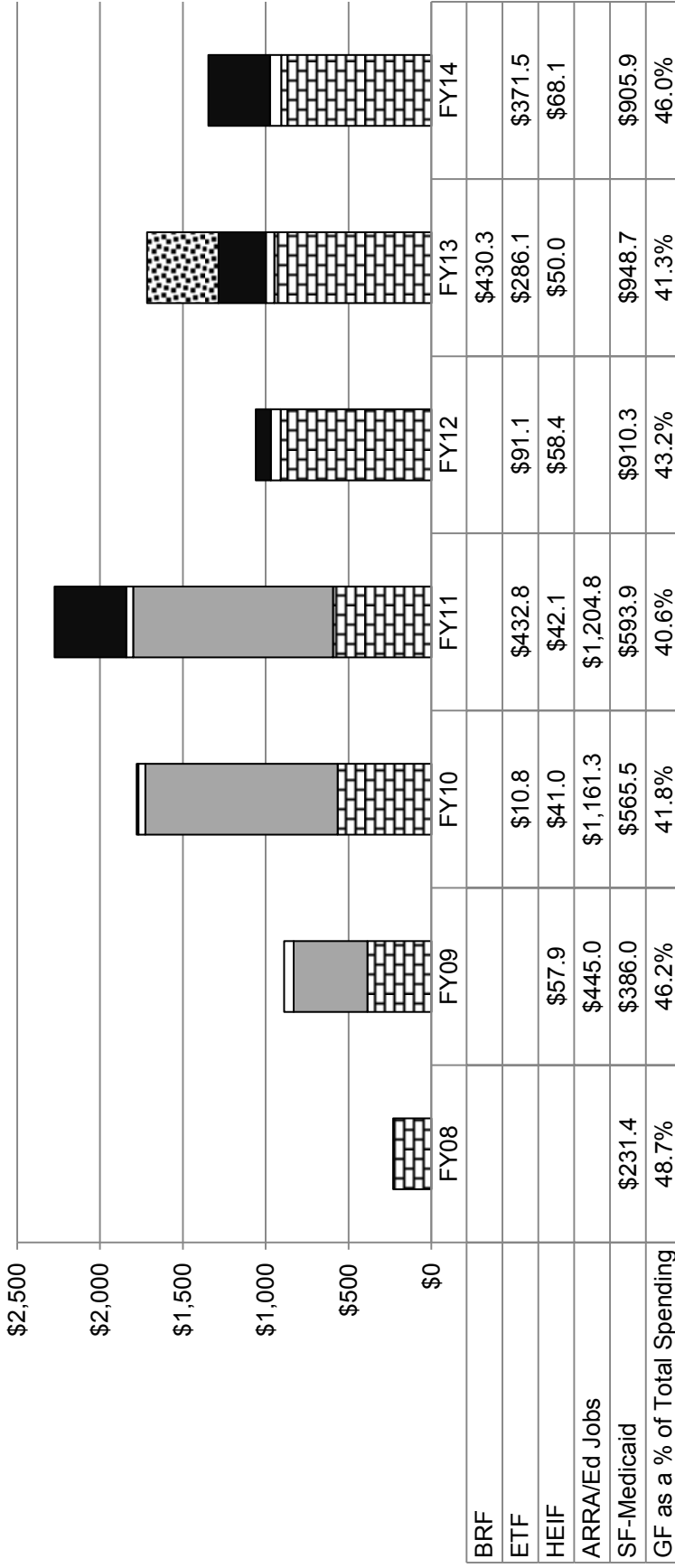
State Expenditures – General Funds
(\$ in Millions)

Category	Work. Appr.	Leg. Appr.	Baseline	FY 2013 to FY 2014	
	FY 2012	FY 2013	FY 2014	\$ Change	% Change
Debt Service	\$0.0	\$0.0	\$0.0	\$0.0	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	5,700.7	246.1	4.5%
Health	38.3	37.3	38.2	0.9	2.5%
Aid to Local Governments	\$6,108.4	\$5,900.3	\$6,278.8	378.5	6.4%
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	76.8	78.3	82.9	4.5	5.8%
Judiciary	374.6	387.4	400.9	13.5	3.5%
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	\$15,707.4	\$989.8	6.7%
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	\$16,135.9	\$1,389.9	9.4%
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	\$14,935.7	\$14,716.0	\$16,105.9	\$1,389.9	9.4%

⁽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)



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)

<u>Category</u>	<u>Work. Appr.</u>	<u>Leg. Appr.</u>	<u>Baseline</u>	<u>FY 2013 to FY 2014</u>	
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$0.0	\$0.0	\$0.0	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	76.8	78.3	82.9	4.5	5.8%
Judiciary	374.6	387.4	400.9	13.5	3.5%
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	\$17,053.0	\$627.4	3.8%
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	\$17,481.5	\$1,020.5	6.2%
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	\$15,995.5	\$16,431.1	\$17,451.5	\$1,020.5	6.2%

* 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)**

	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Difference</u>
General Funds	\$14,623.0	\$16,135.9	\$1,512.9
General Fund Deficiencies (estimated)	123.0	0.0	-123.0
Budget Restoration Funds	430.3	0.0	-430.3
Education Trust Fund	286.1	371.5	85.5
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	\$17,481.5	\$1,020.5

Ongoing Requirements/Entitlements

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 \$1,020.5

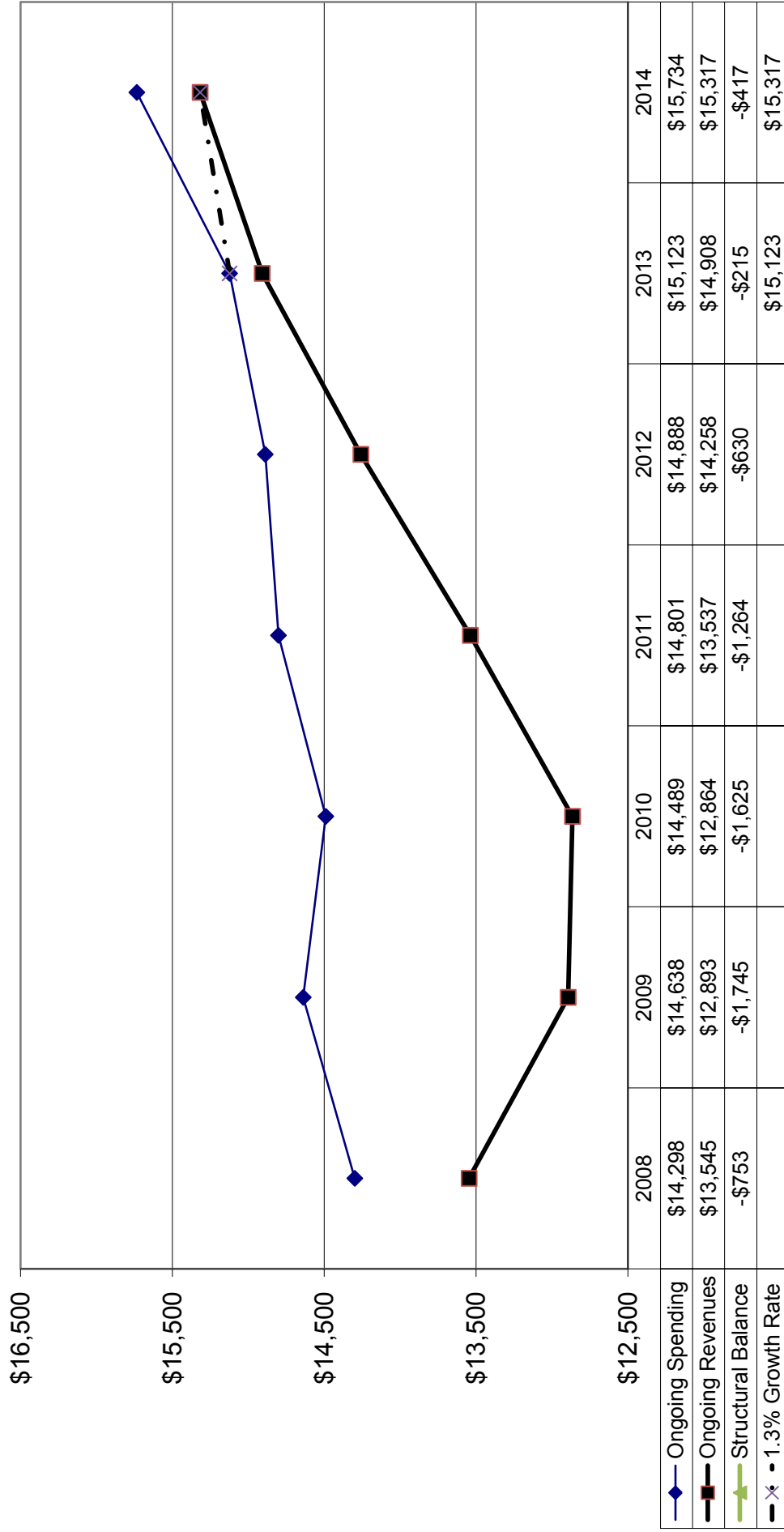
MEDAAF: Maryland Economic Development Authority Assistance Fund

POS: Program Open Space

USM: University System of Maryland

Recent Budget Actions Have Reduced the Structural Deficit

Fiscal 2008-2014
(\$ in Millions)

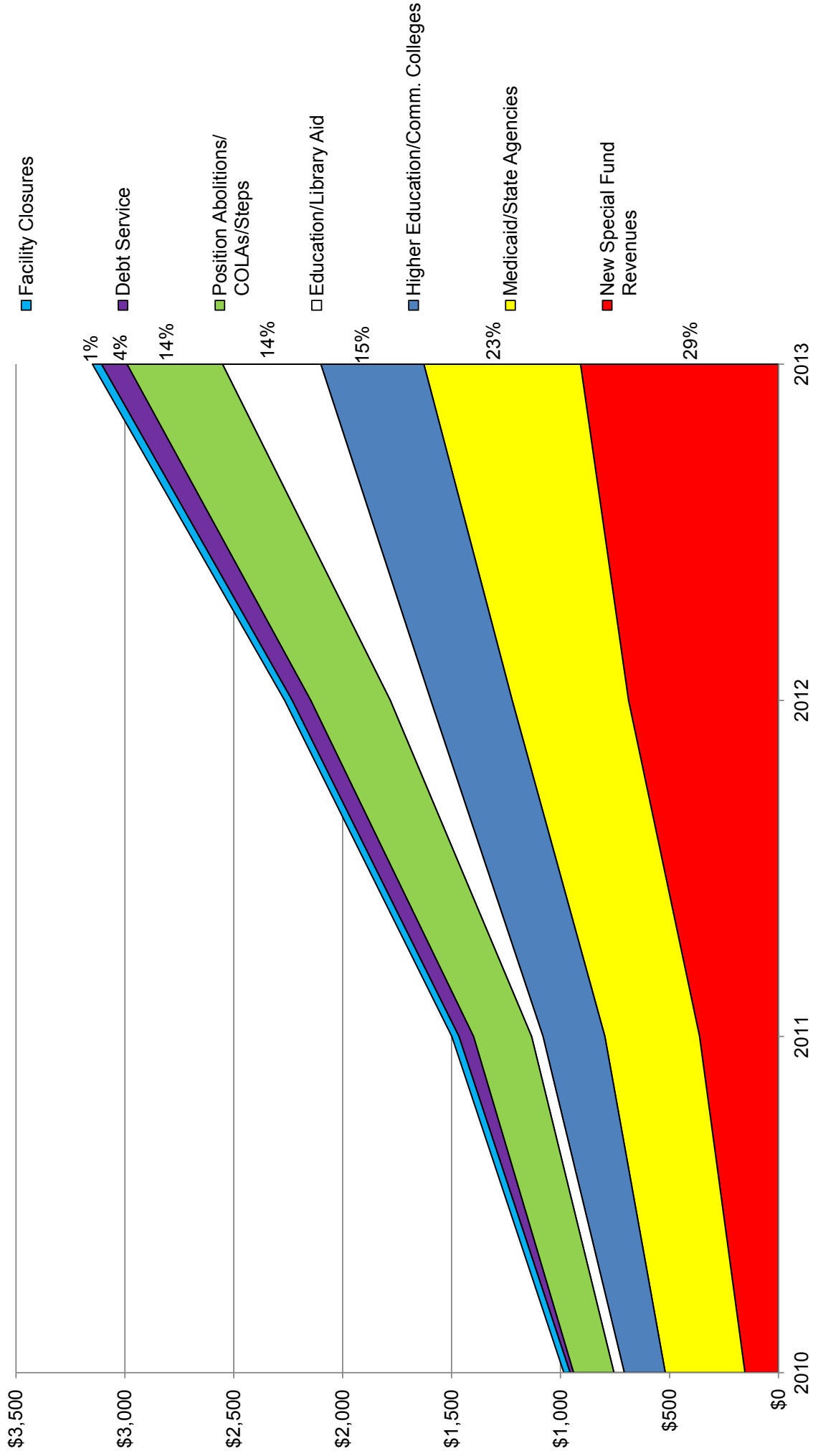


Fiscal 2009 through 2011 data reflects ongoing general fund spending supplanted by the American Recovery and Reinvestment Act of 2009. Fiscal 2013 data reflects ongoing spending and revenues associated with the Budget Restoration Fund.

Constraining Growth in General Fund Spending from Baseline Estimates

Fiscal 2010-2013

(\$ in Millions)



COLA: cost-of-living adjustment

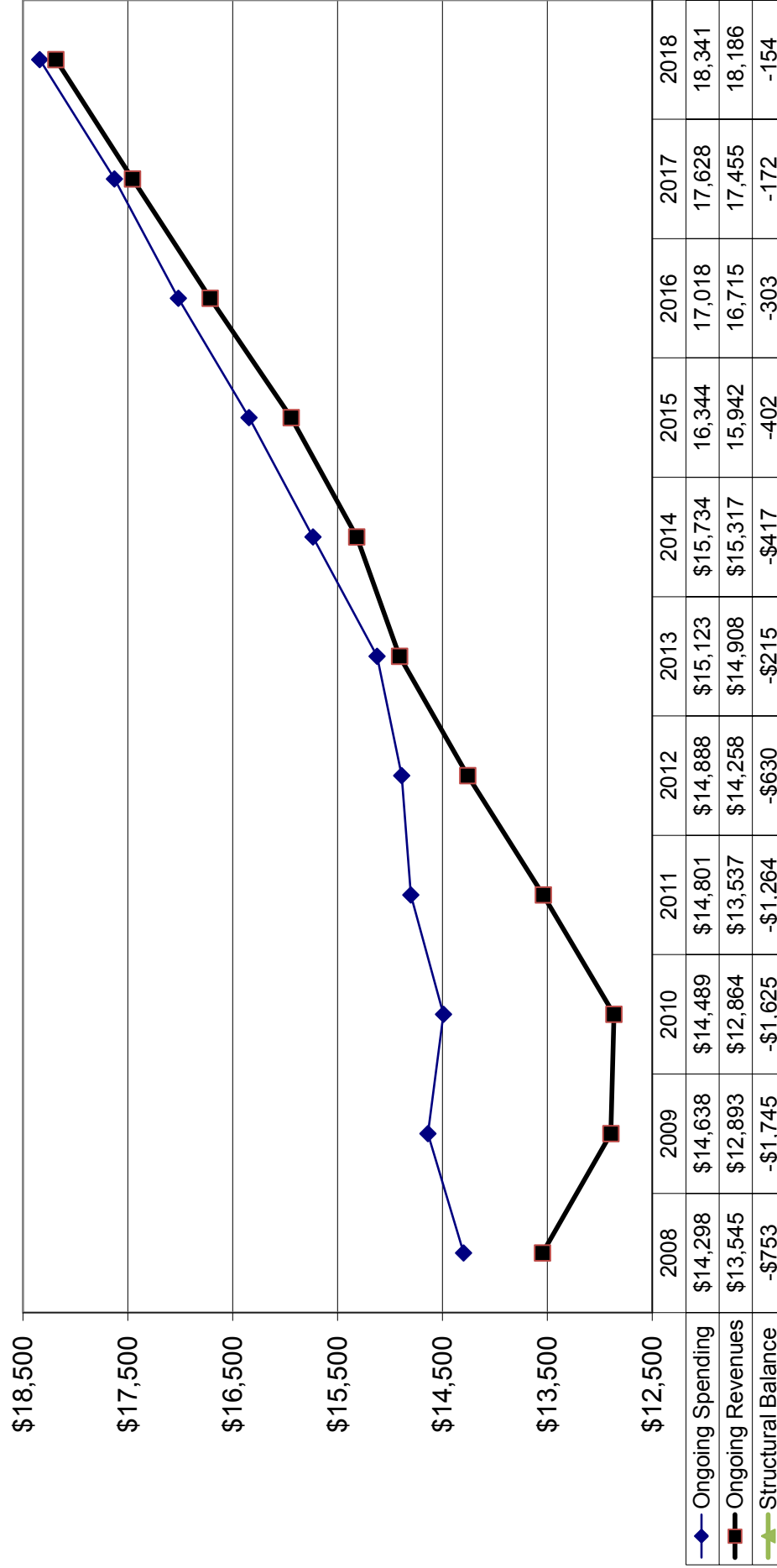
General Fund: Recent History and Outlook
Fiscal 2012-2014
(\$ in Millions)

	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Working</u>	<u>2014</u> <u>Baseline</u>
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	\$15,734
One-time Spending	15	0	0
PAYGO Capital	48	1	0
Appropriations to Reserve Fund	0	23	371
Subtotal Spending	\$14,951	\$15,146	\$16,106
Cash Balance/Shortfall	\$551	\$482	-\$27
Structural			
Balance (Ongoing Revenues Less Operating Costs)	-\$630	-\$215	-\$417
Ratio (Ongoing Revenues/Operating Costs)	95.8%	98.6%	97.4%
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	\$740

PAYGO: pay-as-you-go

⁽¹⁾ Fiscal 2013 revenue and spending adjusted to include the Budget Restoration Fund.

