Spending Affordability Committee

2013 Interim Report

Annapolis, Maryland
December 2013

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MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 18, 2013

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 2013 interim. These recommendations were adopted by the committee at its meeting on December 18, 2013. 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 2015 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,

Senator James E. DeGrange, Sr.
Presiding Chair

Delegate John L Bohanan, Jr.
House Chair

Enclosure

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MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 18, 2013

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 2013 interim. These recommendations were adopted by the committee at its meeting on December 18, 2013. 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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Spending Affordability Committee
2013 Interim
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Contents

2013 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 includes 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 6.7 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. By 2009 the ratio reached 7.4%, the highest level since 1991, in part due to falling income. Conversely, rising income and reduced State spending caused the ratio to drop to 7.1% in 2010; the rate has fluctuated between 7.1 and 7.3% since.

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.

Prior Recommendations and Legislative Action on the Operating Budget

($ in Millions)

Session Year	Committee Recommendation: Growth Rate	Committee Recommendation: Amount	Legislative Action: Growth Rate	Legislative Action: Amount
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%	
2013	Reduce FY 2014 structural deficit by $200 million			-211.2

[1] 2000 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%.

[2] Methodology revised effective with the 2001 session.

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

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

[5] Spending 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 138,000 jobs. Nominal personal income fell in 2009, the first decline in the post-World War II era. But recently revised data shows the decline was much smaller than previously believed (0.3% versus 2.2%). In the first six months of 2013, personal income was up 1.8%, and wage and salary income was up 1.0%.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since December 2012. BRE's new forecast revised down expected income growth in 2013 based on the weak performance in 2012 and in the first quarter of 2013. At the same time, BRE revised up its estimate of capital gains income growth in 2012 (from 35 to 50%) and in 2013 (from a decline of 10% to an increase of 10%) due to strong fundamentals in both financial markets and the housing market. In December 2013, BRE issued a new economic forecast that revised 2013 income growth down slightly based on the second quarter data but revised up expected growth in 2014 to 4.6%. BRE further increased their forecast of capital gains income in 2013 to growth of 20% based on the strong stock market performance through early December.

Revenues

Fiscal 2013 general fund revenues were below the estimate by $71.2 million. General fund revenues (including revenues transferred to the Budget Restoration Fund) totaled $14.9 billion in fiscal 2013, an increase of 4.4% over fiscal 2012. The share of the corporate income tax going to the Transportation Trust Fund (TTF) was lowered from 24.0% in fiscal 2012 (excluding the first 15.15%) to 9.5% in fiscal 2013. Adjusted for this distribution change, baseline general fund growth in fiscal 2013 was 3.5%.

Fiscal 2014 general fund revenues through November are up 1.9% over fiscal 2013. Changes in the distribution of corporate income revenues distort the year-to-year comparison. In fiscal 2014, the share of the corporate income tax going to the TTF increased to 19.5% (excluding the first 15.15% of net receipts). Adjusting for that law change, general fund revenues are up 2.4%. In September, BRE lowered its estimate for fiscal 2014 general fund revenues by $61.9 million reflecting the underattainment in fiscal 2013. In December, BRE reduced its general fund estimate for fiscal 2014 by $101.1 million in part due to distributing an extra $99.5 million to the local income tax reserve account to work down the underfunding of the account. BRE increased the revenue estimate for fiscal 2015 by $143.7 million reflecting improved income tax revenue and additional sales tax receipts from online sales when the Amazon distribution center in Baltimore opens plus one-time revenues of about $31 million. The fiscal 2015 revenues estimate does not include any extra distributions to the local income tax reserve account.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2013, the committee is currently projecting an ending general fund deficit of $188.6 million at the close of fiscal 2014, meaning that the Administration will need to take action to reduce spending or identify additional revenues to balance the current fiscal year. This projected deficit takes into account anticipated spending shortfalls requiring fiscal 2014 deficiency appropriations totaling $264.0 million. Areas which are expected to require deficiency funding include loss of special fund revenue, provider payments, and audit penalties in the Department of Health and Mental Hygiene; foster care, legal services, and child support enforcement programs in the Department of Human Resources; additional panel attorneys in the Office of the Public Defender; student assessment contracts; and personnel and operating expenses in several agencies.

The baseline estimate for fiscal 2015 projects general fund growth of 3.6% when capital and reserve fund appropriations are included, resulting in an ending deficit of $390.5 million. The most significant drivers of general fund growth are Medicaid, where rate increases and enrollment growth will require an additional $199.9 million. This increase takes into account the savings that will accrue by transitioning clients of the Primary Adult Care Program into federally paid coverage through the Affordable Care Act. Debt service payments are projected to require $150.0 million from general funds due to slow growth of property tax revenues. Provider increases and annualization of caseloads in various health programs will add $55.0 million. State spending for education aid formulas increase by $88.8 million due primarily to a 0.5% increase in the per-pupil foundation amount.

Growth in mandated formulas is projected to be relatively modest for fiscal 2015. Grants for local health departments, police aid, arts, and county libraries each increase by $1.0 million or less. Support for community colleges and private higher education increase by $18.8 million and $4.6 million, respectively, largely in response to significant spending growth at the public four-year institutions.

State personnel costs, including higher education, increase by $190.5 million in general funds. A 3% general salary increase effective January 1, 2014, is annualized, as are the employee increments effective April 1, 2014; together, these add $124.7 million. The baseline assumes a 2% general salary increase for fiscal 2015, with a general fund cost of $68.4 million. Health insurance costs decline by $98.2 million due to available balances within the Employee Health and Welfare Benefits Fund, and employee retirement costs grow by $34.1 million.

The committee projects the State will close fiscal 2014 with a balance of $764.2 million in the Rainy Day Fund, which represents 5% of general fund revenues. The statutorily mandated appropriation for fiscal 2015 will be $228.2 million, representing the unappropriated general fund balance in excess of $10.0 million at the close of fiscal 2013. The baseline assumes that funds in excess of 5% of general fund revenues will be transferred to the general fund, leaving a balance at the close of fiscal 2015 of $802.6 million.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2014 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%. In its 2013 report, the committee recommended that the fiscal 2014 structural deficit be reduced by at least $200 million.

The baseline projection for fiscal 2015 results in an estimated structural deficit of $361.9 million, which is estimated to narrow to approximately $79.9 million in fiscal 2018 when the full impact of authorized gaming revenues are realized. **In recognition of this outlook, the committee recommends that the fiscal 2015 budget as introduced and enacted grow at a rate of no more than 4% (as calculated for Spending Affordability purposes) and at the same time resolve at least $125 million of the general fund structural gap.**

2. Rainy Day Fund

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 2015 of $802.6 million, which would maintain the balance at 5% of estimated fiscal 2015 general fund revenues. The Governor will be required to include $228.2 million for the Rainy Day Fund in the fiscal 2015 allowance, based on the unappropriated general fund surplus above $10.0 million from the fiscal 2013 closeout.

The committee recommends that the balance in the Rainy Day Fund be maintained at or above 5% of estimated revenue. This balance is 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 $1,160 million in GO bonds may be authorized at the 2014 session. CDAC has recommended that an additional $375 million be added to the GO bond authorization over the next five years with a primary use of the funds to meet the State transportation Watershed Implementation Plan obligations, allowing for greater investment in transportation projects. The committee believes that, given the current economic climate and the projected increase of general fund support for debt service, and although the proposed increase falls within the existing ratios and guidelines, caution should be exercised at this time. **For this reason, the committee supports the additional $75 million for fiscal 2015 but recommends that the *Capital Improvement Program* (CIP) submitted at the 2014 legislative session not incorporate the $300 million increase for fiscal 2016 through 2019 to allow for further consideration of how to best fund these obligations in the future. To implement this recommendation, the committee further recommends that the level of new GO bond authorizations programmed in the 2014 session five-year CIP remain at current programmed levels as follows: $1,095 million in fiscal 2016; $1,105 million in fiscal 2017; $1,200 million in fiscal 2018; and $1,240 million in fiscal 2019.**

B. Higher Education Debt

For fiscal 2015, the University System of Maryland (USM) intends to issue up to $32 million in academic debt, the same amount as issued in fiscal 2014. This total includes $5 million to support a long-term campuswide infrastructure improvement program at the University of Maryland, College Park, which began in fiscal 2013. This level of issuance will result in a debt 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 2015. **The committee concurs in the recommendation of CDAC that $32 million in new academic revenue bonds may be authorized at the 2014 session for USM.**

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 79,832 at the start of fiscal 2014. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 50,436 in fiscal 2014. More than 3,600 positions have been added in higher education during this period.

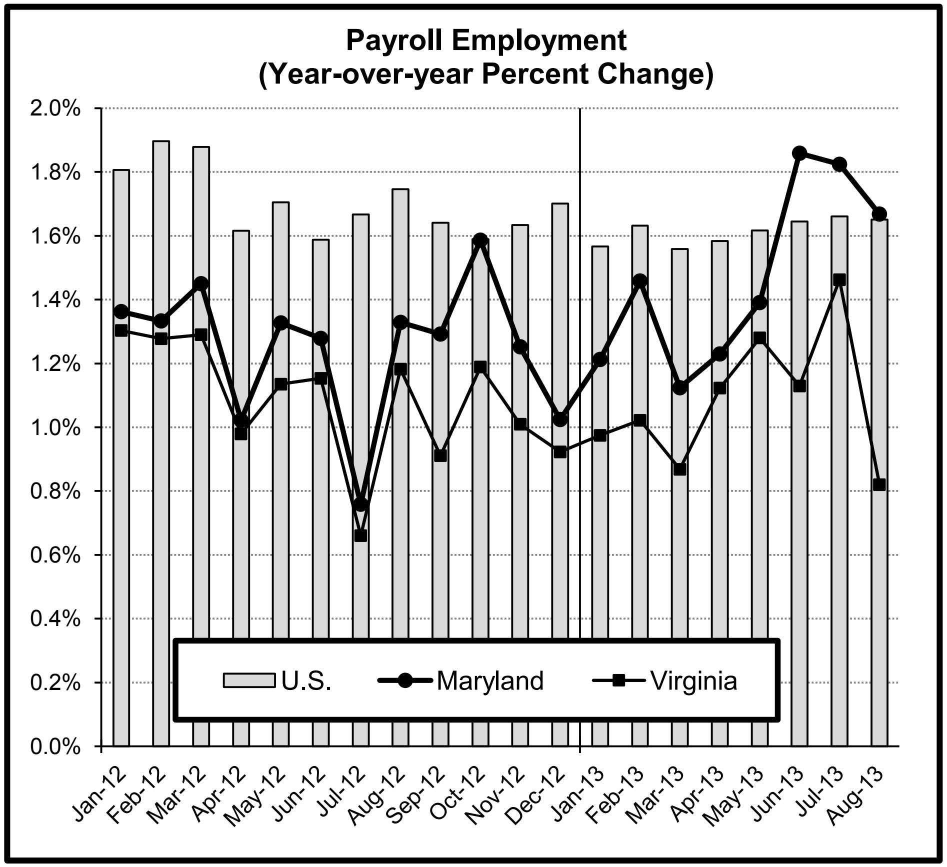
To date, in fiscal 2014, 24.7 positions have been created by the Board of Public Works, and 352 positions have been added in higher education as authorized by statute.

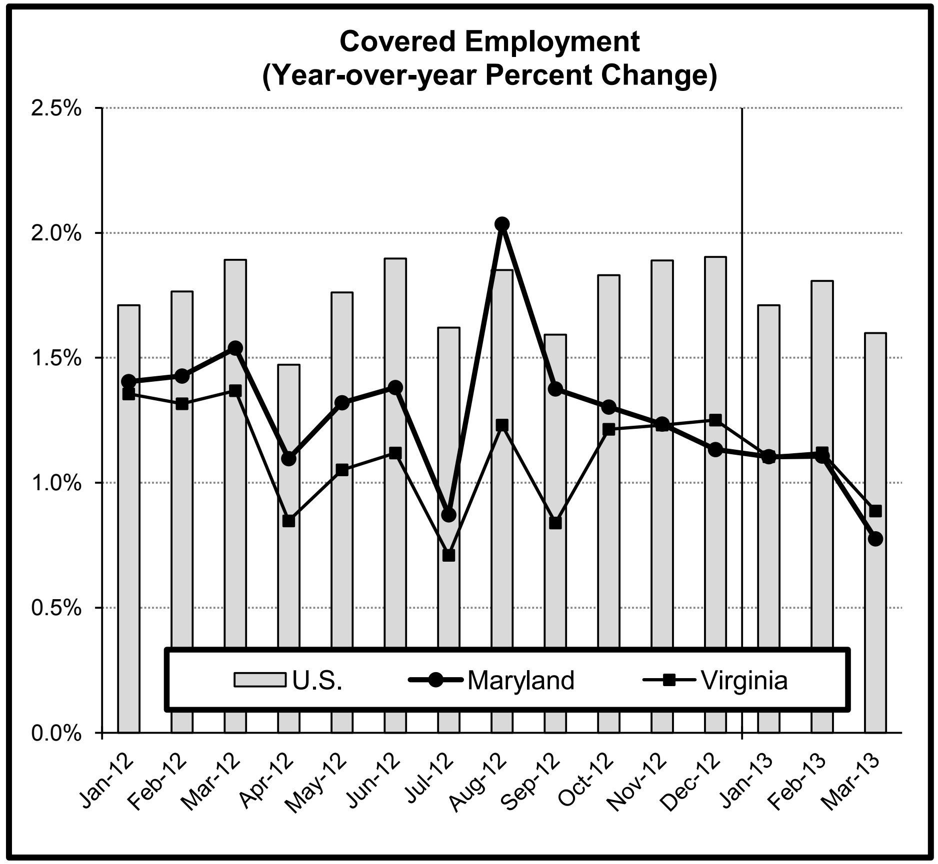
DLS has estimated the need for a workforce of 80,738 positions to maintain services in fiscal 2015, which includes positions to open new facilities, implement legislation, and address certain workload demands. **The committee finds that given the State's fiscal condition, 80,688 positions are appropriate for the delivery of State services. The fiscal 2015 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 (1) increase the number of correctional officer positions (up to 100); (2) increase the number of public defenders and related personnel in response to the *DeWolfe v. Richmond* decision (up to 333); (3) allow for the conversion of contractual employees; and (4) address deficiencies identified in legislative audits.**

Part 1

Economic Outlook

LABOR MARKET

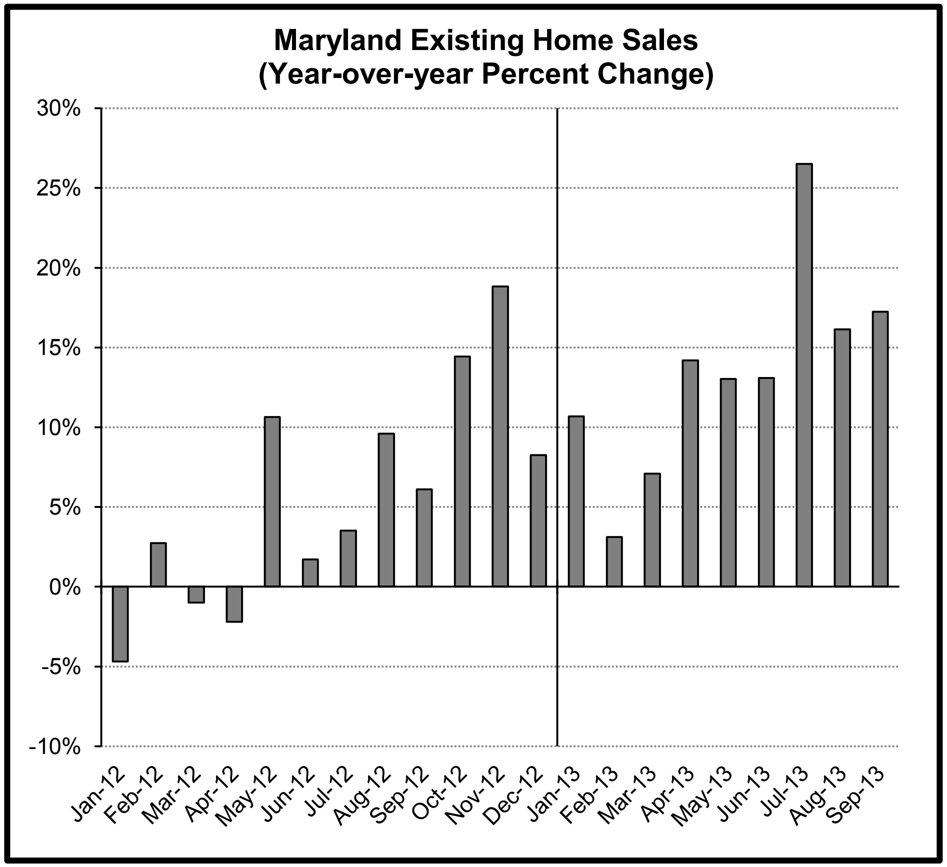




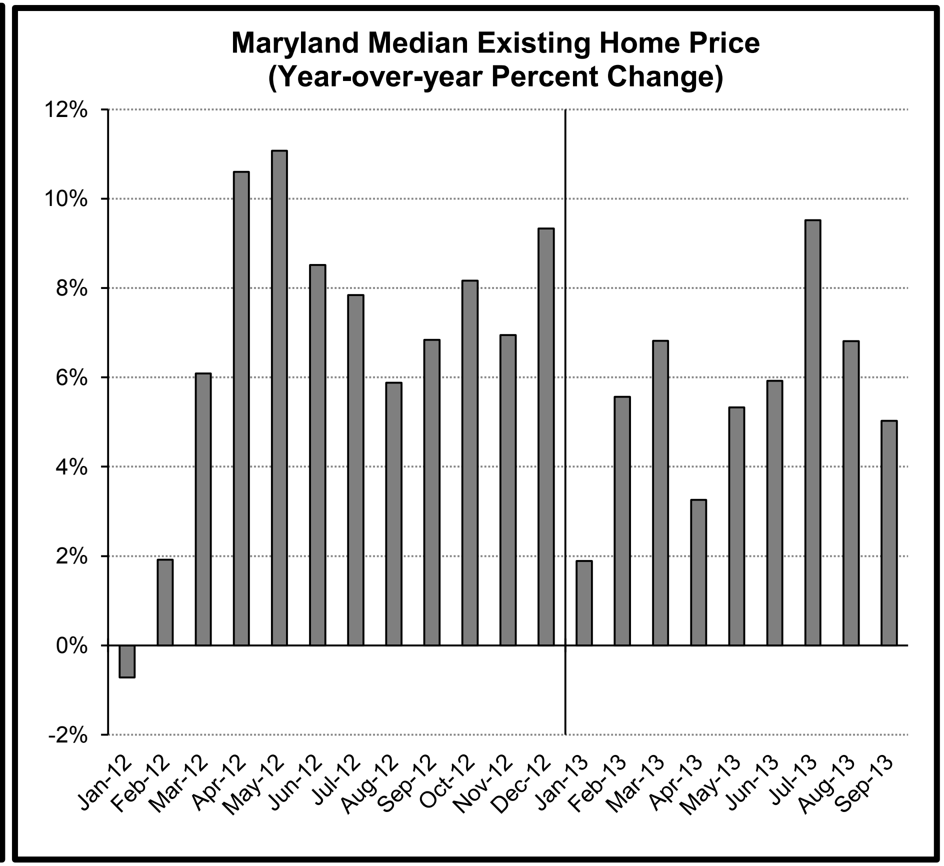
Payroll employment data comes from the monthly Current Establishment Survey (CES). This series shows Maryland employment growth accelerating sharply through the first half of 2013. Maryland generally grew slower than the United States, but faster than Virginia over this time period. In June, July, and August, the CES data shows Maryland growth faster than or even with the United States. 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's employment growth did not outpace either the United States or Virginia in the first quarter of 2013. Maryland, in fact, experienced employment growth similar to Virginia. Both states saw growth decelerate from late 2012 through the first quarter of 2013.

HOUSING MARKET



Maryland Existing Home Sales (Year-over-year Percent Change)

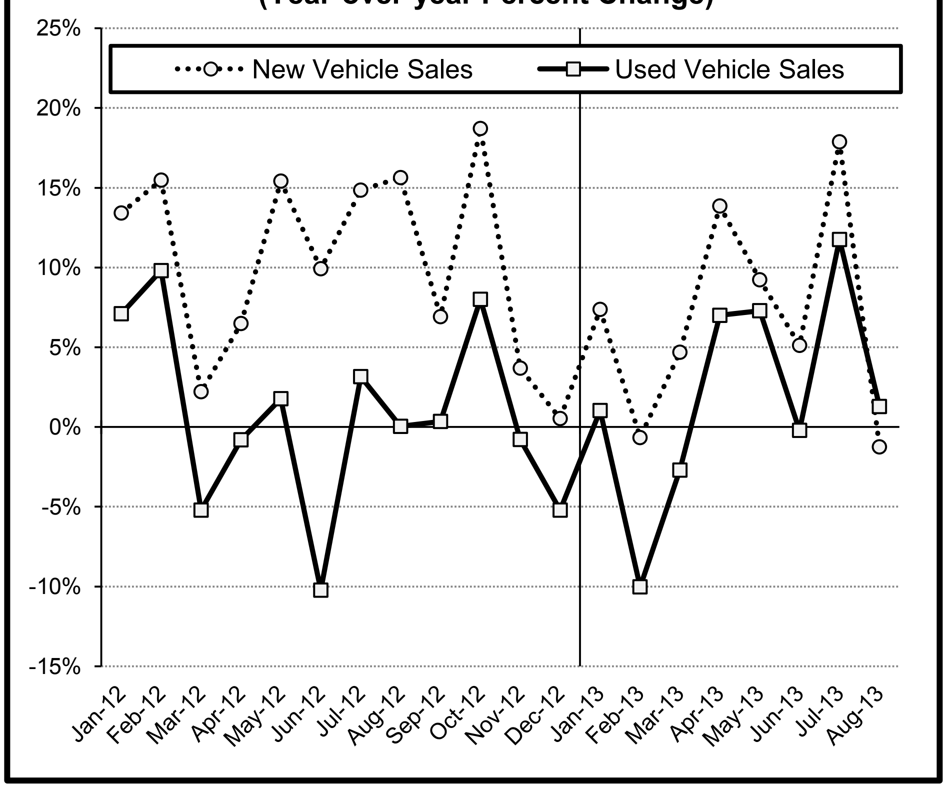


Maryland Median Existing Home Price (Year-over-year Percent Change)

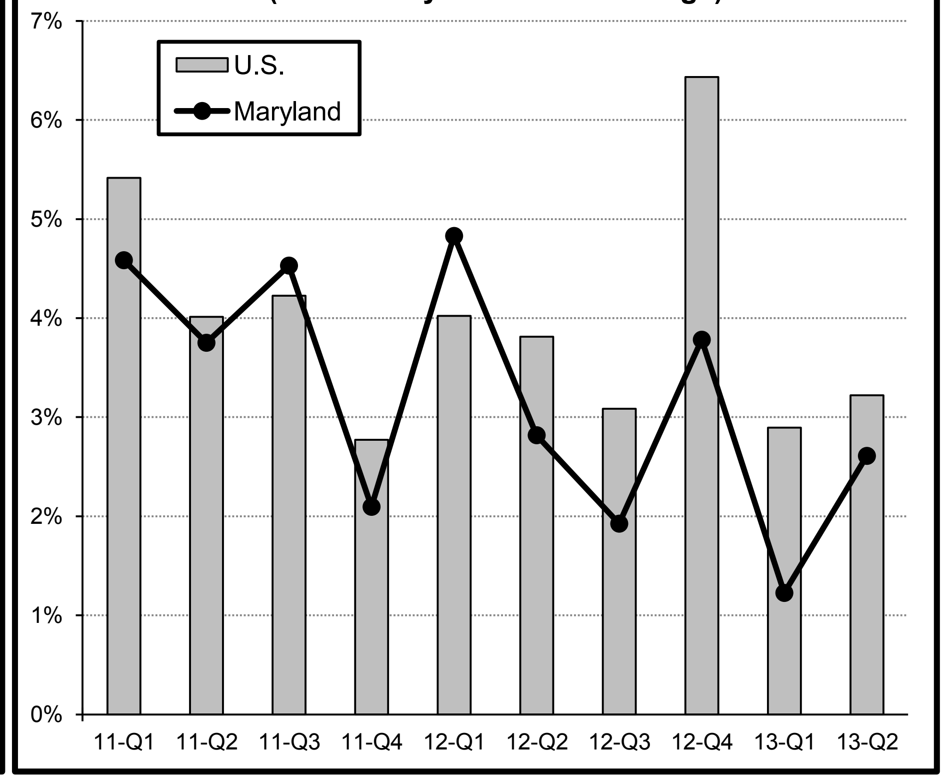
Maryland's existing housing market began to turn around in early 2012. Existing home sales have increased on a year-over-year basis for 16 straight months, the longest streak of growth since the federal homebuyers tax credit expired in June 2010. Home sales increased 5.6% in 2012 after falling 5.8% in 2011. In the first 9 months of 2013, sales are up 14.1% according to data from the Maryland Association of Realtors.

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 four and a half years. Prices continued to increase every month since, rising 5% in September 2013. The inventory of homes for sale fell rapidly during 2012 (down around 25%), which may be a factor behind the growth in the median price. The inventory-to-sales ratio from June-August was around four, the lowest it has been since 2006.

CONSUMER MARKET



Maryland Vehicle Sales (Year-over-year Percent Change)



Wage and Salary Income (Year-over-year Percent Change)

Vehicle sales were weak even prior to the recession, falling each year from 2005 to 2009. Sales grew 4.2% in 2010, 2.2% in 2011, and 3.4% in 2012. In each of those years, new vehicle sales grew much stronger than used sales. In 2012, new car sales were up 10.1%, while used car sales grew just 0.3%. That pattern has continued in 2013 with new car sales up 7.1% and used sales up 1.9% in the first eight months. In August, however, new vehicle sales fell for the first time since February. The average new vehicle price is up 1.6% in 2013, while the averaged used price is up 3.7%.

Wage and salary income growth has generally decelerated over the past few years. In the last five quarters, wage growth in Maryland has trailed the United States mirroring the State's slower employment growth. The spike in the fourth quarter of 2012 probably reflects additional or accelerated bonus payments given out prior to the increase in federal income tax rates for higher income individuals that went into effect in 2013.

Maryland Economic Forecasts
Year-over-year Percent Change

Calendar	Employment		Personal Income	
Year	Dec. 2012	Sep. 2013	Dec. 2012	Sep. 2013
2010	-0.2%	-0.2%	3.5%	2.7%
2011	1.1%	1.1%	5.0%	5.6%
2012	1.2%	1.2%	4.1%	3.5%
2013E	0.9%	1.2%	2.8%	2.1%
2014E	1.5%	1.5%	4.9%	4.3%
2015E	1.8%	1.8%	5.2%	4.3%
2016E	1.8%	1.8%	5.2%	4.6%

Calendar	Wage and Salary Income		Taxable Capital Gains Income*	
Year	Dec. 2012	Sep. 2013	Dec. 2012	Sep. 2013
2010	2.1%	2.2%	18.2%	18.2%
2011	3.6%	3.7%	15.0%	26.7%
2012	3.8%	3.3%	35.0%	50.0%
2013E	3.4%	2.0%	-10.0%	10.0%
2014E	3.9%	3.9%	10.0%	6.0%
2015E	4.4%	4.4%	8.0%	4.0%
2016E	4.5%	4.5%	8.0%	6.0%

* Calendar 2012 figures are estimates for both December 2012 and September 2013.

