
Fiscal Update

**Presentation to the
Senate Budget and Taxation Committee
and the
House Appropriations Committee**

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

September 24, 2015

Fiscal 2015 General Fund Revenues (\$ in Millions)

<u>Source</u>	FY 2014	Fiscal 2015			FY 2014-2015 Percent Change	
	<u>Actual</u>	<u>Estimate⁽¹⁾</u>	<u>Actual</u>	<u>Difference</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$7,773.8	\$8,168.4	\$8,346.1	\$177.7	5.1%	7.4%
Sales and Use Tax	4,143.2	4,334.8	4,350.7	15.9	4.6%	5.0%
State Lottery	501.1	500.5	506.5	6.0	-0.1%	1.1%
Corporate Income Tax	761.2	767.6	777.3	9.7	0.8%	2.1%
Business Franchise Taxes	228.4	230.3	225.7	-4.6	0.8%	-1.2%
Insurance Premiums Tax	334.8	312.9	316.1	3.2	-6.6%	-5.6%
Estate and Inheritance Taxes	213.8	239.4	243.4	4.1	12.0%	13.9%
Tobacco Tax	402.4	393.2	391.5	-1.8	-2.3%	-2.7%
Alcohol Beverages Tax	31.1	31.6	31.3	-0.3	1.5%	0.5%
Motor Vehicle Fuel Tax ⁽²⁾	5.0	5.0	5.0	0.0	0.0%	0.0%
District Courts	77.7	78.5	77.7	-0.8	1.1%	0.0%
Clerks of the Court	35.4	36.6	34.4	-2.2	3.6%	-2.6%
Hospital Patient Recoveries	63.0	63.3	65.2	1.9	0.4%	3.4%
Interest on Investments	21.4	20.4	10.7	-9.7	-4.8%	-49.9%
Miscellaneous	424.7	381.9	396.7	14.8	-10.1%	-6.6%
Subtotal	\$15,017.0	\$15,564.3	\$15,778.4	\$214.1	3.6%	5.1%
Transfer Tax ⁽³⁾	89.2	144.2	144.2	0.0	61.6%	61.6%
Total Revenues	\$15,106.2	\$15,708.4	\$15,922.6	\$214.1	4.0%	5.4%

⁽¹⁾ From the Board of Revenue Estimates, March 2015, with adjustments for action at the 2015 legislative session.

⁽²⁾ The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) diverted \$5.0 million in motor fuel tax revenue to the general fund that would otherwise have gone to the Chesapeake Bay 2010 Fund for fiscal 2012 through 2015 and \$4.6 million in fiscal 2016.

⁽³⁾ The BRFA of 2013 (Chapter 424) established a distribution of transfer tax revenues to the general fund for fiscal 2014 to 2018. The BRFA of 2014 (Chapter 464) increased the distribution in fiscal 2015 by \$69.1 million.

Source: Board of Revenue Estimates

Maryland General Fund Revenue Forecast (\$ in Millions)

<u>Source</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Estimate</u>			<u>% Change Over FY 2015</u>	<u>FY 2017 Estimate</u>	<u>% Change Over FY 2016</u>
		<u>Mar.</u>	<u>Sept.</u>	<u>Difference</u>			
Personal Income Tax	\$8,346.1	\$8,638.4	\$8,745.3	\$106.9	4.8%	\$9,173.3	4.9%
Sales and Use Tax	4,350.7	4,543.1	4,543.1	0.0	4.4%	4,710.1	3.7%
State Lottery ⁽¹⁾	506.5	477.4	487.7	10.3	-3.7%	494.7	1.4%
Corporate Income Tax ⁽²⁾	777.3	830.7	823.0	-7.7	5.9%	878.6	6.8%
Business Franchise Taxes	225.7	233.6	230.4	-3.2	2.1%	235.2	2.1%
Insurance Premiums Tax	316.1	301.6	304.8	3.2	-3.6%	316.1	3.7%
Estate and Inheritance Taxes	243.4	216.3	215.4	-0.8	-11.5%	199.9	-7.2%
Tobacco Tax	391.5	391.6	388.9	-2.7	-0.7%	387.1	-0.5%
Alcohol Beverages Tax	31.3	31.6	31.2	-0.3	-0.2%	31.4	0.4%
Motor Vehicle Fuel Tax ⁽³⁾	5.0	4.6	4.6	0.0	-7.5%	0.0	-100.0%
District Courts	77.7	78.8	77.7	-1.1	0.0%	77.6	-0.1%
Clerks of the Court	34.4	35.4	36.7	1.3	6.5%	38.5	4.9%
Hospital Patient Recoveries	65.2	63.3	63.3	0.0	-2.9%	63.3	0.0%
Interest on Investments	10.7	31.2	11.0	-20.2	2.7%	20.0	81.8%
Miscellaneous	396.7	330.2	325.4	-4.8	-18.0%	313.3	-3.7%
Subtotal	\$15,778.4	\$16,207.9	\$16,288.5	\$80.6	3.2%	\$16,939.0	4.0%
Transfer Tax ⁽⁴⁾	144.2	115.4	115.4	0.0	-20.0%	82.8	-28.3%
Total Revenues	\$15,922.6	\$16,323.3	\$16,403.9	\$80.6	3.0%	\$17,021.8	3.8%