The Structural Deficit Narrows Under the Current Forecast Fiscal 2008-2018 (\$ in Millions)



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 Budget Outlook

Fiscal 2013-2018
(\$ in Millions)

	FY 2012 Actual	FY 2013 Work. App.	FY 2014 Baseline	FY 2015 Est.	FY 2016 Est.	FY 2017 Est.	FY 2018 Est.	Avg. Annual Change 2014-2018
Revenues								
Opening Fund Balance	\$990	\$551	\$482	\$0	\$0	\$0	\$0	
Transfer	239	169	280	68	63	57	54	
Subtotal One-time Revenue	\$1,244	\$721	\$762	\$68	\$63	\$57	\$54	-48.4%
Ongoing Revenues	\$14,258	\$14,908	\$15,317	\$15,942	\$16,715	\$17,455	\$18,186	
Subtotal Ongoing Revenue	\$14,258	\$14,908	\$15,317	\$15,942	\$16,715	\$17,455	\$18,186	4.4%
Total Revenues & Fund Balance	\$15,502	\$15,628	\$16,079	\$16,010	\$16,777	\$17,512	\$18,240	3.2%
Ongoing Spending								
Operating Spending	\$14,982	\$14,979	\$16,049	\$16,895	\$17,623	\$18,324	\$19,071	
VLT Revenues Supporting Education	-101	-286	-372	-608	-663	-753	-788	
Multi-year Commitments	7	0	57	57	57	57	57	
Budget Restoration Fund Spending	0	430	0	0	0	0	0	
Subtotal Ongoing Spending	\$14,888	\$15,123	\$15,734	\$16,344	\$17,018	\$17,628	\$18,341	3.9%
One-time Spending								
PAYGO Capital	\$48	\$1	\$0	\$1	\$1	\$1	\$1	
Appropriation to Reserve Fund	15	23	371	50	50	50	50	
Subtotal One-time Spending	\$63	\$23	\$372	\$51	\$51	\$51	\$51	-39.1%
Total Spending	\$14,951	\$15,146	\$16,106	\$16,395	\$17,069	\$17,679	\$18,392	3.4%
Ending Balance	\$551	\$482	-\$27	-\$385	-\$292	-\$166	-\$152	
Rainy Day Fund Balance	\$673	\$703	\$766	\$798	\$835	\$873	\$910	
Balance over 5% of GF Revenues	-40	-43	0	1	0	0	1	
As % of GF Revenues	4.72%	4.71%	5.00%	5.01%	5.00%	5.00%	5.00%	
Structural Balance	-\$630	-\$215	-\$417	-\$402	-\$303	-\$172	-\$154	

GF: general fund
PAYGO: pay-as-you-go
VLT: video lottery terminal

General Fund Budget Outlook
 Fiscal 2013-2018
 (\$ in Millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Avg Annual
	Work. App.	Baseline	Est.	Est.	Est.	Est.	Change
							2014-2018
Revenues							
Opening Fund Balance	\$551	\$609	\$133	\$0	\$0	\$0	\$0
Transfer	169	279	68	62	58	54	54
One-time Revenues/Legislation	33	0	0	0	0	0	0
Subtotal One-time Revenue	\$753	\$888	\$202	\$62	\$58	\$54	-50.4%
Ongoing Revenues	\$15,002	\$15,351	\$15,920	\$16,676	\$17,494	\$18,243	\$18,243
Subtotal Ongoing Revenue	\$15,002	\$15,351	\$15,920	\$16,676	\$17,494	\$18,243	4.4%
Total Revenues & Fund Balance	\$15,755	\$16,239	\$16,121	\$16,738	\$17,552	\$18,297	3.0%
Ongoing Spending							
Operating Spending	\$14,979	\$16,049	\$16,895	\$17,623	\$18,324	\$19,071	\$19,071
VL T Revenues Supporting Education	-286	-372	-608	-663	-753	-788	-788
Multi-year Commitments	0	57	57	57	57	57	57
Budget Restoration Fund Spending	430	0	0	0	0	0	0
Subtotal Ongoing Spending	\$15,123	\$15,734	\$16,344	\$17,018	\$17,628	\$18,341	3.9%
One-time Spending							
PAYGO Capital	\$1	\$0	\$1	\$1	\$1	\$1	\$1
Appropriation to Reserve Fund	23	371	50	50	50	50	50
Subtotal One-time Spending	\$23	\$372	\$51	\$51	\$51	\$51	-39.1%
Total Spending	\$15,146	\$16,106	\$16,395	\$17,069	\$17,679	\$18,392	3.4%
Ending Balance	\$609	\$133	-\$274	-\$331	-\$127	-\$95	-\$95
Rainy Day Fund Balance	703	767	799	838	874	911	911
Balance over 5% of GF Revenues	-48	0	3	4	0	-1	-1
As % of GF Revenues	4.68%	5.00%	5.02%	5.02%	5.00%	4.99%	4.99%
Structural Balance	-\$121	-\$383	-\$425	-\$342	-\$134	-\$98	-\$98

GF: general fund
 PAYGO: pay-as-you-go
 VL T: video lottery terminal

Part 4

Local Government Assistance

State Aid by Governmental Entity
Amount and Percent of Total
State Funds
(\$ in Millions)

	<u>FY 2014</u> <u>State Aid Amount</u>	<u>Percent</u> <u>of Total</u>
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%

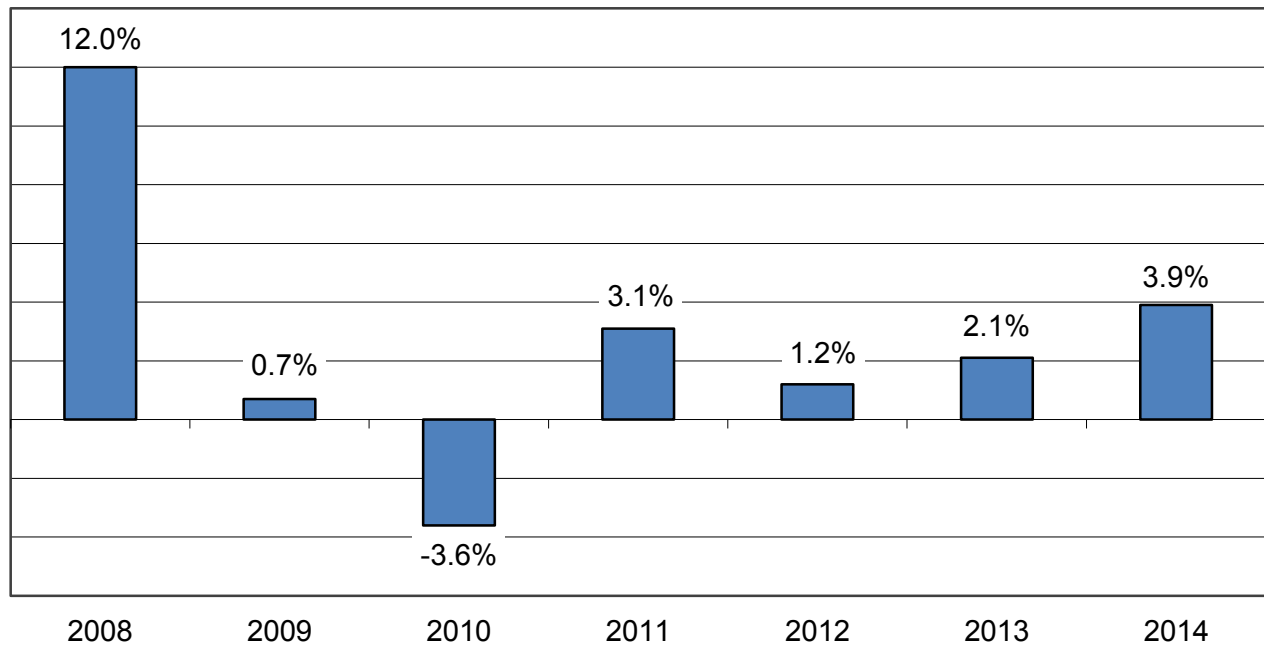
Change in State Aid
State Funds
(\$ in Millions)

	<u>FY 2014</u> <u>Aid Change</u>	<u>Percent</u> <u>Change</u>
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)

	<u>FY 2012</u>	<u>FY 2013</u>	<u>Baseline FY 2014</u>	<u>\$ Change 2013-2014</u>	<u>% Change 2013-2014</u>
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**

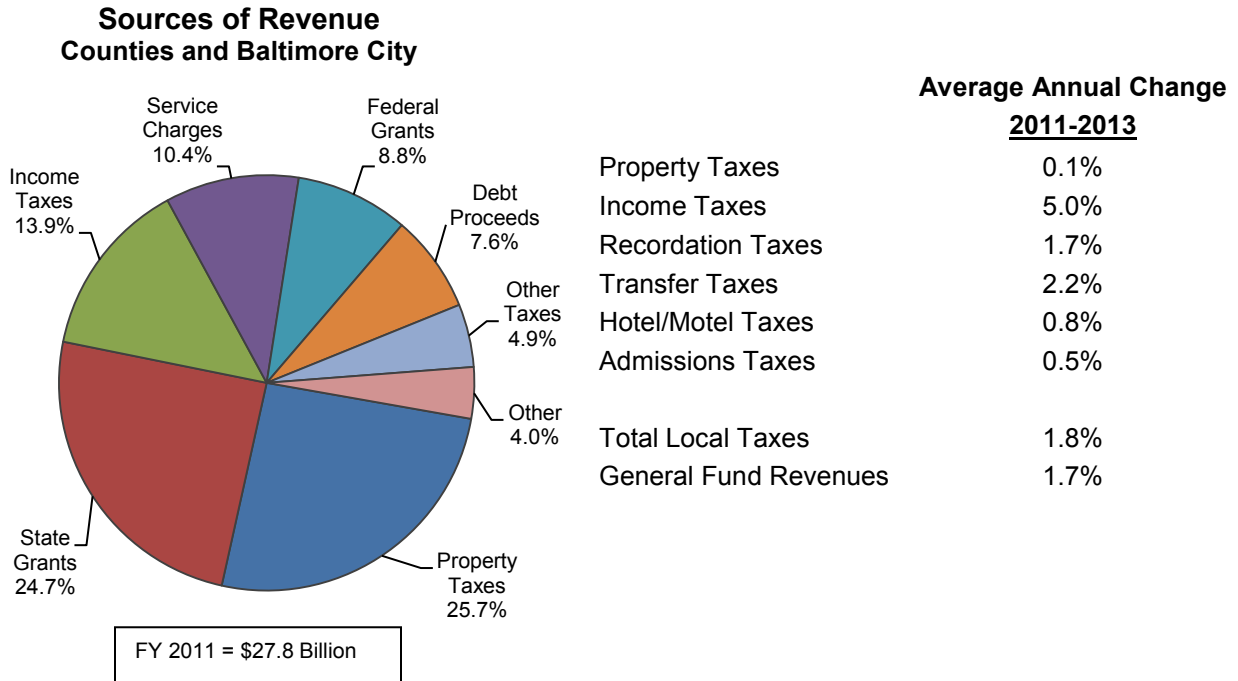


**State Aid by Governmental Entity
(\$ in Millions)**

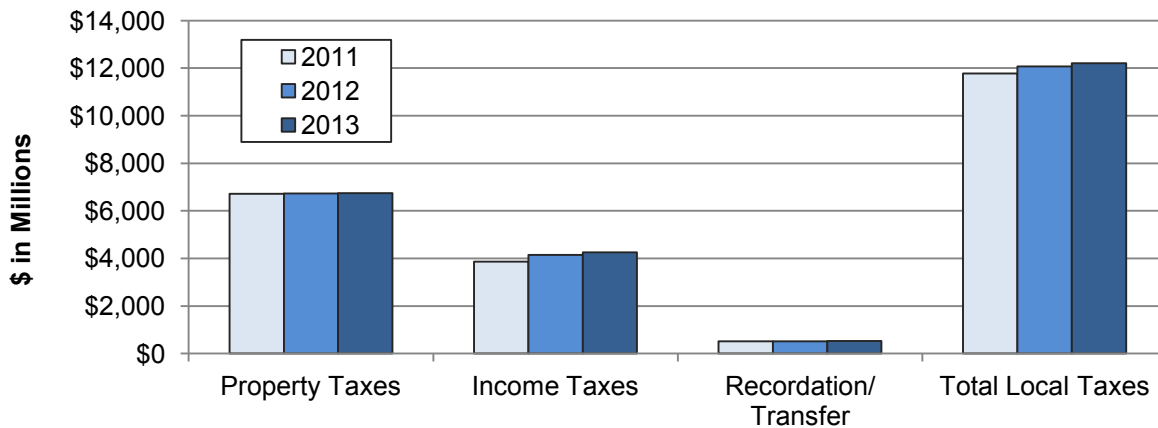
	<u>FY 2008</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Public Schools	\$4,599.9	\$5,155.0	\$555.1	12.1%
Libraries	52.2	50.2	-2.0	-3.9%
Community Colleges	219.4	258.9	39.5	18.0%
Local Health	67.0	38.2	-28.8	-43.0%
County/Municipal	904.6	509.1	-395.4	-43.7%
Subtotal – Direct Aid	\$5,843.1	\$6,011.4	\$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%

Local Government Revenue Outlook

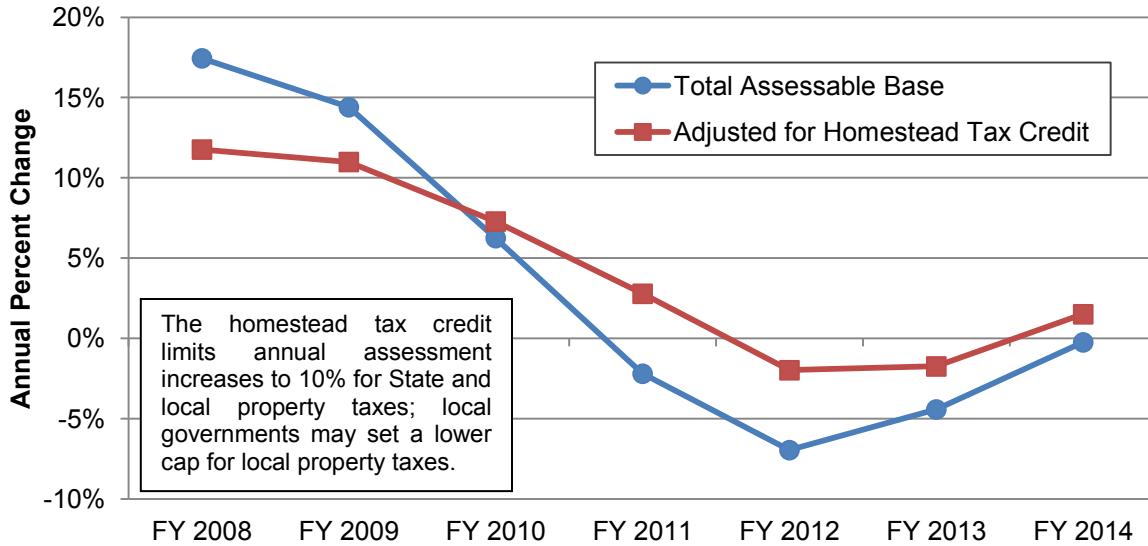
Limited Growth in Local Tax Revenues Fiscal 2012 and 2013