Note: Personal income and wage income for 2010-2012 under the September 2013 column reflect the latest revised data from the U.S. Bureau of Economic Analysis (BEA).

Source: Board of Revenue Estimates; U.S. Bureau of Labor Statistics; U.S. Internal Revenue Service; BEA

Part 2

General Fund Revenues

Fiscal 2013 General Fund and Budget Restoration Fund Revenues

($ in Millions)

Source	FY 2012 Actual	FY 2013 Estimate*	FY 2013 Actual	FY 2013 Difference	FY 2012-2013 Percent Change Estimated	FY 2012-2013 Percent Change Actual
Personal Income Tax	$7,114.7	$7,686.1	$7,691.4	$5.3	8.0%	8.1%
Sales and Use Tax	4,039.3	4,074.5	4,067.8	-6.7	0.9%	0.7%
State Lottery	536.3	526.2	526.0	-0.2	-1.9%	-1.9%
Corporate Income Tax (1)	646.5	872.9	818.2	-54.7	35.0%	26.6%
Business Franchise Taxes	207.2	203.4	201.6	-1.8	-1.9%	-2.7%
Insurance Premiums Tax	304.0	314.5	303.8	-10.8	3.5%	-0.1%
Estate and Inheritance Taxes	196.9	217.8	234.6	16.8	10.6%	19.2%
Tobacco Tax	411.4	417.8	415.9	-1.9	1.6%	1.1%
Alcohol Beverages Tax	31.0	31.1	31.2	0.1	0.3%	0.5%
Motor Vehicle Fuel Tax (2)	5.0	13.0	13.0	0.0	160.0%	160.0%
District Courts	79.4	77.0	75.5	-1.5	-3.0%	-4.9%
Clerks of the Court	35.1	40.0	38.5	-1.5	13.8%	9.7%
Hospital Patient Recoveries	66.4	60.9	64.5	3.6	-8.3%	-2.9%
Interest on Investments	17.9	10.0	14.5	4.5	-44.2%	-19.0%
Miscellaneous	380.0	393.5	371.1	-22.4	3.5%	-2.3%
Subtotal	***$14,071.1***	***$14,938.7***	***$14,867.5***	***-$71.2***	***6.2%***	***5.7%***
Highway User Revenue (3)	$186.7					
GAAP Transfer		$17.5	$17.5	$0.0		
Total Revenues	**$14,257.8**	**$14,956.2**	**$14,885.0**	**-$71.2**	**4.9%**	**4.4%**

GAAP: generally accepted accounting principles

* From the Board of Revenue Estimates, March 2013, with adjustments for action at the 2013 legislative session.

(1) The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) 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, baseline general fund corporate income tax revenues were up 8.5% in fiscal 2013.

(2) The BRFA of 2011 diverted $5.0 million in motor fuel tax revenue to the general fund that would otherwise have gone to the Chesapeake Bay 2010 Trust Fund for fiscal 2012 through 2015 and $4.6 million in fiscal 2016. The BRFA of 2012 diverted $8.0 million in motor fuel tax revenue to the Budget Restoration Fund (BRF) that otherwise would have gone to the Chesapeake Bay 2010 Trust Fund. The $13.0 million in fiscal 2013 is thus a combination of $5.0 million for the general fund and $8.0 million for the BRF.

(3) The BRFA 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 BRFA of 2011 lowered the fiscal 2012 distribution to 11.3% and eliminated the distribution starting in fiscal 2013.

Fiscal 2014 General Fund Revenues

($ in Millions)

	Fiscal Year through September			
Source	**FY 2013**	**FY 2014**	**$ Difference**	**% Difference**
Personal Income Tax	$1,397.3	$1,501.8	$104.5	7.5%
Sales and Use Tax [(1)]	680.5	688.7	8.2	1.2%
State Lottery	120.8	119.7	-1.1	-0.9%
Corporate Income Tax [(2)]	208.0	161.1	-46.9	-22.5%
Business Franchise Taxes	38.9	46.6	7.7	19.8%
Insurance Premiums Tax	76.8	87.6	10.8	14.1%
Estate and Inheritance Taxes	46.8	44.8	-2.0	-4.2%
Tobacco Tax	84.2	77.3	-6.9	-8.2%
Alcohol Beverages Tax	5.2	5.3	0.1	1.6%
Motor Vehicle Fuel Tax	2.2	1.1	-1.1	-50.2%
District Courts	22.2	23.1	0.9	4.2%
Clerks of the Court	12.1	14.8	2.8	23.0%
Interest and Miscellaneous [(3)]	34.3	44.2	9.9	28.9%
Total Revenues	**$2,729.1**	**$2,816.0**	**$86.9**	**3.2%**

[(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 (BRFA) of 2011 increased the Transportation Trust Fund's share of the corporate income tax from 9.5% of net receipts (excluding the first 15.15%) in fiscal 2013 to 19.5% in fiscal 2014. Adjusted for this law change, general fund corporate income tax receipts would be down 14.1% and total general fund revenues would be up 4.0%.

[(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 BRFA of 2012 (Chapter 1 of the First Special Session).

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2013 Actual	FY 2014 Estimate Mar.	FY 2014 Estimate Sept.	FY 2014 Estimate Difference	% Change over FY 2013	FY 2015 Estimate	% Change over FY 2014
Personal Income Tax	$7,691.4	$7,958.8	$8,072.8	$114.1	5.0%	$8,446.5	4.6%
Sales and Use Tax	4,067.8	4,223.7	4,192.5	-31.1	3.1%	4,352.6	3.8%
State Lottery [1]	526.0	528.2	508.2	-20.0	-3.4%	481.6	-5.2%
Corporate Income Tax [2]	818.2	822.6	755.5	-67.1	-7.7%	824.9	9.2%
Business Franchise Taxes	201.6	204.8	198.0	-6.8	-1.8%	200.9	1.5%
Insurance Premiums Tax	303.8	319.2	297.3	-21.8	-2.1%	293.6	-1.2%
Estate and Inheritance Taxes	234.6	218.6	227.1	8.4	-3.2%	230.5	1.5%
Tobacco Tax	415.9	417.7	409.4	-8.3	-1.6%	408.5	-0.2%
Alcohol Beverages Tax	31.2	31.7	31.5	-0.2	1.0%	32.0	1.7%
Motor Vehicle Fuel Tax [3]	13.0	5.0	5.0	0.0	-61.5%	5.0	0.0%
District Courts	75.5	78.3	75.9	-2.4	0.5%	75.8	-0.1%
Clerks of the Court	38.5	39.8	39.3	-0.5	2.0%	41.0	4.1%
Hospital Patient Recoveries	64.5	60.1	60.1	0.0	-6.8%	51.1	-15.0%
Interest on Investments	14.5	15.0	15.0	0.0	3.4%	20.4	35.7%
Miscellaneous	371.1	381.6	355.5	-26.1	-4.2%	322.2	-9.4%
Subtotal	***$14,867.5***	***$15,305.1***	***$15,243.2***	***-$61.9***	***2.5%***	***$15,786.6***	***3.6%***
Transfer Tax		$89.2	$89.2			$75.1	
GAAP Transfer	$17.5						
Total Revenues	**$14,885.0**	**$15,394.3**	**$15,332.4**	**-$61.9**	**3.0%**	**$15,861.7**	**3.5%**

GAAP: generally accepted accounting principles

[1] Per Senate Bill 1 of the Second Special Session of 2012, lottery agent commissions increased from 5.0 to 5.5% on January 1, 2013, and will rise to 6.0% in fiscal 2015 when the Baltimore City casino opens. Fiscal 2015 also reflects a $20 million distribution to the Stadium Authority required by the Baltimore City Public Schools Construction and Revitalization Act of 2013 (Chapter 647).

[2] The Budget Reconciliation and Financing Act (BRFA) 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 fiscal 2014 and 2015, the share increases to 19.5%. Adjusted for this law change, baseline general fund corporate income tax revenues are projected to increase 2.5% in fiscal 2014 and total revenues would be up 3.6%.

[3] The BRFA of 2011 diverted $5.0 million in motor fuel tax revenue to the general fund that would otherwise have gone to the Chesapeake Bay 2010 Trust Fund for fiscal 2012 through 2015, and $4.6 million in fiscal 2016. The BRFA of 2012 diverted $8.0 million in motor fuel tax revenue to the Budget Restoration Fund (BRF) that otherwise would have gone to the Chesapeake Bay 2010 Trust Fund. The $13.0 million in fiscal 2013 is thus a combination of $5.0 million for the general fund and $8.0 million for the BRF.

Note: The estimate from March 2013 has been adjusted for actions taken at the 2013 legislative session. The fiscal 2013 actual shows general fund revenues before the transfer of $276.5 million to the BRF required by the BRFA of 2012 (Chapter 1 of the First Special Session).

Source: Board of Revenue Estimates

"Updated as of December 11, 2013"

Maryland General Fund Revenue Forecast
($ in Millions)

Source	FY 2013 Actual	FY 2014 Estimate Sep.	FY 2014 Estimate Dec.	FY 2014 Estimate Difference	% Change over FY13	FY 2015 Estimate Sep.	FY 2015 Estimate Dec.	FY 2015 Estimate Difference	% Change over FY14
Personal Income Tax	$7,691.4	$8,072.8	$8,042.1	-$30.7	4.6%	$8,446.5	$8,551.0	$104.4	6.3%
Sales and Use Tax	4,067.8	4,192.5	4,150.7	-41.9	2.0%	4,352.6	4,365.2	12.6	5.2%
State Lottery	526.0	508.2	501.1	-7.1	-4.7%	481.6	502.7	21.1	0.3%
Corporate Income Tax [1]	818.2	755.5	716.8	-38.7	-12.4%	824.9	783.2	-41.7	9.3%
Business Franchise Taxes	201.6	198.0	211.8	13.8	5.1%	200.9	215.4	14.5	1.7%
Insurance Premiums Tax	303.8	297.3	310.1	12.8	2.1%	293.6	317.9	24.3	2.5%
Estate and Inheritance Taxes	234.6	227.1	203.3	-23.8	-13.4%	230.5	224.3	-6.3	10.3%
Tobacco Tax	415.9	409.4	413.0	3.6	-0.7%	408.5	412.0	3.5	-0.2%
Alcohol Beverages Tax	31.2	31.5	30.9	-0.6	-1.0%	32.0	31.4	-0.6	1.7%
Motor Vehicle Fuel Tax	13.0	5.0	5.0	0.0	-61.5%	5.0	5.0	0.0	0.0%
District Courts	75.5	75.9	80.7	4.9	7.0%	75.8	75.8	0.0	-6.1%
Clerks of the Court	38.5	39.3	48.0	8.7	24.5%	41.0	49.8	8.9	3.8%
Hospital Patient Recoveries	64.5	60.1	56.9	-3.2	-11.7%	51.1	57.4	6.3	0.9%
Interest on Investments	14.5	15.0	15.0	0.0	3.4%	20.4	20.4	0.0	35.7%
Miscellaneous	371.1	355.5	355.9	0.4	-4.1%	322.2	318.9	-3.3	-10.4%
Subtotal	**$14,867.5**	**$15,243.2**	**$15,141.4**	**-$101.8**	**1.8%**	**$15,786.6**	**$15,930.3**	**$143.7**	**5.2%**
Transfer Tax	0.0	89.2	89.2	0.0	n.a.	75.1	75.1	0.0	n.a.
GAAP Transfer	17.5	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	n.a.
Total Revenues	**$14,885.0**	**$15,332.4**	**$15,230.6**	**-$101.8**	**2.3%**	**$15,861.7**	**$16,005.3**	**$143.7**	**5.1%**

GAAP: generally accepted accounting principles

[1] 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 fiscal 2014 and 2015, the share will rise to 19.5%.

Note: The fiscal 2013 actual shows 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

Part 3

General Fund Budget and Forecast

Potential Fiscal 2014 General Fund Deficiencies
($ in Millions)

Health and Mental Hygiene: Loss of Cigarette Restitution Funds due to arbitration ruling ($70.0 million); Medicaid enrollment and utilization ($46.6 million); DDA federal audit penalty ($20.6 million); DDA community services shortfall in fiscal 2013 and 2014 ($20.5 million); MCHP enrollment and utilization ($7.3 million); and other ($2.0 million)	$167
Human Resources: Foster care maintenance payments shortfall in fiscal 2013 ($19.3 million); Legal Services shortfall in fiscal 2013 and 2014 ($3.7 million); Child Support Enforcement federal fund underattainment ($2.0 million)	25
Public Defender: Panel attorneys to meet the court requirements of the *DeWolfe v. Richmond* decision ($18.8 million) and normal staffing shortfalls for panel attorneys ($3.2 million)	22
Education: Assessment contract ($11.9 million); Quality Teacher Incentives ($6.5 million); study to improve charter school program ($0.5 million); and additional school construction staff ($50,000)	19
Public Safety and Correctional Services: Overtime ($6.5 million); Baltimore City Detention Center operations ($6.5 million); inmate food and other supplies ($5.2 million); and other ($0.8 million)	19
Higher Education: Health manpower and statewide programs grants ($3.0 million); community college optional retirement program ($0.5 million); and Riley Scholarships ($0.4 million)	4
Juvenile Services: Overtime ($2.0 million) and emergency facility maintenance projects ($1.0 million)	3
Other: Comptroller ($1.7 million); State Police ($1.6 million); General Services ($1.0 million); Veterans Affairs ($0.8 million); Baltimore City Convention Center ($0.6 million); Judiciary ($0.3 million); State Prosecutor ($0.1 million); and other ($0.1 million)	6
Total	**$264**

DDA: Developmental Disabilities Administration
MCHP: Maryland Children's Health Program

"Revised October 30, 2013"

Status of the General Fund

Fiscal 2014
($ in Millions)

Starting Balance		**$501.9**
Revenues		
BRE Estimated Revenue	$15,394.3	
Revenue Revision September 2013	-61.9	
Total		**$15,332.4**
Transfers		
Sustainable Communities and Biotechnology Tax Credits	$18.0	
Total		**$18.0**
Funds Available		**$15,852.2**
Spending		
Fiscal 2014 Allowance	$15,705.1	
Estimated Deficiencies	264.0	
Estimated Agency Reversions	-30.0	
Net Expenditures		**$15,939.0**
Ending Balance		**-$86.8**

Menu of Spending Offsets	
Education Trust Fund Overattainment	$23.0
Debt Service Fiscal 2014 Bond Premiums	78.8
MEA SEIF Overattainment Withdraw PAYGO	7.2
Cost Containment	100.0

The Case of the Disappearing Fund Balance

Estimated Fiscal 2014 Closing Fund Balance/Revised Tax Credits	$294.8
Fiscal 2013 Closeout	-55.7
DLS Estimated Deficiencies	-264.0
BRE September 2013 Revenue Revision	-61.9
Revised Fiscal 2014 Closing Fund Balance	-$86.8

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

MEA: Maryland Energy Administration

PAYGO: pay-as-you-go

SEIF: Strategic Energy Investment Fund

2015 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

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

Caseload Assumptions

	FY 2013	FY 2014	FY 2015	% Change FY 2014-2015
Pupil Enrollment*	823,452	827,999	832,278	0.5%
Medicaid	838,958	870,622	900,450	3.4%
Children's Health	111,132	116,472	121,389	4.2%
Expansion under Affordable Care Act		93,255	114,863	23.2%
Temporary Cash Assistance	67,876	62,717	57,647	-8.1%
Foster Care/Adoption/Guardianship	15,386	15,518	15,550	0.2%
Adult Prison Population	21,111	21,164	21,361	0.9%

* Data for fiscal 2013, 2014, and 2015 reflect September 2011, September 2012, and September 2013 (est.) full-time equivalent enrollments.

2015 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance claims cost (6.0%).
- Vehicle gas and oil (4.2%).
- Medical contracts and supplies (3.9%).
- Prescription drugs for State facilities (3.9%).
- Postage (2.5%).
- Natural gas and propane (2.2%).
- Food (2.1%).
- Electricity (1.5%).

Employee Compensation

- Annualization of 3.0% general salary increase to be implemented on January 1, 2014, and the partial-year employee increments to be awarded in April 2014.
- General salary increase of 2.0% effective July 2014 and funding for employee increments on regular July-January schedule.

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 2013 ratio of general funds to tuition and fees; a 3.0% tuition increase is assumed.

State Expenditures – General Funds
Fiscal 2013-2015
($ in Millions)

Category	2013 Adjusted Work. Appr.	2014 Leg. Appr.	2015 Baseline	2014-2015 $ Change	2014-2015 % Change
Debt Service	$0.0	$83.0	$233.0	$150.0	180.7%
County/Municipal	159.0	245.0	244.4	-0.6	-0.3%
Community Colleges	252.4	286.6	307.7	21.1	7.4%
Education/Libraries	5,448.0	5,762.8	5,669.0	-93.8	-1.6%
Health	37.3	40.0	41.1	1.0	2.5%
Aid to Local Governments	***$5,896.7***	***$6,334.5***	***$6,262.2***	***-$72.3***	***-1.1%***
Foster Care Payments	$234.3	$237.9	$230.9	-$7.1	-3.0%
Assistance Payments	101.0	76.4	61.2	-15.3	-20.0%
Medical Assistance	2,312.1	2,334.8	2,534.7	199.9	8.6%
Property Tax Credits	82.0	80.2	83.3	3.0	3.8%
Entitlements	***$2,729.4***	***$2,729.4***	***$2,910.0***	***$180.6***	***6.6%***
Health	$1,473.7	$1,552.8	$1,636.3	$83.6	5.4%
Human Resources	326.8	337.8	351.2	13.4	4.0%
Children's Cabinet Interagency Fund	16.9	21.5	22.5	1.0	4.6%
Juvenile Services	270.7	283.3	298.6	15.3	5.4%
Public Safety/Police	1,319.0	1,367.2	1,447.2	79.9	5.8%
Higher Education	1,105.3	1,239.5	1,365.1	125.6	10.1%
Other Education	370.3	376.4	409.7	33.4	8.9%
Agric./Nat'l. Res./Environment	109.1	116.5	118.8	2.3	1.9%
Other Executive Agencies	594.0	664.9	760.9	96.0	14.4%
Legislative	78.3	81.3	84.7	3.4	4.1%
Judiciary	387.4	411.8	420.6	8.8	2.1%
State Agencies	***$6,051.6***	***$6,453.0***	***$6,915.6***	***$462.5***	***7.2%***
Deficiencies	$0.0	$264.0	$0.0	-$264.0	-100.0%
Total Operating	**$14,677.7**	**$15,863.9**	**$16,320.7**	**$456.8**	**2.9%**
Capital [(1)]	$3.2	$49.9	$1.4	-$48.5	-97.2%
Subtotal	***$14,680.9***	***$15,913.8***	***$16,322.1***	***$408.3***	***2.6%***
Reserve Funds	$37.8	$55.3	$228.2	$173.0	313.0%
Appropriations	**$14,718.7**	**$15,969.0**	**$16,550.3**	**$581.3**	**3.6%**
Reversions	-$30.0	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$14,688.7**	**$15,939.0**	**$16,520.3**	**$581.3**	**3.6%**

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

Note: The fiscal 2013 adjusted working appropriation includes deficiencies, $19.6 million in targeted reversions, and legislative reductions to the deficiencies.

Components of General Fund Budget Change
($ in Millions)

Summary of Budget Growth Compared to Working Appropriation	Dollars	Share of Growth
Ongoing Requirements/Entitlements	$340.9	47.3%
Legislation	55.4	7.7%
State Agency Costs	324.6	45.0%
Growth in Operating Budget, Including Anticipated Deficiencies	**$720.8**	
Pay-as-you-go (PAYGO)	-$48.5	
Appropriation to Reserve Fund	173.0	
Total Baseline Increase in State Expenditures	**$845.3**	
Less Deficiency Appropriations	-$264.0	
Total	**$581.3**	

Ongoing Requirements/Entitlements	
Medical assistance – modest enrollment and rate increases	$199.9
Debt service – general funds to supplement property tax revenues	150.0
Mandated provider rate increases for Mental Hygiene and Developmental Disabilities	31.5
Development Disabilities Administration – annualize cost of new community placements, including fiscal 2014 deficiency	23.5
Community college formulas – increase in enrollment and per-pupil funding	18.8
Mental Hygiene Administration – enrollment, utilization, ACA expansion, and rate increases	15.9
Teachers and librarians retirement payments	11.5
Increase Quality Teacher Incentive program to fiscal 2013 actual spending level	6.5
Sellinger Formula for Aid to Private Colleges and Universities	4.6
Property Tax Credit programs, including deficiency	3.0
Community college retirement	2.4
Mandated appropriation for MARBIDCO	1.1
Local health department funding	1.0
State Aid for Police Protection grant	0.7
Arts Council mandated formula	0.5
Library aid formulas	0.5
St. Mary's College of Maryland and Baltimore City Community College mandated formulas	0.5
Disparity grant formula	0.4
Foster Care payments – reduced institutional placements and increased federal funds	-7.1
Temporary Cash Assistance payments – enrollment declines and stabilized federal funds	-15.3
Education aid formulas – GF decrease more than offset by $199.9 million increase in the ETF	-109.2
New Legislative Requirements	
Savings from transfer of VLT ownership for appropriation to the ETF	$44.2
Optical scan voting system (Chapters 547 and 548 of 2007)	6.3
College and Career Readiness and College Completion Act (Chapter 533 of 2013)	2.0
Other legislation, including deficiencies	2.9
State Agency Costs	
Statewide Personnel Expenses (Including Higher Education):	
General salary increase (2% assumed)	$68.4
Merit pay (increments)	61.5
Employee retirement	34.1
Health insurance savings due to favorable cost trends and accumulated balance	-98.2
Annualization of fiscal 2014 cost-of-living adjustment and merit pay increases	124.7

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); reduced HEIF revenues	$53.2
Additional personnel in the Office of Public Defender to meet requirements of *Richmond* decision	28.1
Various agency information technology projects	13.4
Full-year cost of occupancy at the State Public Health Laboratory	12.3
Increased scholarships, based on assumption of tuition increase and anticipated fiscal 2014 expenditures	11.5
Food and other supplies at correctional facilities, including fiscal 2014 shortfall	7.6
Overtime at correctional facilities, including fiscal 2014 shortfall	6.5
Additional 100 correctional officer positions, per budget bill language	6.3
Department of Housing and Community Development moving expenses	6.0
Head Start grants – continued replacement of reduced federal funds	4.1
Additional judges and related personnel per judicial staffing plan	1.8
Continued phase-out of Distinguished Scholar program	-1.0
Final payment for touchscreen voting system in fiscal 2014	-1.7
One-time costs associated with Public Health Laboratory move	-2.2
One-time wiring and software upgrades for VLT program	-2.3
One-time start-up costs for Firearm Safety Act and the Gun Center	-2.7
Removal of one-time funding in excess of formula mandate for Tourism Development Board	-3.5
Statewide Personnel System	-9.1
Increased special funds available to support administration of VLT program	-9.3
Maryland Health Benefit Exchange funding shifted to special funds	-14.2
Other	29.4
Reserve Fund and PAYGO	
Rainy Day Fund sweeper of unappropriated fiscal 2013 general fund balance	$173.0
Increase in Hazardous Substance Cleanup program, per *Capital Improvement Program*	0.7
Removal of one-time PAYGO for the Baltimore Regional Neighborhoods Initiative	-3.0
One-time PAYGO grants in the Board of Public Works budget	-4.0
One-time general fund PAYGO in the Energy Administration	-7.2
Sustainable Communities Tax Credit expires at end of fiscal 2014	-10.0
One-time security improvements initiative in the Public School Construction program	-25.0
Total	**$845.3**

ACA: Affordable Care Act
ETF: Education Trust Fund
GF: general fund
HEIF: Higher Education Investment Fund
MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation
USM: University System of Maryland
VLT: video lottery terminal

State Expenditures – State Funds
($ in Millions)

Category	Adjusted Work. Appr. FY 2013	Leg. Appr. FY 2014	Baseline FY 2015	FY 2014 to FY 2015 $ Change	FY 2014 to FY 2015 % Change
Debt Service	$1,102.4	$1,183.0	$1,285.5	$102.5	8.7%
County/Municipal	444.8	513.8	537.4	23.6	4.6%
Community Colleges	272.3	286.6	307.7	21.1	7.4%
Education/Libraries	5,870.2	6,113.1	6,219.2	106.1	1.7%
Health	38.1	40.0	41.1	1.0	2.5%
Aid to Local Governments	***$6,625.3***	***$6,953.6***	***$7,105.4***	***$151.8***	***2.2%***
Foster Care Payments	$236.8	$243.0	$238.0	-$5.0	-2.1%
Assistance Payments	120.4	95.0	79.9	-15.1	-15.9%
Medical Assistance	3,340.2	3,238.3	3,469.0	230.7	7.1%
Property Tax Credits	82.0	80.2	83.3	3.0	3.8%
Entitlements	***$3,779.4***	***$3,656.5***	***$3,870.2***	***$213.6***	***5.8%***
Health	$2,014.6	$2,079.7	$2,165.9	$86.2	4.1%
Human Resources	409.5	415.2	432.6	17.4	4.2%
Children's Cabinet Interagency Fund	16.9	21.5	22.5	1.0	4.6%
Juvenile Services	275.1	287.7	303.2	15.4	5.4%
Public Safety/Police	1,542.9	1,590.3	1,669.6	79.3	5.0%
Higher Education	5,218.0	5,385.1	5,562.8	177.7	3.3%
Other Education	464.4	434.1	464.2	30.0	6.9%
Transportation	1,522.5	1,586.6	1,721.2	134.6	8.5%
Agric./Nat'l. Res./Environment	322.8	340.1	349.9	9.7	2.9%
Other Executive Agencies	1,328.3	1,243.4	1,427.1	183.7	14.8%
Legislative	78.8	81.3	84.7	3.4	4.1%
Judiciary	446.0	466.2	483.0	16.8	3.6%
State Agencies	***$13,639.9***	***$13,931.3***	***$14,686.5***	***$755.3***	***5.4%***
Deficiencies	$0.0	$228.5	$0.0	-$228.5	-100.0%
Total Operating	**$25,147.0**	**$25,952.9**	**$26,947.6**	**$994.7**	**3.8%**
Capital [1]	$1,348.1	$1,390.1	$1,859.6	$469.5	33.8%
Subtotal	***$26,495.1***	***$27,343.0***	***$28,807.2***	***$1,464.2***	***5.4%***
Reserve Funds	$37.8	$55.3	$228.2	$173.0	313.0%
Appropriations	**$26,532.8**	**$27,398.3**	**$29,035.4**	**$1,637.1**	**6.0%**
Reversions	-$30.0	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$26,502.8**	**$27,368.3**	**$29,005.4**	**$1,637.1**	**6.0%**

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

Note: The fiscal 2013 adjusted working appropriation reflects deficiencies, $19.6 million in targeted reversions, $430.3 million from the Budget Restoration Fund, legislative reductions to the deficiencies, and $3.1 million in additional special fund spending due to funding swaps. The fiscal 2014 legislative appropriation includes $1.7 million in additional special fund spending due to funding swaps.