Note: The estimate from March 2015 has been adjusted for actions taken at the 2015 legislative session.

⁽¹⁾ Fiscal 2016 and 2017 reflect a distribution of \$20.0 million 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 (Chapter 397) set the Transportation Trust Fund's share of the corporate income tax at 9.5% of net receipts (excluding the first 15.15%) in fiscal 2013, 19.5% in fiscal 2014 to 2016, and 17.2% for fiscal 2017 and beyond. Adjusted for this law change, baseline general fund corporate income tax revenues are expected to grow 4.1% in fiscal 2017.

⁽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 Fund for fiscal 2012 through 2015 and \$4.6 million in fiscal 2016.

⁽⁴⁾ The BRFA of 2013 (Chapter 424) established a distribution of transfer tax revenues to the general fund for fiscal 2014 to 2018. The BRFA of 2014 (Chapter 464) increased the distribution in fiscal 2015 by \$69.1 million, and the BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by \$37.7 million.

Source: Board of Revenue Estimates

Fiscal 2015 Closeout Summary of General Fund Reversions (\$ in Millions)

	<u>Prior Years</u>	<u>FY 2015</u>	<u>Total</u>
Department of Health and Mental Hygiene	\$14.4	\$17.9	\$32.3
Department of Public Safety and Correctional Services	0.3	11.7	12.0
Maryland State Department of Education	6.2	3.0	9.2
Other	2.8	5.4	8.2
Judiciary	2.5	4.2	6.7
Department of Assessments and Taxation	0.1	5.9	6.0
State Lottery Agency	0.1	5.1	5.2
Department of Juvenile Services	2.1	2.2	4.3
Grand Total	\$28.6	\$55.4	\$84.0

Source: Comptroller of Maryland; Department of Legislative Services

- The State ended fiscal 2015 with \$84.0 million in general fund reversions; \$53.7 million higher than anticipated last session. Larger reversions include:
 - **\$32.3 Million Department of Health and Mental Hygiene:** \$16.5 million from Medicaid due to higher special fund availability and declining enrollment, \$7.3 million in overbudgeted funds from the Developmental Disabilities Administration, and \$5.2 million from the Behavioral Health Administration due to higher federal fund attainment and declining Medicaid enrollment;
 - **\$12.0 Million Department of Public Safety and Correctional Services:** Unspent health insurance (\$3.5 million), salary savings from vacant positions, utilities, food, and inmate wages;
 - **\$9.2 Million Maryland State Department of Education:** \$3.9 million autism waiver, \$1.4 million overstated transportation enrollment, teacher quality incentives \$1.2 million, out of county living arrangements \$0.7 million;
 - **\$6.7 Million Judiciary:** Unspent attorney expenses for initial appearances (\$1.9 million) and vacancies;
 - **\$6.0 Million Assessments and Tax:** Homeowners Tax Credits (\$5.0 million);
 - **\$5.2 Million Lottery:** Lease savings from returning 200 video lottery terminals (VLT) and proceeds from sale of all remaining lottery-owned VLTs.
 - **\$4.3 Million Juvenile Services:** Residential per diem payments, and higher than expected vacancies.