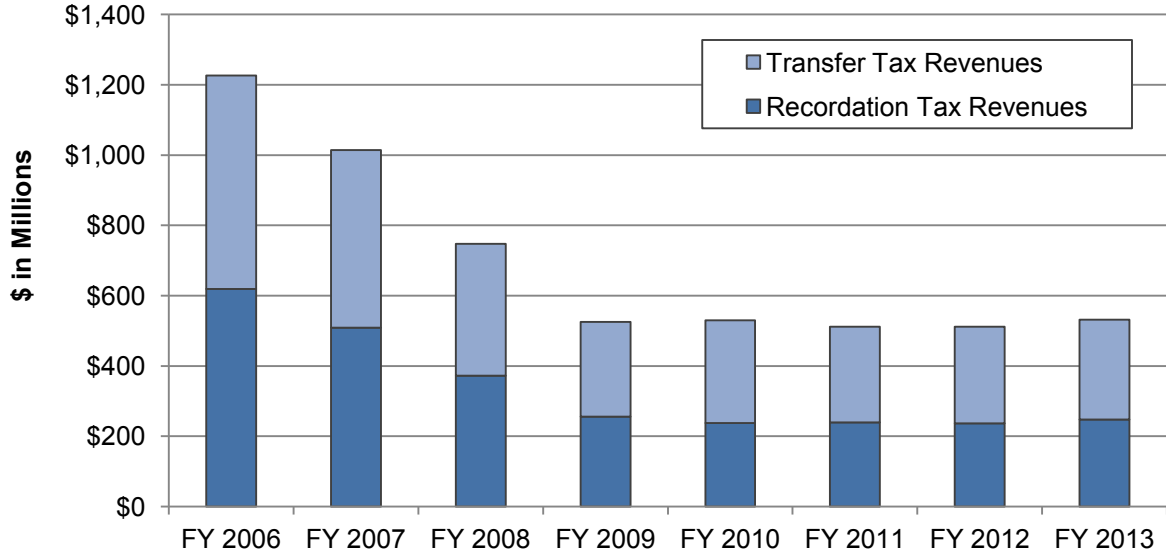
Local Tax Revenue Inches Upwards Fiscal 2011-2013



Homestead Tax Credit Softened Impact on County Assessable Base



Real Estate Meltdown Impacts Recordation and Transfer Taxes



Local Government Tax Actions

Limited revenue growth at the local level resulted in nearly one-half of county governments raising at least one major local tax in fiscal 2013 in order to balance local budgets; however, two county governments reduced local property taxes slightly and one county eliminated its admissions and amusement tax. In addition, Talbot County became the first jurisdiction to exercise the authority to exceed the charter limit on property taxes by establishing a 2.6 cent supplemental property tax rate for the local board of education. This authorization was granted at the 2012 session.

Jurisdictions with Tax Increases in Fiscal 2013

Anne Arundel County – Property Tax (+3.1 cents) and Income Tax (2.49 to 2.56%)
 Caroline County – Property Tax (+2.0 cents)
 Cecil County – Property Tax (+5.1 cents)
 Charles County – Property Tax (+5.4 cents)
 Garrett County – Hotel/Motel Tax (5 to 6%)
 Howard County – Property Tax (+4.0 cents)
 Montgomery County – Property Tax (+4.4 cents)
 Prince George’s County – Recordation Tax (\$2.50 to \$2.75)
 Talbot County – Property Tax (+4.3 cents) and Income Tax (2.25 to 2.4%)
 Wicomico County – Property Tax (+7.1 cents) and Income Tax (3.1 to 3.2%)
 Worcester County – Property Tax (+ 7.0 cents)

Jurisdictions with Tax Decreases in Fiscal 2013

Allegany County – Property Tax (- 0.1 cent)
 Carroll County – Property Tax (-1.0 cent)
 Frederick County – Admissions and Amusement Tax (5 to 0%)

Number of Counties Changing Local Tax Rates Fiscal 2011-2013

	<u>2011</u>		<u>2012</u>		<u>2013</u>	
	▲	▼	▲	▼	▲	▼
Real Property	2	5	8	2	9	2
Local Income	1	0	1	1	3	0
Recordation	0	0	2	0	1	0
Transfer	0	0	0	0	0	0
Admissions/Amusement	0	0	0	0	0	1
Hotel/Motel	1	0	1	0	1	0

Note: ▲ represents a tax rate increase. ▼ represents a tax rate decrease.

Local Government Salary Actions

<u>Salary Action</u>	County Government		Public Schools	
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2013</u>
COLA/GSI Amount				
No COLA/GSI	22	18	22	15
1.0 to 2.9%	2	6	2	8
3.0% and greater	0	0	0	1
Stipend/Bonus¹	2	3	0	0
Step/Merit Increases	4	6	9	17
Furlough/Salary Reductions	7	0	2	2
Layoffs	5	1	8	5
	State Government		CPI-Urban Consumers	
	<u>FY 2012</u>	<u>FY 2013²</u>	<u>FY 2012³</u>	<u>FY 2013³</u>
COLA Amount ³	0.0%	2.0%	2.95%	2.05%
One-time Bonus	\$750	\$0		
Furloughs	No	No		
Step/Merit Increases	No	No		

COLA: cost-of-living adjustment
CPI: Consumer Price Index
GSI: general salary increase

¹Two counties, Garrett and St. Mary's, provided stipends in addition to a COLA in fiscal 2013. Washington County provided a stipend in addition to a step increase in fiscal 2013.

²COLA effective January 1, 2013.

³Forecast of the CPI for 2012 (actual) and 2013 (estimate) comes from Moody's Analytics.

Total Local Tax Revenues for Fiscal 2011-2013

County	2011	2012	2013	2011-2012 \$ Difference	2012-2013 \$ Difference	Average Annual Difference
Allegany	\$69,365,992	\$66,992,978	\$67,684,274	-\$2,373,014	\$691,296	-1.2%
Anne Arundel	1,012,718,122	1,044,885,000	1,077,251,000	32,166,878	32,366,000	3.1%
Baltimore City	1,192,450,695	1,191,511,475	1,184,144,772	-939,220	-7,366,703	-0.3%
Baltimore	1,448,848,945	1,534,999,547	1,520,982,116	86,150,602	-14,017,431	2.5%
Calvert	215,745,005	213,958,680	211,803,264	-1,786,325	-2,155,416	-0.9%
Caroline	36,239,430	35,923,602	36,282,397	-315,828	358,795	0.1%
Carroll	333,823,149	334,322,480	334,638,530	499,331	316,050	0.1%
Cecil	153,291,414	150,846,945	156,787,322	-2,444,469	5,940,377	1.1%
Charles	297,031,129	303,084,500	315,416,900	6,053,371	12,332,400	3.0%
Dorchester	42,287,569	42,726,034	42,733,179	438,465	7,145	0.5%
Frederick	461,017,713	447,469,469	446,535,741	-13,548,244	-933,728	-1.6%
Garrett	63,635,194	63,222,317	63,209,998	-412,877	-12,319	-0.3%
Harford	443,185,476	436,287,411	444,932,874	-6,898,065	8,645,463	0.2%
Howard	860,907,446	874,258,586	911,987,753	13,351,140	37,729,167	2.9%
Kent	40,523,567	39,773,033	40,881,548	-750,534	1,108,515	0.4%
Montgomery	2,903,014,487	3,108,733,835	3,159,461,233	205,719,348	50,727,398	4.3%
Prince George's	1,394,180,035	1,379,602,600	1,375,232,600	-14,577,435	-4,370,000	-0.7%
Queen Anne's	92,598,747	100,247,256	101,170,737	7,648,509	923,481	4.5%
St. Mary's	183,533,062	176,840,305	188,344,241	-6,692,757	11,503,936	1.3%
Somerset	22,905,437	23,100,251	20,816,925	194,814	-2,283,326	-4.7%
Talbot	54,498,914	57,672,650	61,924,000	3,173,736	4,251,350	6.6%
Washington	192,855,390	191,845,693	192,461,660	-1,009,697	615,967	-0.1%
Wicomico	104,155,821	97,776,027	104,781,310	-6,379,794	7,005,283	0.3%
Worcester	156,206,988	151,633,710	153,980,767	-4,573,278	2,347,057	-0.7%
Total	\$11,775,019,727	\$12,067,714,384	\$12,213,445,141	\$292,694,657	\$145,730,757	1.8%

Source: Department of Legislative Services, County Budgets

Property Tax Revenue Trend for Fiscal 2011-2013

County	2011	2012	2013	2011-2012 \$ Difference	2012-2013 \$ Difference	Average Annual Difference
Allegany	\$42,100,003	\$41,162,899	\$40,822,274	-\$937,104	-\$340,625	-1.5%
Anne Arundel	549,850,967	567,145,000	586,351,000	17,294,033	19,206,000	3.3%
Baltimore City	793,716,814	777,640,768	769,782,914	-16,076,046	-7,857,854	-1.5%
Baltimore	837,056,222	847,295,407	850,131,607	10,239,185	2,836,200	0.8%
Calvert	146,790,799	146,076,046	140,550,264	-714,753	-5,525,782	-2.1%
Caroline	23,892,084	23,873,000	23,973,000	-19,084	100,000	0.2%
Carroll	208,296,512	204,596,100	198,595,000	-3,700,412	-6,001,100	-2.4%
Cecil	101,811,471	101,326,773	103,014,603	-484,698	1,687,830	0.6%
Charles	193,909,891	202,432,400	204,953,900	8,522,509	2,521,500	2.8%
Dorchester	29,425,126	31,029,064	30,725,976	1,603,938	-303,088	2.2%
Frederick	289,625,441	277,765,069	256,826,572	-11,860,372	-20,938,497	-5.8%
Garrett	46,688,168	47,860,017	46,898,998	1,171,849	-961,019	0.2%
Harford	255,054,626	252,687,411	251,910,102	-2,367,215	-777,309	-0.6%
Howard	503,917,484	502,466,074	526,078,633	-1,451,410	23,612,559	2.2%
Kent	30,680,082	30,332,956	30,175,475	-347,126	-157,481	-0.8%
Montgomery	1,430,240,240	1,446,153,740	1,471,151,242	15,913,500	24,997,502	1.4%
Prince George's	726,867,670	712,105,000	695,790,600	-14,762,670	-16,314,400	-2.2%
Queen Anne's	60,061,951	65,852,256	65,415,329	5,790,305	-436,927	4.4%
St. Mary's	99,665,180	99,515,305	100,459,241	-149,875	943,936	0.4%
Somerset	16,117,612	16,665,776	14,228,925	548,164	-2,436,851	-6.0%
Talbot	29,154,651	30,065,650	32,591,000	910,999	2,525,350	5.7%
Washington	125,482,580	124,284,530	121,396,960	-1,198,050	-2,887,570	-1.6%
Wicomico	60,530,124	59,008,117	60,006,246	-1,522,007	998,129	-0.4%
Worcester	122,233,623	120,973,710	121,320,767	-1,259,913	347,057	-0.4%
Total	\$6,723,169,321	\$6,728,313,068	\$6,743,150,628	\$5,143,747	\$14,837,560	0.1%

Note: Property tax revenues for Charles, Frederick, and Howard counties include special fire district tax. Property tax revenues for Montgomery County include special fire, mass transit, and recreation district taxes.

Source: Department of Legislative Services, County Budgets

Local Income Tax Revenue Trend for Fiscal 2011-2013

County	2011	2012	2013	2011-2012 \$ Difference	2012-2013 \$ Difference	Average Annual Difference
Allegany	\$24,248,781	\$23,000,000	\$23,820,000	-\$1,248,781	\$820,000	-0.9%
Anne Arundel	363,798,661	379,600,000	389,400,000	15,801,339	9,800,000	3.5%
Baltimore City	234,955,011	250,353,000	253,183,270	15,397,989	2,830,270	3.8%
Baltimore	514,714,431	579,475,131	561,371,932	64,760,700	-18,103,199	4.4%
Calvert	62,668,488	61,517,634	64,800,000	-1,150,854	3,282,366	1.7%
Caroline	10,627,737	10,300,000	10,600,000	-327,737	300,000	-0.1%
Carroll	116,171,871	120,000,000	126,460,000	3,828,129	6,460,000	4.3%
Cecil	46,835,947	44,836,172	48,644,519	-1,999,775	3,808,347	1.9%
Charles	92,049,627	88,744,000	98,113,000	-3,305,627	9,369,000	3.2%
Dorchester	9,799,801	8,600,000	9,227,702	-1,199,801	627,702	-3.0%
Frederick	157,826,635	155,843,000	171,226,300	-1,983,635	15,383,300	4.2%
Garrett	10,137,038	9,300,000	10,100,000	-837,038	800,000	-0.2%
Harford	166,483,042	161,600,000	175,068,772	-4,883,042	13,468,772	2.5%
Howard	315,353,675	325,465,000	339,929,120	10,111,325	14,464,120	3.8%
Kent	8,200,260	8,040,000	9,045,000	-160,260	1,005,000	5.0%
Montgomery	1,039,234,850	1,227,074,018	1,242,879,546	187,839,168	15,805,528	9.4%
Prince George's	454,342,603	469,123,900	470,515,400	14,781,297	1,391,500	1.8%
Queen Anne's	29,527,496	31,100,000	32,428,656	1,572,504	1,328,656	4.8%
St. Mary's	71,984,221	65,500,000	76,000,000	-6,484,221	10,500,000	2.8%
Somerset	6,295,530	5,977,003	6,069,000	-318,527	91,997	-1.8%
Talbot	18,551,894	20,000,000	21,635,000	1,448,106	1,635,000	8.0%
Washington	59,279,436	59,380,000	62,476,000	100,564	3,096,000	2.7%
Wicomico	39,186,250	34,376,000	40,472,224	-4,810,250	6,096,224	1.6%
Worcester	10,459,699	9,200,000	11,200,000	-1,259,699	2,000,000	3.5%
Total	\$3,862,732,984	\$4,148,404,858	\$4,254,665,441	\$285,671,874	\$106,260,583	5.0%

Source: Department of Legislative Services, County Budgets

Local Government Tax Rates in Fiscal 2012 and 2013

County	Real Property		Local Income		Recordation		Transfer		Admissions/ Amusement		Hotel/Motel	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Allegany	\$0.982	\$0.981	3.05%	3.05%	\$3.50	\$3.50	0.5%	0.5%	7.5%	7.5%	8.0%	8.0%
Anne Arundel	0.910	0.941	2.49%	2.56%	3.50	3.50	1.0%	1.0%	10.0%	10.0%	7.0%	7.0%
Baltimore City	2.268	2.268	3.20%	3.20%	5.00	5.00	1.5%	1.5%	10.0%	10.0%	9.5%	9.5%
Baltimore	1.100	1.100	2.83%	2.83%	2.50	2.50	1.5%	1.5%	10.0%	10.0%	8.0%	8.0%
Calvert	0.892	0.892	2.80%	2.80%	5.00	5.00	0.0%	0.0%	1.0%	1.0%	5.0%	5.0%
Caroline	0.870	0.890	2.63%	2.63%	5.00	5.00	0.5%	0.5%	0.0%	0.0%	5.0%	5.0%
Carroll	1.028	1.018	3.05%	3.05%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Cecil	0.940	0.991	2.80%	2.80%	4.10	4.10	0.0%	0.0%	6.0%	6.0%	3.0%	3.0%
Charles	1.067	1.121	2.90%	2.90%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Dorchester	0.976	0.976	2.62%	2.62%	5.00	5.00	0.75%	0.75%	0.5%	0.5%	5.0%	5.0%
Frederick	1.064	1.064	2.96%	2.96%	6.00	6.00	0.0%	0.0%	5.0%	5.0%	3.0%	3.0%
Garrett	0.990	0.990	2.65%	2.65%	3.50	3.50	1.0%	1.0%	4.5%	4.5%	6.0%	6.0%
Harford	1.042	1.042	3.06%	3.06%	3.30	3.30	1.0%	1.0%	5.0%	5.0%	0.0%	0.0%
Howard	1.150	1.190	3.20%	3.20%	2.50	2.50	1.0%	1.0%	7.5%	7.5%	7.0%	7.0%
Kent	1.022	1.022	2.85%	2.85%	3.30	3.30	0.5%	0.5%	4.5%	4.5%	5.0%	5.0%
Montgomery	0.959	1.003	3.20%	3.20%	3.45	3.45	1.0%	1.0%	7.0%	7.0%	7.0%	7.0%
Prince George's	1.319	1.319	3.20%	3.20%	2.50	2.75	1.4%	1.4%	10.0%	10.0%	5.0%	5.0%
Queen Anne's	0.847	0.847	3.20%	3.20%	4.95	4.95	0.5%	0.5%	5.0%	5.0%	5.0%	5.0%
St. Mary's	0.857	0.857	3.00%	3.00%	4.00	4.00	1.0%	1.0%	2.0%	2.0%	5.0%	5.0%
Somerset	0.884	0.884	3.15%	3.15%	3.30	3.30	0.0%	0.0%	4.0%	4.0%	5.0%	5.0%
Talbot	0.448	0.491	2.25%	2.40%	6.00	6.00	1.0%	1.0%	5.0%	5.0%	4.0%	4.0%
Washington	0.948	0.948	2.80%	2.80%	3.80	3.80	0.5%	0.5%	5.0%	5.0%	6.0%	6.0%
Wicomico	0.769	0.840	3.10%	3.20%	3.50	3.50	0.0%	0.0%	6.0%	6.0%	6.0%	6.0%
Worcester	0.700	0.770	1.25%	1.25%	3.30	3.30	0.5%	0.5%	3.0%	3.0%	4.5%	4.5%

Notes: The real property tax rates shown for Charles, Frederick, Howard, Montgomery, and Prince George's counties include special tax rates. Real property tax is per \$100 of assessed value. Income is a percentage of taxable income. Recordation tax is per \$500 of transaction.