State Expenditures – All Funds
($ in Millions)

Category	2013 Adjusted Work. Appr.	2014 Leg. Appr.	2015 Baseline	2014-2015 $ Change	2014-2015 % Change
Debt Service	$1,114.6	$1,195.3	$1,297.9	$102.5	8.6%
County/Municipal	496.6	573.1	596.7	23.6	4.1%
Community Colleges	272.3	286.6	307.7	21.1	7.4%
Education/Libraries	6,667.1	6,867.4	6,973.5	106.1	1.5%
Health	42.5	44.5	45.6	1.0	2.3%
Aid to Local Governments	***$7,478.6***	***$7,771.7***	***$7,923.5***	***$151.8***	***2.0%***
Foster Care Payments	$316.4	$327.0	$327.1	$0.1	0.0%
Assistance Payments	1,237.8	1,292.7	1,357.8	65.1	5.0%
Medical Assistance	6,906.5	7,149.6	8,066.1	916.5	12.8%
Property Tax Credits	82.0	80.2	83.3	3.0	3.8%
Entitlements	***$8,542.6***	***$8,849.6***	***$9,834.3***	***$984.7***	***11.1%***
Health	$3,244.3	$3,390.1	$3,475.6	$85.5	2.5%
Human Resources	922.7	938.3	948.8	10.5	1.1%
Children's Cabinet Interagency Fund	16.9	21.5	22.5	1.0	4.6%
Juvenile Services	283.4	295.2	310.8	15.7	5.3%
Public Safety/Police	1,572.1	1,616.9	1,697.7	80.9	5.0%
Higher Education	5,218.0	5,385.1	5,562.8	177.7	3.3%
Other Education	734.2	679.0	714.6	35.5	5.2%
Transportation	1,608.0	1,685.0	1,820.0	135.0	8.0%
Agric./Nat'l. Res./Environment	395.6	406.6	416.4	9.8	2.4%
Other Executive Agencies	1,885.4	1,778.3	1,978.3	200.1	11.3%
Legislative	78.8	81.3	84.7	3.4	4.1%
Judiciary	451.9	470.5	487.4	16.9	3.6%
State Agencies	***$16,411.3***	***$16,747.8***	***$17,519.6***	***$771.8***	***4.6%***
Deficiencies	$0.0	$234.6	$0.0	-$234.6	-100.0%
Total Operating	**$33,547.1**	**$34,799.0**	**$36,575.3**	**$1,776.3**	**5.1%**
Capital [1]	$2,286.9	$2,331.5	$2,602.1	$270.6	11.6%
Subtotal	***$35,834.0***	***$37,130.5***	***$39,177.4***	***$2,046.9***	***5.5%***
Reserve Funds	$37.8	$55.3	$228.2	$173.0	313.0%
Appropriations	**$35,871.8**	**$37,185.8**	**$39,405.6**	**$2,219.8**	**6.0%**
Reversions	-$30.0	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$35,841.8**	**$37,155.8**	**$39,375.6**	**$2,219.8**	**6.0%**

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

Note: The fiscal 2013 adjusted working appropriation reflects deficiencies, $19.6 million in targeted reversions, $430.3 million from the Budget Restoration Fund, legislative reductions to the deficiencies, and $3.1 million in additional special fund spending due to funding swaps. The fiscal 2014 legislative appropriation includes $1.7 million in additional special fund spending due to funding swaps.

General Fund Budget Outlook

Fiscal 2014-2019
($ in Millions)

Revenues	FY 2014 Work. App.	FY 2015 Baseline	FY 2016 Est.	FY 2017 Est.	FY 2018 Est.	FY 2019 Est.	Avg Annual Change 2015-2019
Opening Fund Balance	$502	$0	$0	$0	$0	$0	
Transfer	14	211	24	29	28	34	
Subtotal One-time Revenue	***$516***	***$211***	***$24***	***$29***	***$28***	***$34***	***-36.6%***
Ongoing Revenues	$15,336	$15,888	$16,616	$17,389	$18,182	$18,883	
Subtotal Ongoing Revenue	***$15,336***	***$15,888***	***$16,616***	***$17,389***	***$18,182***	***$18,883***	***4.4%***
Total Revenues & Fund Balance	**$15,852**	**$16,099**	**$16,640**	**$17,418**	**$18,210**	**$18,917**	**4.1%**
Ongoing Spending							
Operating Spending	$16,184	$16,841	$17,648	$18,309	$19,100	$19,873	
Education Trust Fund*	-350	-550	-607	-676	-705	-734	
Multi-year Commitments	10	0	0	0	0	0	
Subtotal Ongoing Spending	***$15,844***	***$16,291***	***$17,041***	***$17,633***	***$18,395***	***$19,139***	***4.1%***
One-time Spending							
PAYGO Capital	$40	$1	$1	$1	$1	$1	
Appropriation to Reserve Fund	55	228	50	50	50	50	
Subtotal One-time Spending	***$95***	***$230***	***$51***	***$51***	***$51***	***$51***	***-31.3%***
Total Spending	**$15,939**	**$16,520**	**$17,092**	**$17,684**	**$18,446**	**$19,190**	**3.8%**
Ending Balance	**-$87**	**-$421**	**-$452**	**-$267**	**-$236**	**-$273**	
Rainy Day Fund Balance	765	793	832	870	910	945	
Balance over 5% of GF Revenues	-2	0	1	1	1	1	
As % of GF Revenues	4.99%	5.00%	5.01%	5.00%	5.01%	5.01%	
Structural Balance	**-$508**	**-$402**	**-$425**	**-$245**	**-$213**	**-$256**	

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

*Includes revenues from VLTs, table games, and savings from shifting responsibility for ownership or leasing of VLTs to facility operators.

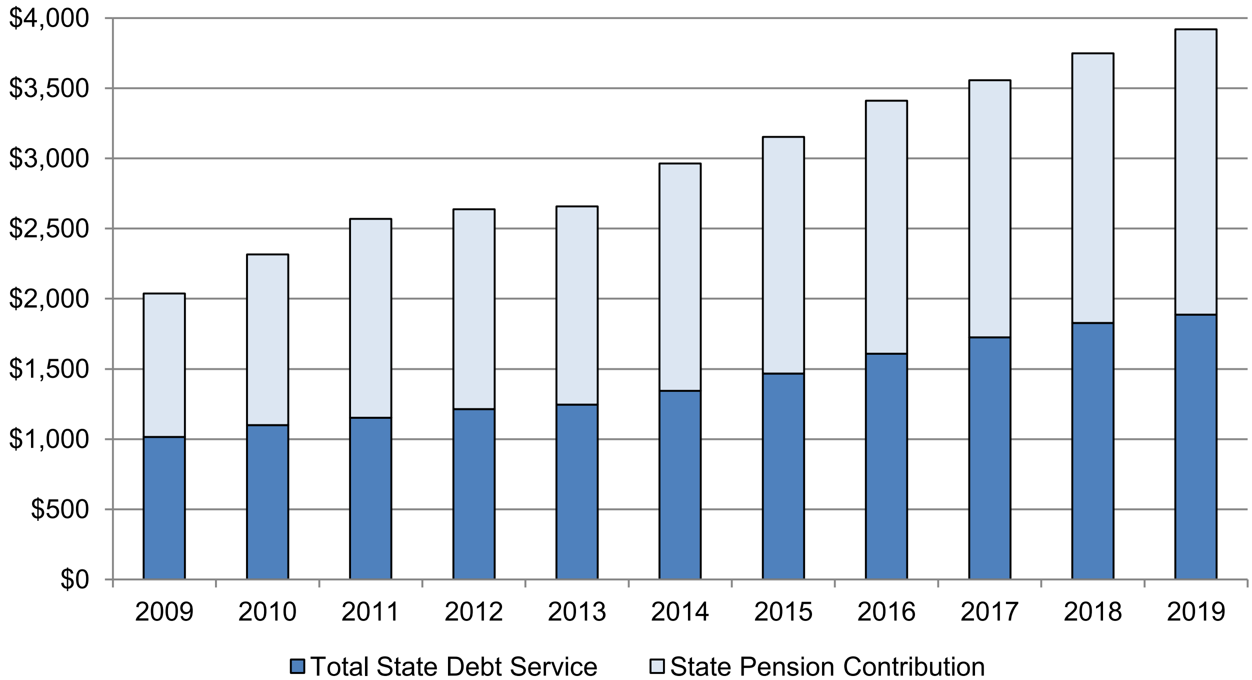
General Fund Budget Outlook
Fiscal 2014-2019
($ in Millions)

Revenues	**FY 2014 Work. App.**	**FY 2015 Baseline**	**FY 2016 Est.**	**FY 2017 Est.**	**FY 2018 Est.**	**FY 2019 Est.**	**Avg Annual Change 2015-2019**
Opening Fund Balance	$502	$0	$0	$0	$0	$0	
Transfer	14	201	25	28	29	35	
Subtotal One-time Revenue	**$516**	**$201**	**$25**	**$28**	**$29**	**$35**	**-35.4%**
Ongoing Revenues	$15,234	$16,032	$16,794	$17,588	$18,362	$19,054	
Subtotal Ongoing Revenue	**$15,234**	**$16,032**	**$16,794**	**$17,588**	**$18,362**	**$19,054**	**4.4%**
Total Revenues & Fund Balance	**$15,750**	**$16,233**	**$16,819**	**$17,616**	**$18,391**	**$19,089**	**4.1%**
Ongoing Spending							
Operating Spending	$16,184	$16,855	$17,648	$18,309	$19,100	$19,873	
Education Trust Fund[1]	-350	-461	-520	-625	-658	-675	
Multi-year Commitments	10	0	0	0	0	0	
Subtotal Ongoing Spending	**$15,844**	**$16,394**	**$17,128**	**$17,684**	**$18,442**	**$19,198**	**4.0%**
One-time Spending							
PAYGO Capital	$40	$1	$1	$1	$1	$1	
Appropriation to Reserve Fund	55	228	50	50	50	50	
Subtotal One-time Spending	**$95**	**$230**	**$51**	**$51**	**$51**	**$51**	**-31.3%**
Total Spending	**$15,939**	**$16,623**	**$17,179**	**$17,735**	**$18,493**	**$19,249**	**3.7%**
Ending Balance	**-$189**	**-$391**	**-$360**	**-$118**	**-$102**	**-$160**	
Rainy Day Fund Balance	764	803	840	880	919	954	
Balance over 5% of GF Revenues	2	1	1	1	1	1	
As % of GF Revenues	5.02%	5.01%	5.00%	5.00%	5.01%	5.00%	
Structural Balance	**-$610**	**-$362**	**-$334**	**-$95**	**-$80**	**-$144**	

PAYGO: pay-as-you-go

[1] Education Trust Fund is supported by revenues from Video Lottery Terminals, table games, and savings from eqiupment leases.

Cumulative Debt Service and Pension Costs Continue to Increase
Fiscal 2009 to 2019
($ in Millions)



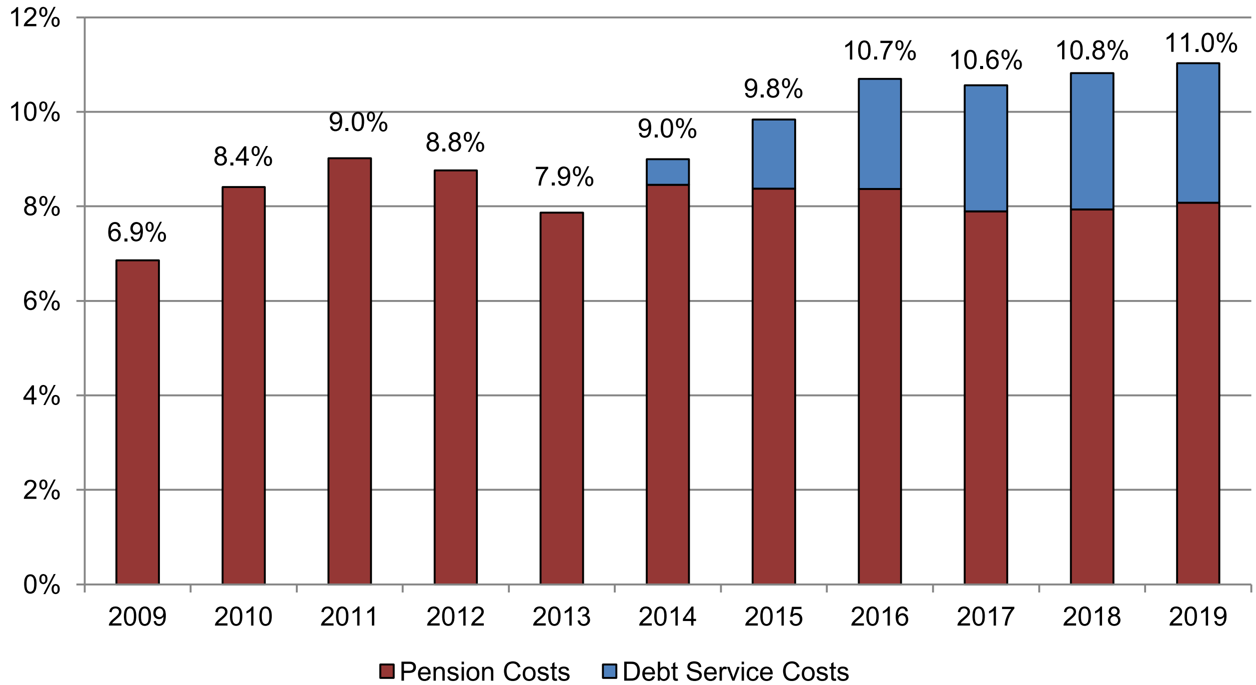
Note: Total State debt service includes Transportation, Bay Restoration, capital leases, and Stadium Authority debt. State pension contribution excludes local teacher pension cost sharing.

Source: Gabriel Roeder Smith and Company, State Treasurer's Office, Department of Legislative Services, November 2013

- Debt service costs are projected to increase 6.1% annually over the next five years while State property tax revenues are projected to increase 0.5% annually.

- Pension costs are also projected to increase in the out-years. From fiscal 2013 to 2019, State pension costs are expected to increase 6.0% annually.

Debt Service General Fund Subsidy and State Pension Costs Compared to General Fund Revenues
Fiscal 2009-2019



Note: Fiscal 2010 and 2011 pension costs include federal funds from the American Recovery and Reinvestment Act.

Source: Gabriel Roeder Smith and Company; State Treasurer's Office; Department of Legislative Services, November 2013

- Pension and debt service costs increase from 7.9% in fiscal 2013 to 11.0% of general fund revenues in fiscal 2019.

- Unless pension payments are reduced (they are now \$300 million above the actuarially required level), the remaining lever to provide relief from this ongoing fiscal squeeze is through moderation of the burden of debt service. This can be accomplished by constraining, rather than increasing, the level of debt to be incurred, or through the Board of Public Works by increasing the property tax.

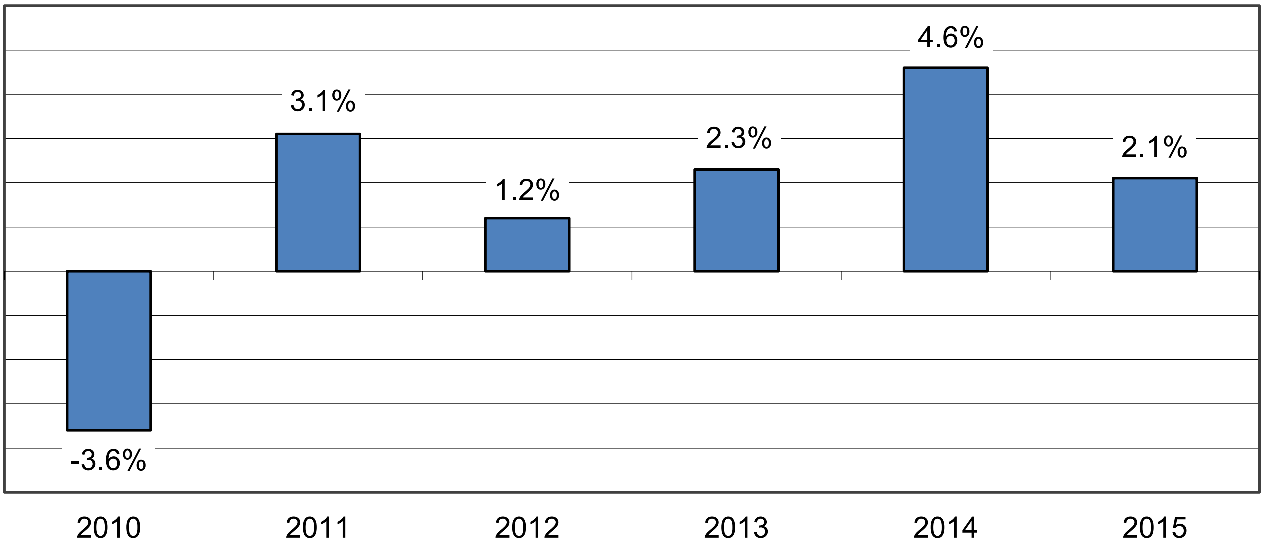
- **As one step toward constraining the growth in long-term obligations, DLS recommends that the previously established debt authorization levels be maintained**.

Part 4

Local Government Assistance

"Revised October 30, 2013

Annual Change in State Aid to Local Governments
Fiscal 2010-2015



State Aid by Governmental Entity
($ in Millions)

	FY 2010	FY 2015	$ Change	% Change
Public Schools	$4,747.3	$5,297.7	$550.4	11.6%
Libraries	48.8	50.7	1.9	3.9%
Community Colleges	226.9	262.2	35.2	15.5%
Local Health	37.3	41.0	3.7	10.0%
County/Municipal	397.2	560.1	163.0	41.0%
Subtotal – Direct Aid	***$5,457.5***	***$6,211.8***	***$754.3***	***13.8%***
Retirement Payments	$803.4	$930.3	$126.9	15.8%
Total	**$6,260.9**	**$7,142.0**	**$881.2**	**14.1%**

"Revised October 30, 2013"

State Aid by Governmental Entity

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

	FY 2015 State Aid Amount	Percent of Total
Public Schools	$6,160.9	86.3%
County/Municipal	560.1	7.8%
Community Colleges	307.7	4.3%
Libraries	72.3	1.0%
Local Health	41.0	0.6%
Total	**$7,142.0**	**100.0%**

Change in State Aid
State Funds
($ in Millions)

	FY 2015 Aid Change	Percent Change
Public Schools	$99.1	1.6%
County/Municipal	26.5	5.0%
Community Colleges	21.1	7.4%
Libraries	1.8	2.5%
Local Health	1.0	2.4%
Total	**$149.5**	**2.1%**

"Revised October 30, 2013"

State Aid by Major Programs
Fiscal 2013-2015
State Funds
($ in Millions)

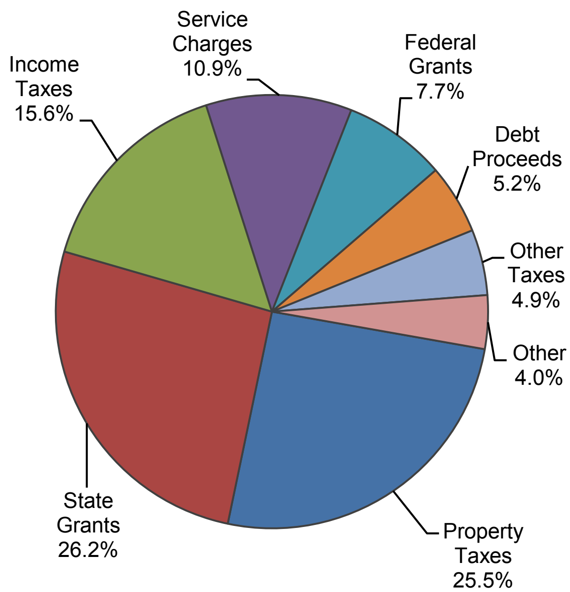
	FY 2013	FY 2014	Baseline FY 2015	$ Change 2014-2015	% Change 2014-2015
Public Schools					
Foundation Program	$2,810.4	$2,850.5	$2,875.1	$24.6	0.9%
Supplemental Grant	46.5	46.6	46.6	0.0	0.0%
Geographic Cost Index	128.8	130.8	132.1	1.3	1.0%
NTI Education Grants	0.0	8.3	19.7	11.4	136.8%
Foundation – Special Grants	1.2	2.1	0.0	-2.1	-100.0%
Compensatory Aid	1,146.3	1,196.0	1,224.9	28.9	2.4%
Student Transportation	251.3	254.5	258.5	4.0	1.6%
Special Education – Formula Aid	266.5	269.3	272.2	2.9	1.1%
Special Education – Nonpublic Placements	113.9	109.8	112.6	2.7	2.5%
Limited English Proficiency Grants	177.4	193.4	211.0	17.6	9.1%
Guaranteed Tax Base	44.2	52.3	51.8	-0.5	-1.0%
Aging Schools Program	31.1	8.1	6.1	-2.0	-24.7%
Other Education Programs	74.7	87.1	87.2	0.0	0.0%
Subtotal Direct Aid	***$5,092.2***	***$5,208.9***	***$5,297.7***	***$88.8***	**1.7%**
Retirement Payments	755.4	852.8	863.2	10.3	1.2%
Total Public School Aid	**$5,847.6**	**$6,061.8**	**$6,160.9**	**$99.1**	**1.6%**
Libraries					
Library Aid Formula	$33.7	$34.0	$34.4	$0.4	1.2%
State Library Network	16.1	16.2	16.3	0.1	0.8%
Subtotal Direct Aid	***$49.7***	***$50.2***	***$50.7***	***$0.5***	**1.0%**
Retirement Payments	17.3	20.3	21.6	1.2	6.1%
Total Library Aid	**$67.1**	**$70.5**	**$72.3**	**$1.8**	**2.5%**
Community Colleges					
Community College Formula	$199.2	$213.0	$231.1	$18.1	8.5%
Other Programs	36.0	30.3	31.1	0.8	2.6%
Subtotal Direct Aid	***$235.1***	***$243.3***	***$262.2***	***$18.9***	**7.8%**
Retirement Payments	37.2	43.3	45.5	2.2	5.1%
Total Community College Aid	**$272.3**	**$286.6**	**$307.7**	**$21.1**	**7.4%**
Local Health Grants	**$38.1**	**$40.0**	**$41.0**	**$1.0**	**2.4%**
County/Municipal Aid					
Transportation	$167.7	$190.1	$179.2	-$10.9	-5.7%
Public Safety	91.3	115.9	120.3	4.4	3.8%
Program Open Space/Environment	17.3	32.5	46.7	14.3	44.0%
Disparity Grant	119.9	127.8	128.2	0.4	0.3%
VLT Impact Grants	28.9	33.4	54.1	20.7	62.1%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	5.0	6.3	3.9	-2.4	-38.5%
Total County/Municipal Aid	**$457.8**	**$533.7**	**$560.1**	**$26.5**	**5.0%**
Total State Aid	**$6,682.8**	**$6,992.6**	**$7,142.0**	**$149.5**	**2.1%**

NTI: net taxable income
VLT: video lottery terminal

Local Government Revenue Outlook

Limited Growth in Local Tax Revenues
Fiscal 2013 and 2014

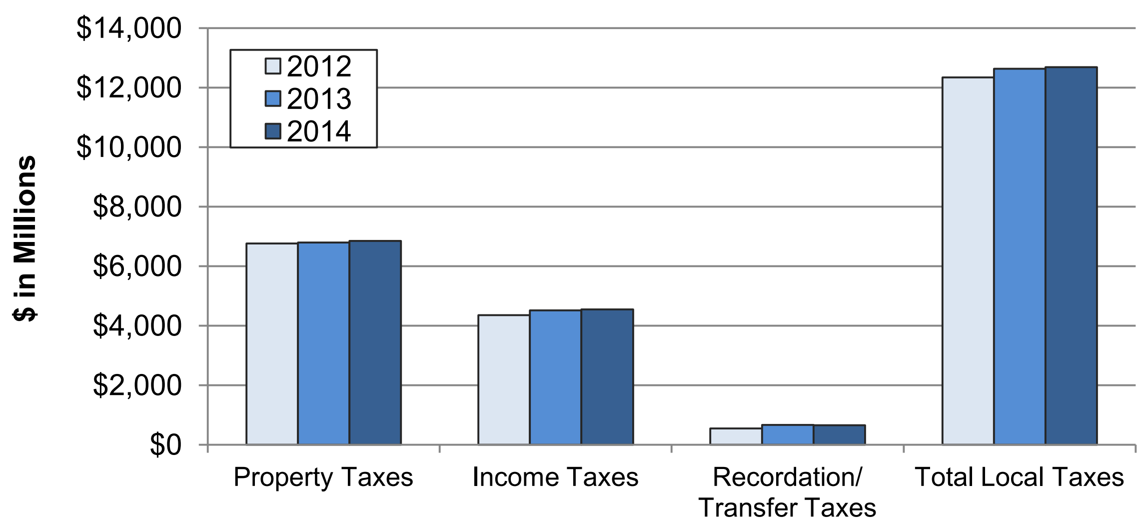
Sources of Revenue
Counties and Baltimore City



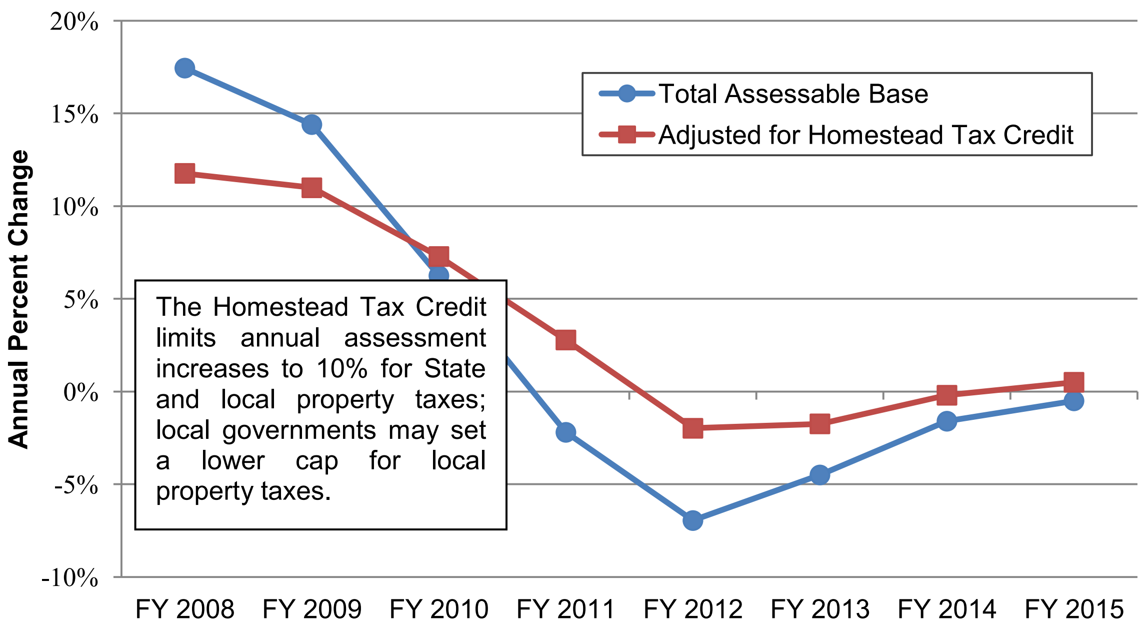
FY 2012 = $27.9 Billion

	Average Annual Change FY 2012-14
Property Taxes	0.6%
Income Taxes	2.2%
Recordation Taxes	12.3%
Transfer Taxes	5.8%
Hotel/Motel Taxes	-2.4%
Admissions Taxes	0.9%
Total Local Taxes	1.4%
General Fund Revenues	2.1%