Status of the General Fund
Fiscal 2015
(\$ in Millions)

Starting Balance		\$147.6
Revenues		
BRE Revenue	\$15,708.4	
June 2015 Closeout: Revenues Above Estimate	214.1	
Total		\$15,922.6
Transfers		
Budget Reconciliation and Financing Acts	\$143.5	
Rainy Day Fund	13.0	
Budgeted Tax Credits	17.6	
June 2015 Closeout: Additional Tax Credits	0.9	
June 2015 Closeout: Lower Transfers	-1.0	
Total		\$174.0
Funds Available		\$16,244.1
Spending		
Fiscal 2015 Appropriation net of BPW	\$16,007.6	
June 2015 Closeout: Additional Reversions	-53.7	
Agency Reversions	-30.3	
Net Expenditures		\$15,923.7
Ending Balance		\$320.4
Estimated Fiscal 2015 Fund Balance (July 2015)		\$52.7
Additional Fund Balance		\$267.7

BPW: Board of Public Works
BRE: Board of Revenue Estimates

Source: Department of Legislative Services

Status of the General Fund
Fiscal 2016
(\$ in Millions)

Estimated Fiscal 2016 Closing Balance (as of July 2015)		\$27.6
Revenues		
Additional Balance from fiscal 2015	\$267.7	
September 2015 BRE Revision	80.6	
Chapter 56 Newborn Screening Program Adjustment	5.4	
Total		\$353.7
Funds Available		\$381.3
Spending		
Estimated Deficiencies	\$150.0	
Section 48 Reversions (GCEI and PG Hospital)	-83.1	
Net Expenditures		\$66.9
Ending Balance		\$314.4
Additional Fund Balance		\$286.8

BRE: Board of Revenue Estimates
GCEI: Geographic Cost of Education Index
PG: Prince George's County

Source: Department of Legislative Services

Fiscal 2016 2% Reduction Allocation

- The fiscal 2016 budget was balanced in part by a 2% across-the-board reduction of \$118 million in general funds in Section 19 of the budget bill;
- The General Assembly restricted \$250,000 pending the submission of a detailed report on the allocation of the reductions by September 1, 2015;
- The largest reductions came from:
 - the Department of Health and Mental Hygiene – Medicaid fund swap with Rate Stabilization special funds and managed care organization rate savings;
 - a reduction in the grant to higher education; and
 - the Department of Public Safety and Correctional Services due to favorable inmate trends and by holding positions vacant.

Exhibit 1
Allocation of the 2% Fiscal 2016 Across-the-board Reduction by Agency
 (\$ in Millions)

<u>Agency</u>	<u>General Fund Reductions</u>	<u>Positions</u>
Public Defender	\$2,019,000	
Planning	267,000	2.00
Agriculture	513,000	2.00
Health and Mental Hygiene	27,215,000	6.00
Human Resources	6,888,000	82.00
Labor, Licensing, and Regulation	954,000	
Public Safety and Correctional Services	24,378,001	
Education	2,785,000	
Morgan State	1,754,000	20.00
University System of Maryland	25,457,000	172.35
Higher Education Commission	2,068,000	
Business and Economic Development	1,084,000	
Juvenile Services	5,882,000	
State Police	5,226,000	
Other Agencies	11,502,000	
Grand Total	\$117,992,001	284.35

Source: Department of Budget and Management

Position Abolition Detail

- 284.5 positions were also abolished
 - 192.4 in higher education
 - 172.4 University System of Maryland (USM)
 - 20.0 Morgan State University
 - 42.5 positions in USM of the 192.4 positions were filled
 - * 15.0 administrative support
 - * 11.5 academic support
 - * 11.0 facilities
 - * 3.0 faculty
 - * 2.0 other
- USM created 271.3 in non-State funded positions using its flex authority, for a net increase of 99.0 positions
- 82.0 positions were abolished in the Department of Human Resources
 - 44.0 administrative
 - 38.0 caseworkers

Fiscal 2016 2% Across-the-board Reduction Reductions to Grants (Excluding Higher Education) (\$ in Millions)