Source: 2012 Local Government Budget and Tax Rate Survey; Department of Legislative Services; Maryland Association of Counties

Local Government Salary Actions in Fiscal 2013

County	County Government		Board of Education	
	COLA/GSI/Stipend	Step/Merit	COLA/GSI	Step/Merit
Allegany	0.0%	No	0.0%	Yes
Anne Arundel ¹	0.0%	No	1.25%	No
Baltimore City ²	0.0%	Yes	1.5%	No
Baltimore ³	0.0%	Yes	0.0%	Yes
Calvert ⁴	0.0%	No	0.0%	No
Caroline	0.0%	No	0.0%	Yes
Carroll	0.0%	No	0.0%	Yes
Cecil	1.0%	No	0.0%	Yes
Charles ⁵	0.0%	Yes	0.0%	Yes
Dorchester ⁶	1.0%	No	1.0%	Yes
Frederick ⁷	1.0%	Yes	0.0%	Yes
Garrett ⁸	2.0% + \$500	No	0.0%	No
Harford	0.0%	No	1.0%	Yes
Howard ⁹	0.0%	Yes	0.0%	Yes
Kent ¹⁰	0.0%	No	1.0%	Yes
Montgomery ¹¹	0.0%	No	0.0%	Yes
Prince George's ¹²	0.0%	No	2.0%	No
Queen Anne's	0.0%	No	0.0%	No
St. Mary's ¹³	2.0% + \$500	No	1.5%	No
Somerset ¹⁴	0.0%	No	0.0%	Yes
Talbot	0.0%	No	3.5%	Yes
Washington ¹⁵	\$1,000	Yes	0.0%	Yes
Wicomico	2.0%	No	1.0%	Yes
Worcester ¹⁶	0.0%	No	0.0%	Yes
Number Granting	7	6	9	17

COLA: cost-of-living adjustment

GSI: general salary increase

Comments:

¹Anne Arundel County school employees will receive a mid-year 1.25% salary/wage increase, two-day reduction in the work year, and a healthcare premium holiday for one pay period.

²Baltimore City school administrators will receive a 3.0% COLA, paraprofessional and school-related personnel will receive a 2.35% COLA, and Fraternal Order of Police (FOP) will receive a 1.5% COLA and 1.5% longevity GSI. City Union of Baltimore employees will be placed on the next full interval above current salary (maximum \$750). School system is still in negotiations with AFSCME and unaffiliated employees.

³Baltimore County is still in negotiations with AFSCME and FOP; all other employee groups will receive step increases.

⁴Calvert County Public Schools is still in negotiations with administrators.

⁵Charles County employees will receive a merit increase equal to 3.0% of the salary midpoint of their current grade. School system employees will receive a step increase.

⁶Dorchester County teachers will receive a 1.0% COLA and a step increase; administrators and support employees negotiated a revised salary scale, resulting in a tiered increase.

⁷Frederick County employees will receive a merit increment; corrections and law enforcement personnel also will receive catch-up based on years of service and firefighters are placed in a new step system.

⁸Garrett County Public Schools was not able to provide a contracted step increase. Roads Department employees (AFSCME) will receive a 4.0% COLA; all nonunion, full-time employees will receive a 2.0% COLA and a \$500 bonus.

⁹While Howard County employees in general did not receive a COLA, police officers and sergeants will receive a 2.0% COLA January 1, 2013.

¹⁰Kent County school employees will receive a 1.0% COLA and step increase January 1, 2013.

¹¹While Montgomery County school employees in general did not receive a COLA, employees that did not receive a merit/step or longevity increase will receive a 2.0% GSI.

¹²Prince George's County teachers also receive a one-day reduction in the work year. The school system is still in negotiations with its other employee unions. County and FOP are in arbitration.

¹³St. Mary's County employees will receive a 2.0% COLA and a permanent \$500 stipend.

¹⁴Somerset County teachers and support staff will receive a step increase March 15, 2013; school administrators will receive a \$1,000 bonus December 5, 2012.

¹⁵While Washington County teachers in general will not receive a COLA, teachers already in the top step will receive a 1.0% COLA. Teachers on Step 4 and greater will receive an additional midyear step increase to recover a negotiated, but unfunded increase from 2010. County full-time employees will receive a \$1,000 stipend; full time and permanent part-time employees will receive a 3.5% step increase effective January 1, 2013; temporary employees will receive a 3.0% increase upon return to seasonal employment.

¹⁶While Worcester County teachers and support personnel in general will not receive a COLA or GSI, employees already in the top step will receive a 1.5% increase.

Local Government Furlough, Salary Reduction, and Layoff Plans in Fiscal 2013

County	Furlough/ Reduction	Layoffs	
Allegany	No	No	School system has eliminated 106.4 positions through attrition over the past three fiscal years; 63 of the positions were eliminated in fiscal 2013.
Anne Arundel	No	No	
Baltimore City	No	Yes	City does not plan any furloughs or salary reductions, but has not determined whether there will be any layoffs. School system does not plan any furloughs or salary reductions, but has indicated that it is currently processing layoffs of up to 46 non-teacher employees. School system is still in negotiations with AFSCME and unaffiliated employees.
Baltimore	No	No	
Calvert	No	No	School system does not plan any furloughs, salary reductions, or layoffs, but is still in negotiations with administrators.
Caroline	No	Yes	County does not plan any furloughs or salary reductions, but laid off one employee.
Carroll	No	Yes	School system does not plan any furloughs or salary reductions, but laid off one employee.
Cecil	No	No	County does not plan to implement any salary reductions, and has indicated that no furloughs or layoffs are planned at this time.
Charles	No	No	
Dorchester	No	No	
Frederick	No	Yes	County does not plan to implement any furloughs or salary reductions, and has indicated that no layoffs are planned at this time. School system laid off two employees and indicated that furloughs and salary reductions are not planned at this time.
Garrett	No	Yes	School system laid off 18 employees, including 11 teachers, and was not able to provide a contracted step increase, but does not plan to implement any furloughs or salary reductions.
Harford	No	No	
Howard	No	No	
Kent	No	No	
Montgomery	No	No	School system indicated that all budget reductions were handled through attrition or transfer and no furloughs, salary reductions, or layoffs are planned.
Prince George's	Pending	Pending	School system does not anticipate implementing any furloughs, but is still in negotiations with some of its employee unions and has not yet determined whether there will be salary reductions or layoffs. County and the Fraternal Order of Police are in arbitration.
Queen Anne's	No	No	
St. Mary's	No	No	
Somerset	Yes	Yes	School system has not determined whether to implement any furloughs, but had salary reductions resulting from the transfer of 2 employees and the replacement of 2 retirees, and layoffs of 19 employees, including 7 teachers.
Talbot	No	No	County does not plan to implement any furloughs, salary reductions, or layoffs at this time.

County	Furlough/ Reduction	Layoffs	
Washington	No	No	
Wicomico	Yes	No	School system does not plan any furloughs or layoffs, but reduced salaries and work schedules for 4 pupil personnel workers. School system has also eliminated positions through attrition and retirement incentives.
Worcester	No	No	
Total Jurisdictions Implementing Plans	2	6	

Source: Department of Legislative Services; Maryland Association of Counties

Part 5

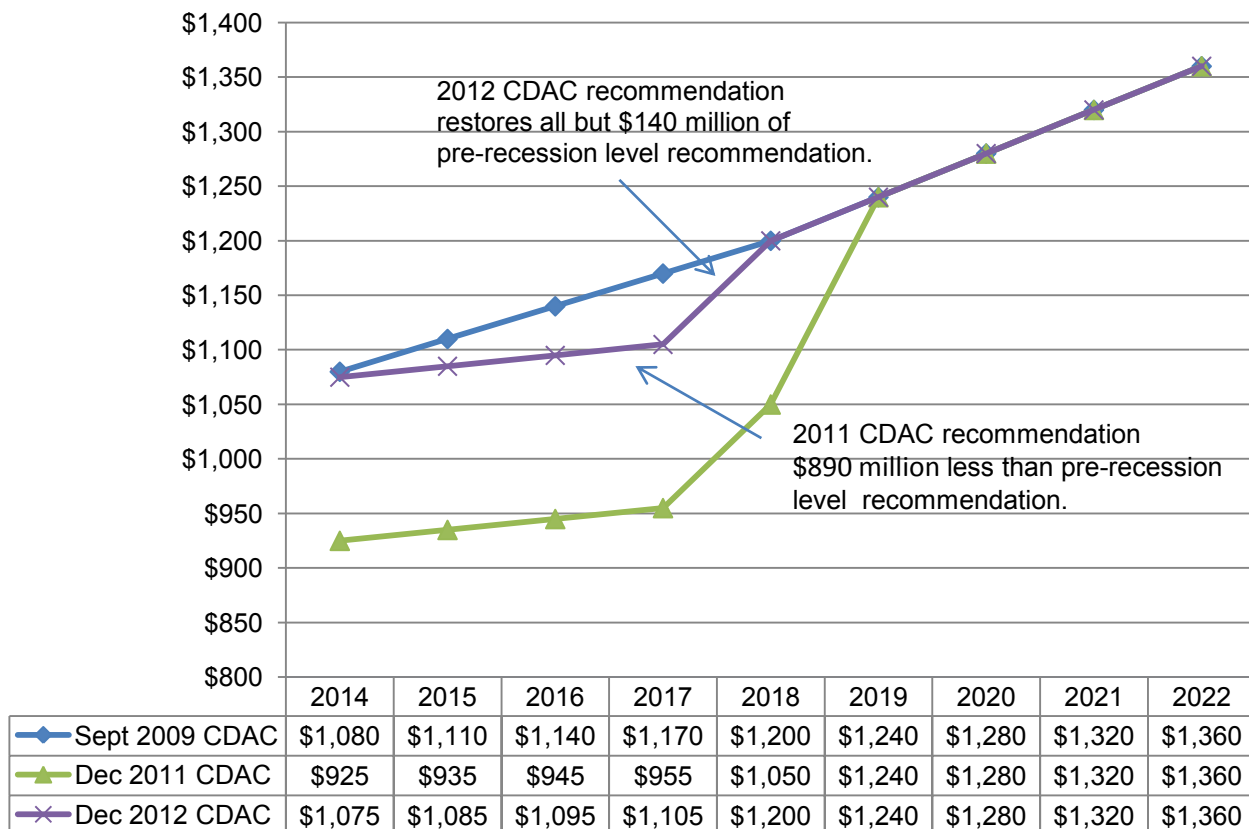
Capital Program

Capital Program – Impact of Fiscal Pressures

Proposed Increase in General Obligation (GO) Bond Authorizations Could Offer Relief to Bond Program Squeezed from Both Ends

- Recommendation adds \$150 million annually – \$750 million over next five years.
- The Capital Debt Affordability Committee recommendation would restore GO bond authorizations to pre-recession levels.

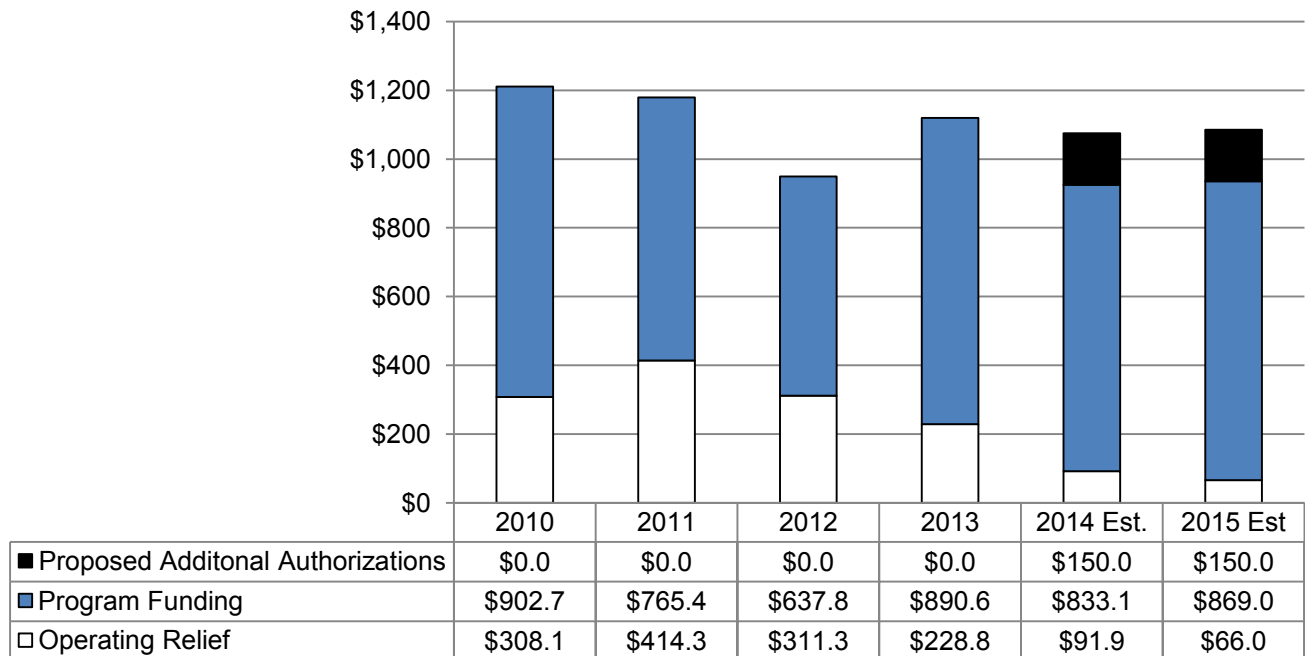
GO Bond Limits
Comparison of Recent CDAC Five-year Recommendations
Fiscal 2014-2022
(\$ in Millions)