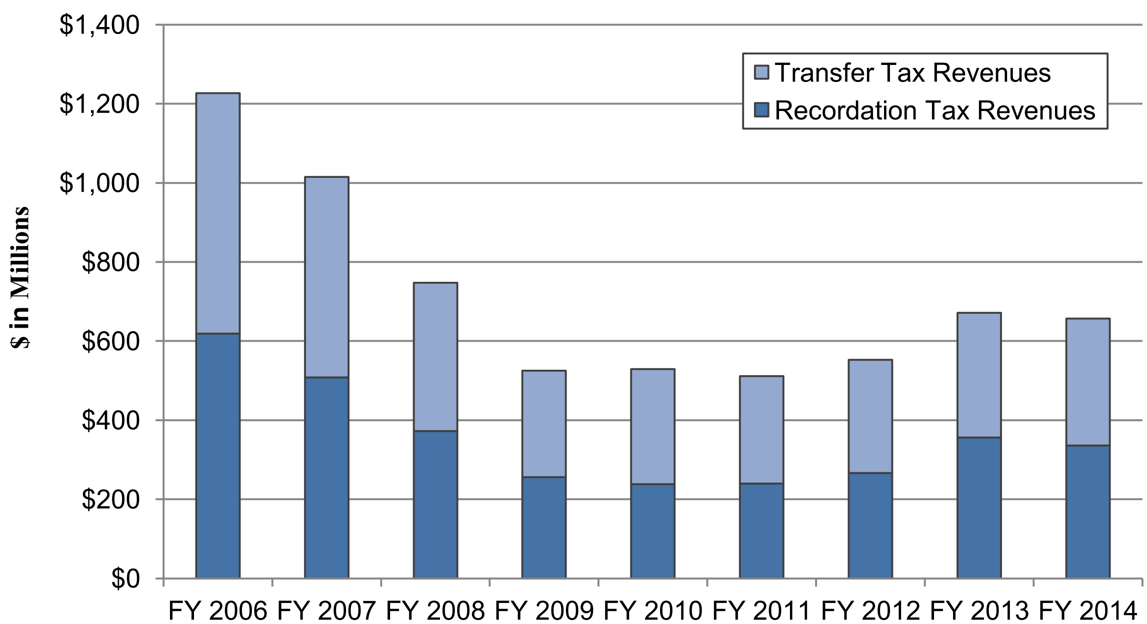
Local Tax Revenue Inches Upwards
Fiscal 2012-2014



Homestead Tax Credit Softened Impact on County Assessable Base



Real Estate Meltdown Impacts Recordation and Transfer Taxes



Total Local Tax Revenues for Fiscal 2012-2014

County	FY 2012	FY 2013	FY 2014	FY 2012-2013 $ Difference	FY 2013-2014 $ Difference	Average Annual Difference
Allegany	$69,621,830	$69,477,653	$68,805,954	-$144,177	-$671,699	-0.6%
Anne Arundel	1,062,681,587	1,107,102,000	1,134,369,000	44,420,413	27,267,000	3.3%
Baltimore City	1,199,058,511	1,215,967,101	1,200,858,461	16,908,590	-15,108,640	0.1%
Baltimore	1,545,610,239	1,584,822,591	1,584,576,239	39,212,352	-246,352	1.3%
Calvert	216,741,616	212,872,981	215,910,392	-3,868,635	3,037,411	-0.2%
Caroline	36,545,448	37,163,125	36,809,797	617,677	-353,328	0.4%
Carroll	342,792,114	337,442,690	340,840,045	-5,349,424	3,397,355	-0.3%
Cecil	156,172,343	161,293,505	159,349,264	5,121,162	-1,944,241	1.0%
Charles	303,149,031	312,342,590	331,104,500	9,193,559	18,761,910	4.5%
Dorchester	44,561,724	44,339,249	42,754,449	-222,475	-1,584,800	-2.0%
Frederick	472,370,847	465,269,417	465,353,765	-7,101,430	84,348	-0.7%
Garrett	64,632,753	66,098,114	65,734,751	1,465,361	-363,363	0.8%
Harford	493,125,398	493,159,471	495,379,656	34,073	2,220,185	0.2%
Howard	909,349,447	955,967,566	964,801,516	46,618,119	8,833,950	3.0%
Kent	42,208,389	42,901,268	42,926,975	692,879	25,707	0.8%
Montgomery	3,149,212,615	3,277,677,734	3,280,671,352	128,465,119	2,993,618	2.1%
Prince George's	1,402,760,797	1,394,289,300	1,404,964,500	-8,471,497	10,675,200	0.1%
Queen Anne's	106,422,517	111,686,007	107,806,429	5,263,490	-3,879,578	0.6%
St. Mary's	188,492,856	190,914,298	196,609,371	2,421,442	5,695,073	2.1%
Somerset	22,024,182	21,169,718	20,999,866	-854,464	-169,852	-2.4%
Talbot	58,720,843	65,129,624	68,196,000	6,408,781	3,066,376	7.8%
Washington	194,769,654	198,717,130	197,115,860	3,947,476	-1,601,270	0.6%
Wicomico	104,580,993	104,831,400	108,850,887	250,407	4,019,487	2.0%
Worcester	157,255,089	159,072,808	151,590,468	1,817,719	-7,482,340	-1.8%
Total	**$12,342,860,823**	**$12,629,707,340**	**$12,686,379,497**	**$286,846,517**	**$56,672,157**	**1.4%**

Property Tax Revenue Trend for Fiscal 2012-2014

County	FY 2012	FY 2013	FY 2014	FY 2012-2013 $ Difference	FY 2013-2014 $ Difference	Average Annual Difference
Allegany	$42,049,578	$41,631,193	$41,131,229	-$418,385	-$499,964	-1.1%
Anne Arundel	567,829,147	587,532,000	602,719,000	19,702,853	15,187,000	3.0%
Baltimore City	770,250,847	769,512,000	754,959,199	-738,847	-14,552,801	-1.0%
Baltimore	845,238,303	854,651,204	860,143,219	9,412,901	5,492,015	0.9%
Calvert	146,449,619	140,969,187	137,227,392	-5,480,432	-3,741,795	-3.2%
Caroline	23,932,023	24,106,972	24,442,955	174,949	335,983	1.1%
Carroll	203,651,235	198,243,342	195,668,370	-5,407,893	-2,574,972	-2.0%
Cecil	102,147,108	104,661,472	101,764,411	2,514,364	-2,897,061	-0.2%
Charles	195,722,484	200,012,954	212,432,300	4,290,470	12,419,346	4.2%
Dorchester	31,155,678	31,969,716	30,154,734	814,038	-1,814,982	-1.6%
Frederick	282,116,563	261,627,970	263,838,803	-20,488,593	2,210,833	-3.3%
Garrett	47,490,734	48,312,114	48,378,651	821,380	66,537	0.9%
Harford	294,566,509	286,910,662	284,472,646	-7,655,847	-2,438,016	-1.7%
Howard	503,063,730	527,378,634	540,722,652	24,314,904	13,344,018	3.7%
Kent	30,405,080	30,174,622	30,267,675	-230,458	93,053	-0.2%
Montgomery	1,447,857,234	1,470,949,276	1,514,487,152	23,092,042	43,537,876	2.3%
Prince George's	719,136,540	693,263,100	693,725,100	-25,873,440	462,000	-1.8%
Queen Anne's	64,724,361	65,651,274	62,739,716	926,913	-2,911,558	-1.5%
St. Mary's	100,050,654	100,809,676	101,669,371	759,022	859,695	0.8%
Somerset	15,355,665	14,623,206	14,470,866	-732,459	-152,340	-2.9%
Talbot	30,002,020	32,876,624	33,293,000	2,874,604	416,376	5.3%
Washington	122,689,802	123,609,730	119,215,860	919,928	-4,393,870	-1.4%
Wicomico	58,468,272	60,006,246	61,683,755	1,537,974	1,677,509	2.7%
Worcester	121,243,588	121,348,615	117,680,468	105,027	-3,668,147	-1.5%
Total	**$6,765,596,774**	**$6,790,831,789**	**$6,847,288,524**	**$25,235,015**	**$56,456,735**	**0.6%**

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.

Local Income Tax Revenue Trend for Fiscal 2012-2014

County	FY 2012	FY 2013	FY 2014	FY 2012-2013 $ Difference	FY 2013-2014 $ Difference	Average Annual Difference
Allegany	$24,854,127	$24,249,252	$24,534,600	-$604,875	$285,348	-0.6%
Anne Arundel	394,480,856	401,400,000	417,300,000	6,919,144	15,900,000	2.9%
Baltimore City	257,892,892	267,365,960	274,386,334	9,473,068	7,020,374	3.1%
Baltimore	593,204,019	607,429,599	604,292,819	14,225,580	-3,136,780	0.9%
Calvert	64,199,044	65,091,797	71,723,000	892,753	6,631,203	5.7%
Caroline	11,088,210	11,103,026	10,800,000	14,816	-303,026	-1.3%
Carroll	128,967,957	127,555,768	133,803,415	-1,412,189	6,247,647	1.9%
Cecil	49,813,198	50,421,108	52,139,853	607,910	1,718,745	2.3%
Charles	97,179,582	99,440,598	106,240,200	2,261,016	6,799,602	4.6%
Dorchester	10,767,858	9,692,631	9,809,329	-1,075,227	116,698	-4.6%
Frederick	169,760,329	176,068,392	176,363,100	6,308,063	294,708	1.9%
Garrett	10,808,277	11,000,000	11,125,000	191,723	125,000	1.5%
Harford	179,177,637	184,160,982	190,600,000	4,983,345	6,439,018	3.1%
Howard	357,346,674	374,358,094	370,000,000	17,011,420	-4,358,094	1.8%
Kent	10,335,245	11,047,174	10,800,000	711,929	-247,174	2.2%
Montgomery	1,255,089,822	1,331,386,818	1,299,191,344	76,296,996	-32,195,474	1.7%
Prince George's	485,231,677	497,429,000	509,066,400	12,197,323	11,637,400	2.4%
Queen Anne's	35,969,879	39,438,906	38,984,963	3,469,027	-453,943	4.1%
St. Mary's	76,289,036	76,746,270	82,000,000	457,234	5,253,730	3.7%
Somerset	6,246,160	6,035,956	6,100,000	-210,204	64,044	-1.2%
Talbot	20,269,343	23,500,000	26,000,000	3,230,657	2,500,000	13.3%
Washington	64,578,939	65,763,209	68,730,000	1,184,270	2,966,791	3.2%
Wicomico	41,845,360	40,472,224	42,593,604	-1,373,136	2,121,380	0.9%
Worcester	12,900,072	12,676,852	12,200,000	-223,220	-476,852	-2.8%
Total	**$4,358,296,193**	**$4,513,833,616**	**$4,548,783,961**	**$155,537,423**	**$34,950,345**	**2.2%**

Source: Department of Legislative Services, County Budgets

Local Government Tax Actions

Limited revenue growth at the local level resulted in seven county governments raising at least one major local tax in fiscal 2014 in order to balance local budgets; however, two county governments reduced local property taxes slightly, and one county reduced its local income tax rate. Unlike fiscal 2013 when 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, no jurisdiction exercised this authority in fiscal 2014.

Jurisdictions with Tax Increases in Fiscal 2014

Anne Arundel County – Property Tax (+0.9 cent)
Caroline County – Property Tax (+5.0 cents) and Income Tax (2.63 to 2.73%)
Charles County – Property Tax (+ 8.4 cents) and Income Tax (2.90 to 3.03%)
Montgomery County – Property Tax (+ 1.8 cents)
Somerset County – Property Tax (+ 3.13 cents)
Talbot County – Property Tax (+2.1 cents)
Wicomico County – Property Tax (+6.82 cents)

Jurisdictions with Tax Decreases in Fiscal 2014

Allegany County – Property Tax (- 0.1 cent)
Baltimore City – Property Tax (-2.0 cents)
Carroll County – Income Tax (3.05 to 3.04%)

Number of Counties Changing Local Tax Rates
Fiscal 2012-2014

	2012		2013		2014	
	▲	▼	▲	▼	▲	▼
Real Property	8	2	9	2	7	2
Local Income	1	1	3	0	2	1
Recordation	2	0	1	0	0	0
Transfer	0	0	0	0	0	0
Admissions/Amusement	0	0	0	1	0	0
Hotel/Motel	1	0	1	0	0	0

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

Local Tax Rates – Fiscal 2013 and 2014

County	Real Property		Local Income		Recordation		Transfer		Admissions/Amusement		Hotel Rental	
	FY 2013	FY 2014	CY 2013	CY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014	FY 2013	FY 2014
Allegany	$0.981	$0.980	3.05%	3.05%	$3.50	$3.50	0.5%	0.5%	7.5%	7.5%	8.0%	8.0%
Anne Arundel	0.941	0.950	2.56%	2.56%	3.50	3.50	1.0%	1.0%	10.0%	10.0%	7.0%	7.0%
Baltimore City	2.268	2.248	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	0.890	0.940	2.63%	2.73%	5.00	5.00	0.5%	0.5%	0.0%	0.0%	5.0%	5.0%
Carroll	1.018	1.018	3.05%	3.04%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Cecil	0.991	0.991	2.80%	2.80%	4.10	4.10	$10/deed	$10/deed	6.0%	6.0%	3.0%	3.0%
Charles	1.121	1.205	2.90%	3.03%	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%	0.0%	0.0%	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	1.190	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	1.003	1.021	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%	2.75	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	0.915	3.15%	3.15%	3.30	3.30	0.0%	0.0%	4.0%	4.0%	5.0%	5.0%
Talbot	0.491	0.512	2.40%	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	0.840	0.909	3.20%	3.20%	3.50	3.50	0.0%	0.0%	6.0%	6.0%	6.0%	6.0%
Worcester	0.770	0.770	1.25%	1.25%	3.30	3.30	0.5%	0.5%	3.0%	3.0%	4.5%	4.5%

CY: calendar year

Local Government Salary Actions
Fiscal 2013 and 2014

Salary Action	County Government FY 2013	County Government FY 2014	Public Schools FY 2013	Public Schools FY 2014
COLA/GSI				
No COLA/GSI	16	6	16	16
COLA/GSI	8	16	8	7
Still Pending	0	2	0	1
Stipend/Bonus[1]	8	0	1	1
Step/Merit Increases	7	10	19	20
Furlough/Salary Reductions	0	0	2	0
Layoffs	2	0	5	4

	State Government FY 2013	State Government FY 2014	CPI-Urban Consumers FY 2013[2]	CPI-Urban Consumers FY 2014[2]
COLA Amount[3]	2.0%	3.0%	1.67%	1.60%
One-time Bonus	$0	$0		
Furloughs	No	No		
Step/Merit Increases[4]	No	Yes		

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

[1] In fiscal 2013, Garrett and St. Mary's counties provided stipends in addition to a COLA; Washington County provided a stipend in addition to a step increase; and Calvert, Carroll, Montgomery, Prince George's, and Queen Anne's counties provided a one-time payment to most employees. In addition, in fiscal 2013, Queen Anne's County Public Schools provided a bonus to all employees. For fiscal 2014, Carroll County Public Schools will provide a bonus.

[2] Forecast of the CPI for 2013 (actual) and 2014 (estimate) comes from Moody's Analytics.

[3] Fiscal 2013 COLA was implemented December 31, 2012; fiscal 2014 COLA effective January 1, 2014.

[4] Increment effective April 1, 2014.

Source: 2013 Local Government Salary Action Survey, Department of Legislative Services

Local Government Salary Actions in Fiscal 2014

County	County Government Generally		Board of Education Teachers	
	COLA/GSI	Step/Merit	COLA/GSI	Step/Merit
Allegany[1]	3.0%	No	0.0%	Yes
Anne Arundel[2]	3.0%	Yes	1.0%	Yes
Baltimore City[3]	most groups pending	most groups pending	pending	pending
Baltimore[4]	varies	Yes	0.0%	Yes
Calvert[5]	1.0%	Yes	3.5%	Yes
Caroline[6]	1.0%	No	0.0%	Yes
Carroll[7]	1.5%	Yes	0.0%	No
Cecil	1.5%	No	1.8%	Yes
Charles	2.0%	Yes	0.0%	Yes
Dorchester	1.0%	No	0.0%	Yes
Frederick	1.0%	Yes	0.0%	Yes
Garrett	0.0%	No	0.0%	2 steps
Harford	0.0%	No	0.0%	No
Howard[8]	2.0%	Yes	0.0%	Yes
Kent	$2,000	No	0.0%	No
Montgomery[9]	3.25%	Yes	0.0%	Yes
Prince George's[10]	some groups pending	some groups pending	3.0%	Yes
Queen Anne's[11]	3.0%	No	1.0%	Yes
St. Mary's[12]	0.0%	2 steps	0.0%	Yes
Somerset[13]	0.0%	No	1.0%	Yes
Talbot[14]	3.0%	Yes	0.0%	Yes
Washington[15]	0.0%	No	0.0%	Yes
Wicomico	1.7%	No	1.0%	Yes
Worcester[16]	2.0%	No	0.0%	Yes
Number Granting	**16**	**10**	**7**	**20**

COLA: cost-of-living adjustment
GSI: general salary increase

Footnotes

[1] Most Allegany County employees will receive a 3.0% COLA; transit employees will receive an increase of $0.35 per hour; and sheriff negotiations are pending.

[2] Anne Arundel County nonrepresented employees, except uniformed police, will receive a 2.0% COLA in January 2014 and a 2.0% COLA in April 2014; detention officers and sergeants will receive a 2.0% COLA in January 2014 and a 1.0% COLA in April 2014; all other employees will receive a 3.0% COLA in January 2014. All employees, except police who are on a new scale, receive a 3.0% merit increase. Anne Arundel County Public Schools teachers receive a 1.0% COLA on July 1, 2013, and a step increase January 22, 2014; administrators and supervisors receive a 1.0% COLA and 2 steps effective July 1, 2013; American Federation of State, County and Municipal Employees (AFSCME) receive 2.0% effective January 1, 2014; Secretaries and Assistants Association of Anne Arundel County receive 1.5% effective July 1, 2013, and 1 step mid-year; and nonunion employees receive 3.0% effective July 1, 2013.

[3] Baltimore City fire suppression employees will receive 14% increase for new schedule on January 1, 2014; other fire employees receive a 2.0% COLA; both groups receive a step increase; Baltimore City is still negotiating with other employee groups. Baltimore City Public Schools teachers, administrators, and supervisors are still negotiating. The City Union of Baltimore members receive 1.4% COLA; L44 members receive 2.1%; and paraprofessionals and school-related personnel receive 1.75%; most employees also will receive interval increase.

[4] Baltimore County is still in negotiations with police officers. AFSCME employees received a 3% COLA on July 1, 2013.

[5] Calvert County Public Schools teachers are repositioned on compressed salary scales, then receive a 1 step increase and 1.0% COLA, resulting in average GSI of 3.5%. Teachers on top step receive pensionable salary adjustment of 1.0% for fiscal 2014 that will not be incorporated into the base. Similar for support staff and supervisors and administrators, except that supervisors and administrators at top step receive pensionable salary adjustment of 1.5%.

[6] Caroline County State's Attorney and circuit court employees will not receive the 1.0% GSI.

[7] Carroll County Public Schools employees receive a 2.5% bonus.

[8] All Howard County employees will receive a 2.0% COLA January 1, 2014.

[9] Most Montgomery County employees receive a 3.25% general wage adjustment and, except management and medical doctors, a 3.5% service increment; firefighters receive a 2.75% general wage adjustment, police receive 2.1%, fire and police management also receive catch up increments; and seasonal employees receive a $0.50/hour increase. While Montgomery County Public Schools employees in general will not receive a COLA, employees that did not receive a merit step or longevity increase will receive a 2.0% GSI.

[10] Increases for Prince George's County correctional officers, police, deputy sheriffs, fire/EMS, police, and sheriff civilian employees not determined at this time; AFSCME employees receive an increase of 2.5% effective July 1, 2013, and 2.5% effective March 1, 2014; firefighters receive a 3.5% merit increase, but no COLA; other employees in general receive 2.5% COLA effective August 25, 2013, and 2.5% COLA effective March 9, 2014. Prince George's County Public Schools teachers will receive a delayed step increase on January 1, 2014; Association of Classified Employees/AFSCME members receive a 3% COLA and a step increase; Service Employees International Union members receive a 2% COLA and a step increase; administrators, supervisors, and other professional positions are still in negotiations.

[11] Queen Anne's County Public Schools certificated and support employees that did not receive the step increase will receive an additional 1.0% increase; administrators and supervisors will not receive the step increase.

[12] St. Mary's County employees at top of grade receive a $800 stipend in lieu of step increases. St. Mary's County Public Schools teachers and classified/noncertificated employees receive a step and step recovery or $800 stipend if no step increase; administrators are on a new salary scale and receive $800 if no increase.

[13] Somerset County Public Schools employees will receive a step increase in January 2014.

[14] Talbot County Public Schools 180-day staff receive a $100 stipend in lieu of one day reduction in calendar days.

[15] While Washington County Public Schools employees in general will not receive a COLA, teachers in the top 2 steps receive a 0.5% increase; teachers, education support personnel, and administrators and supervisors receive a step increase; teachers in the top step receive a one-time stipend of $375; and education support personnel, administrators, and supervisors in the top step receive a 1.0% stipend.

[16] Worcester County Public Schools employees will receive a 1.0% increase if beyond step.

Local Government Furlough, Salary Reduction, and Layoff Plans in Fiscal 2014

County	Furlough/Reduction	Layoffs	
Allegany	No	No	School system indicated that 113.8 positions have been eliminated through attrition since fiscal 2012, including 26 positions in fiscal 2014.
Anne Arundel	No	No	
Baltimore City	No	Yes	School system does not plan any furloughs or salary reductions but plans to lay off up to 53 nonteacher employees.
Baltimore	No	No	
Calvert	No	No	
Caroline	No	No	
Carroll	No	No	
Cecil	No	No	
Charles	No	No	
Dorchester	No	No	
Frederick	Undecided	Yes	County has not decided whether to implement any furloughs or salary reductions but indicated that an undetermined number of layoffs are planned at this time. School system has laid off three employees and has not yet determined whether to implement furloughs or additional layoffs.
Garrett	No	Undetermined	School system does not plan to implement any furloughs or salary reductions but recently closed three schools and has not determined whether to implement any layoffs.
Harford	No	Yes	School system does not plan to implement any furloughs or salary reductions but laid off 46 teachers.
Howard	No	No	
Kent	No	Yes	School system does not plan to implement any furloughs or salary reductions but laid off 15 employees, including 6.5 teachers.
Montgomery	No	No	
Prince George’s	No	No	
Queen Anne’s	No	No	County indicated that 23 employees took advantage of a retirement incentive offered in fiscal 2012.

County	Furlough/Reduction	Layoffs
St. Mary's	No	No
Somerset	No	No
Talbot	No	No
Washington	No	No
Wicomico	No	No
Worcester	No	No
Total Jurisdictions Implementing Plans	**0**	**4**

Source: 2013 Local Government Salary Action Survey, Department of Legislative Services

Part 5

Capital Program

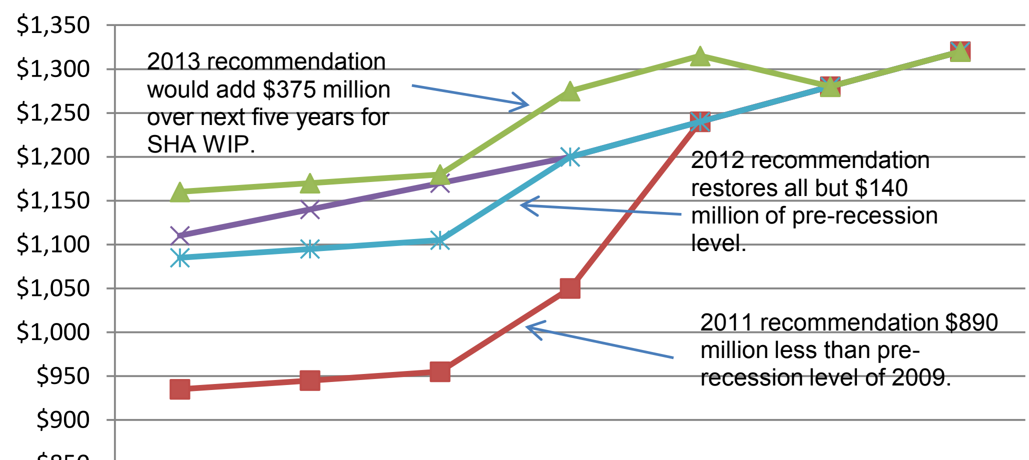
Capital Program – Impact of Fiscal Pressures

Recent and Proposed Increases in General Obligation (GO) Bond Authorizations

- **2012 Capital Debt Affordability Committee Recommendation:** restored GO bond authorizations to pre-recession levels by adding $150 million annually – $750 million over fiscal 2014 through 2018 as adopted in the State Five-year *Capital Improvement Plan* (CIP).

- **2013 Recommendation:** would add $75 million annually – $375 million over the next five years for the purposes of assisting the State Highway Administration (SHA) with Watershed Implementation Plan (WIP) compliance as required in the Transportation Infrastructure Act of 2013.

General Obligation Bond Limits
Comparison of Recent CDAC Recommendations
Fiscal 2015-2021
($ in Millions)



	2015	2016	2017	2018	2019	2020	2021
Sept 2009 Recommendation	$1,110	$1,140	$1,170	$1,200	$1,240	$1,280	$1,320
Dec 2011 Recommendation	$935	$945	$955	$1,050	$1,240	$1,280	$1,320
Dec 2012 Recommendation	$1,085	$1,095	$1,105	$1,200	$1,240	$1,280	$1,320
Sept 2013 Recommendation	$1,160	$1,170	$1,180	$1,275	$1,315	$1,280	$1,320

CDAC: Capital Debt Affordability Committee
SHA: State Highway Administration
WIP: Waterway Improvement Program

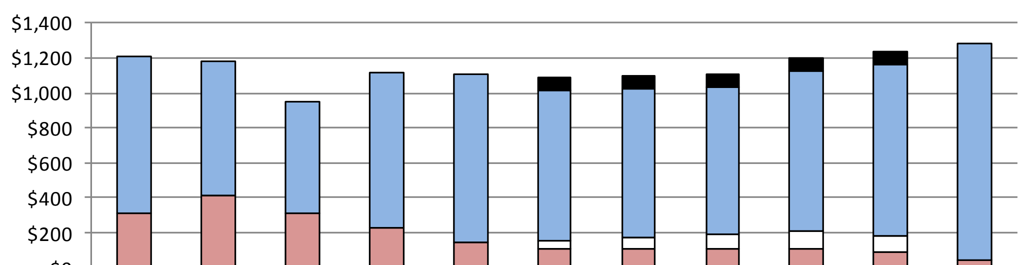
Note: 2010 and 2011 recommended levels both reflected reduced authorization levels due to the recession. However, the 2011 recommendation included moving $150 million up from fiscal 2018 to 2012 which delayed the programmed return to pre-recession levels by one year to fiscal 2019 when compared to the 2010 recommendation.