<u>Agency</u>	<u>Amount</u>
Department of Human Resources: Caseload-driven reductions to Public Assistance to Adults grants (\$1.6 million) and foster care payments (\$1.3 million) and a 1.1% reduction in operating grant support to Montgomery County (\$152,000)	\$3.03
Higher Education: Educational Excellence Awards (\$1.7 million, requires deficiency) and reducing the number of grant awards under the Janet Hoffman Loan Assistance Repayment Program (\$179,000) and Workforce Shortage Student Assistance Grants (\$25,000)	1.87
Economic Development: Reducing investment awards for biotechnology (\$584,000), Stem Cell research (\$307,000), and cybersecurity (\$100,000), and aligning the Cybersecurity Tax Credit program to actual spending (\$500,000)	1.49
Education: Utilizing fund swaps to reduce general fund support for the Child Care Subsidy Program (\$756,000) and Maryland Child Care Resource Centers (\$100,000), reducing an award to the University of Maryland Institute for Innovation and Implementation (\$475,000), and level funding the Positive Behavioral Intervention and Support grant to Johns Hopkins University (\$45,000)	1.38
Health: Eliminating minority health and health disparities grants in Baltimore City, Anne Arundel, Charles, Montgomery, and Worcester counties (\$500,000) and a grant to the University of Maryland Medical System to support debt service at Kernan Hospital (\$443,000), and reducing support for the school-based health center grant (\$38,000)	0.98
Workforce Development: Eliminating the grant to the Maryland Center for Construction Education and Innovation (\$225,000), reducing local aid for adult education (\$172,000), and reducing EARN (Employment Advancement Right Now) awards (\$108,000)	0.50
Miscellaneous: Assessments and Taxation – Aligning tax credit funding to actual spending (\$281,000); Stadium Authority – Reducing operating subsidies for Baltimore City and Ocean City Conventions Centers (\$252,000, requires deficiency); Housing – Reducing funding for the Emergency Shelter Grant (\$160,000, of which \$80,000 is replaced with a fund swap); reducing the Baltimore Zoo grant (\$153,000); Aging: 0.9% grant reduction and elimination of inactive program (\$150,000); and reducing operating support for the African American Museum Corporation (\$41,000)	1.04
Total	\$10.28

Note: Numbers may not sum to total due to rounding.

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

Bankable Savings (\$ in Millions)

Total Actions Identified	\$129.4
Less:	
One-time actions	\$7.8
Funds to be restored	9.3
Unfounded or unlikely	12.4
Requiring further action or legislation	4.5
Total	\$34.0
Bankable Ongoing Savings	\$95.4
Percent of Total Actions	74%

- Although the Administration has reduced agency targets for fiscal 2017 by 2%, there is no guarantee that adjustments are not made in the allowance.
- Approximately \$34.0 million of the actions, or 26%, are one-time in nature and will need to be restored, are unlikely to transpire, or require collective bargaining or the passage of legislation:
 - \$7.8 million are one-time actions mostly related to holding positions vacant;
 - \$9.3 million are items the administration has determined are not viable and require deficiency replacement at the 2016 session. This includes \$5.2 million for vacant State Police positions and \$2.1 million for operating expenses in the Department of Public Safety and Correctional Services;
 - \$12.4 million in items that are unlikely or unfounded includes \$6.5 million for newborn screening program legislation where budgeted savings are offset by revenue loss, information technology system cash flow (\$2.5 million), and expected savings from closure of the Men's Detention Center (\$1.8 million); and
 - \$4.5 million requires negotiating roll call overtime with correctional bargaining units (\$3.5 million), or legislation to modify overtime payments or negotiation (\$1.0 million).

Voluntary Separation Program

To reduce the State workforce, the Administration proposed a Voluntary Separation Program (VSP). The program was modeled after a similar program (Executive Order 01.01.2010.23) that was implemented in fiscal 2011. The VSP was implemented through Executive Order 01.01.2015.10 and included the following features:

- the program was voluntary for employees;
- agencies determined which positions would be eliminated;
- eliminated positions will not be replaced;
- employees received a one-time payment of \$15,000 and \$200 for every year of service;
- employees accepted into the VSP agreed not to seek or accept State or contractor employment for 18 months following their separation;
- a number of employees, such as agency heads, direct care employees, and police officers, were not eligible; and
- the legislature, judiciary and higher education were excluded, but higher education was authorized to implement similar programs.