CDAC: Capital Debt Affordability Committee
 GO: general obligation

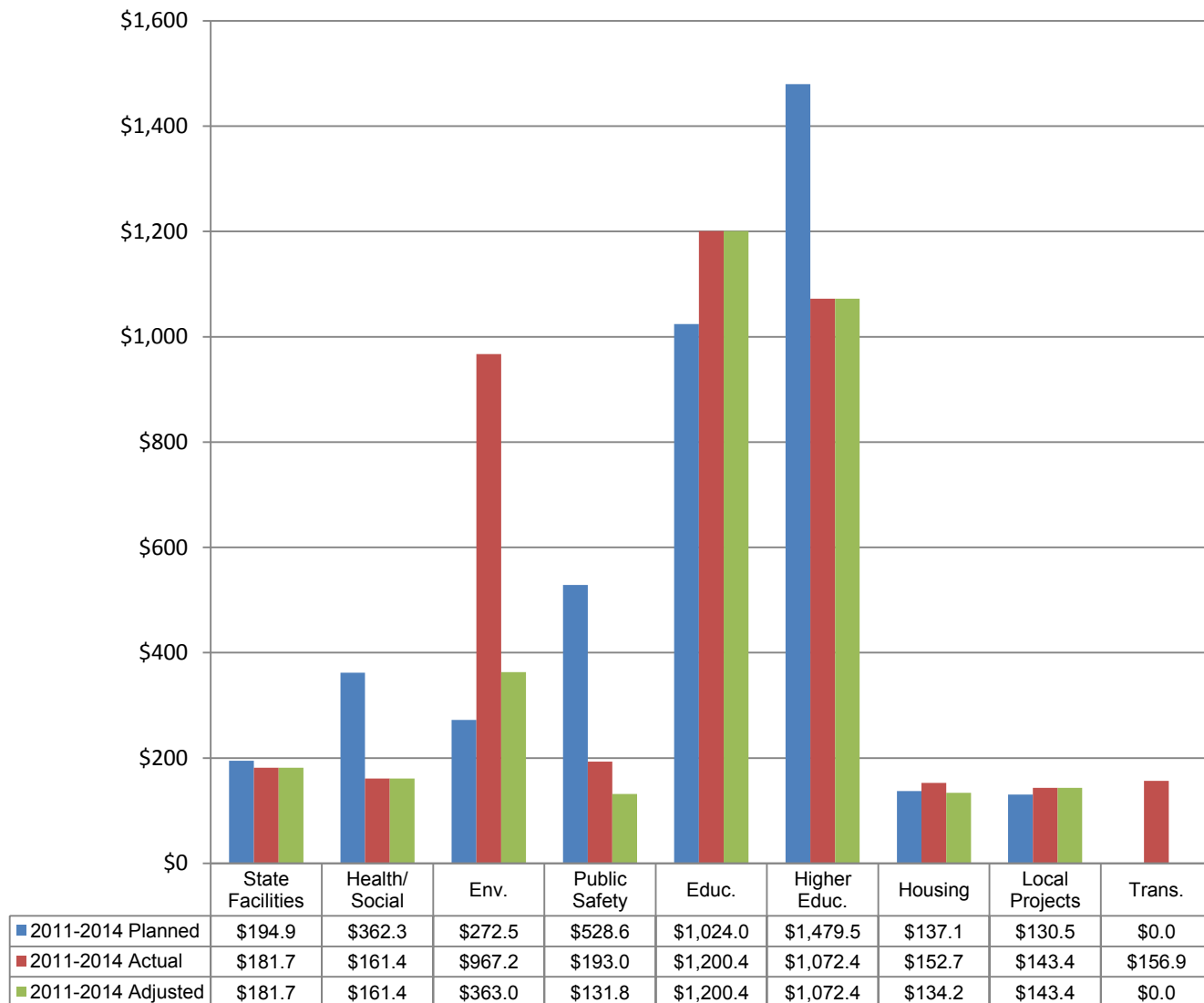
- **The Governor’s preliminary GO bond allocation for the 2013 session as required by § 8-113 of the State Finance and Procurement Article:**
 - \$428 million for grant and loan programs to local governments;
 - \$397 million for design and construction of State-owned facilities; and
 - \$250 million for public school construction grants to local governments.
- **In addition to GO debt the Governor’s preliminary allocation contemplates \$375 million in transportation debt, \$150 million in bay restoration bonds, and \$37.5 million for capital leases.**
- **GO Bond Authorizations and Operating Budget Relief:** \$1.26 billion of GO bond authorizations used in fiscal 2010 through 2013 to replace fund transfers and pay-as-you-go. Prior year replacement commitments would require \$91 million in fiscal 2014 and \$66 million in fiscal 2015.

**Use for Operating Relief
Fiscal 2010-2013 Actual and Fiscal 2014-2015 Estimate
(\$ in Millions)**



- **Impact of Reduced Authorizations and Bond Replacement on Anticipated Capital Expenditures:** Actual capital investments in juvenile services, public safety, and higher education reduced from programmed levels to fund GO bond replacement for environmental programs.

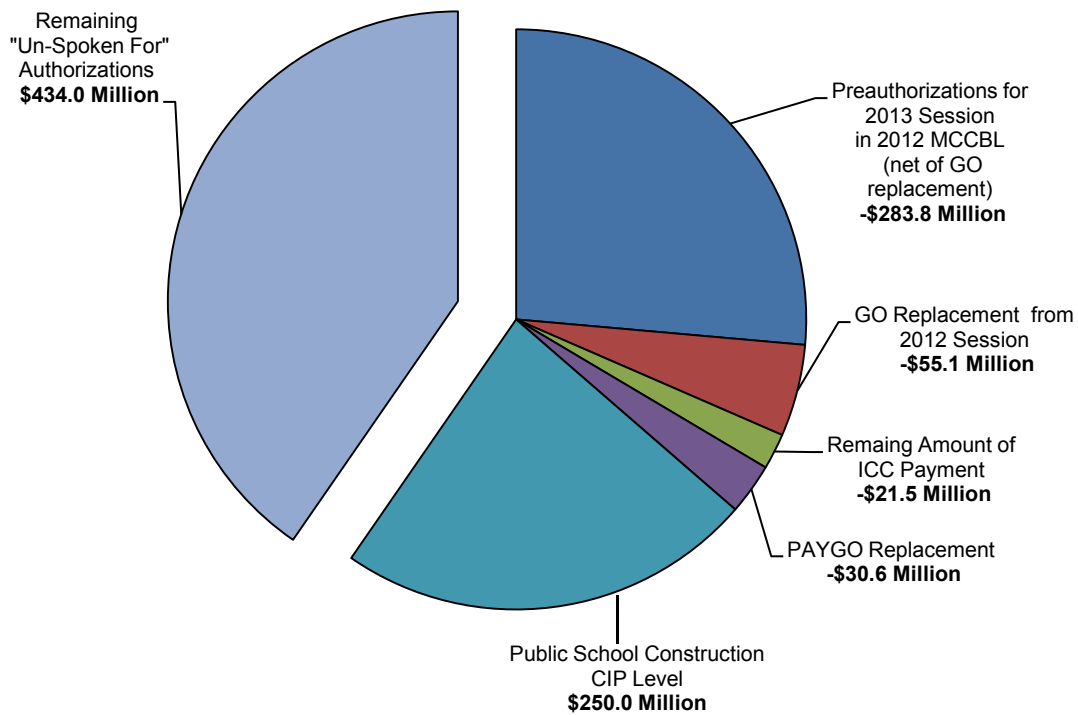
GO Program Planned Versus Actual (\$ in Millions)



Educ.: Education
 Env.: Environment
 GO: general obligation
 Trans.: Transportation

Note: Adjusted does not include GO funds used to provide operating relief.

Outlook for 2013 Session



Fiscal 2014 Requests – Competition for Available “UnSpoken For” Authorizations

- State Facilities: \$115 million
- Health and Social Services: \$61 million (excludes preauthorizations)
- Environment: \$115 million (excludes fund transfer replacement)
- Education: \$418 million (net of *Capital Improvement Program* level for Public School Construction)
- Higher Education: \$227 million (excludes preauthorizations)
- Public Safety: \$50 million (excludes preauthorizations)
- Housing: \$52 million
- Miscellaneous – including legislative initiatives: \$117 million

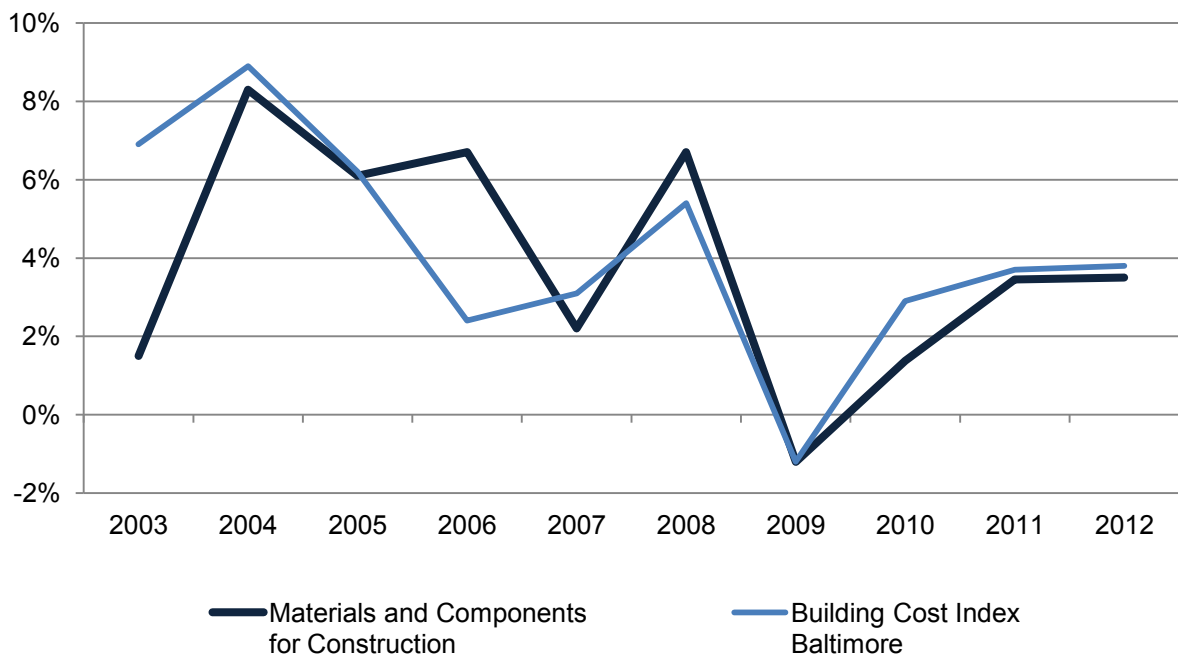
CIP: *Capital Improvement Program*
 GO: general obligation
 MCCBL: Maryland Consolidated Capital Bond Loan
 ICC: InterCounty Connector
 PAYGO: pay-as-you-go

Source: Department of Budget and Management

Construction Costs Increase

- **Construction Costs on the Rise:** The year-over-year measure for inflation in the building and construction market nationally and regionally reflect increased construction costs.
- **Increased Escalation Rates Used in Cost Estimating:** Base square foot costs increase by 3.7% for projects requested in the 2013 session compared to 3.0% for 2012 session, and -1.0% for 2011 session. Annual escalation rates for projects requested in the 2013 session set at 3.0% annually for calendar 2012, and 4.0% for calendar 2013 through 2015, as compared to 1.0% for calendar 2011, 2.5% for calendar 2012, and 3.0% annually for calendar 2013 and 2014 used for projects authorized in the 2011 session

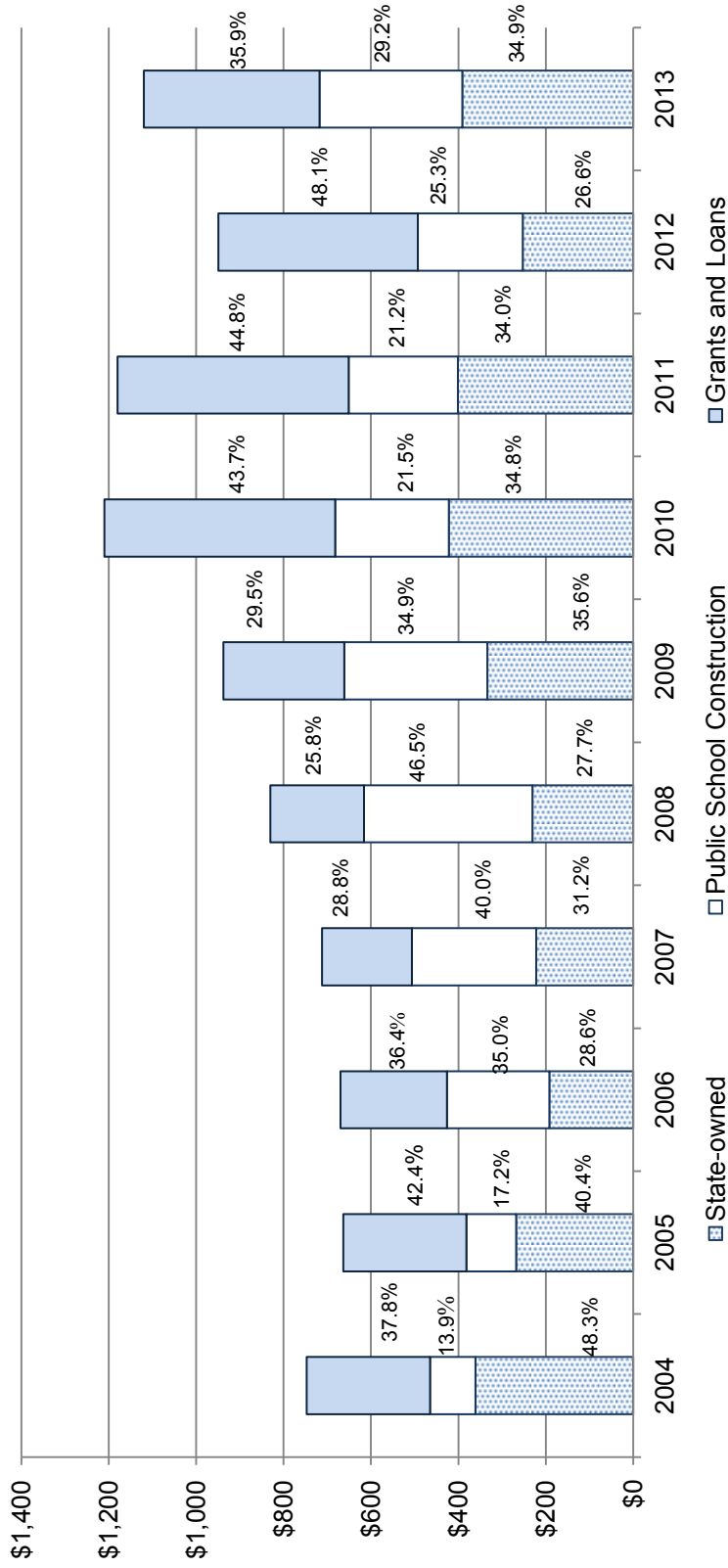
**Construction Cost Inflation
Calendar 2003-2012**



Source: Bureau of Labor Statistics; Engineering New-Record

- **Increased School Construction Costs:** The Interagency Committee on School Construction (IAC) reports increased construction bids. Recent increases in material costs are reflected in increased square foot construction rates which IAC has set at \$241 a square foot for projects requested in the 2013 session compared to \$224 and \$232 for the 2011 and 2012 sessions, respectively.

Capital Spending GO Bond Funds – Percent of Total Spending Fiscal 2004-2013 (\$ in Millions)

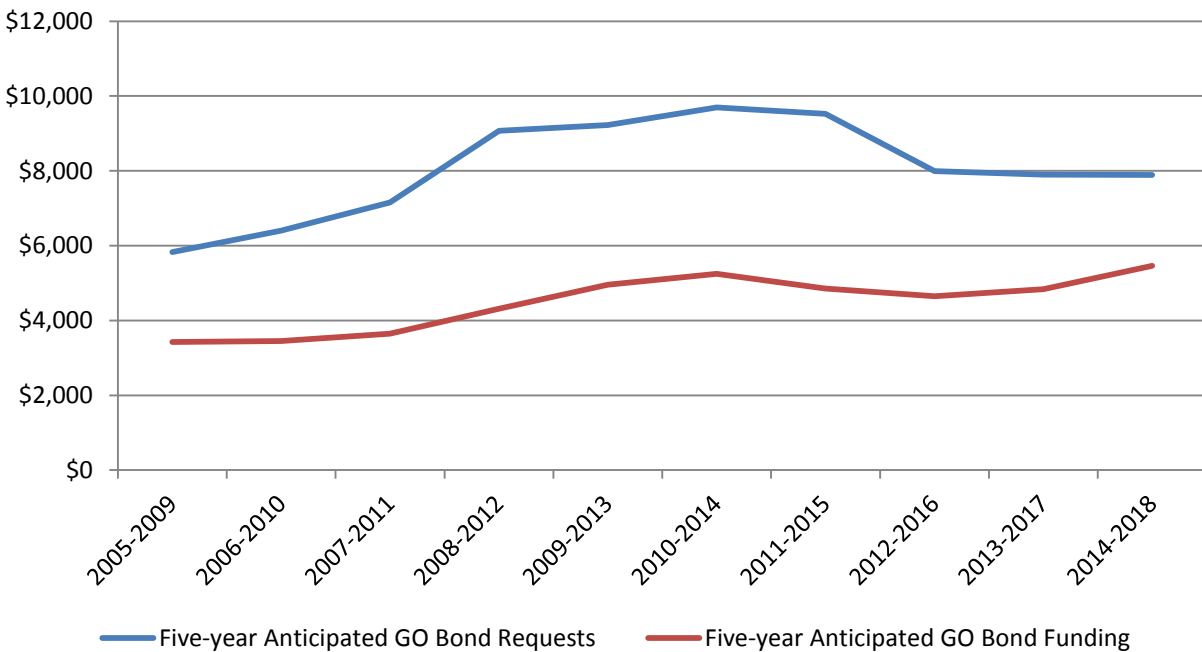


GO: general obligation

Capital Requests Exceed Capacity

- Recession Impacts Demand:** Annual five-year planning cycle general obligation (GO) bond requests remain stable at \$8.0 billion for each of the past three request cycles compared to levels in excess of \$9.5 billion for the five previous annual request cycles.
- Local Capacity:** The decline is largely attributable to reduced local school construction requests which has averaged \$2.8 billion over the past three annual five-year request cycles compared to levels in excess of \$4.1 billion for the five previous annual request cycles.