Increased Authorizations Not Used to Support Traditional GO Bond Funded Capital Infrastructure Investments

- **Bond Replacement Diverts Funds from Capital Infrastructure Investments:** $1.4 billion, or 25%, of total GO bond authorizations, have been used as a source of replacement funding for transfers and PAYGO replacement from fiscal 2010 through 2014.

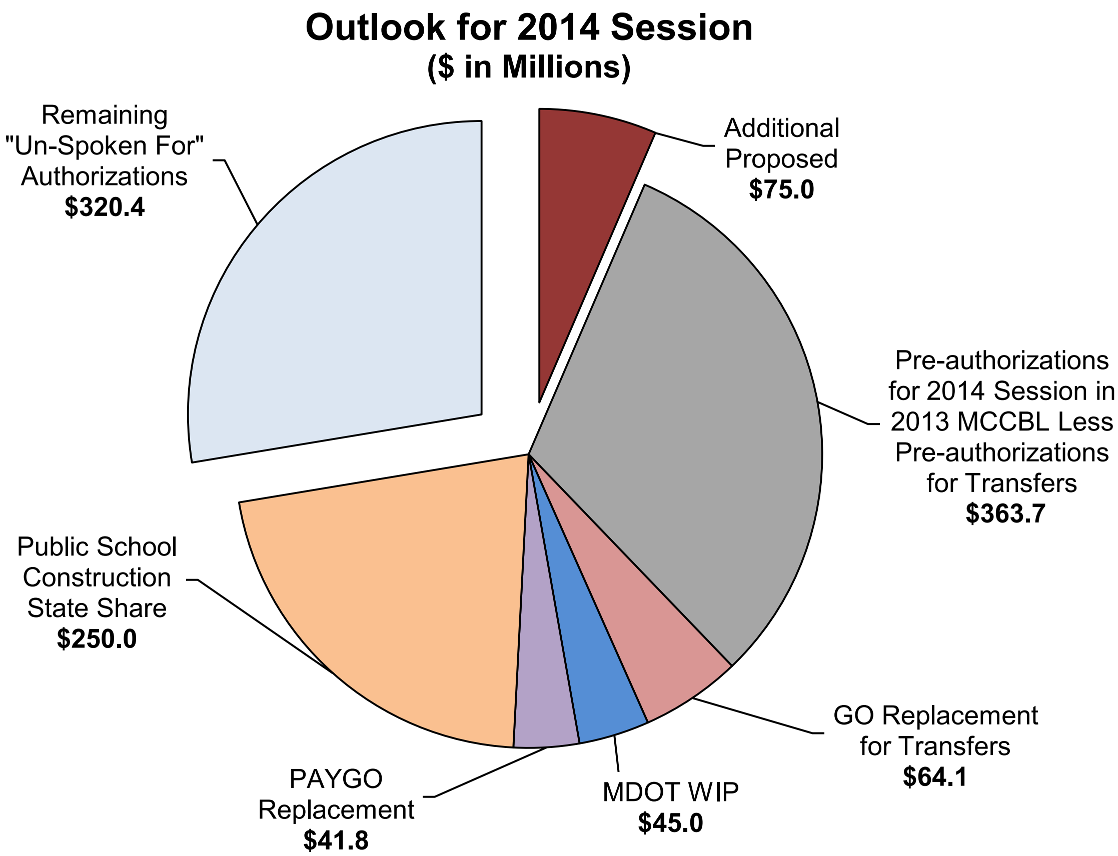
- **Multi-year Transfer Plans and SHA WIP Compliance Will Expand the Use of Bonds as Replacement Funds:** The $750.0 million of additional GO bond authorizations adopted last session was intended to return debt levels to pre-recession write-down levels. However, the Budget Reconciliation and Financing Act of 2013 programmed $405.0 million ($277.7 million in the five-year CIP and another $127.7 million in fiscal 2019 and 2020 beyond the scope of the CIP) as a source of bond replacement for a multi-year plan that diverted transfer tax revenues to the general fund. The proposed $375.0 million increase would similarly not be used to expand the traditional GO bond funded capital program but instead be used to fund SHA's share of WIP-related retrofits ($375.0 million of the $395.0 million scheduled in the Transportation Infrastructure Act of 2013).

General Obligation (GO) Bond Use for Operating and Replacement Funds
Fiscal 2010-2014 Actual and Fiscal 2015-2020 Estimate
($ in Millions)



	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Est	2016 Est	2017 Est	2018 Est	2019 Est	2020 Est
Additional Authorizations	$0.0	$0.0	$0.0	$0.0	$0.0	$75.0	$75.0	$75.0	$75.0	$75.0	$0.0
Program Funding Current GO Limit	$902.7	$765.4	$637.8	$890.6	$962.4	$856.1	$852.3	$841.6	$918.8	$980.6	$1,237.0
MDOT WIP Relief	$0.0	$0.0	$0.0	$0.0	$0.0	$45.0	$65.0	$85.0	$100.0	$100.0	$0.0
Operating Relief	$308.1	$414.3	$311.3	$228.8	$146.8	$108.9	$102.7	$103.4	$106.2	$84.4	$43.0

MDOT: Maryland Department of Transportation
WIP: Waterway Improvement Program



Fiscal 2015 Requests – Competition for Available "Un-Spoken For" Authorizations

- State Facilities: $112 million
- Health and Social Services: $51 million (excludes pre-authorizations)
- Environment: $112 million (excludes fund transfer replacement)
- Education: $387 million (net of CIP level for Public School Construction)
- Higher Education: $240 million (excludes pre-authorizations)
- Public Safety: $41 million (excludes pre-authorizations)
- Housing: $62 million
- Miscellaneous – including legislative initiatives: $74 million

CIP: *Capital Improvement Program*
MCCBL: Maryland Consolidated Capital Bond Loan
MDOT: Maryland Department of Transportation
WIP: Waterway Improvement Program

Source: Department of Budget and Management

Recent History General Obligation (GO) Bond Authorization Level Increases
2001 through 2019 Session

- Year-over-year change in GO bond authorization levels: The State has used GO bond debt capacity as a means of addressing fiscal pressures that reduced the availability of general fund support of the capital program and as a mechanism for replacing various special fund revenues and fund balances in capital accounts transferred to the general fund in support of the operating budget. The following matrix illustrates the year-over-year revisions in authorization levels.

($ in Millions)

	Session																		
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
CDAC																			**CDAC**
2013													$1,160	$1,170	$1,180	$1,275	$1,315	$1,280	2013
2012												$1,075	1,085	1,095	1,105	1,200	1,240	$1,280	2012
2011											$1,075	925	935	945	955	1,200	1,240	1,280	2011
2010										$925	925	925	935	945	955	1,200	1,240	1,280	2010
2009									$1,140	1,020	1,050	1,080	1,110	1,140	1,170	1,200	1,240	1,280	2009
2008								$1,110	990	1,020	1,050	1,080	1,110	1,140	1,170	1,200			2008
2007							$935	960	990	1,020	1,050	1,080	1,110	1,140	1,170				2007
2006						$810	835	860	890	920	950	980	1,010	1,040					2006
2005					$690	710	730	745	770	795	820	845	870						2005
2004				$670	685	700	715	630	645	660	675	690							2004
2003			$650	665	680	695	710	630	645	660	675								2003
2002		$740	555	570	585	600	615	625	640	655									2002
2001	$520	535	550	565	580	595	610	625	640										2001

CDAC: Capital Debt Affordability Committee

GO Debt Expansion

- Adding debt does not just expand capital spending but also supports capital projects previously funded in the operating budget. GO bond authorizations provided operating budget relief for the State as general fund revenues declined, and the State increasingly turned to fund transfers with GO bond replacement funding.

Initial Authorization	Amount Authorized	Effect on Capital Spending
Chapter 111 of 2001	$30 million annually	Increase the State capital program
Chapter 103 of 2002	$5 million annually	Fund Tobacco Transition Program
Chapter 290 of 2002	$200 million in fiscal 2003	Move PAYGO capital projects into GO bond program
Chapter 204 of 2003	$200 million in fiscal 2004	Move PAYGO capital projects into GO bond program
Chapter 432 of 2004	$100 million annually for five years	Increase the State capital program
Chapter 46 of 2006	Increase escalation to 3%, $100 million annually in fiscal 2010	Increase the State capital program
Chapter 488 of 2007	$100 million annually	Increase the State capital program
Chapter 336 of 2008	$100 million annually	Increase the State capital program
Chapter 485 of 2009	$150 million in fiscal 2010	Move PAYGO capital projects into GO bond program
Chapter 419 of 2009	$70 million in fiscal 2010	Maintain POS spending in fiscal 2010
Chapter 483 of 2010	$150 million in fiscal 2011	Move PAYGO capital projects into GO bond program
Chapter 444 of 2012	$150 million in fiscal 2013	Increase the State capital program
Chapter 424 of 2013	$150 million each of fiscal 2014-2018	Increase the State capital program – restore authorization levels to pre-2010 session levels

PAYGO: pay-as-you-go
POS: Program Open Space

Watershed Implementation Plan

- The most recent estimated cost of implementing the Phase II Watershed Implementation Plan (WIP) from all sectors illustrates that local stormwater upgrades likely represent the largest WIP implementation costs. The State, through the Bay Restoration Fund, is well on its way to addressing the municipal wastewater component.

Maryland's Estimated Phase II WIP Implementation Costs
Fiscal Years
($ in Millions)

Source Sector	2010-2017 Cost	2010-2025 Total Costs
Agriculture	**$498**	**$928**
Municipal Wastewater	**2,368**	**2,368**
Major Municipal Plants	2,306	2,306
Minor Municipal Plants	62	62
Stormwater	**2,546**	**7,388**
Maryland Department of Transportation	467	1,500
Local Government	2,079	5,888
Septic Systems	**824**	**3,719**
Upgrades	562	2,358
Connections	237	1,273
Pumping	25	88
Total	**$6,236**	**$14,403**

Note: The exhibit does not reflect costs associated with controlling combined sewer and sanitary overflows or the implementation of the Healthy Air Act. The exhibit reflects the final Phase II WIP estimate released October 26, 2012.

Source: *Phase II Watershed Implementation Plan*; Maryland Department of the Environment

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- **Transportation Infrastructure Act of 2013:** Requires the Governor to include in the operating or capital budget specified appropriations to the State Highway Administration for use in complying with the WIP. The required appropriations equal $45.0 million in fiscal 2015, $65.0 million in fiscal 2016, $85.0 million in fiscal 2017, and $100.0 million in each of fiscal 2018 and 2019.

Use of General Obligation Bond Program to Support Operating Budget Relief

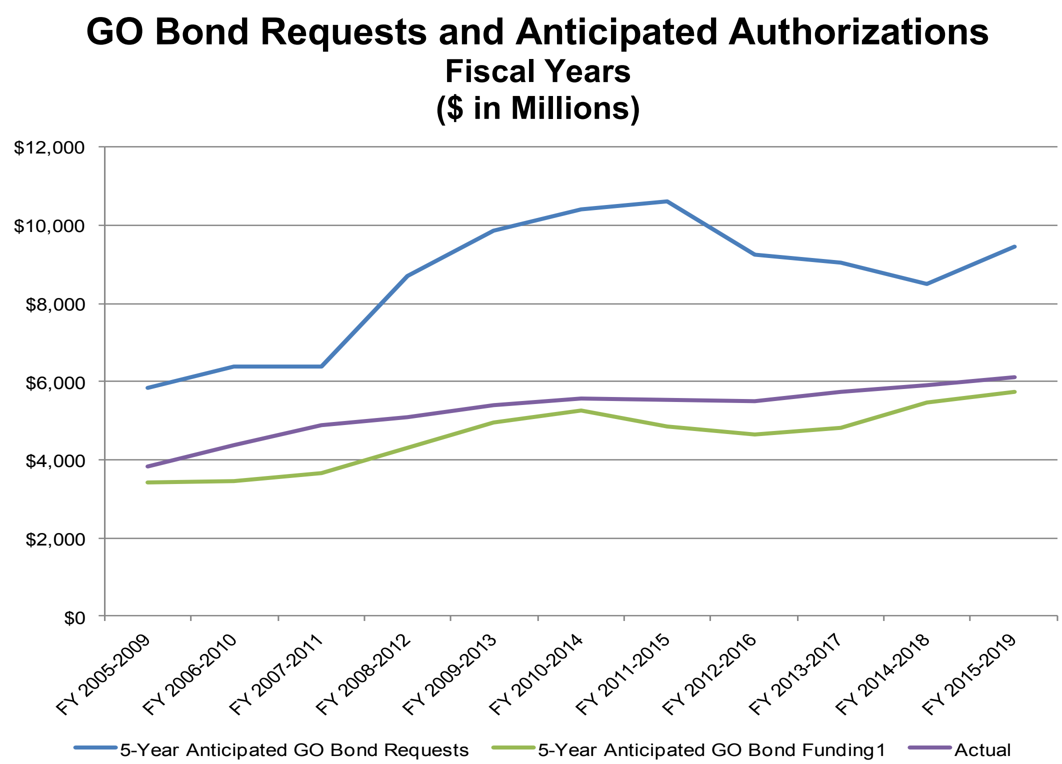
Fiscal 2010-2015
($ in Millions)

	2010	2011	2012	2013	2014	2015
Special Fund Revenue Replacement: Partial general obligation (GO) bond replacement for special fund revenues transferred to the general fund. Transferred revenue sources include transfer tax, Bay Restoration Fund, Waterway Improvement Fund, and various housing programs. The GO bond authorizations reflect partial repayment over a multi-year repayment plan.	$31.2	$98.4	$133.7	$106.8	$62.2	$67.1
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 bond authorizations reflects partial repayment over a multi-year repayment plan.	141.3	176.9	71.8	0.0	0.0	0.0
InterCounty Connector Funding: Multi-year plan to use GO bond funds in place of general funds statutorily committed for the InterCounty Connector.	55.0	89.3	46.2	0.0	21.5	0.0
State Highway Administration (SHA): The Transportation Infrastructure Investment Acts of 2013 requires Governor to budget funds for SHA to use in complying with the Watershed Implementation Plan. The Act requires $395 million from fiscal 2015 through 2019 as follows: $45 million in fiscal 2015, $65 million in fiscal 2016, $85 million in fiscal 2017, and $100 million in both fiscal 2018 and 2019.	0.0	0.0	0.0	0.0	0.0	45.0
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.	52.5	0.0	22.7	38.5	7.1	0.0
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.	28.1	45.7	36.9	83.5	56.0	41.8
Total	**$308.1**	**$414.3**	**$311.3**	**$228.8**	**$146.8**	**$153.9**

Capital Requests Exceed Capacity

- ***Recession Impacts Demand but Most Recent Five-year Request Cycle Shows Increased Demand:*** General obligation (GO) bond request declined during the recession to approximately $8.5 billion compared to levels in excess of $10.3 billion for the annual five-year request cycles prior to the recession. The most recent five-year request cycle covering fiscal 2015 through 2019 increased relative to the previous four cycles each of which declined on a year-over-year basis.

- ***School Construction and Local Capacity:*** Demand declined during the recession largely due to reduced local school construction requests. During the recession, the annual five-year request averaged $2.3 billion compared to $4.1 billion for the three annual five-year request cycles prior to the recession. The most recent uptick is largely attributable to increased demand from local governments for State support of school construction projects – the five-year request cycle covering fiscal 2015 through 2019 totaled $2.9 billion.

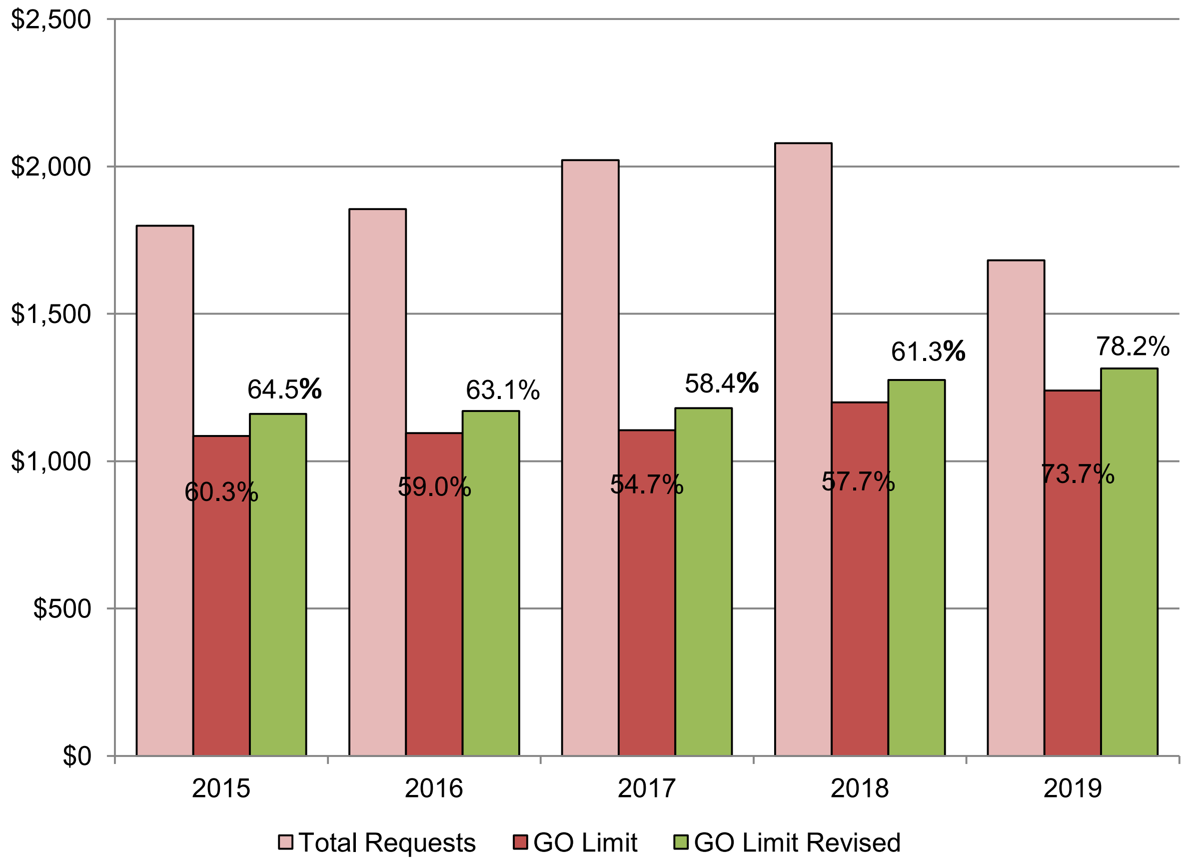


GO: general obligation

Source: Department of Budget and Management

- ***Increased Authorization Levels Would Close Some of the Funding-Demand Gap:*** Increase in new out-year GO authorization limits would fund between 58 and 78% of requests compared to 55 to 73% based on the recommended limits set last year. GO bond requests exceed the recommended new authorization limit by $700 for fiscal 2015. Over the five-year planning period, requests exceed capacity by almost $3.9 billion.

GO Bond Limit as Percentage of Requests
Fiscal 2015-2019
($ in Millions)

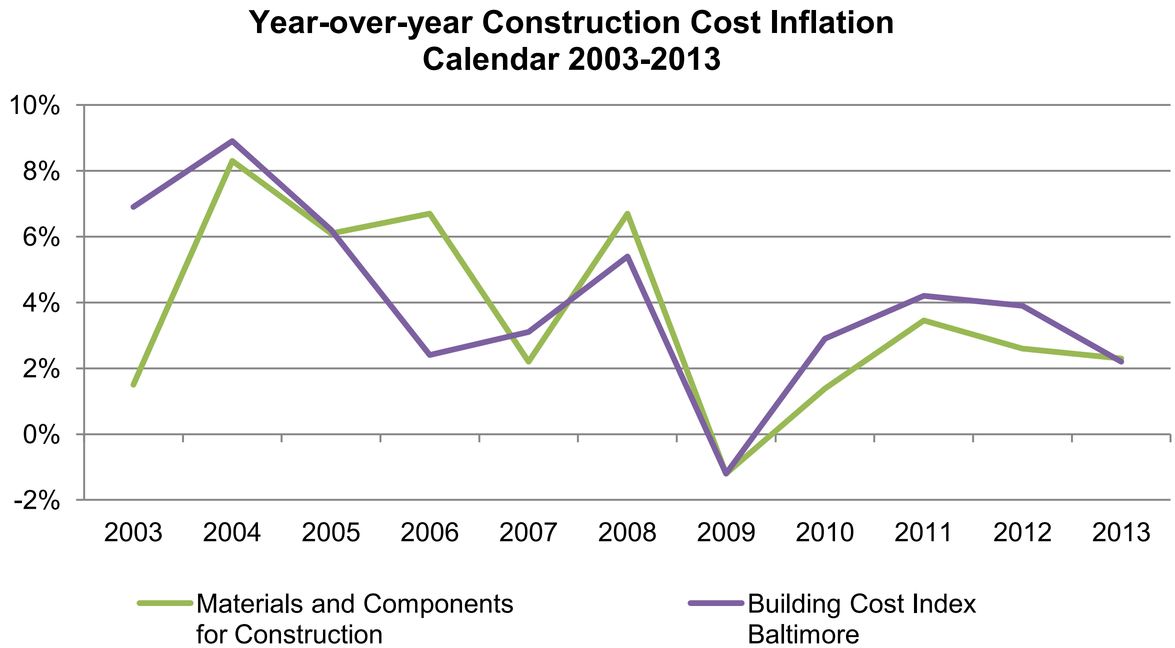


GO: general obligation

Source: Department of Budget and Management

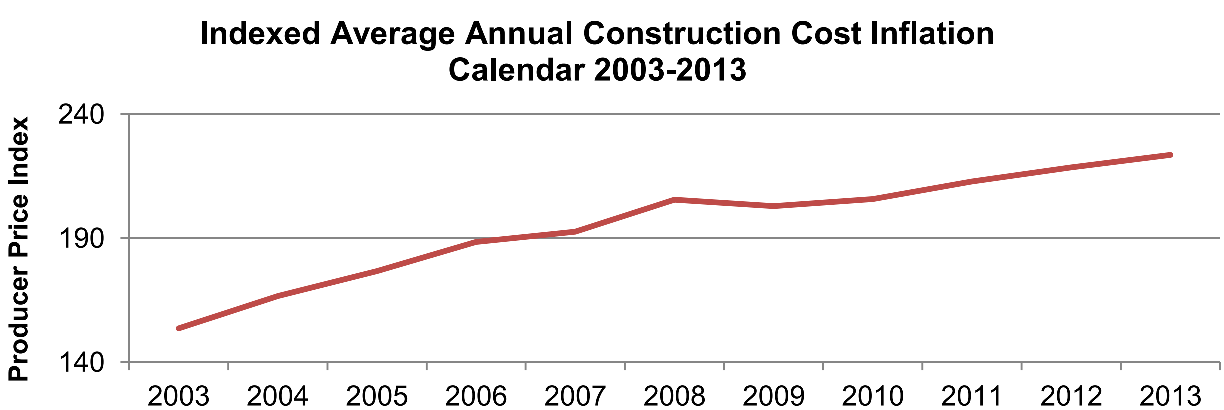
Construction Costs Stabilize

- The year-over-year measure for inflation in the building and construction market nationally and regionally has stabilized in 2012 and 2013 compared to the sharp increase from 2009 to 2011.



Source: Bureau of Labor Statistics; Engineering New-Record

- Construction inflation has increased at an average annual rate of 3.8% from calendar 2003 through September of calendar 2013.



Source: Bureau of Labor Statistics; Engineering New-Record

Pre-authorizations Included in the MCCBL of 2013

Project/Program Title	2014 Session	2015 Session	2016 Session	2017 Session	2018 Session	2019 Session	Total
DNR Program Open Space	$41,635,000	$43,718,000	$42,558,000	$44,928,000	$47,505,000	$24,251,000	$244,595,000
DNR Rural Legacy Program	10,231,000	9,718,000	8,785,000	9,017,000	9,268,000	4,683,000	51,702,000
MDA MALPP	15,188,000	16,967,000	16,093,000	16,877,000	17,727,000	9,029,000	91,881,000
DHMH Henryton Center	3,600,000						3,600,000
DPSCS Dorsey Run Mimimum Security Compound	18,850,000						18,850,000
UMB Health Sciences Research Facility III and Surge Building	49,000,000	80,000,000	53,000,000	1,000,000			183,000,000
UMES New Engineering and Aviation Science Building	56,850,000	350,000					57,200,000
TU Softball Facility	1,500,000						1,500,000
CSU New Science and Technology Center	6,016,000						6,016,000
SU New Academic Commons	59,250,000	37,750,000					97,000,000
UMBC Campus Traffic Safety and Circulation Improvements	10,000,000						10,000,000
SMCM Anne Arundel Hall	17,700,000	8,900,000					26,600,000
MSD New Fire Alarm	1,700,000						1,700,000
MHEC Community College Facilities Grant Program	66,854,000						66,854,000
Morgan State University (MSU) New School of Business Complex	3,000,000						3,000,000
MSU Soper Library Demolition	2,100,000						2,100,000
MES Infrastructure Improvement Fund	5,430,000						5,430,000
DJS Cheltenham Youth Facility	31,000,000						31,000,000
DSP Helicopter Replacement	12,900,000						12,900,000
Misc.: Green Branch Athletic Complex	3,000,000						3,000,000
Misc.: High Performance Computing Data Center	15,000,000						15,000,000
Total	**$430,804,000**	**$197,403,000**	**$120,436,000**	**$71,822,000**	**$74,500,000**	**$37,963,000**	**$932,928,000**

CSU: Coppin State University
DHMH: Department of Health and Mental Hygiene
DJS: Department of Juvenile Services
DNR: Department of Natural Resources
DPSCS: Department of Public Safety and Correctional Services
DSP: Department of State Police
MALPP: Maryland Agricultural Land Preservation Program
MCCBL: Maryland Consolidated Capital Bond Loan
MDA: Maryland Department of Agriculture
MES: Maryland Environmental Service
MHEC: Maryland Higher Education Commission
MSD: Maryland School for the Deaf
SMCM: St. Mary's College of Maryland
SU: Salisbury University
TU: Towson University
UMB: University of Maryland, Baltimore
UMBC: University of Maryland Baltimore County
UMES: University of Maryland Eastern Shore

State Debt Policy

Capital Debt Affordability Committee Recommends Increasing Authorizations

- The recommendation is to increase authorizations by $75 million annually from fiscal 2015 to 2019, adding $375 million.

- After all the debt has been issued, these bonds increase annual debt service costs by $43 million.

Cost of Increasing GO Bond Authorizations by $375 Million
Fiscal 2015-2023
($ in Millions)

Fiscal Year	Increase in Authorizations	Additional Debt Service
2015	$75.0	$0.2
2016	75.0	1.7
2017	75.0	4.1
2018	75.0	8.5
2019	75.0	14.3
2020	0.0	20.8
2021	0.0	26.8
2022	0.0	32.7
2023	0.0	36.2

GO: general obligation

Source: Department of Legislative Services

- Last year, the Capital Debt Affordability Committee (CDAC) increased annual authorizations by $150 million from fiscal 2014 to 2018, which increased total spending by $750 million.

- Since last year, total general obligation (GO) bond authorizations have increased by $1,125 million over what was planned by CDAC in 2011. By fiscal 2022, annual debt service costs associated with these higher authorizations exceed $100 million. Additional costs peak at $130 million.