The Administration estimated that:

- the program would eliminate 500 positions;
- if less than 500 positions qualified, vacant positions would be deleted;
- general fund expenditures are reduced by \$7.5 million in fiscal 2015; and
- general fund expenditures are reduced by \$30.0 million in fiscal 2016.

Positions Abolished by Department

<u>Department/Service Area</u>	<u>VSP</u>	<u>Vacancies</u>	<u>Total</u>	<u>As Percent of Workforce</u>
Health and Human Services				
Health and Mental Hygiene	72	4	76	1.2%
Human Resources	67	0	67	1.0%
Juvenile Services	7	0	7	0.3%
Subtotal	146	4	150	1.0%
Public Safety				
Public Safety and Correctional Services	42	16	58	0.5%
Police and Fire Marshal	8	0	8	0.3%
Subtotal	50	16	66	0.5%
Transportation¹	98	0	98	1.1%
Other Executive				
Legal (Excluding Judiciary)	15	0	15	1.0%
Executive and Administrative Control	14	2	16	1.0%
Financial and Revenue Administration	19	0	19	0.9%
Budget and Management and DoIT	9	1	10	2.2%
Retirement	0	0	0	0.0%
General Services	7	0	7	1.2%
Natural Resources	8	0	8	0.6%
Agriculture	2	0	2	0.5%
Labor, Licensing, and Regulation	37	0	37	2.3%
MSDE and Other Education	21	25	46	2.3%
Housing and Community Development	2	0	2	0.6%
Business and Economic Development	4	0	4	1.8%
Environment	19	0	19	2.0%
Subtotal	157	28	185	1.4%
Executive Branch Subtotal	451	48	499	1.0%
Baltimore City Community College	7	0	7	1.6%
Maryland Transportation Authority	10	0	10	0.6%
Total	468	48	516	1.0%

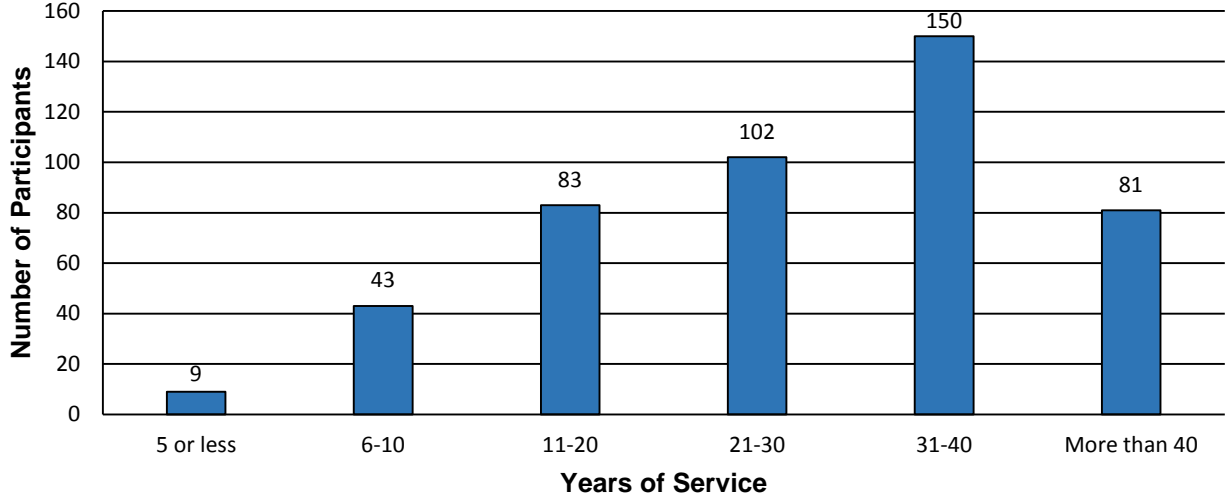
DoIT: Department of Information Technology
 MSDE: Maryland State Department of Education
 VSP: Voluntary Separation Program

¹ Excludes 10 nonbudgeted positions in the Maryland Transportation Authority.