GO Bond Requests and Anticipated Authorizations
Fiscal Years
(\$ in Millions)

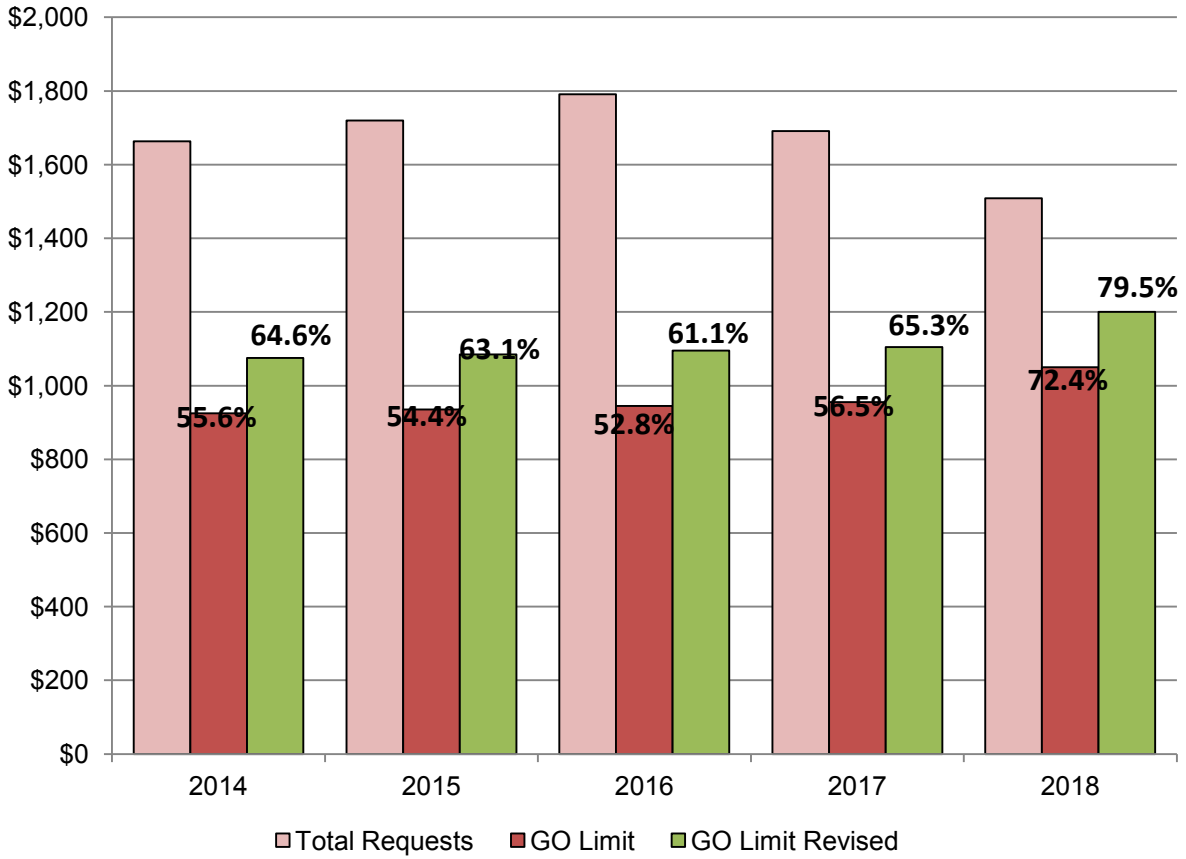


GO: general obligation

Source: Department of Budget and Management

- Increased Authorization Levels Would Close Some of the Demand-funding Gap:** Increase in new out-year GO authorization limits would fund between 65 and 79% of requests compared to 56 to 72% based on the recommended limits set last year. GO bond requests exceed the recommended new authorization limit by \$550 for fiscal 2014. Over the five-year planning period, requests exceed capacity by almost \$3.2 billion.

GO Bond Requests as Percentage of Limit
Fiscal 2014-2018
(\$ in Millions)



GO: general obligation

Source: Department of Budget and Management

Use of General Obligation Bond Program to Support Operating Budget Relief

Fiscal 2010-2013

(\$ in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<p>Special Fund Revenue Replacement: Partial general obligation (GO) bond replacement for special fund revenue transfers from multiple capital program accounts to the general fund. Transferred revenue sources include transfer tax, Bay Restoration Fund, Waterway Improvement Fund, and various housing programs. The GO bonds authorizations reflects partial repayment over a multi-year repayment plan.</p>	\$31.2	\$98.4	\$133.7	\$107.0
<p>Fund Balance Replacement: Partial GO bond replacement for unexpended fund balance from multiple capital program accounts transferred to the general fund. Transferred revenue sources include transfer tax, Bay Restoration Fund, Waterway Improvement Fund, and various housing programs. The GO bonds authorizations reflects partial repayment over a multi-year repayment plan.</p>	141.3	176.9	71.8	0.0
<p>InterCounty Connector Funding: Multi-year plan to use GO bond funds in place of general funds statutorily committed for the InterCounty Connector.</p>	55.0	89.3	46.2	0.0
<p>Medevac Helicopter Replacement: Multi-year plan to use GO bond funds to fund the replacement of the Medevac helicopter fleet in place of using special funds from the Helicopter Replacement Fund.</p>	52.5	0.0	22.7	38.5
<p>Use of GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds: This principally includes funding for grant and loan programs administered by the Department of Housing and Community Development and the Maryland Department of the Environment and use of bonds to fund the Aging Schools Program.</p>	28.1	45.7	36.9	83.5
Total	\$308.1	\$414.3	\$311.3	\$229.0

Fiscal 2010 through 2013 Fund Transfers and Multi-year General Obligation Bond Replacement Plan (\$ in Millions)

Program	<u>Transfers</u>				<u>Fund Replacement</u>							Total Amount of Fund Transfers to Be Replaced in the CIP	Not Replaced	
	Special Fund Balances	Special Funds 2010	Special Funds 2011	Special Funds 2012	Special Funds 2013	Total Transfers	Replaced 2010	Replaced 2011	Replaced 2012	Replaced 2013	Replaced 2014			Replaced 2015
Waterway Improvement Program	\$12.5	\$0.0	\$3.9	\$1.1	\$0.0	\$17.5	\$0.0	\$10.2	\$7.3	\$0.0	\$0.0	\$0.0	\$17.5	\$0.0
Program Open Space (POS) – Stateside	172.3	4.6	13.1	24.2	14.7	228.9	172.3	11.0	4.8	12.8	15.1	7.9	223.9	4.9 ***
POS – Local	103.1	0.0	12.4	24.0	13.6	153.1	0.0	54.1	23.6	46.6	17.9	10.9	153.1	0.0
Rural Legacy	10.6	0.0	12.6	14.2	12.8	50.2	0.0	17.0	4.5	5.6	9.4	4.9	41.4	8.9 ***
Ocean City Beach Replenishment – POS	2.1	0.0	1.0	1.0	0.0	4.1	0.0	3.1	1.0	0.0	0.0	0.0	4.1	0.0
Ocean City Beach Replenishment – Local	3.4	0.0	0.0	0.0	0.0	3.4	0.0	3.4	0.0	0.0	0.0	0.0	3.4	0.0
Natural Resources Development Fund	17.7	0.0	0.0	4.6	4.2	26.5	0.0	10.1	3.5	8.9	0.0	0.0	22.5	4.0 *
Critical Maintenance Program	3.2	0.0	3.2	4.0	4.0	14.4	0.0	6.3	3.0	4.0	0.0	0.0	13.3	1.0 *
Dam Rehabilitation Program	0.7	0.0	0.0	0.5	0.0	1.2	0.0	0.2	1.0	0.0	0.0	0.0	1.2	0.0
House Assessment Program	0.9	0.0	0.0	0.0	0.0	0.9	0.0	0.3	0.4	0.1	0.0	0.0	0.8	0.2 *
Hurricane Isabel Funds	0.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2 *
Neighborhood Business Development	3.6	0.0	3.2	0.0	0.0	6.8	0.0	6.7	0.0	0.0	0.0	0.0	6.7	0.1 **
Community Legacy Program	0.4	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.0	0.0	0.0	0.0	0.4	0.0
Homeownership Programs	0.0	0.0	3.0	1.5	0.0	4.5	0.0	3.0	1.5	0.0	0.0	0.0	4.5	0.0
Special Loan Programs	2.1	0.0	2.5	2.2	0.0	6.8	0.0	4.7	2.2	0.0	0.0	0.0	6.9	0.0
Tobacco Transition Program	0.0	0.0	2.0	1.5	1.9	5.4	0.0	2.0	1.5	1.9	0.0	0.0	5.4	0.0
Agricultural Land Preservation Program	10.0	0.0	11.8	21.1	16.2	59.1	0.0	17.8	4.4	8.7	12.7	6.1	49.7	9.4 ***
Bay Restoration Fund	205.0	0.0	45.0	40.0	0.0	290.0	0.0	125.0	146.8	18.2	0.0	0.0	290.0	0.0
Helicopter Replacement Fund	113.7	0.0	0.0	0.0	0.0	113.7	52.5	0.0	22.7	38.5	0.0	0.0	113.7	0.0 ****
Total	\$661.5	\$4.6	\$113.7	\$139.9	\$67.4	\$987.1	\$224.8	\$275.3	\$228.2	\$145.3	\$55.1	\$29.8	\$958.5	\$28.7

* Indicates amount not to be replaced based on other budget priorities or funds not needed to complete projects.

**The Budget Reconciliation and Financing Act (BRFA) of 2011 included the transfer of \$2.1 million of special funds from the Neighborhood Business Development Program that was replaced with \$2.1 million in general obligation (GO) bonds. The 2012 capital budget bill deletes the bonds replaced in recognition that the program received \$2.1 million of special fund appropriation through budget amendment, thereby making the replacement unnecessary.

*** In the 2010 session, the General Assembly also reduced the fiscal 2011 GO bond amount for the Maryland Agricultural Land Preservation Foundation (MALPF) by \$4.0 million to reflect the availability of special funds available from funds not used by the Maryland Agricultural and Resource-Based Industry Development Corporation. In the 2011 session, the General Assembly reduced the fiscal 2012 GO bond amount for Rural Legacy by \$4.6 million which is not being replaced. In the 2012 session, the General Assembly reduced the fiscal 2013 GO bond replacement funding for Stateside Program Open Space (POS) by \$4.908 million, Rural Legacy by \$4.267 million, and MALPF by \$5.418 million and made no provision to replace these funds in future years choosing instead to redirect the funds to provide additional funding for shovel ready environmental and natural resources projects.

**** Helicopter Replacement Fund transfers include both fund balance transfers and revenue diversions – the amount needed to complete the new fleet purchase will exceed the amount transferred, therefore, the amount shown as replacement only reflects replacement of the transfers and diversions.

Preauthorizations Included in 2012 MCCBL for 2013 through 2015 Sessions

<u>Project Title</u>	<u>2013 Session</u>	<u>Amount over CIP</u>	<u>2014 Session</u>	<u>2015 Session</u>
BPW: Old Senate Chamber	\$5,100,000	\$3,000,000		
DNR: Program Open Space – Local	17,846,000	2,753,000	\$10,899,000	
DNR: Program Open Space – Stateside	15,093,000	0	7,900,000	
DNR: Rural Legacy	9,456,000	0	4,867,000	
MDA: Agricultural Land Preservation Program	12,653,000	0	6,134,000	
DHMH: Henryton Center – Demolition	3,050,000	0		
DPSCS: House of Correction Deconstruction	3,022,000	3,022,000		
UMCP: New Bioengineering	5,000,000	5,000,000		
TU: Campuswide Safety and Circulation	7,812,000	7,812,000		
FSU: Center for Communications and Info. Tech.	4,700,000	0		
CSU: New Science and Technology Center	47,050,000	0		
SU: New Library	4,000,000	4,000,000	49,000,000	\$51,200,000
UMBC: Campuswide Safety and Circulation	10,000,000	10,000,000		
UMBC: New Performing Arts Complex	30,600,000	0		
USM: Biomedical Sciences Engineering Shady Grove	5,000,000	5,000,000		
MHEC: Community College Grant Program	30,437,000	1,100,000		
MSU: New School of Business Complex	43,550,000	0	3,050,000	
DJS: Southern Maryland Children's Center	2,068,000	0		
DSP: Helicopter Replacement	24,250,000	0	8,000,000	
MISC: InterCounty Connector	21,475,000	0		
MISC: Ocean City Convention Center Expansion	3,500,000	3,500,000		
MISC: Maryland School for the Blind	5,000,000	5,000,000		
MISC: Johns Hopkins High Performance Data Center	12,000,000	12,000,000	15,000,000	
MISC: Southern Maryland Higher Education Center	10,000,000	10,000,000		
MISC: St. Mary's County Detention Center	6,266,000	1,266,000		
Total	\$338,928,000	\$73,453,000	\$104,850,000	\$51,200,000

BPW: Board of Public Works
 CSU: Coppin State University
 DNR: Department of Natural Resources
 DHMH: Department of Health and Mental Hygiene
 DPSCS: Department of Public Safety and
 DSP: Department of State Police
 FSU: Frostburg State University
 MCCBL: Maryland Consolidated Capital Bond Loan
 MDA: Maryland Department of Agriculture
 MDE: Maryland Department of Environment

MHEC: Maryland Higher Education Commission
 MSU: Morgan State University
 SU: Salisbury University
 TU: Towson State University
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park
 USM: University System of Maryland Office

State Debt Policy

Capital Debt Affordability Committee Recommends Increasing Authorizations

- The recommendation is to increase authorizations by \$150 million annually from fiscal 2014 to 2018, adding \$750 million.
-

Cost of Increasing GO Bond Authorizations by \$750 Million Fiscal 2014-2022 (\$ in Millions)

<u>Fiscal Year</u>	<u>Increase in Authorizations</u>	<u>Additional Debt Service</u>
2014	\$150.0	\$0.5
2015	150.0	3.3
2016	150.0	8.0
2017	150.0	16.2
2018	150.0	28.0
2019	0.0	41.3
2020	0.0	53.8
2021	0.0	65.0
2022	0.0	72.3

GO: general obligation

Source: Department of Legislative Services

State Debt Policy (cont.)

State Debt Is within Affordability Ratios

- The Capital Debt Affordability Committee advises the General Assembly on State debt policy. The committee's policy is that State tax-supported debt outstanding should not exceed 4% of Maryland personal income, and State tax-supported debt service payments should not exceed 8% of State revenues.
-

State Affordability Ratios Fiscal 2013-2022

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as % of Revenues</u>
2013	3.35%	6.54%
2014	3.35%	6.88%
2015	3.30%	7.07%
2016	3.19%	7.31%
2017	3.07%	7.43%
2018	2.96%	7.46%
2019	2.86%	7.20%
2020	2.74%	6.98%
2021	2.55%	6.79%
2022	2.55%	6.78%

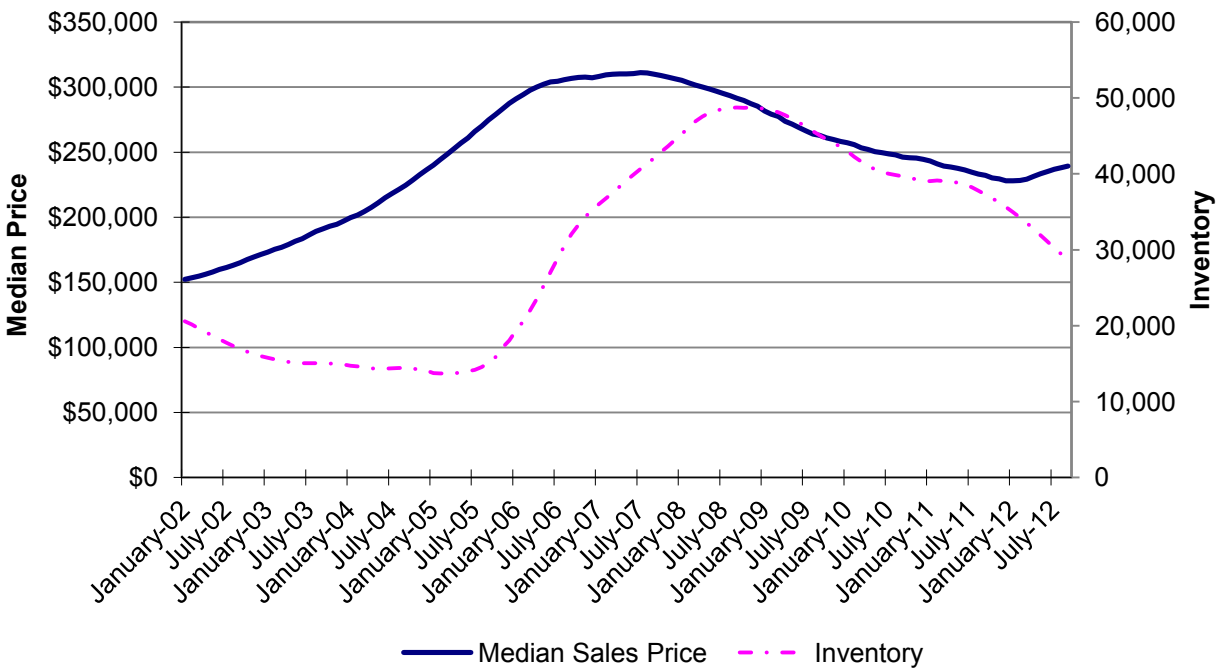
Source: Department of Legislative Services

State Debt Policy (cont.)