State Debt Policy (cont.)

State Debt Is within Affordability Ratios

- CDAC 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 2014-2023

Fiscal Year	Debt Outstanding as a % of Personal Income	Debt Service as % of Revenues
2014	3.36%	6.82%
2015	3.52%	7.13%
2016	3.60%	7.40%
2017	3.59%	7.54%
2018	3.61%	7.74%
2019	3.58%	7.70%
2020	3.52%	7.64%
2021	3.41%	7.61%
2022	3.27%	7.63%
2023	3.19%	7.70%

Source: Department of Legislative Services

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.

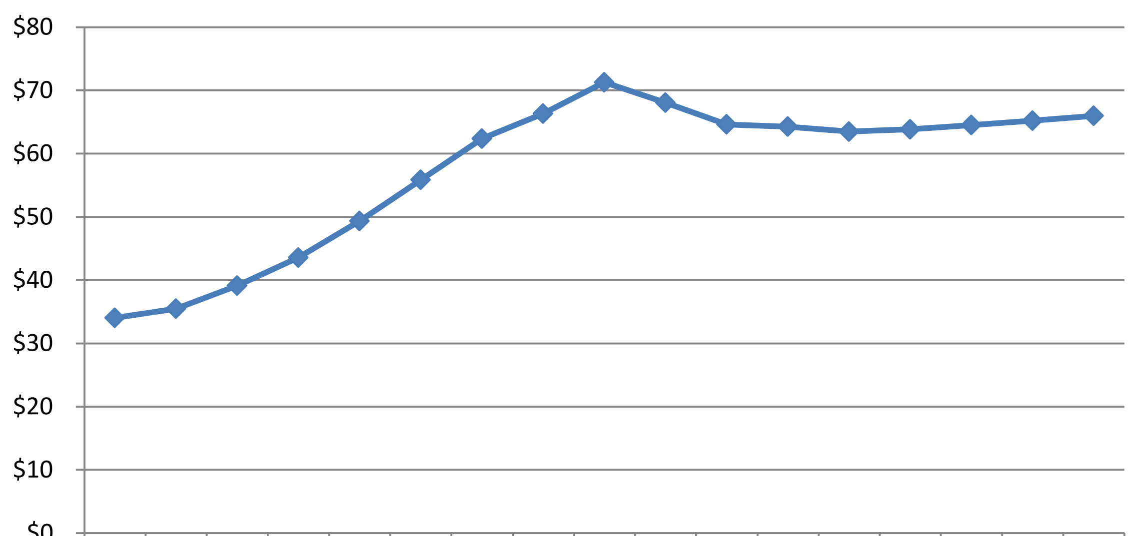
- House prices peaked in calendar 2007. Year-over-year house prices declined for 55 uninterrupted months. Prices have increased since February 2012.

State Debt Policy (cont.)

- State property tax revenues lag real estate market trends, primarily due to the Homestead Tax Credit and three-year phasing of assessments.

- Revenues per penny on the property taxes peaked in fiscal 2011 and are expected to continue declining until fiscal 2016.

Revenues Generated by One Cent of State Property Taxes
Fiscal 2003-2019
($ in Millions)

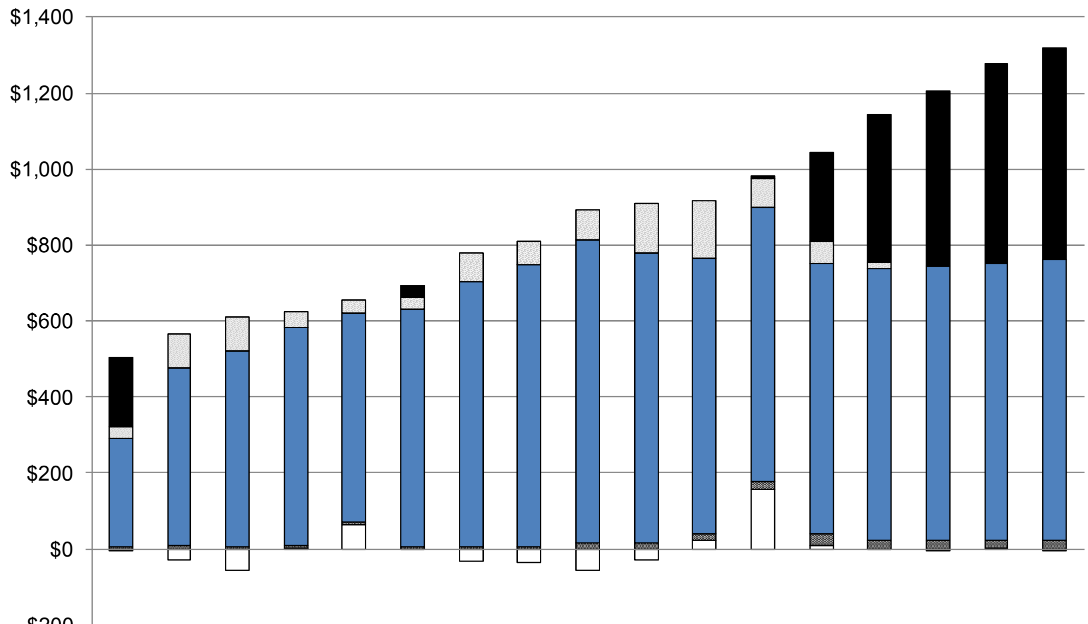


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues	$34	$35	$39	$44	$49	$56	$62	$66	$71	$68	$65	$64	$63	$64	$65	$65	$66

Source: State Treasurer's Office; Department of Legislative Services

GO Bond Debt Service Costs Exceed State Property Tax Revenues

Estimated Annuity Bond Fund (ABF) Activity
Fiscal 2003-2019
($ in Millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
General Funds	$180	$0	$0	$0	$0	$29	$0	$0	$0	$0	$0	$4	$233	$387	$462	$524	$557
Premiums	$31	$88	$89	$42	$32	$33	$74	$63	$79	$130	$151	$79	$59	$18	$0	$0	$0
Property Taxes	$286	$468	$517	$575	$553	$626	$699	$743	$798	$762	$724	$720	$711	$715	$723	$730	$739
Other	$6	$9	$5	$5	$6	$4	$5	$5	$15	$16	$17	$20	$32	$22	$22	$22	$22
Fund Balance	-$6	-$29	-$57	$4	$64	$0	-$33	-$34	-$57	-$30	$24	$158	$9	$0	-$1	$1	$0

□ Fund Balance ■ Other ■ Property Taxes □ Premiums ■ General Funds

Source: Department of Legislative Services

- In fiscal 2015, an estimated $233 million in general funds will be needed to support GO bond debt service costs. However, estimates could be revised substantially due to revised State property tax estimates, interest rate changes, and the amount of bonds sold.

- Estimated bond sale premiums total $29.8 million in March 2014, $28.2 million in August 2014, $31.2 million in March 2015, and $18.4 million in August 2015.

- The Department of Legislative Services estimates that fiscal 2014 bond sale premiums are sufficient to reduce the general fund appropriations from $83.0 million to $4.0 million.

Part 6

Transportation

Transportation Trust Fund Closeout
Comparison of Fiscal 2013 Projected and Actual Revenues
($ in Millions)

	Projected FY 2013	Actual FY 2013	Variance
Starting Fund Balance	**$187**	**$187**	**$0**
Revenues			
Titling Taxes	$682	$685	$3
Motor Fuel Taxes	738	746	8
Sales Tax	24	25	1
Corporate Income, Registrations, and Misc. Motor Vehicle Administration Fees	718	711	-7
Other Receipts and Adjustments	509	572	63
Bond Proceeds and Premiums	265	180	-85
Total Revenues	**$2,936**	**$2,919**	**-$17**
Uses of Funds			
MDOT Operating Expenditures	$1,646	$1,638	-$8
MDOT Capital Expenditures	985	863	-122
MDOT Debt Service	180	174	-6
Highway User Revenues	160	161	1
Other Expenditures	52	52	0
Total Expenditures	**$3,023**	**$2,888**	**-$135**
Final Ending Fund Balance	**$100**	**$218**	**$118**

MDOT: Maryland Department of Transportation

- The fiscal 2013 ending fund balance totaled $218 million, $118 million more than was estimated.

- The major revenue sources were largely in line with estimates. Other receipts and adjustments were $63.0 million higher than expected. This is largely due to capital reimbursements at the State Highway Administration coming in higher than estimated. In addition, the $15.4 million one-time grant to municipalities was deposited into the Transportation Trust Fund (TTF) at the end of fiscal 2013 to be spent in fiscal 2014.

- Spending was $135 million less than estimated, with capital spending $122 million less than estimated. The decline in capital spending is due to cash flow changes in a number of projects across all modes.

Review of Actions Taken During the 2013 Session Relating to Transportation Trust Fund Revenues

2013 Revenue Session Actions
($ in Millions)

	July 1, 2013	Jan 1, 2015	July 1, 2015	Jan 1, 2016*	July 1, 2016*
Sales and Use Tax Equivalent Rate Changes	1%	2%	3%	4%	5%

*Rate increases to 5% if Congress fails to pass the Marketplace Equity Act. If legislation passes, the Maryland Department of Transportation (MDOT) receives 4% of the general sales and use tax revenue.

- Index the excise tax rate to the increase in the Consumer Price Index (CPI) starting on July 1, 2013.
- Fare increases for Maryland Transit Administration services based upon the increase in the CPI.
- $395 million in general obligation bonds authorized to fund the department's obligations under the Watershed Implementation Plan.

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Total Transportation Revenue	**$116**	**$247**	**$512**	**$717**	**$767**

Other Provisions

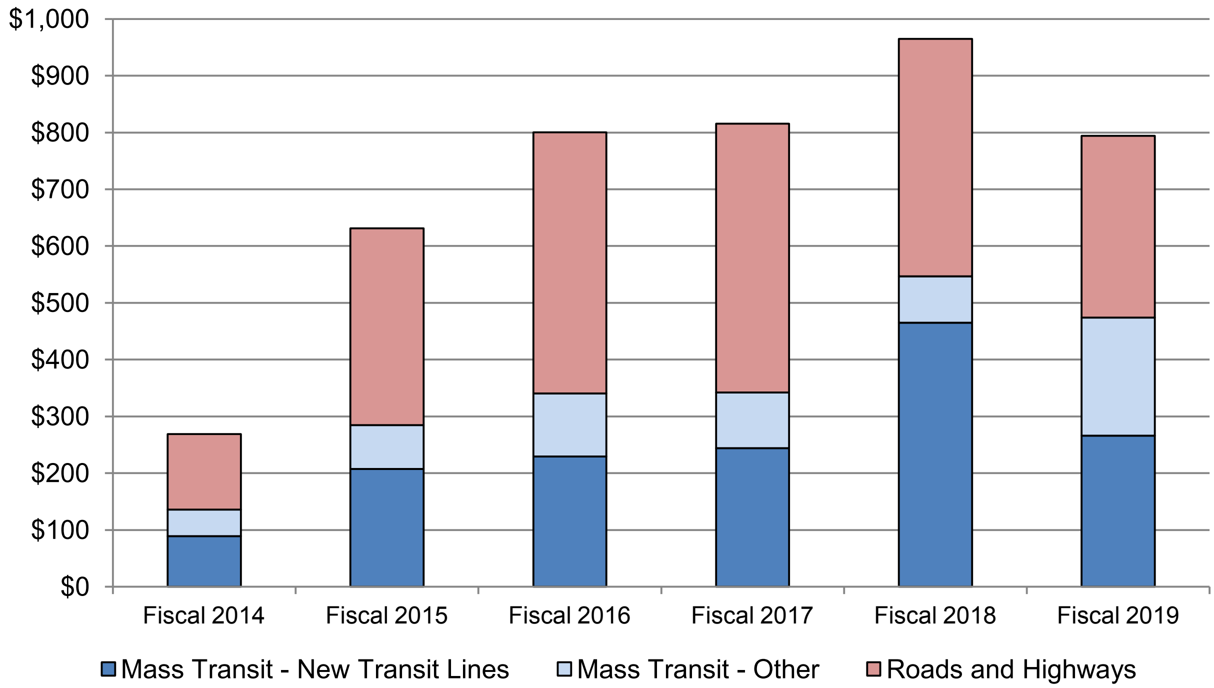
- Increased Maryland Emergency Medical System Operations Fund fee by $3.50 and identified how the additional revenue will be spent.
- The transportation debt outstanding limit was increased from $2.6 billion to $4.5 billion in recognition of the new revenue.
- Make it more difficult to transfer funds from the Transportation Trust Fund (TTF).
- A constitutional amendment, in separate legislation, prohibits the transfer of funds from the TTF to the general fund unless the Governor declares a fiscal emergency and the legislation is passed by a three-fifths majority. The constitutional amendment will be considered by the voters in 2014.

Actions Taken During the 2013 Session Result in $4.4 Billion Of New Revenue through Fiscal 2019 in MDOT's TTF Forecast

- MDOT's financial forecast reflects an increase in the motor fuel excise tax based upon the increase in the CPI and a 1% tax on the average wholesale price as of July 1, 2013. The fiscal 2013 determination for the CPI resulted in a 0.4 cent increase and a 3.1 cent increase for the sales and use tax equivalent rate.
  - **The Department of Legislative Services' (DLS) fiscal 2014 to 2019 forecast of motor fuel tax revenues is greater than MDOT's forecast. This is largely due to variances in the estimates of future fuel prices and the CPI. This discrepancy highlights the difficulty in estimating motor fuel tax revenues.**
- MDOT assumes Congress will pass the Marketplace Equity Act and that 4% of the sales and use tax will be distributed to the TTF starting January 1, 2016.
- The operating budget forecast assumes modest out-year increases in spending, particularly in the area of transit.
  - **DLS assumes that transit operating spending and winter maintenance expenditures will be higher than MDOT assumed in its forecast. In addition, future employee compensation increases are assumed. If operating budget spending is higher than expected, less cash will be available to support the capital program.**
- MDOT has increased its bond sales to reflect the additional revenue from this past session's actions. Over the six years, bond issuances are expected to total $3,340 million compared to $1,825 million over the six-year period last year.
  - **MDOT's ability to issue this level of debt may be constrained by a downturn in revenues or an increase in operating spending. The cost of issuing this debt results in debt service costs increasing from $203 million in fiscal 2014 to $376 million in fiscal 2019.**
- The special fund capital program totals $9,885 million over the six-year period and reflects an additional $4.4 billion in spending from the 2013 revenue enhancement.
  - **If revenues are less than estimated or spending is greater than estimated, this reduces the amount of cash available to support the capital program. Other spending pressures on the capital program (*e.g.,* the Red and Purple lines) may result in the need for more capital spending than currently projected.**

Maryland Department of Transportation (cont.)

New Revenue Programmed Spending
Special Funds
($ in Millions)



Note: Roads and Highway amounts include spending for Watershed Implementation Plan projects.

Source: Maryland Department of Transportation, 2014 draft *Consolidated Transportation Program*

- Programmed spending of revenue available due to the passage of the Transportation Infrastructure Improvement Act of 2013 (Chapter 429) is evenly split between spending on roads and spending on mass transit over the six-year period covered in the 2014 draft *Consolidated Transportation Program* (CTP).

- Spending related to the three major transit projects (Red Line, Purple Line, and Corridor Cities Transitway) accounts for nearly 71% of the new mass transit spending.

Major Projects Added to Construction Program
($ in Millions)

Mode	Project	County	Total Cost
MTA	Baltimore Red Line	Baltimore and Baltimore City	$2,220.7
MTA	Purple Line	Montgomery and Prince George's	1,439.6
MTA	Baltimore Metro Signal System Preservation and Replacement	Baltimore and Baltimore City	313.7
MTA	Corridor Cities Transitway	Montgomery	205.6
SHA	Watkins Mill Road Extended; Interchange at Watkins Mill Road extended	Montgomery	165.3
SHA	Pennsylvania Avenue Interchange at Suitland Parkway	Prince George's	160.7
MAA	D/E Connector at Baltimore-Washington International Thurgood Marshall Airport	Statewide	125.0
SHA	Indian Head Highway; Interchange at Kirby Hill/Livingston Road	Prince George's	101.7
SHA	I-695, Baltimore Beltway; US 40 to MD 144	Baltimore	97.1
SHA	US 15, Catoctin Mountain Highway; Interchange at Monocacy Boulevard	Frederick	83.1

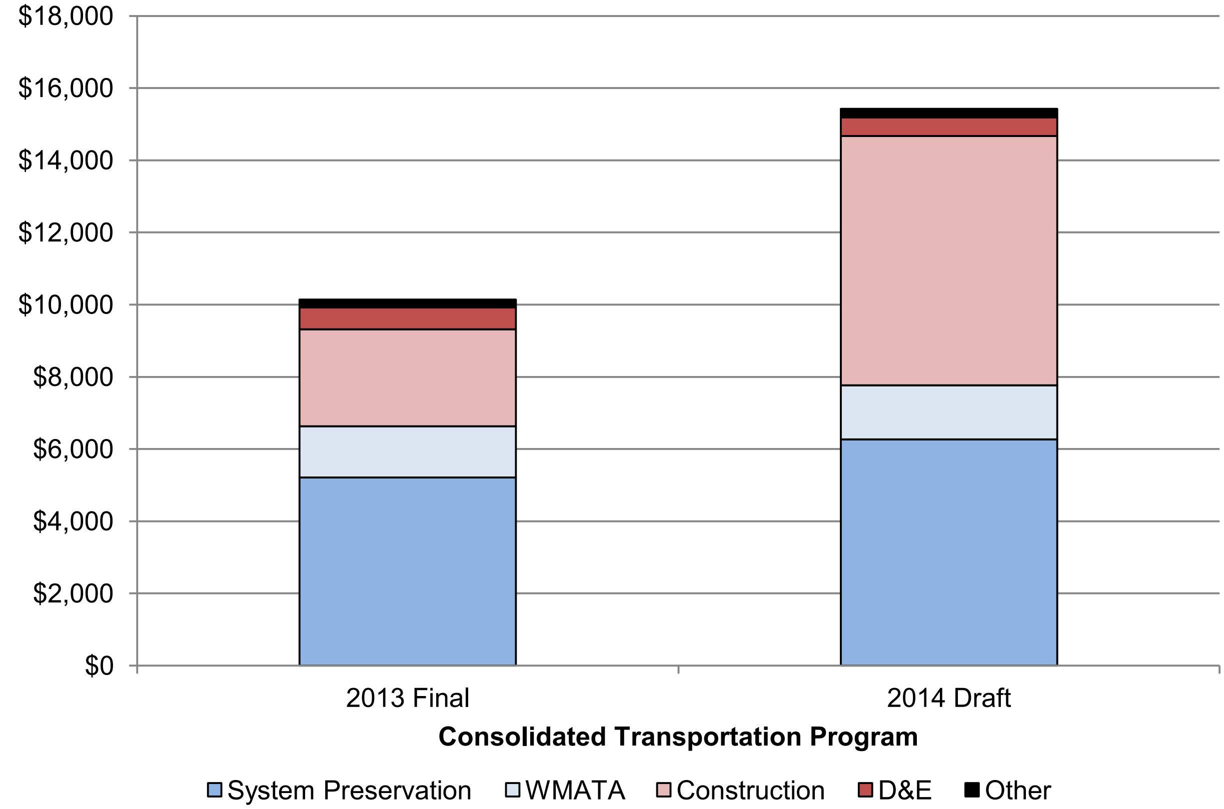
MAA: Maryland Aviation Administration
MTA: Maryland Transit Administration
SHA: State Highway Administration

Note: The total cost of the Baltimore Red and Purple lines excludes funding assumed to be provided by a private partner under a public-private partnership agreement.

Source: Maryland Department of Transportation, 2014 draft *Consolidated Transportation Program*

- In addition to allowing major projects to be added to the construction program, the new revenue from the enactment of Chapter 429 allows for an increase of $512.0 million in State Highway Administration system preservation funding and $427.1 million for Watershed Implementation Plan projects to reduce the amount of pollution entering the Chesapeake Bay.

Comparison of Six-year Capital Spending by Category
All Funds
($ in Billions)



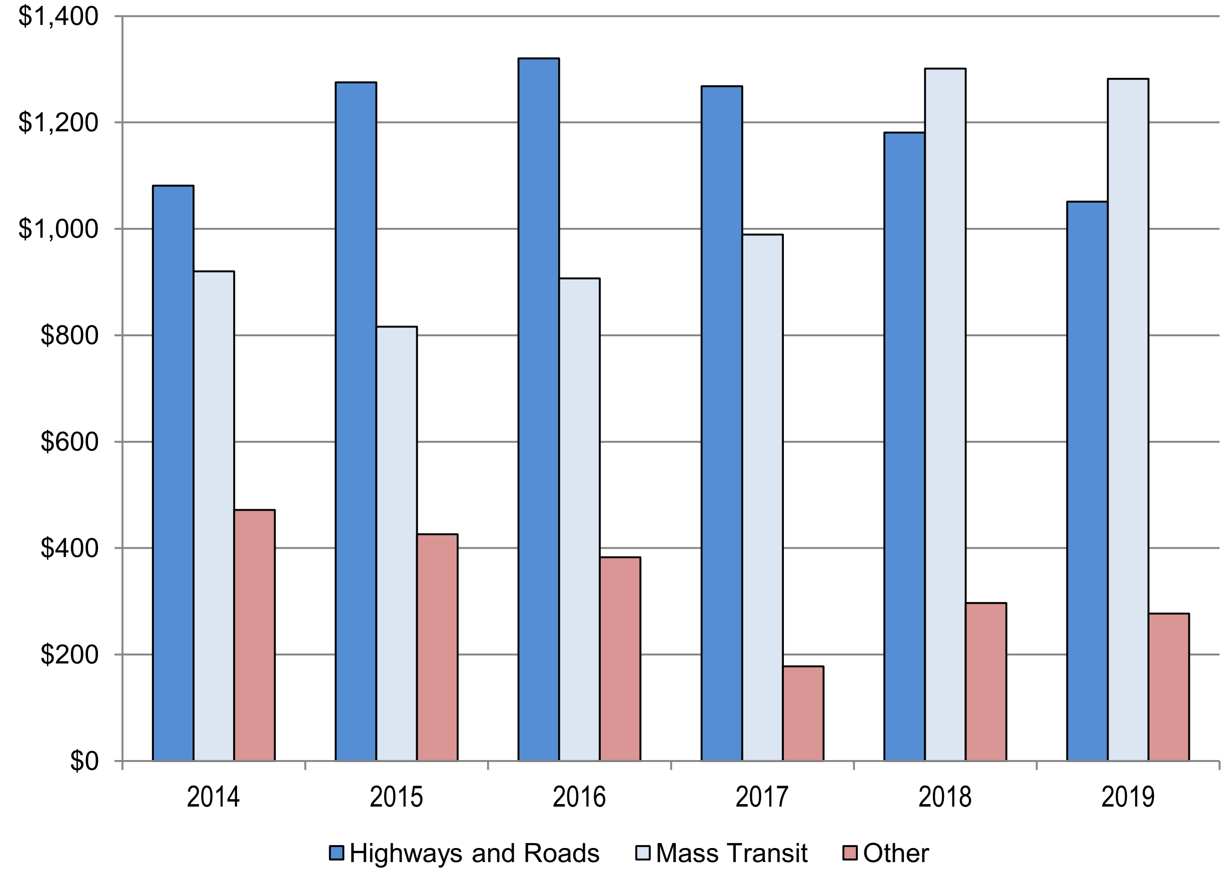
D&E: development and evaluation
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2013 final *Consolidated Transportation Program*, 2014 draft *Consolidated Transportation Program*

- Six-year spending on system preservation increases over $1.0 billion between the 2013 final and the 2014 draft CTPs but falls as a percent of total spending from 51.4% in the 2013 CTP to 40.6% in the 2014 CTP.

- Construction spending increases in both total dollars ($4.2 billion) and as a percent of total spending, increasing to 44.8% of total spending in the 2014 CTP from 26.5% in the 2013 CTP.

Capital Spending by Category
All Funds
Fiscal 2014-2019
($ in Millions)



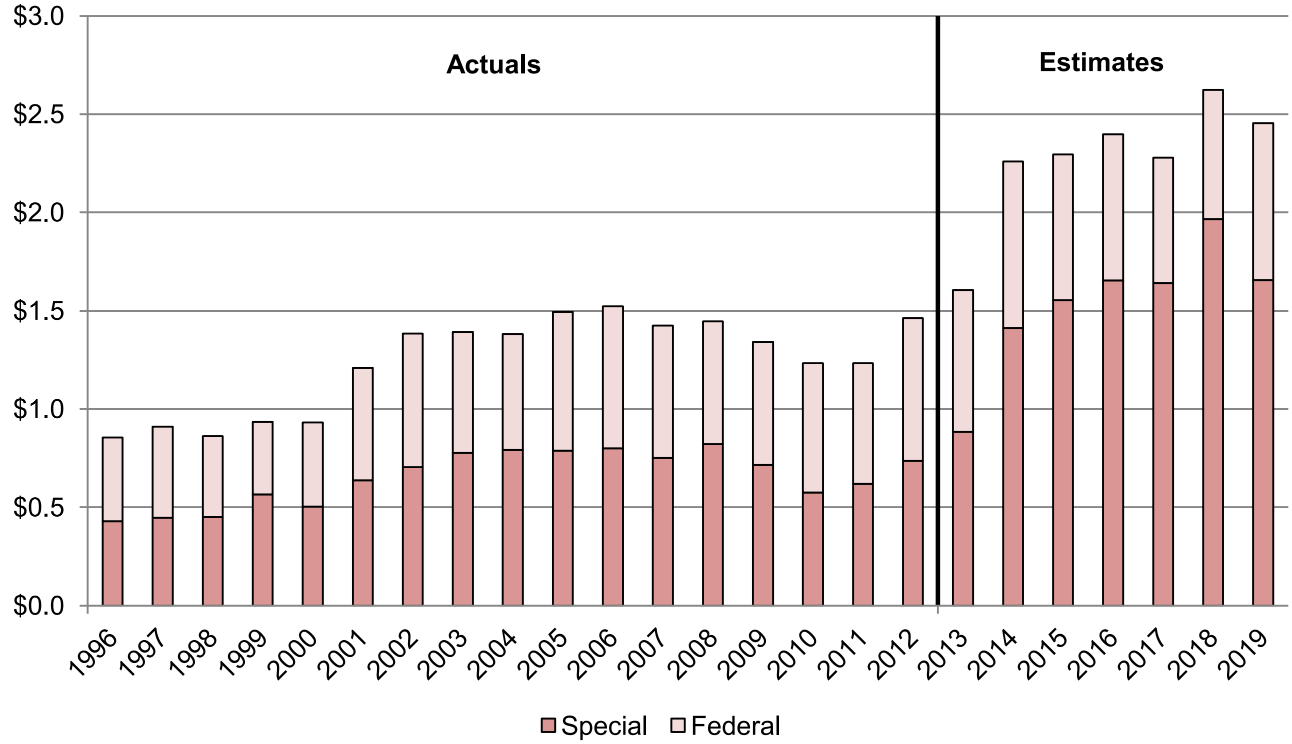
Note: "Other" comprises the Secretary's Office, the Maryland Port Administration, the Motor Vehicle Administration, and the Maryland Aviation Administration. "Mass Transit" includes the grant to the Washington Metropolitan Area Transit Authority.