Source: Department of Budget and Management

Voluntary Separation Program Results

Participants by Length of Service



Source: Department of Budget and Management

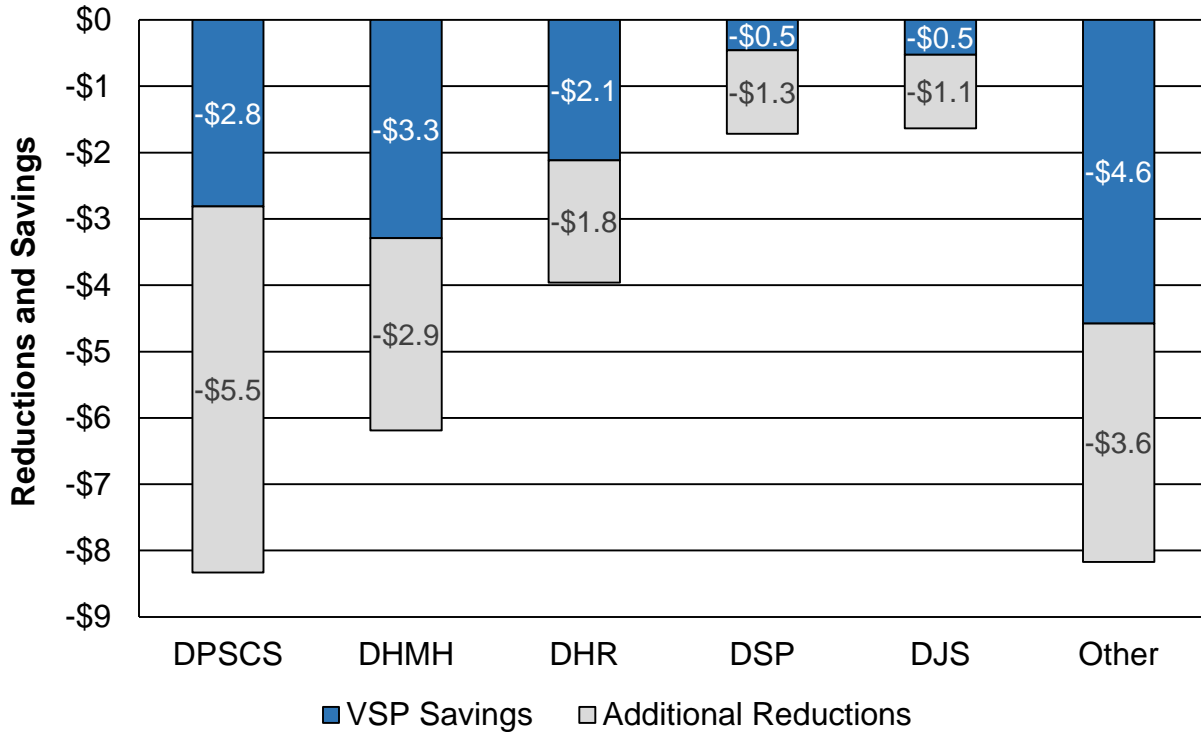
Actual Fiscal 2015 Costs and Savings

	<u>General Funds</u>
Savings	
VSP Position Abolition Savings	\$2.5
Additional Reductions	5.0
Total Savings	\$7.5
Expenditures	
Lump Sum Payment	\$4.1
\$200 Creditable Service Payouts	1.6
Leave Payout	2.1
Total Expenditures	\$7.7
Net Savings	-\$0.2

VSP: Voluntary Separation Program

Source: Department of Budget and Management

Voluntary Separation Program Fiscal 2016 General Fund Savings and Additional Reductions (\$ in Millions)



DHMH: Department of Health and Mental Hygiene
 DHR: Department of Human Resources
 DJS: Department of Juvenile Services
 DPSCS: Department of Public Safety and Correctional Services
 DSP: Department of State Police
 VSP: Voluntary Separation Program

Source: Department of Budget and Management

Fiscal 2016 Savings

	<u>General Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
Program Savings	\$13.8	\$19.0	\$32.8
Additional Reductions	16.2	0.0	16.2
Total Savings	\$30.0	\$19.0	\$49.0

Source: Department of Budget and Management