Annuity Bond Fund (ABF) Supports General Obligation (GO) Bond Debt Service Costs

- State property taxes are the ABF's largest revenue source. The current State property tax rate is \$0.112 per \$100 of assessable base.
- House prices peaked in calendar 2007. Year-over-year house prices declined for 55 uninterrupted months. Prices have increased since February 2012.

Maryland Housing – Median Prices and Inventory 12-month Moving Average January 2002 to September 2012



Source: Maryland Association of Realtors

State Debt Policy (cont.)

GO Bond Debt Service Costs Exceed State Property Tax Revenues

Estimated Annuity Bond Fund (ABF) Activity Fiscal 2013-2018 (\$ in Millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Special Fund Revenues						
State Property Tax Receipts	\$728	\$726	\$720	\$728	\$735	\$754
Bond Sale Premiums ¹	136	105	97	19	0	0
Other Revenues	3	3	3	3	3	3
Fund Balance Transferred from Prior Year	182	147	10	1	1	1
Subtotal Special Fund Revenues Available	\$1,050	\$981	\$829	\$750	\$739	\$757
General Funds	\$0	\$0	\$211	\$392	\$475	\$537
Reimbursable Funds	2	6	6	6	7	7
Federal Funds	12	12	12	12	12	12
Total Revenues	\$1,063	\$1,000	\$1,059	\$1,160	\$1,232	\$1,313
Projected Debt Service Expenditures	\$916	\$990	\$1,058	\$1,160	\$1,231	\$1,312
ABF End-of-year Fund Balance	\$147	\$10	\$1	\$1	\$1	\$1

¹ Estimated bond premiums total \$62.1 million in March 2013, \$47.4 million in August 2013, \$57.7 million in March 2014, \$48.4 million in August 2014, \$48.4 million in March 2015, and \$18.8 million in August 2015.

Source: Department of Legislative Services

- In fiscal 2014, estimated GO bond debt service costs exceed State property tax revenues by \$264 million. Prior year fund balances and bond premiums are expected to be sufficient to fully fund debt service in fiscal 2014. However, estimates could be revised substantially due to:
 - **Revised Property Tax Estimates:** For example, the November 2004 revision added \$17 million to the State property tax revenue estimate;
 - **Interest Rates Changes:** Either increasing the true interest cost or reducing the coupon rate by a combination of 0.25% (25 basis points) reduces the projected March 2013 premium by \$12 million; or
 - **The Amount of Bonds Sold:** Adding \$25 million to the sale adds \$3 million to the premium.

State Debt Policy (cont.)

Additional Costs Attributable to Limiting Additional Authorizations to Two Years Fiscal 2014-2022 (\$ in Millions)

<u>Fiscal Year</u>	<u>Increase in Authorizations</u>	<u>Additional Debt Service</u>
2014	\$150.0	\$0.5
2015	150.0	3.3
2016	0.0	7.3
2017	0.0	12.9
2018	0.0	20.2
2019	0.0	25.5
2020	0.0	28.9
2021	0.0	30.9
2022	0.0	31.7

Source: Department of Legislative Services

- Increasing GO bond authorizations adds to the out-year revenue shortfall.
- Authorizations are increased beyond the current term.
- It is unclear what the additional authorizations will support.
- The transportation capital program for major projects declines in the out-years.
- **The Department of Legislative Services (DLS) recommends limiting the additional authorizations to two years and reconsider in the 2015 interim. The General Assembly may also consider dedicating a portion, or all of these funds, for transportation.**

Part 6

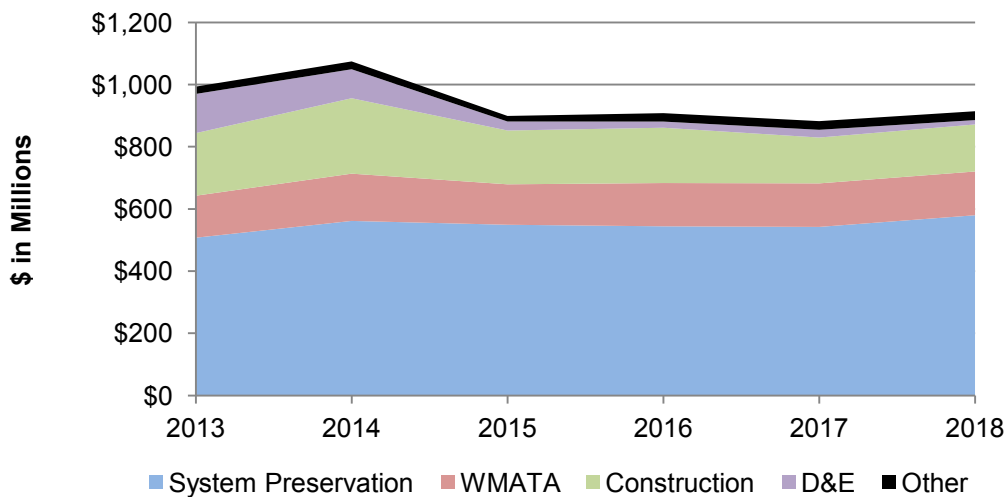
Transportation

Transportation Trust Fund

Maryland Department of Transportation’s (MDOT) Financial Forecast Is Based on Optimistic Assumptions MDOT’s \$5.7 Billion Special Fund Capital Program Could Be Overstated by More Than \$2 Billion

- MDOT has estimated robust growth in the titling tax; however, there is still uncertainty in the economy, and revenues could be less than estimated. Other revenues could be adversely impacted should the economy contract.
 - While MDOT has been able to constrain operating budget growth in recent fiscal years, the long-term forecast of constrained operating budget spending appears unrealistic. In particular, estimates of total transit spending, winter maintenance, and employee compensation appear to be underbudgeted.
 - MDOT assumes almost \$1.9 billion in bonds over the six-year period to support capital spending. If revenues and/or spending do not meet the estimates, then MDOT’s ability to issue debt could be severely curtailed.
 - **The special fund capital program put forth by MDOT likely represents the best case scenario for capital spending moving forward.**
-

The Special Fund Transportation Capital Program Will Largely Be Spent On System Preservation Projects Fiscal 2013-2018



D&E: development and evaluation

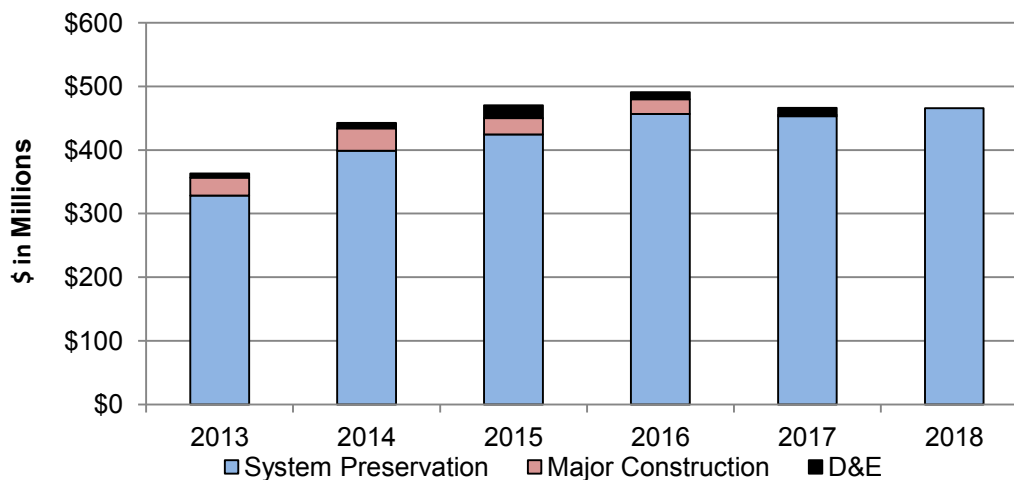
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2013-2018 draft *Consolidated Transportation Program*

Transportation Capital Program Funding Issues

- Funding of system preservation and the Washington Metropolitan Area Transit Authority (WMATA) represent the first draws on capital spending. Over the six-year period, funding for these obligations account for anywhere from 65 to 79% of spending in a given fiscal year.
- Major construction spending to enhance and expand the transportation network declines over the six-year period, totaling approximately \$150 million in fiscal 2018. As shown below, by fiscal 2018, there is no funding for major projects or planning of major projects for the State Highway Administration.

By Fiscal 2018 the State Highway Administration's Special Fund Capital Budget Will Only Fund System Preservation Fiscal 2013-2018



D&E: development and evaluation

Source: Maryland Department of Transportation, 2013-2018 draft *Consolidated Transportation Program*

- **Even under MDOT's forecast, its draft fiscal 2013 to 2018 *Consolidated Transportation Program* (CTP) does not include funding for:**
 - construction of the Red and Purple Lines or the Corridor Cities Transitway;
 - Watershed Implementation Plan obligations after fiscal 2017;
 - the planned intermodal facility in Baltimore City; or
 - highway projects to expand and enhance the network after fiscal 2017.

Alternative Finance and Revenue Options to Construct the Major Transit Lines

- It is estimated that the cost to construct the Purple Line is \$1.9 billion, and the Red Line is \$2.1 billion. The State is assuming federal aid for the construction of the projects, but the State's share of construction will be significant. For example, to construct all three transit lines simultaneously, the State would need an additional \$725 million of revenue in fiscal 2018 based upon the current cash flow plan for construction.
- Instead of relying on traditional revenue sources to construct the transit lines, the State may want to consider alternative transit financing options including:
 - **Public-private Partnerships (P3) Utilizing Availability Payments:** The State could enter into a long-term agreement with a private entity to design, build, finance, operate, and maintain a transit line through availability payments. Availability payments are annual payments to the private contractor for the operating and capital costs of the project.
 - **Transportation Infrastructure Finance and Innovation Act (TIFIA):** A federal loan/credit assistance program that provides below market interest rates for transportation projects.
 - **Value Capture:** Refers to the idea of using the increase in land value due to the construction of a transit project to pay for the construction of that project. This could be accomplished through special taxing districts, developer fees, etc., to support Tax Increment Financing bonds.
 - **Local Option Revenues:** Consideration could be given to authorizing local option revenues (e.g., sales and motor fuel tax) for the construction of a transit line.
 - **General Fund Revenue/General Obligation Bonds (GO):** Other jurisdictions use general fund revenue/general obligation bonds to support transit spending.
- **P3s and federal TIFIA loans are financing options that will still require an increase in revenue to support repayment. In addition, these options are more expensive than either State debt or use of cash for the project.**
- **Value capture and local option revenues are likely to be insufficient as standalone revenue tools to support the construction of the transit lines.**
- **The General Assembly may want to consider dedicating all or a portion of the additional \$150 million in GO bond authorizations to MDOT.**

Transportation Trust Fund Forecast
Fiscal 2012-2018
(\$ in Millions)

	<u>Actual 2012</u>	<u>Est. 2013</u>	<u>Est. 2014</u>	<u>Est. 2015</u>	<u>Est. 2016</u>	<u>Est. 2017</u>	<u>Est. 2018</u>	<u>Total 2013-2018</u>
Opening Fund Balance	\$221	\$187	\$100	\$100	\$100	\$100	\$100	
Closing Fund Balance	\$187	\$100	\$100	\$100	\$100	\$100	\$100	
Net Revenues								
Taxes and Fees	\$1,801	\$1,912	\$2,074	\$2,139	\$2,193	\$2,210	\$2,242	\$12,770
Operating and Miscellaneous	566	495	491	492	501	509	519	3,007
Net Revenues Subtotal	\$2,317	\$2,407	\$2,565	\$2,631	\$2,694	\$2,719	\$2,761	\$15,777
Bonds Sold	\$115	\$100	\$70	\$40	\$30	\$0	\$0	\$240
Total Revenues	\$2,447	\$2,507	\$2,635	\$2,672	\$2,724	\$2,719	\$2,761	\$16,018
Expenditures								
Debt Service	\$174	\$180	\$199	\$213	\$216	\$230	\$220	\$1,258
Operating Budget	1,572	1,660	1,740	1,857	1,965	2,079	2,196	11,497
State Capital	736	754	696	599	543	411	345	3,348
Total Expenditures	\$2,482	\$2,594	\$2,635	\$2,672	\$2,724	\$2,719	\$2,761	\$16,108
Debt								
Debt Outstanding	\$1,459	\$1,565	\$1,504	\$1,397	\$1,271	\$1,093	\$919	
Debt Coverage – Net Income	3.4	3.5	3.2	3.6	3.3	3.1	2.9	
Local Highway User Revenues	\$148	\$158	\$166	\$170	\$174	\$174	\$177	\$1,018
HUR Transfer to GF	\$187	\$0	\$0	\$0	\$0	\$0	\$0	\$187
Capital Summary								
State Capital	\$736	\$754	\$696	\$599	\$543	\$411	\$345	\$3,348
Net Federal Capital (Cash Flow)	690	835	769	514	368	350	359	3,195
Subtotal Capital Expenditures	\$1,426	\$1,589	\$1,465	\$1,113	\$911	\$761	\$704	\$6,543
GARVEE Debt Service	\$87	\$87	\$87	\$87	\$87	\$87	\$87	\$525

GARVEE: Grant Anticipation Revenue Vehicle

GF: general fund

HUR: highway user revenue

TTF: Transportation Trust Fund

Note: Numbers may not sum due to rounding.

Part 7

Employees

Regular Full-time Equivalent Position Changes Fiscal 2002 Actual to Fiscal 2014 Baseline

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2013 Legis. Appropriation</u>	<u>2002-2013 Change</u>	<u>2014 Baseline</u>	<u>2013-2014 Change</u>
Health and Human Services					
Health and Mental Hygiene	8,555	6,446	-2,109	6,449	4
Human Resources	7,364	6,539	-825	6,539	0
Juvenile Services	2,123	2,133	10	2,081	-52
Subtotal	18,041	15,118	-2,923	15,069	-49
Public Safety					
Public Safety and Correctional Services	11,663	11,050	-612	11,167	117
Police and Fire Marshal	2,590	2,393	-197	2,378	-15
Subtotal	14,252	13,443	-809	13,545	102
Transportation	9,538	8,730	-809	8,730	0
Other Executive					
Legal (Excluding Judiciary)	1,364	1,499	135	1,499	0
Executive and Administrative Control	1,603	1,579	-23	1,617	38
Financial and Revenue Administration	2,151	1,973	-178	1,973	0
Budget and Management	517	451	-66	454	3
Retirement	194	205	12	205	0
General Services	793	576	-217	576	0
Natural Resources	1,618	1,296	-323	1,300	4
Agriculture	480	384	-96	384	0
Labor, Licensing, and Regulation	1,706	1,650	-56	1,650	0
MSDE and Other Education	1,956	1,897	-59	1,949	52
Housing and Community Development	416	317	-99	317	0
Business and Economic Development	324	225	-99	225	0
Environment	1,028	931	-97	932	1
Subtotal	14,149	12,981	-1,168	13,079	98
Executive Branch Subtotal	55,980	50,271	-5,709	50,422	151
Higher Education	21,393	24,727	3,335	24,970	243
Position Reduction*	0	-100	-100	-100	0
Executive and Higher Education Subtotal	77,373	74,899	-2,474	75,293	394
Judiciary	3,010	3,585	575	3,585	0
Legislature	730	748	18	749	1
Grand Total	81,113	79,231	-1,881	79,626	395

MSDE: Maryland State Department of Education

*Required in Section 25 of the Budget Reconciliation and Financing Act of 2012.