Source: Maryland Department of Transportation, 2014 draft *Consolidated Transportation Program*

- Over the six-year period covered in the 2014 draft CTP, spending on highways and roads is projected to be $7.2 billion, or 46.5%, of total capital spending.

- During this same time period, spending on mass transit is projected to be $6.2 billion, or 40.3%, of total capital spending.

Capital Program
Fiscal 1996-2019
($ in Billions)



Source: Maryland Department of Transportation

- The size of the capital program forecast in the 2014 draft CTP is significantly larger than any previous capital program managed by MDOT. Prior to fiscal 2013, annual spending exceeded $1.5 billion only once since fiscal 1996.

- Peak spending on the three major transit lines is projected to occur in fiscal 2018 and 2019 at just over $800 million in each of those fiscal years.

Major Transit Project Status

	Purple Line	Red Line	Corridor Cities Transitway
Estimated Project Cost	$2.2 Billion	$2.6 Billion	$545.0 Million
Construction Start	Calendar 2015	Calendar 2015	n/a
Operations Begin	Calendar 2020	Calendar 2022	n/a
Procurement Method	P3	Conventional/P3	n/a
Federal Funding Anticipated	$927.4 Million	$921.8 Million	$1.5 Million
Local Contribution Anticipated	$220.0 Million	$250.0 Million	n/a

P3: public-private partnership

Source: Maryland Department of Transportation, 2014 draft *Consolidated Transportation Program*

- The Board of Public Works has approved the Purple Line transit project for procurement as a public-private partnership (P3) and MDOT has started the procurement by issuing a Request for Qualifications to identify syndicates of companies interested in competing to be the private partner on this project.

- Maryland's P3 private partner on the Purple Line will finance a portion of the construction costs through the use of debt to be repaid by the State over 30 years as part of the annual "availability payments." MDOT is assuming that the debt repayment portion of the availability payments will be non-traditional MDOT debt and not State tax-supported debt. The State Treasurer, in coordination with the Comptroller, is charged in the P3 legislation with analyzing the impact on the State's capital debt affordability limits of the P3 agreement. Should the Treasurer's analysis indicate that the debt portion of the availability payments is State tax-supported debt, the Purple Line debt will need to be included in the State's debt affordability calculations and may delay other debt-supported projects to avoid a breach of the debt affordability limits.

- Significant levels of federal and local contributions are assumed for both the Purple and the Red lines. Should actual commitments from either source be less than assumed in the CTP, additional State resources would need to be committed and/or a reevaluation would need to be made on whether the projects are still feasible.

Transportation Trust Fund Forecast
Fiscal 2014-2019
($ in Millions)

	2014 Est.	2015 Est.	2016 Est.	2017 Est.	2018 Est.	2019 Est.	2014-2019 Total
Opening Fund Balance	**$218**	**$100**	**$100**	**$125**	**$125**	**$125**	
Closing Fund Balance	**$100**	**$100**	**$125**	**$125**	**$125**	**$150**	
Net Revenues							
Taxes and Fees	$2,182	$2,320	$2,651	$2,819	$2,888	$2,963	$15,823
Operating & Miscellaneous	497	518	530	564	573	568	3,250
Net Revenues Subtotal	***$2,679***	***$2,838***	***$3,181***	***$3,383***	***$3,461***	***$3,531***	***$19,073***
Bonds Sold	$490	$760	$580	$450	$725	$470	$3,475
Total Revenues	**$3,169**	**$3,599**	**$3,761**	**$3,833**	**$4,911**	**$4,001**	**$23,274**
Expenditures							
Debt Service	$204	$257	$286	$320	$355	$370	$1,794
Operating Budget	1,668	1,861	1,935	2,014	2,093	2,178	11,749
State Capital	1,413	1,526	1,581	1,586	1,837	1,529	9,472
Total Expenditures	**$3,285**	**$3,646**	**$3,803**	**$3,919**	**$4,286**	**$4,077**	**$23,015**
Debt							
Debt Outstanding	$1,759	$2,372	$2,794	$3,061	$3,589	$3,868	
Debt Coverage – Net Income	3.2	3.5	3.0	3.4	3.1	2.8	
Local Highway User Revenues	**$166**	**$171**	**$175**	**$177**	**$179**	**$181**	**$1,049**
Capital							
State Capital	$1,413	$1,526	$1,581	$1,586	$1,837	$1,529	$9,472
Net Federal Capital (Cash Flow)	849	741	744	637	658	798	$4,427
Subtotal Capital Expenditures	***$2,262***	***$2,267***	***$2,325***	***$2,223***	***$2,495***	***$2,327***	***$13,899***
GARVEE Debt Service	$87	$87	$87	$87	$87	$87	$525

GARVEE: Grant Anticipation Revenue Vehicles

Part 7

State Employment and Employee Benefits

Fiscal 2013 Health Insurance Closeout
($ in Millions)

	2013 Projected	2013 Actual	Variance
Beginning Balance	**$173.4**	**$173.4**	**$0.0**
Expenditures			
DBM – Personnel Administrative Cost	$7.3	$8.2	$0.9
Payments of Claims			
Medical	$855.8	$822.0	-$33.8
Mental Health	20.1	14.0	-6.1
Rx	364.3	346.4	-17.9
Dental	45.9	46.6	0.7
Other	0.0	0.0	0.0
Payments to Providers	**$1,293.4**	**$1,237.2**	**-$56.2**
Receipts			
State Agencies	$1,000.0	$1,028.0	$28.0
Employee Contributions	168.5	167.3	-1.2
Retiree Contributions	76.5	85.4	8.9
Rx Rebates, Recoveries, and Other	22.8	37.0	14.2
Injured Workers' Insurance Fund	21.0	21.0	0.0
Total Receipts	**$1,288.8**	**$1,338.7**	**$49.9**
Ending Balance	**$168.8**	**$274.9**	**$106.1**
Estimated Incurred But Not Received	-$99.5	-$99.5	$0.0
Reserve for Future Provider Payments	$69.3	$175.4	$106.1

DBM: Department of Budget and Management

- The health insurance account closed with a fund balance that was $106.1 million greater than originally estimated.

- Payments to providers were $56.2 million less than what was estimated and actually declined by $26.0 million compared to fiscal 2012. Medical claims experienced savings as more individuals were treated in outpatient settings as opposed to hospitals. Prescription drug costs declined as the use of generic drugs increased, and changes to the retiree drug program were implemented.

- In total, receipts were $49.9 million greater than estimated. Premium payments from retirees and State agency payments were higher than originally estimated. The State also received more in prescription drug rebates and recoveries than was originally estimated.

Employee and Retiree Health Insurance Funding
Fiscal 2012 Actual to Fiscal 2015 Estimate
($ in Millions)

	2012 Actual	2013 Actual	2014 Estimate	2015 Estimate
Beginning Balance	**$162**	**$173**	**$275**	**$336**
Receipts				
Agencies (Employer Contribution)	$986	$1,028	$1,066	$906
Employees/Retirees Contribution	253	253	276	281
Rebates, Recoveries, Other	36	58	23	37
Total Receipts	**$1,274**	**$1,339**	**$1,365**	**1,224**
% Growth in Receipts	3.8%	5.0%	1.9%	-10.3%
Expenditures				
Payments	$1,263	$1,237	$1,303	$1,394
% Growth in Payments	5.1%	-2.0%	5.4%	7.0%
Ending Balance	**$173**	**$275**	**$336**	**$166**

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

- In fiscal 2014, it is assumed that expenditures will grow by 5.4%, but that growth is from a lower level of spending in fiscal 2013. The budgeted level of receipts in fiscal 2014 remains unchanged, except for retirees due to higher growth in fiscal 2013.

- Since fiscal 2014 receipts do not reflect a lower level of spending, the fund balance in fiscal 2014 is expected to increase to $336 million, before having to cover expenses that were incurred in fiscal 2014 but that will be paid in fiscal 2015.

- Expenditures are expected to increase 7.0% in fiscal 2015. This higher level of growth accounts for the over 900 new positions in the baseline budget. The estimate also assumes that contract employees who are eligible for subsidized health insurance through the Affordable Care Act will receive benefits beginning on January 1, 2015.

- Agency receipts decline by $160 million in fiscal 2015 across all funds to draw down the fund balance built up in the account in fiscal 2013 and 2014. Employee and retiree premiums are not estimated to increase in fiscal 2015, except for the amount that new employees or contractual eligible employees pay.

Regular Full-time Equivalent Positions Changes
Fiscal 2002 Actual to Fiscal 2015 Baseline

Department/Service Area	2002 Actual	2014 Legis. Approp.	2015 Baseline	2014-2015 Change	2002-2015 Change
Health and Human Services					
Health and Mental Hygiene	8,555	6,406	6,421	16	-2,134
Human Resources	7,364	6,529	6,529	0	-835
Juvenile Services	2,123	2,077	2,077	0	-46
Subtotal	***18,041***	***15,012***	***15,027***	***16***	***-3,014***
Public Safety					
Public Safety and Correctional Services	11,663	11,046	11,146	100	-517
Police and Fire Marshal	2,590	2,414	2,434	20	-156
Subtotal	***14,252***	***13,460***	***13,580***	***120***	***-673***
Transportation	***9,538***	***8,774***	***8,795***	***21***	***-744***
Other Executive					
Legal (Excluding Judiciary)	1,364	1,503	1,840	338	476
Executive and Administrative Control	1,603	1,633	1,638	5	35
Financial and Revenue Administration	2,151	2,046	2,059	13	-92
Budget and Management	517	441	441	0	-76
Retirement	194	205	205	0	12
General Services	793	580	582	2	-211
Natural Resources	1,618	1,295	1,299	4	-319
Agriculture	480	383	384	1	-96
Labor, Licensing, and Regulation	1,706	1,646	1,648	2	-58
MSDE and Other Education	1,956	1,972	1,975	3	19
Housing and Community Development	416	327	337	10	-79
Business and Economic Development	324	224	224	0	-100
Environment	1,028	937	937	0	-91
Subtotal	***14,149***	***13,190***	***13,569***	***377***	***-580***
Executive Branch Subtotal	***55,980***	***50,436***	***50,970***	***534***	***-5,010***
Higher Education	**21,393**	**25,010**	**25,362**	**352**	**3,969**
Executive and Higher Education Subtotal	***77,373***	***75,446***	***76,332***	***886***	***-1,041***
Judiciary	**3,010**	**3,639**	**3,658**	**19**	**648**
Legislature	**730**	**748**	**748**	**0**	**18**
Total	**81,113**	**79,832**	**80,738**	**905**	**-374**

MSDE: Maryland State Department of Education

Note: Numbers may not sum due to rounding.

Explaining Fiscal 2015 Baseline Position Identification Number Changes

Fiscal 2014 Actions

- 352 positions in higher education created in fiscal 2014 based upon their statutory flex authority.

- 10 new positions to have two pilots per helicopter at the State Police.

- 10 new positions in the Department of Housing and Community Development to reflect additional activities associated with the Exelon/Constellation merger.

- 8 positions for weekend Maryland Area Regional Commuter service, and 2 positions for weekend service at the Maryland Transit Administration.

- 10 positions to implement the Highway Safety Act of 2013 at the Motor Vehicle Administration. (Chapter 309 of 2013)

- 4 positions for the Firearm Safety Act of 2013 at the Mental Hygiene Administration. (Chapter 427 of 2013)

- 7 positions to implement various pieces of legislation passed during the 2013 session.

Fiscal 2015 Actions

- 333 new positions to reflect the judicial decision to require attorneys at each bail hearing. (Note: The Department of Legislative Services baseline budget assumes panel attorneys in fiscal 2014 to perform the activities required under the court decision.)

- 7 new judges and 12 supporting positions based upon the plan to increase the number of judges.

- 100 positions in the Department of Public Safety and Correctional Services to reflect budget bill language from fiscal 2012 to add 100 positions annually until the need of 377 new positions is achieved to meet the minimum standard to safely and securely staff facilities.

- 10 more new positions to have two pilots per helicopter at the State Police. (20 total)

- 13 positions at the Lottery for the opening of the Baltimore City gaming facility.

- 4 positions for the Medical Marijuana Commission created in Chapter 403 of 2013.

- 22 positions to implement various pieces of legislation passed during the 2013 session.

Contractual Full-time Equivalent Positions
Fiscal 2002 Actuals to 2015 Baseline

Department/Service Area	2002 Actual	2013 Actual	2014 Leg. App.	2015 Baseline	2014 -2015 Change
Health and Human Services					
Health and Mental Hygiene	409	356	385	387	2
Human Resources	111	111	82	82	0
Juvenile Services	119	168	170	170	0
Subtotal	***639***	***635***	***638***	***639***	***2***
Public Safety					
Public Safety and Correctional Services	298	275	396	396	0
Police and Fire Marshal	46	24	29	29	0
Subtotal	***344***	***299***	***425***	***425***	***0***
Transportation	**142**	**114**	**131**	**186**	**55**
Other Executive					
Legal (Excluding Judiciary)	99	44	53	53	0
Executive and Administrative Control	208	243	203	204	1
Financial and Revenue Administration	35	54	50	50	0
Budget and Management	33	13	18	18	1
Retirement	30	15	15	15	1
General Services	35	17	33	33	0
Natural Resources	332	366	404	406	2
Agriculture	36	43	42	42	0
Labor, Licensing, and Regulation	176	251	259	259	0
MSDE and Other Education	218	240	336	337	1
Housing and Community Development	49	50	71	71	1
Business and Economic Development	49	13	19	19	0
Environment	32	25	68	68	0
Subtotal	***1,332***	***1,374***	***1,570***	***1,575***	5
Executive Branch Subtotal	**2,457**	**2,422**	**2,764**	**2,825**	61
Higher Education	**6,079**	**6,692**	**6,630**	**6,630**	**0**
Judiciary	**371**	**405**	**447**	**451**	**4**
Total	**8,907**	**9,519**	**9,841**	**9,906**	**65**

Source: Department of Budget and Management

Analysis of Vacancies and Turnover Rate
Fiscal 2014 Legislative Appropriation Compared to November 2013 Vacancies

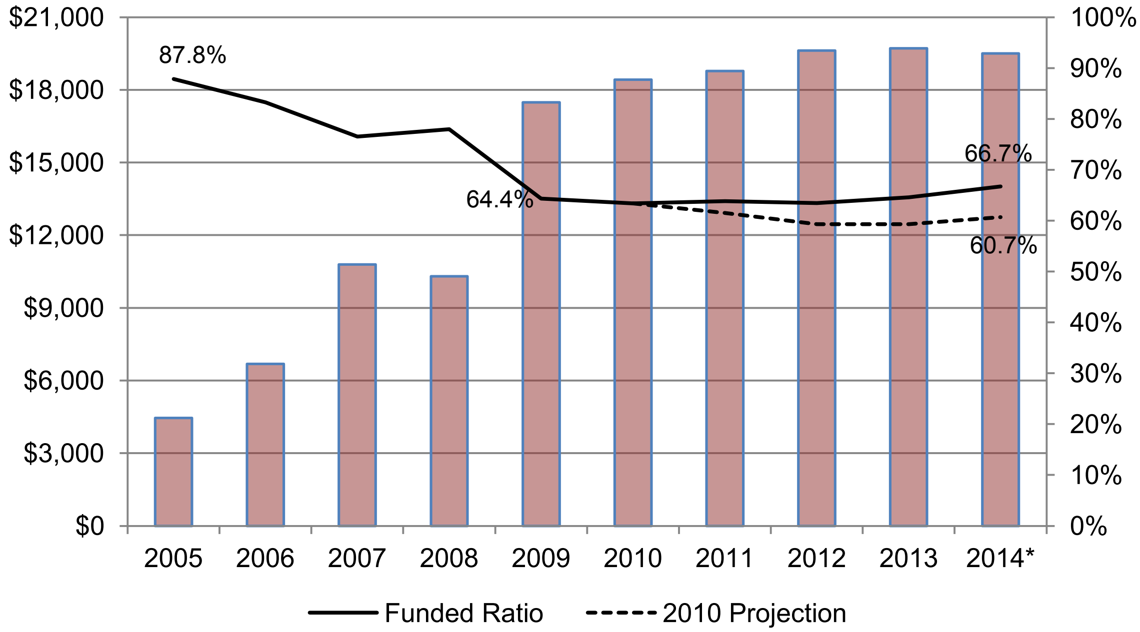
Department/Service Area	Positions	Turnover Rate	Vacancies to Meet Turnover	Vacancies	Vacancies Above or (Below) Turnover
Health and Human Services					
Health and Mental Hygiene	6,406	5.5%	354	615	261
Human Resources	6,529	6.3%	415	529	114
Juvenile Services	2,077	5.8%	121	163	42
Subtotal	***15,012***	***5.9%***	***888***	***1,307***	***417***
Public Safety					
Public Safety and Correctional Services	11,046	4.1%	457	550	93
Police and Fire Marshal	2,414	5.0%	121	193	71
Subtotal	***13,460***	***4.4%***	***587***	***742***	***164***
Transportation*	***8,774***	***2.9%***	***251***	***507***	***255***
Other Executive					
Legal (Excluding Judiciary)	1,503	4.6%	70	125	55
Executive and Administrative Control	1,633	4.5%	73	180	107
Financial and Revenue Administration	2,046	4.3%	88	154	66
Budget and Management and DoIT	441	2.6%	12	45	33
Retirement	205	3.8%	8	22	14
General Services	580	5.9%	34	49	14
Natural Resources	1,295	4.2%	54	102	48
Agriculture	383	6.3%	24	28	4
Labor, Licensing, and Regulation	1,646	5.7%	93	138	45
MSDE and Other Education	1,972	5.8%	115	220	105
Housing and Community Development	327	5.5%	18	22	4
Business and Economic Development	224	4.3%	10	14	4
Environment	937	6.5%	61	89	28
Subtotal	***13,190***	***5.0%***	***659***	***1,187***	***527***
Total	**50,436**	**4.6%**	**2,329**	**3,742**	**1,363**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

*Transportation data is for October 2013.

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

State Retirement and Pension System
Unfunded Liabilities and Funded Ratio
Fiscal 2005-2014
($ in Millions)



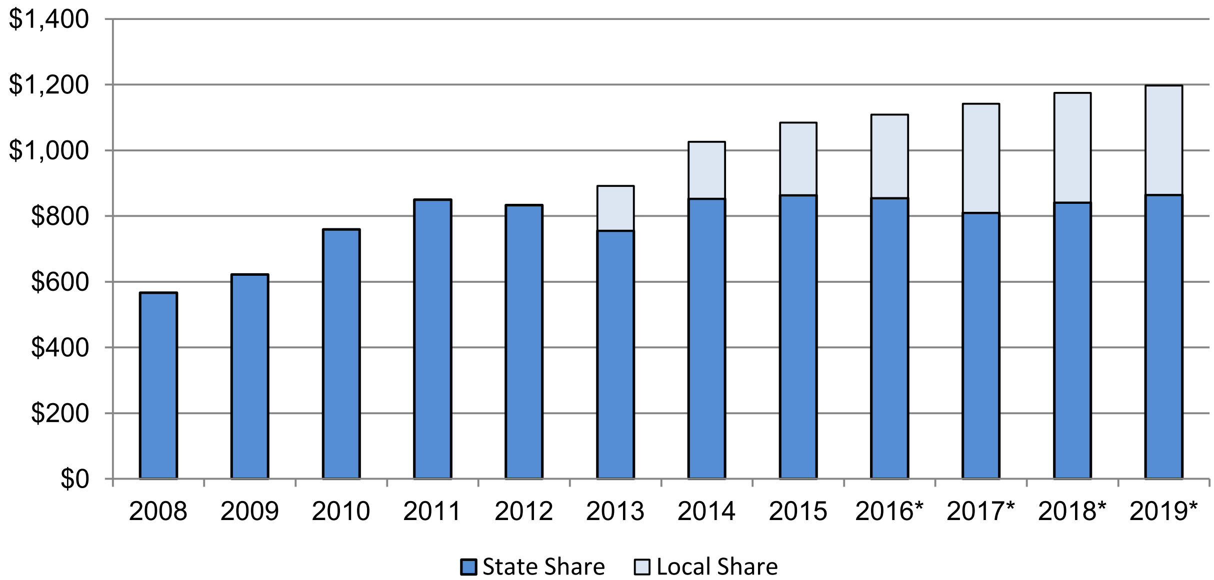
*Fiscal 2014 figures are the Department of Legislative Services estimates based on actuarial projections.

- 2011 pension reform and 2013 funding reform kept funding ratio from falling further, which translated into unfunded liabilities leveling off instead of continuing to grow.

- Funded ratio is projected to rise to 66.7% in fiscal 2014 as the pension fund benefits from unrecognized gains and the phase out of the corridor funding method.

- Unfunded liabilities will likely remain level for at least one more year but may begin to decrease after that to the extent that the pension fund meets its investment and other actuarial targets.

Teacher Pension Contributions
State and Local Share
Fiscal 2008-2019
($ in Millions)



* Values for fiscal 2016-2019 are projected based on current actuarial assumptions.

- Total employer contributions increase, but the State share decreases in fiscal 2016 and 2017 as local governments pick up an increasing share of teacher pension contributions; the local share is projected to stabilize after fiscal 2017, resulting in the State share of the total employer contribution increasing thereafter.

- Beginning in fiscal 2017, local governments pay 100% of the actual normal cost. That figure is now projected to be higher than originally estimated, due primarily to changes in actuarial assumptions made by the Board of Trustees of the State Pension and Retirement System. Until fiscal 2017, the State is paying the difference between the projected and actual normal cost.

- Beyond fiscal 2017, the normal cost rate is projected to decrease gradually each year; actual local contributions will vary, depending primarily on salary growth.

Part 8

Supporting Material

State's Gaming Program
Revenues and Impact on the Education Trust Fund
($ in Millions)

	Video Lottery Terminals				
	Fiscal 2013 Estimate	**Fiscal 2013 Actual**	**Difference**	**Fiscal 2014**	**Fiscal 2015**
Education Trust Fund	$244.5	$274.7	$30.3	$296.9	$506.0*
State Lottery Agency	10.0	11.2	1.2	12.3	17.5
Purse Dedication	34.9	39.1	4.2	42.3	68.6
Race Tracks Facility Renewal Account	9.7	10.8	1.1	10.4	9.7
Local Impact Grants	27.4	30.7	3.3	33.4	54.1
Small, Minority, and Women-owned Businesses	7.5	8.4	0.9	9.1	14.5
Casino Operators	164.4	185.4	20.9	212.2	369.3
Total Gross	**$498.3**	**$560.3**	**$62.0**	**$616.6**	**$995.8**

*Includes savings from most facility operators owning their video lottery terminal machines as of 3/31/15.

	Table Games				
	Fiscal 2013 Estimate	**Fiscal 2013 Actual**	**Difference**	**Fiscal 2014**	**Fiscal 2015**
Education Trust Fund	$6.6	$9.6	$3.0	$25.4	$44.2
Casino Operators	26.6	38.4	11.8	101.5	176.8
Total Gross	**$33.2**	**$48.0**	**$14.8**	**$126.9**	**$221.1**

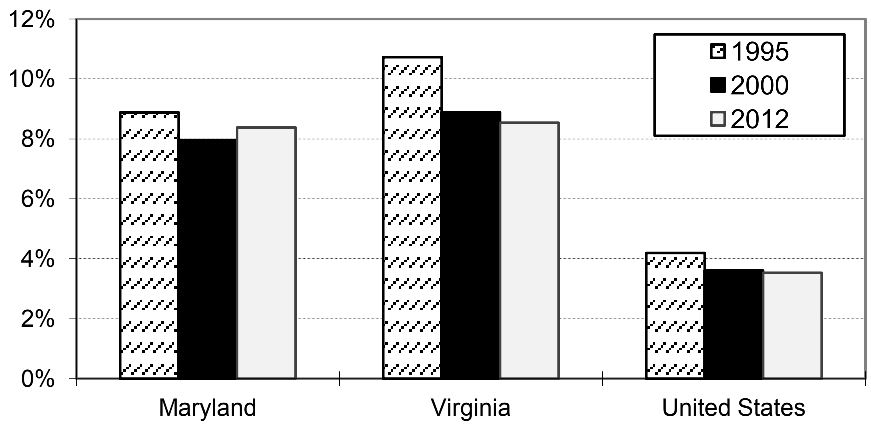
- Revenues from the State's gaming program exceed estimates by $76.8 million in fiscal 2013. This overattainment results in an increase of $33.3 million for the Education Trust Fund (ETF).

- Projected revenues will be revised by the Board of Revenue Estimates in December.

- Statute requires the transfer of ownership of the majority of video lottery terminal machines to the facility operators as of March 31, 2015. Savings from this transfer accrues to the ETF. Estimate of this savings is $44.2 million in fiscal 2015.

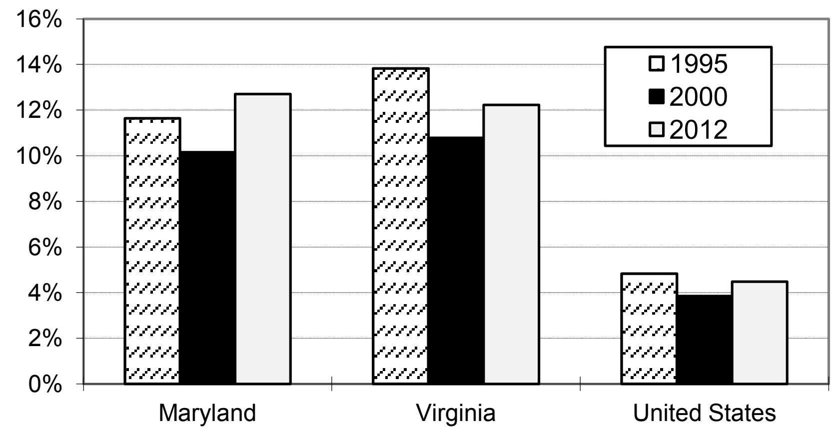
FEDERAL GOVERNMENT IN MARYLAND

Federal Government Employment as a Percent of Total Employment



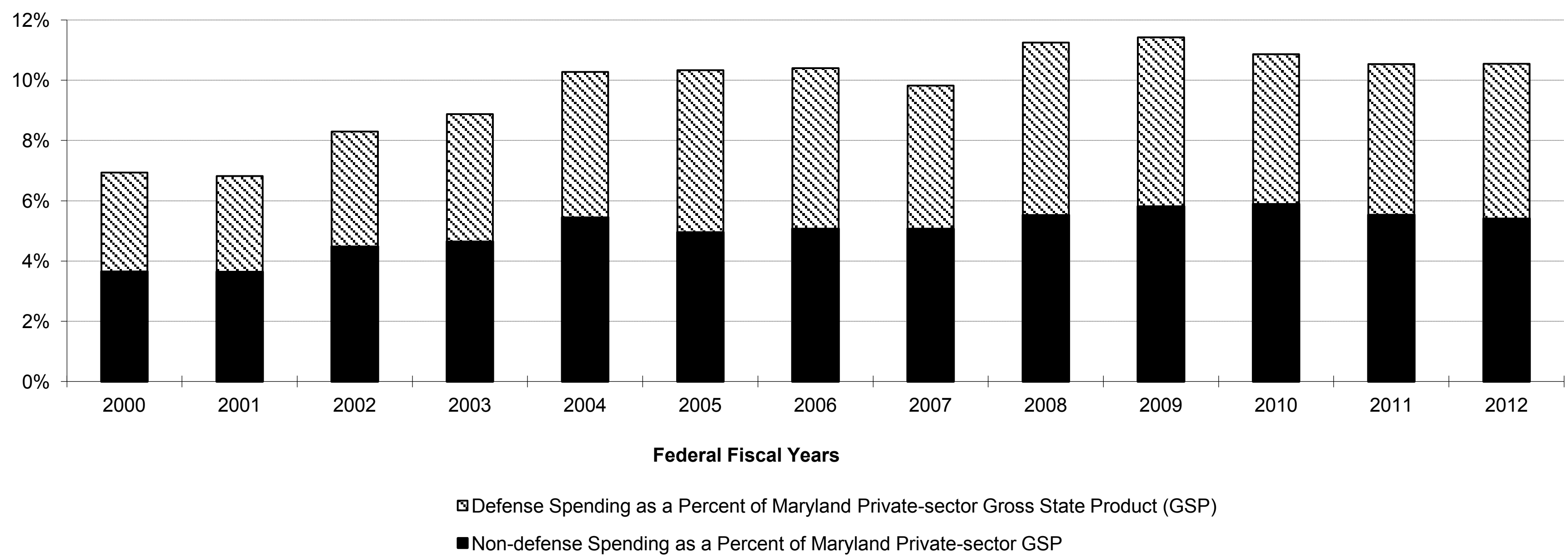
Note: Federal government includes civilian and military employment.

Federal Government Wage Income as a Percent of Total Wage Income



Note: Federal government includes civilian and military federal employment.

Federal Contract Spending in Maryland



Federal Government Shutdown

Based on the 2012 American Community Survey, approximately 280,000 Maryland residents work full-time year-round for the federal government, not including the uniform military. With median annual earnings of about $87,000, the total wage base of Maryland's civilian full-time federal employees is roughly $24 billion. Using an average tax rate and making some assumptions about spending, the Department of Legislative Services (DLS) estimates that the State loses around $5 million a day in income and sales tax revenue due to a governmentwide shutdown.

- A number of factors mitigate this loss:

  - Self-funded agencies like the U.S. Postal Service are not impacted by the shutdown. According to the Quarterly Census on Employment and Wages, there were 12,400 postal service jobs in Maryland in 2012, with total wages of $752 million.

  - On September 30, the "Pay Our Military Act" was enacted, which ensures that military personnel will receive their paychecks during the shutdown. The Act also allows for pay for civilian federal employees and contractors who support the members of the Armed Forces. Determining which civilian employees and contractors support members of the military was left to the discretion of the Secretary of U.S. Department of Defense. Secretary Chuck Hagel announced on October 5 that civilian workers who were already required to work during the shutdown would be covered by the Act and also recalled to work most, but not all, civilian workers who were furloughed. These workers would also be covered by the Act and would thus receive paychecks during the shutdown.

  - On October 5, the House of Representatives passed the "Federal Employee Retroactive Pay Fairness Act," which ensures federal employees will be retroactively paid for the period they were furloughed once the shutdown ends. Although the bill has not yet passed the Senate, the President and the Senate Democrats indicate they support the measure, and it seems very likely that federal employees will be fully paid, as was true during the shutdown in the mid-1990s.

- The shutdown is also impacting federal contractors, some of whom, such as Lockheed Martin, have already announced layoffs. The effect on contractors and their employees further compounds the negative hit to Maryland's economy from the shutdown.

- The United States hit the statutory debt ceiling in May but since then the U.S. Department of Treasury has used a variety of measures to manage the federal government's cash flow and remain under the debt limit. The Treasury Secretary has indicated that after October 17 those measures will be exhausted and at some point in the following days and weeks the Treasury will be unable to pay all the bills that come due on any given day. Since the United States has never put itself in this situation before, it is difficult to predict precisely what will happen and much depends on the reaction of financial markets. U.S. government securities are the foundation of the global financial system, so the impacts could be wide-ranging and severe. Even if the Treasury manages to make all interest payments and market reaction is limited, failing to raise the debt ceiling would still require a rapid reduction in government spending. Most economists believe that if the debt limit impasse lasted through November, the fiscal contraction would be enough to push the economy back into a significant recession.

- DLS examined a sample (appropriations of $10.0 million or more) of federal discretionary grants in the State fiscal 2014 budget totaling $9.0 billion. Of this amount:

  - $7.4 billion (82.2%) is not affected by the federal government shutdown – in many cases, carryover funding from prior years can be used; in other cases, funding was provided through the federal fiscal 2013 budget or spending authority derives from federal stimulus legislation;

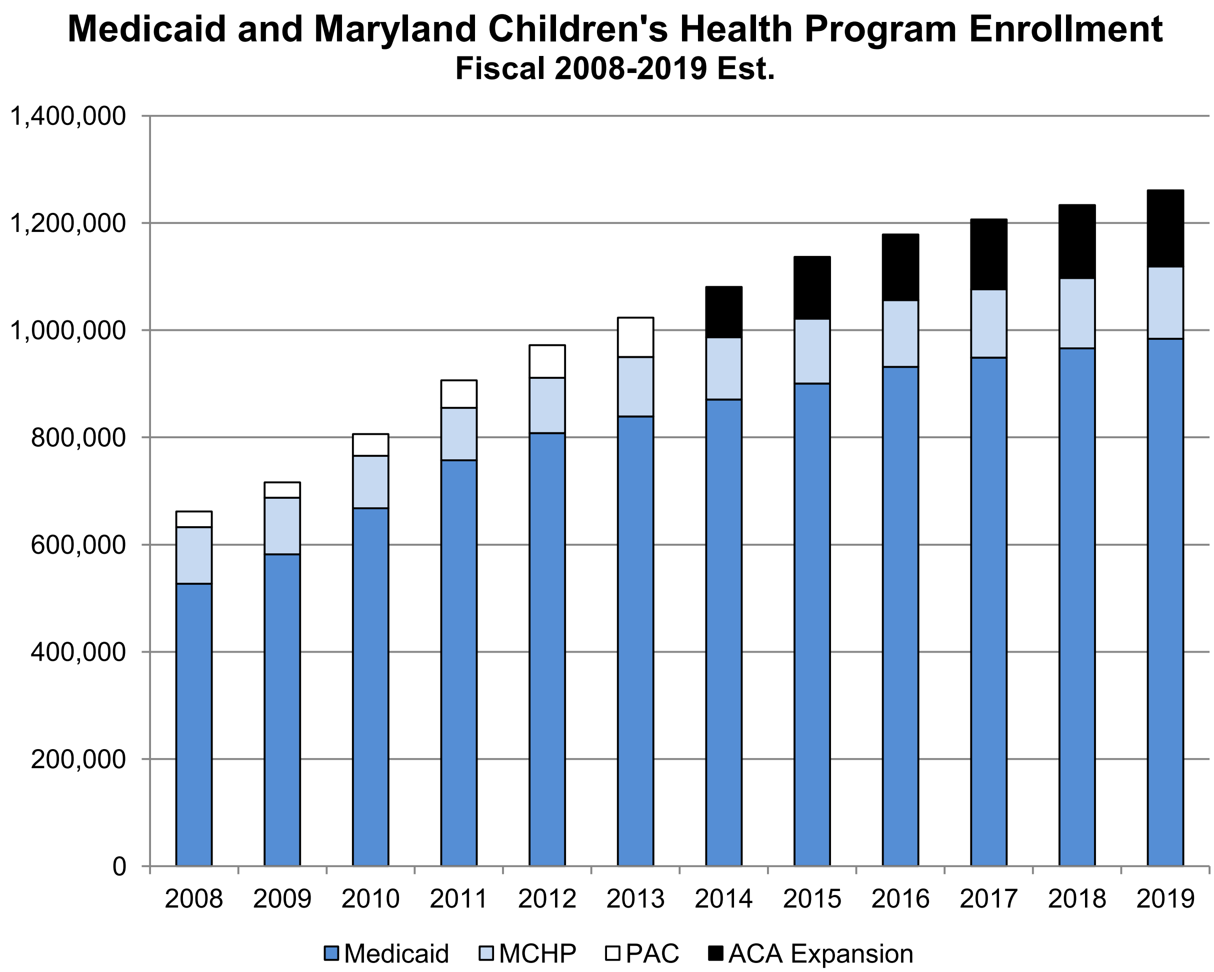
  - $858.0 million (9.6%) will not be impacted by a short shutdown – some grants are forward funded or have funding awards through some part of federal fiscal 2014;

  - $662.0 million (7.4%) may experience a delay in the receipt of federal funds but will not see a loss of funding amount; and

  - $78.7 million (0.9%) may experience limited impacts such as the loss of funding to administer a grant during the shutdown.

The Impact of the Affordable Care Act on the Fiscal 2015 Baseline and General Fund Forecast

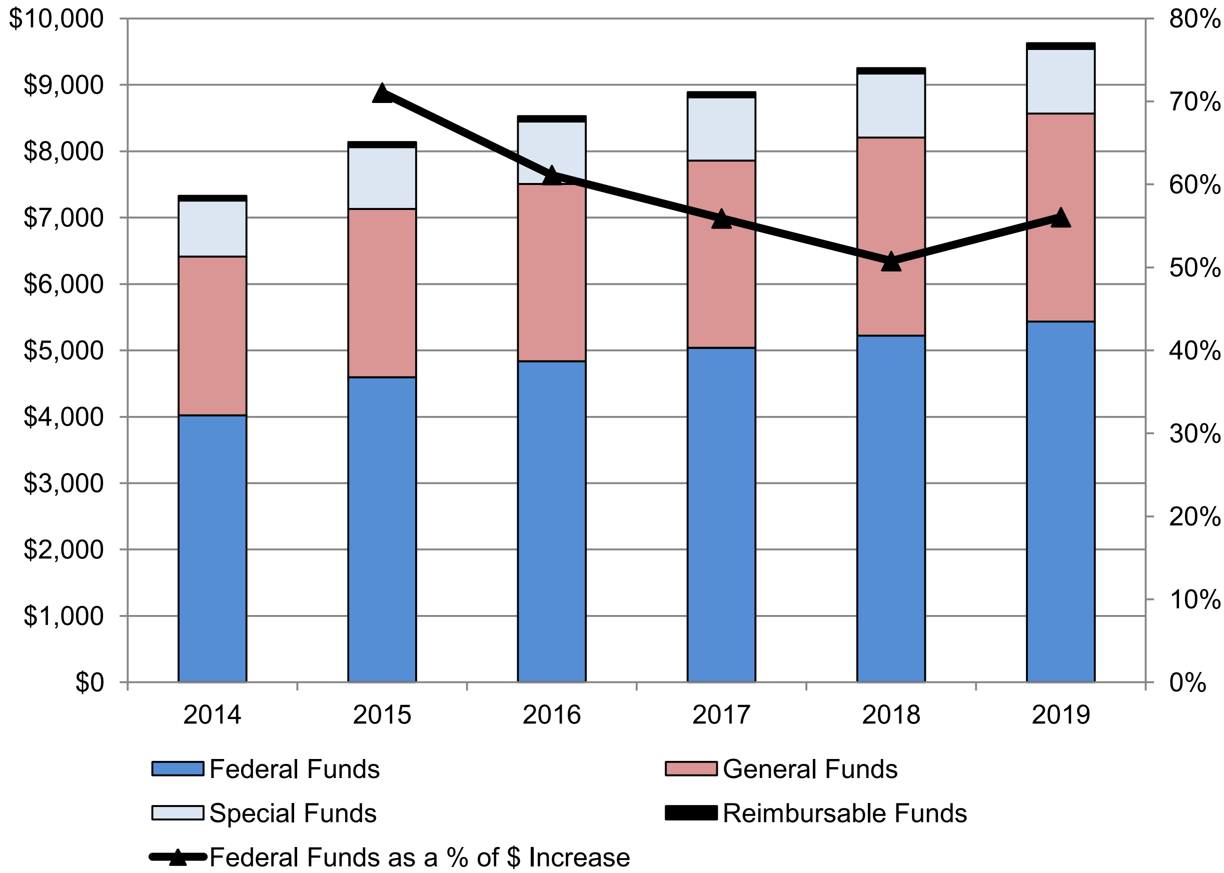
The Affordable Care Act (ACA) and Medicaid



- Medicaid enrollment is expected to increase at a greater rate because of the ACA primarily due to the expansion of Medicaid to 138% federal poverty level (FPL) and to a lesser extent to the increased awareness of Medicaid due to advertising of health care access through the Maryland Health Benefit Exchange.

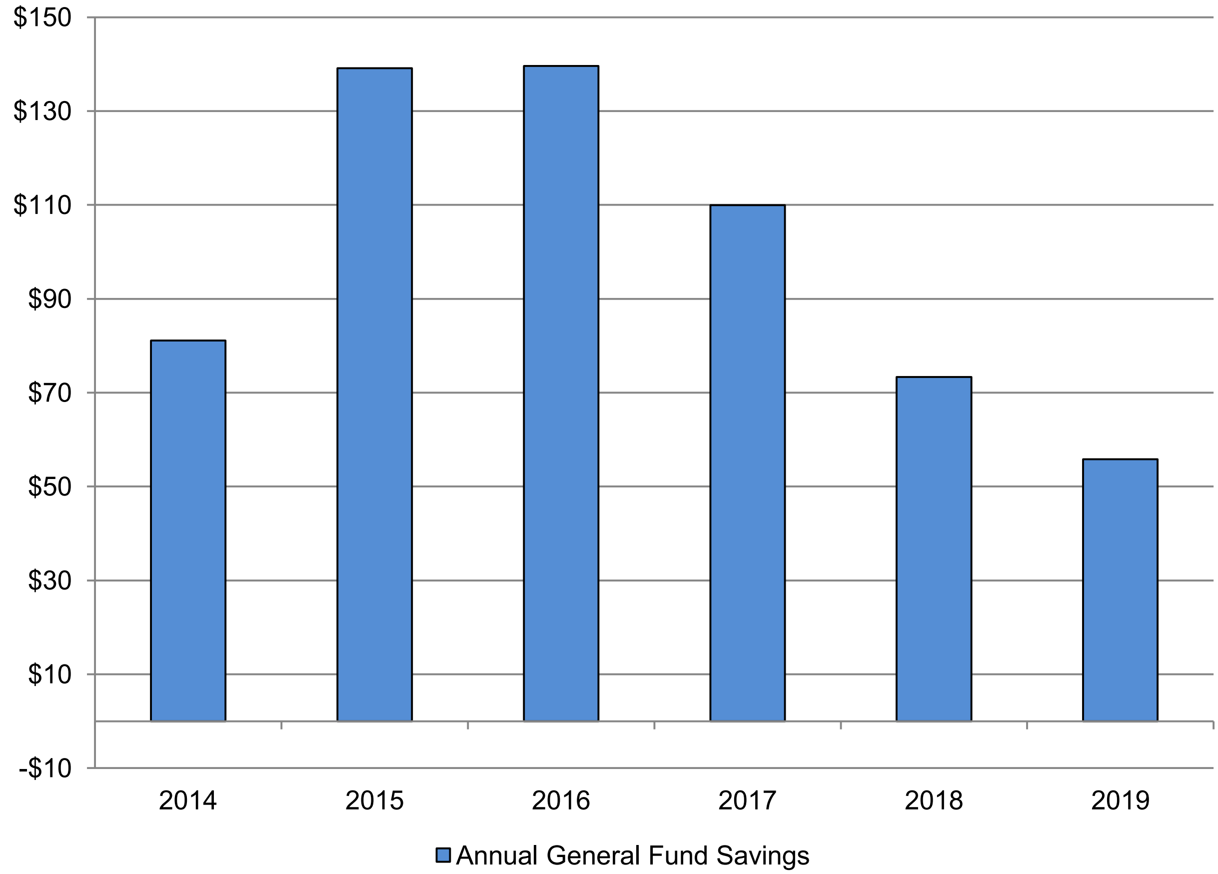
- Most of the increased enrollment will be single adults currently enrolled in the Primary Adult Care (PAC) Program which will end on January 1, 2014.

Medicaid Forecast by Fund Source
Fiscal 2014-2019
($ in Millions)



- The Medicaid fiscal 2015 baseline forecast projects 11.0% growth over projected expenditures in fiscal 2014.
- The largest driver of growth is the annualization of costs associated with the ACA expansion of Medicaid.
- Other cost drivers are the calendar 2014 managed care organization rate increase (6.8%), more modest rate increases for other medical services, and general enrollment growth.
- Federal funds will cover over 70.0% of the increased funding need in the fiscal 2015 baseline, primarily due to the 100.0% funding of the ACA expansion.
- The forecast assumes that special fund support from existing sources continues.

General Fund Savings Attributed to the Affordable Care Act in the Medicaid Forecast
Fiscal 2014-2019
($ in Millions)

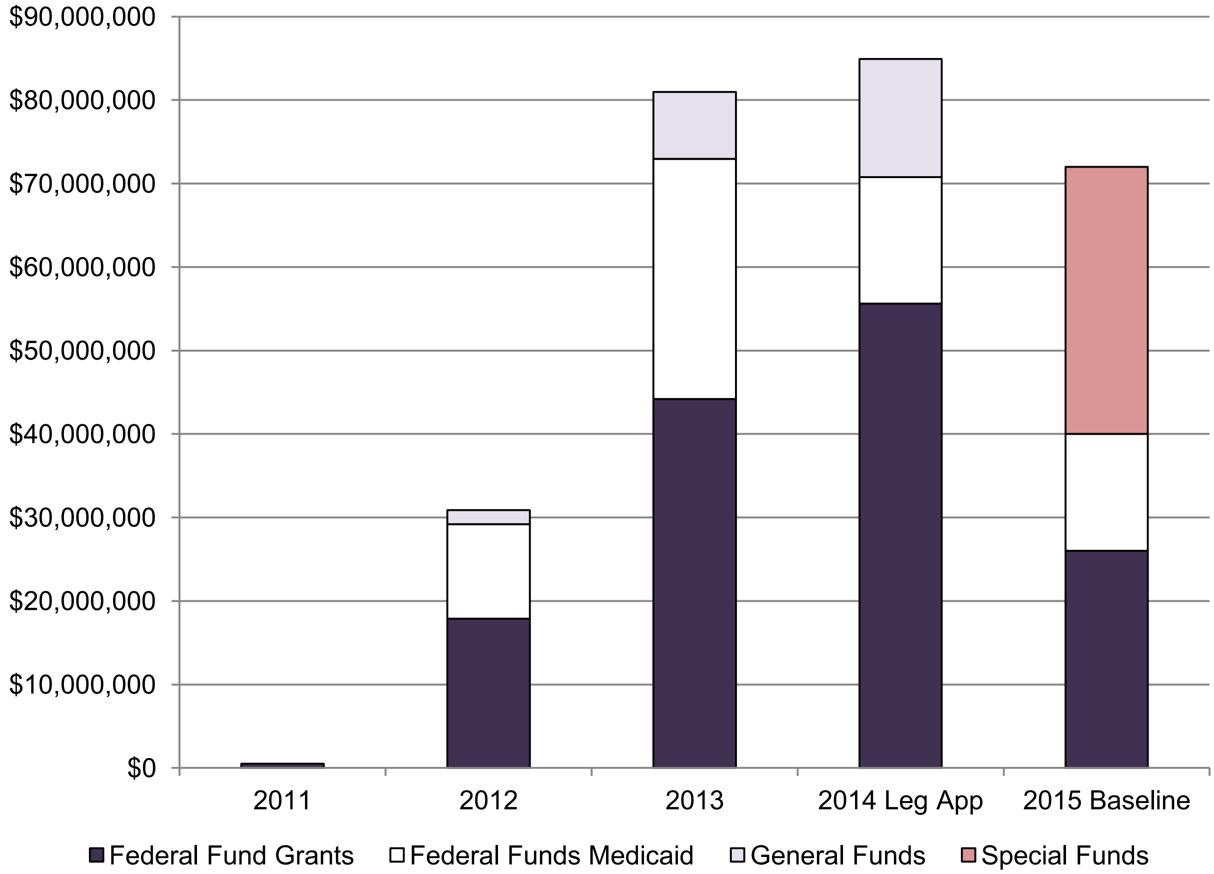


- Overall, the fiscal 2015 baseline budget and out-year forecast assumes significant general fund savings as a result of the ACA. Savings from PAC, the movement of certain current Medicaid enrollees into the new ACA expansion category, enhanced pharmacy rebates, and enhanced matching rates for the Maryland Children's Health Program more than offset higher costs from such things as higher base enrollment, maintaining higher physician fees, and the State sharing costs for the ACA expansion population beginning in fiscal 2017.

- Between fiscal 2014 and 2019, cumulative general funds savings to Medicaid derived from the ACA total $600 million.

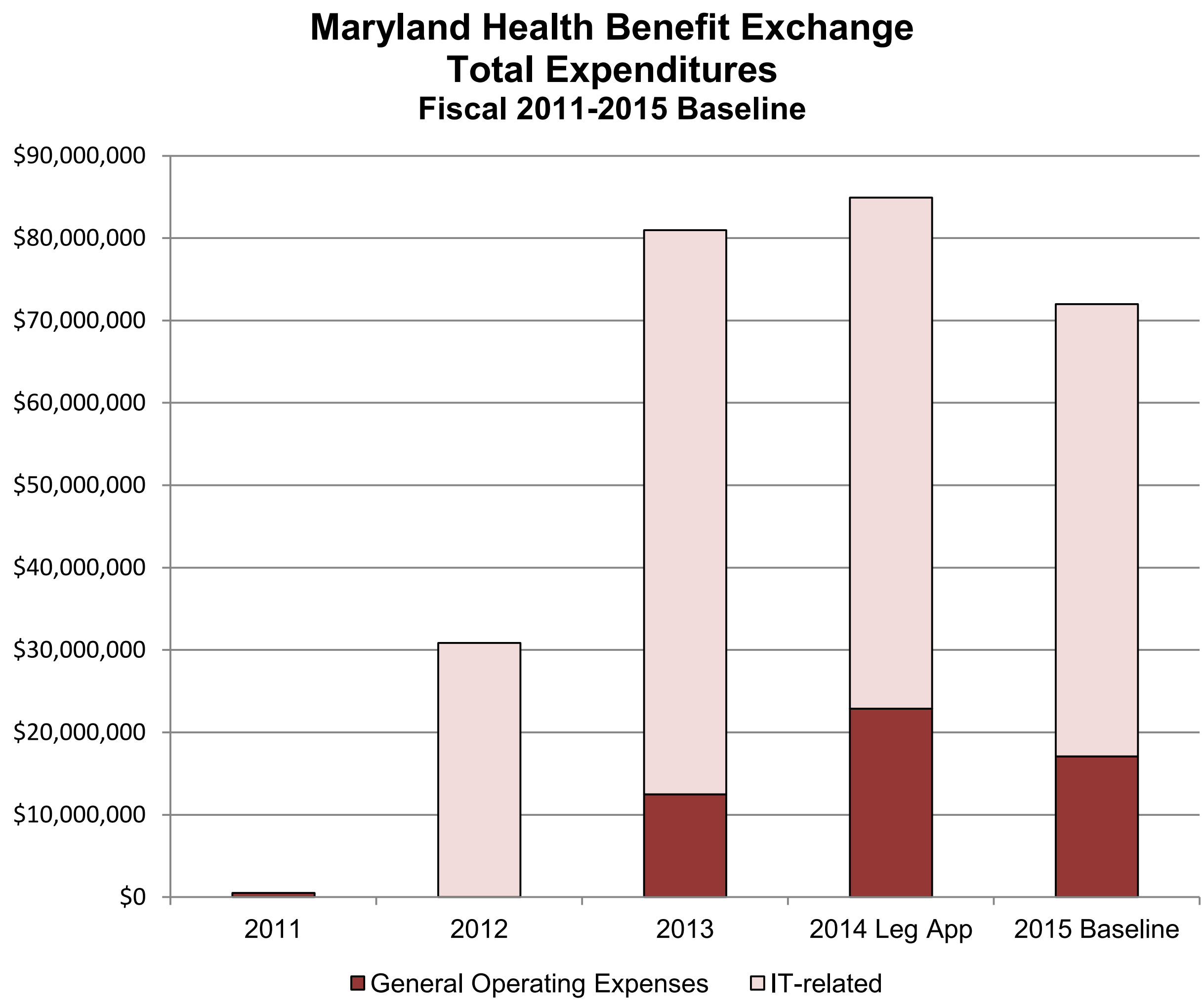
- The benefits to the budget from the ACA are higher in the beginning of the forecast period.

Maryland Health Benefit Exchange
Expenditures by Fund Source
Fiscal 2011-2015 Baseline



- Funding levels for the Exchange are expected to fall in the fiscal 2015 baseline after the significant start-up costs of the two prior fiscal years.

- Federal grant funds used to establish the Exchange will not be available after January 1, 2015. At that point, State support (in the form of special funds derived from the premium tax on health insurers) will assume a larger share of the Exchange's budget.



- Exchange expenditures will continue to be dominated by broadly IT-related costs (*e.g.* the eligibility system, call center, system hosting, etc.), although spending should reflect more ongoing operations and maintenance rather than system development.

ACA Impact on the State as an Employer

The ACA also impacts the State as an employer. Some of the major provisions that impact the State and employees include:

- **Employer Mandate:** The State is required to provide health insurance to eligible individuals who work 30 hours a week or more. The Department of Budget and Management estimates this provision could impact up to 2,000 State employees. The State may not need to provide coverage to these individuals provided that 95% of the State workforce is covered; currently 97% is covered. This provision was delayed and takes effect January 1, 2015.

- **Tax on Expensive Plans ("Cadillac Tax"):** In an effort to reduce the over-use of insurance by employees and reduce overall health care costs, the ACA includes a tax on employer sponsored health plans that exceed $10,200 for individual coverage and $27,500 for families beginning in calendar 2018. The tax will be 40% of the value of the plan that exceeds the specified amounts and will be paid by the State. Current estimates show the State could exceed these amounts by 2020 or sooner.

- **Required Fees:** The ACA requires the State to pay two different fees. One is a fee per individual to assist in providing funding for a re-insurance pool through 2016. In fiscal 2014 the fee amount is $63, costing the State $5.4 million. In subsequent years the fee will decline. The other fee is $1, increasing to $2 on October 1, 2013, for each individual covered to help support research on the clinical effectiveness of medical treatments. This is expected to cost approximately $0.5 million in fiscal 2014.

- **Other Requirements:** The age of individuals eligible for dependent care was increased to 26. The ACA also eliminated cost sharing for certain preventive care services. The amount of the pre-tax deduction individuals may claim for a health care flexible spending account was reduced to $2,500.

State Reserve Fund Activity

Fiscal 2014 and 2015
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/13	**$700.4**	**$10.0**	**$0.6**
Fiscal 2014 Appropriations	55.3	87.1	0.0
Expenditures			
Federal sequestration		-8.8	
Federal sequestration impact/pension reinvestment		-87.1	
Estimated Interest	8.5		
Estimated Balances 6/30/14	**$764.2**	**$1.2** [1]	**$0.6**
Fiscal 2015 Appropriations	228.2		
Transfer to General Fund (GF) Fiscal 2015 Budget Bill	-201.0		
Estimated Interest	11.1		
Estimated Balances 6/30/15	**$802.6**	**$1.2**	**$0.6**
Percent of Revenues in Reserve	**5.0%**		

[1] Dedicated Purpose Fund balance includes $1.2 million to offset federal reductions attributable to federal sequestration.