Source: Department of Budget and Management; Department of Legislative Services

Description of Position Changes in Fiscal 2014 Baseline Budget

New or Abolished Positions

- Higher education positions were created in fiscal 2013 by the University System of Maryland consistent with Chapter 239 of 2004.
- Department of Public Safety and Correctional Services includes an additional 117 regular positions for the new Dorsey Run Correctional Facility.
- Maryland Health Benefit Exchange receives an additional 33 regular positions that were created by the Board of Public Works as part of the rule of 100. The positions are initially federally funded and will later be supported by fees collected by the exchange.
- The Department of State Police loses 15 regular positions as the resident trooper program in Westminster ends.
- The Department of Natural Resources receives 4 additional positions to support the Harriet Tubman Underground Railroad State Park in Dorchester County.
- The Division of Drug Control in the Department of Health and Mental Hygiene (DHMH) receives 3 positions to support additional inspections of drug dispensing permit holders required by Chapter 267 of 2012.
- The Maryland Insurance Administration receives 2 additional positions to investigate civil insurance fraud as required by Chapter 588 of 2012.
- The Department of Information Technology is provided an additional 2 positions to support operations of the Public Safety Communications System.
- Agencies receiving a single, workload-related increase in positions include the Maryland Energy Administration, the State Labor Relations Board, the Department of Planning, the Department of Legislative Services, and the Department of Budget and Management.

Position Transfers

- The Maryland State Department of Education (MSDE) receives 52 education positions from the Department of Juvenile Services (DJS) to implement the transfer of educational services in DJS facilities from DJS to MSDE.
- The Governor's Office receives 1 position from the Governor's Office on Community Initiatives.
- Chapter 667 of 2012 transfers the State Board of Environmental Sanitarians and 1 regular position from the Maryland Department of the Environment to DHMH.

Analysis of Vacancies and Turnover Rate
Fiscal 2013 Working Appropriation Compared to October 2012 Vacancies

<u>Department/Service Area</u>	<u>Positions</u>	<u>Turnover Rate</u>	<u>Vacancies to Meet Turnover</u>	<u>Vacancies</u>	<u>Vacancies Above or (Below) Turnover</u>
Health and Human Services					
Health and Mental Hygiene	6,446	5.6%	359	630	271
Human Resources	6,539	6.8%	448	477	29
Juvenile Services	2,133	4.2%	89	209	120
Subtotal	15,118	5.9%	893	1,316	420
Public Safety					
Public Safety and Correctional Services	11,050	4.7%	518	469	-49
Police and Fire Marshal	2,393	8.7%	207	168	-40
Subtotal	13,443	5.7%	762	637	-89
Transportation	8,730	3.4%	300	443	143
Other Executive					
Legal (Excluding Judiciary)	1,499	5.7%	85	190	105
Executive and Administrative Control	1,461	4.4%	64	128	64
Financial and Revenue Administration	1,973	4.0%	80	151	71
Budget and Management	451	2.4%	11	58	47
Retirement	202	4.4%	9	18	9
General Services	576	5.9%	34	40	6
Natural Resources	1,296	6.4%	83	95	12
Agriculture	384	4.6%	18	29	11
Labor, Licensing, and Regulation	1,650	4.1%	68	115	47
MSDE and Other Education	1,897	6.5%	122	177	54
Housing and Community Development	317	3.9%	12	54	42
Business and Economic Development	225	4.1%	9	16	7
Environment	931	6.2%	58	64	6
Subtotal	12,860	5.1%	657	1,135	482
Executive Branch Subtotal	50,150	5.2%	2,593	3,530	957

MSDE: Maryland State Department of Education

Source: Department of Budget and Management; Department of Legislative Services

Contractual Full-time Equivalent Positions Fiscal 2002 Actuals to 2014 Baseline

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2011 Actual</u>	<u>2012 Work. Approp.</u>	<u>2013 Leg. Approp.</u>	<u>2014 Baseline</u>
Health and Human Services					
Health and Mental Hygiene	409	319	370	396	396
Human Resources	111	102	73	73	73
Juvenile Services	119	86	108	107	107
Subtotal	639	508	550	576	576
Public Safety					
Public Safety and Correctional Services	298	270	345	404	404
Police and Fire Marshal	46	31	29	29	29
Subtotal	344	301	374	433	433
Transportation	142	86	140	132	132
Other Executive					
Legal (Excluding Judiciary)	99	47	48	49	53
Executive and Administrative Control	208	236	204	205	202
Financial and Revenue Administration	35	49	43	53	53
Budget and Management	33	16	10	13	13
Retirement	30	11	15	15	15
General Services	35	25	36	33	33
Natural Resources	332	401	389	386	388
Agriculture	36	45	45	44	44
Labor, Licensing, and Regulation	176	237	245	263	263
MSDE and Other Education	218	242	286	304	304
Housing and Community Development	49	33	76	78	78
Business and Economic Development	49	10	14	16	16
Environment	32	30	51	56	56
Subtotal	1,332	1,381	1,460	1,513	1,516
Executive Branch Subtotal	2,457	2,275	2,524	2,655	2,658
Higher Education	6,079	6,356	6,247	6,286	6,286
Judiciary	371	390	405	446	446
Grand Total	8,907	9,022	9,176	9,387	9,390

MSDE: Maryland State Department of Education

Source: Department of Budget and Management; Department of Legislative Services

**Employee and Retiree Health Insurance Funding
Fiscal 2011 Actual to Fiscal 2014 Estimate
(\$ in Millions)**

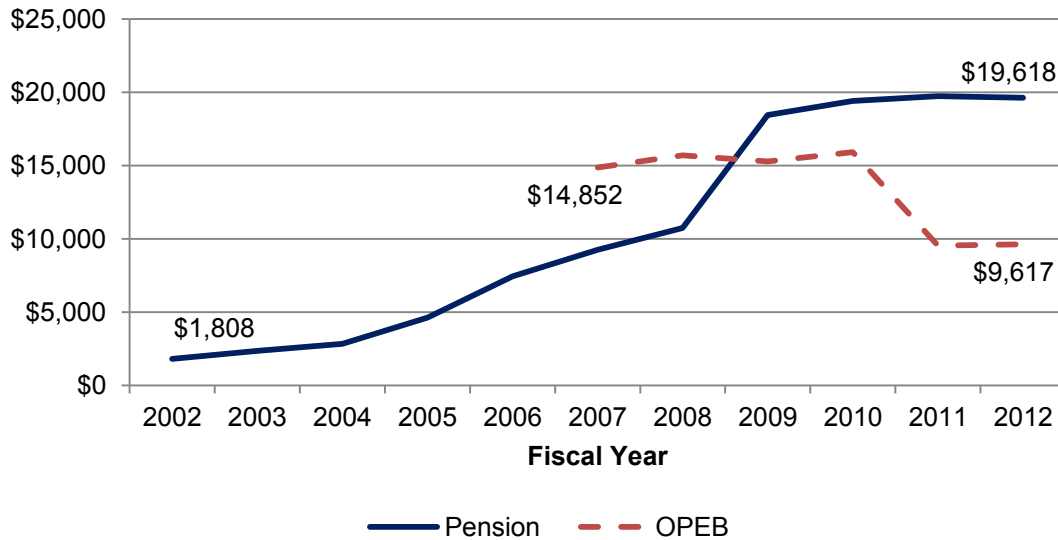
	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Budget</u>	<u>2014 Estimate</u>
Beginning Balance	\$185	\$162	\$172	\$151
Receipts				
Agencies (Employer Contribution)	\$921	\$985	\$1,046	\$1,111
Employees/Retirees Contribution	227	239	248	258
Rebates, Recoveries, and Other	33	42	16	16
Total Receipts	\$1,180	\$1,266	\$1,310	\$1,385
% Growth in Receipts	0.6%	7.3%	3.5%	5.7%
Expenditures				
Payments	\$1,203	\$1,256	\$1,331	\$1,411
% Growth in Payments	6.8%	4.4%	6.0%	6.0%
Ending Balance	\$162	\$172	\$151	\$125

- State agency appropriations are now expected to exceed \$1 billion.
- State has shifted the share of cost increases to State employees and retirees by:
 - increasing prescription drug co-pay and higher out-of-pocket limits in fiscal 2012; and
 - adding co-pays with an out-of-pocket maximum for Preferred Provider Organization (PPO) and Point of Service (POS) plans in fiscal 2013.
- Some revenues are also expected to decline as Medicare Part D is directed to the general fund and federal Early Retirement Reinsurance Program reimbursements end.
- Out-year costs are expected to increase consistent with recent trends:
 - June 2012 open enrollment data shows a shift from PPO and POS into Exclusive Provider Organization (EPO) as EPO gained approximately 19,000 enrollees, PPO lost 11,000 enrollees, and POS lost 9,000 enrollees; and
 - cost data will need to be evaluated to determine the effect on costs.

Source: Department of Budget and Management; Department of Legislative Services

State Retirement and Pension System and Other Postemployment Benefits

Unfunded Actuarial Liabilities (\$ in Millions)



OPEB: Other Post Employment Benefits

Source: State Retirement Agency; Department of Budget and Management

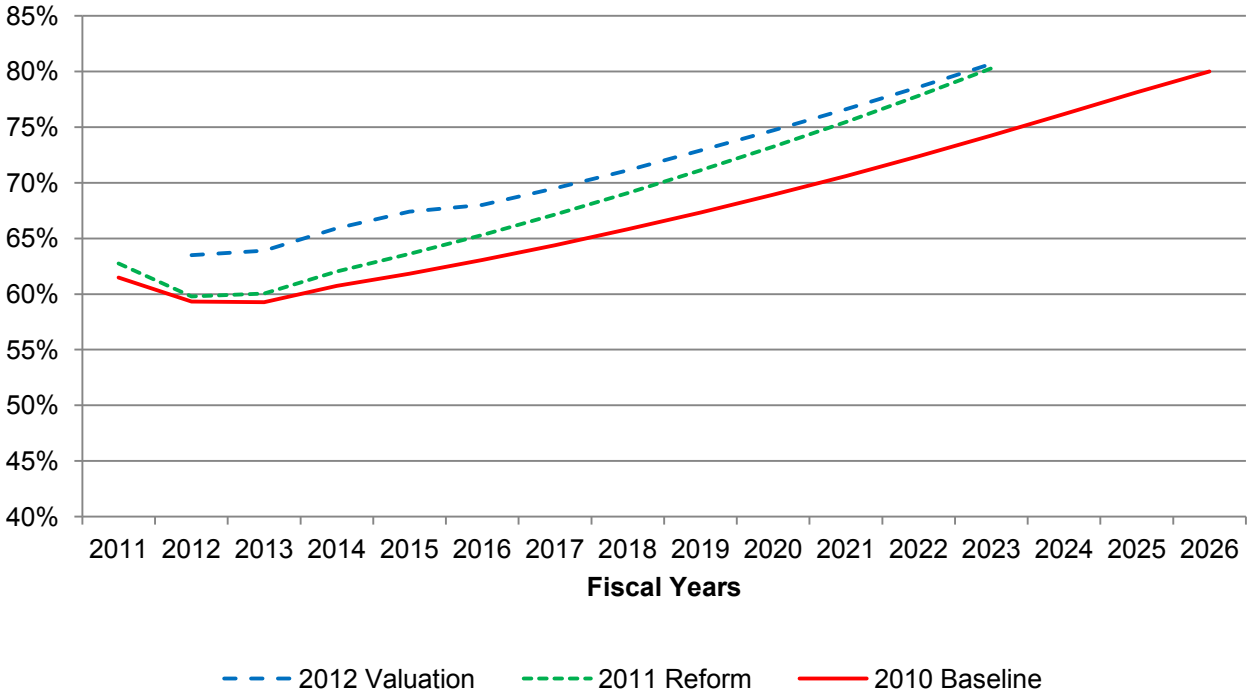
- The growth of unfunded pension liabilities accelerated dramatically during the financial market collapse of 2008-2009, when the fund experienced back-to-back annual investment losses of 5.4 and 20.0%.
- Pension benefit and funding reforms adopted during the 2011 session curbed the growth of unfunded liabilities, which are now projected to begin to decline in fiscal 2013.
- Retiree health benefit and eligibility changes adopted during the 2011 session reduced the State's other postemployment benefit (OPEB) liability by \$6.3 billion.

Breakdown of State Pension Contribution Increase

	(\$ in Millions)
Projected Fiscal 2013 State Pension Contribution	\$1,549.0
Increased Reinvestment	108.6
Demographic Assumption Changes	24.3
Experience and Corridor	110.1
Projected Fiscal 2014 State Pension Contribution	\$1,792.0

- The largest single factor contributing to the increase in State pension contributions from fiscal 2013 to 2014 is the mandated increase in the reinvestment of savings generated by the 2011 pension reforms into the pension trust fund. The reinvestment increases from \$191.4 million to \$300.0 million.
- Changes in demographic assumptions used in the actuarial valuation of liabilities and assets, which were adopted by the Board of Trustees to align them more closely with actual experience, resulted in a net increase in contributions of \$24.3 million.

80% Funded Ratio Projections State Retirement and Pension System



Source: State Retirement Agency; Department of Legislative Services

- At the time they were proposed, the 2011 pension benefit and funding reforms were projected to enable SRPS to reach the 80% funded level three years earlier than it otherwise would.
- Two years later, the system is still on track to achieve the 80% funded level by fiscal 2023.

Part 8

Video Lottery Terminals

Video Lottery Terminals (VLTs) and Senate Bill 1 of the Second Special Session of 2012

Existing VLT Licensees/Awardees

- The Video Lottery Facility Location Commission has awarded video lottery operation licenses for each of the five geographic locations approved by the voters in 2008.
- Facilities in Anne Arundel, Cecil, and Worcester counties are currently operating. The facility in Allegany County at the Rocky Gap Lodge and Resort is scheduled to open in mid-2013, and the facility in Baltimore City is scheduled to open in mid-2014.

Senate Bill 1

- **Question 7:**
 - increases the number of video lottery operation licenses authorized from five to six, and also authorizes a license for a 3,000 VLT facility in Prince George's County;
 - increases the statewide cap on VLTs from 15,000 to 16,500; and
 - authorizes video lottery operation licensees to offer table games.
- **Additional Provisions Contingent on or Related to Question 7:**
 - authorizes 24 hour per day operations at video lottery facilities;
 - provides/authorizes additional marketing and capital improvement allowances for the Anne Arundel County, Baltimore City, and Cecil County licensees after issuance of a license in Prince George's County; and
 - reduces from 7 to 6% the percentage of VLT revenues dedicated to the Purse Dedication Account for horse racing purses and bred funds.
- **Provisions Not Contingent on Question 7:**
 - shifts VLT procurement from the State to licensees, except in Allegany and Worcester counties;

- increases the operator share for the Worcester County licensee beginning in fiscal 2014, assuming a certain amount of annual capital improvements are made at the facility; and
 - increases the operator share for the Allegany County licensee after 10 years of operations, assuming a certain amount of annual capital improvements are made at the facility.
-
- **Impacts of Question 7 Passing Statewide and in Prince George's County:**
 - 24 hour per day operations may begin at existing facilities;
 - State Lottery and Gaming Control Commission will develop procedures for facilities to request table games, with operations expected to begin in spring 2013; and
 - Location Commission may issue a Request for Proposals for the Prince George's County license.

Increase in Revenues to the Education Trust Fund under Senate Bill 1
(\$ in Millions)

	<u>2013</u>	<u>2014</u>	<u>2016</u>	<u>2017</u>	<u>2019</u>
Video Lottery Terminals (VLT)	\$11	\$15	\$37	\$66	\$88
Table Games	7	27	50	50	55
Shift of VLT Costs to Licensees	0	0	34	59	56
License Fees*		18			
Total to Education Trust Fund	\$18	\$60	\$121	\$175	\$199

*Assumes license awarded for Prince George's County and the facility opening in July 2016.

Part 9

Fiscal Cliff

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)

<u>Federal Agency</u>	<u>Federal Fiscal 2013</u>
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	BRE	DLS	DLS	Difference Over Baseline		
	<u>Estimate</u> ¹	<u>Sept. 2012</u> ²	<u>Sequester</u> ³	<u>Fiscal Cliff</u> ⁴	<u>BRE</u>	<u>Sequester</u>	<u>Fiscal Cliff</u>
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	BRE	DLS	DLS	Difference Over Baseline		
	<u>Estimate</u>	<u>Sept. 2012</u>	<u>Sequester</u>	<u>Fiscal Cliff</u>	<u>BRE</u>	<u>Sequester</u>	<u>Fiscal Cliff</u>
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 indefinitely.

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 indefinitely.

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

R&D: Research and Development

Part 10

Reserve Fund

State Reserve Fund Activity
Fiscal 2013 and 2014
(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>
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		
<hr/> Estimated Balances 6/30/14	<hr/> \$766.3	<hr/> \$0.0	<hr/> \$1.0
Balance in Excess of 5% GF Revenues	\$0.5		