State Spending: Fiscal 2004 to 2013
Technical Supplement

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Contents

Chapter 1. State Agency Spending

This chapter examines how spending in these agencies changed from fiscal 2004 to 2013. This chapter excludes spending for entitlements, pay-as-you-go capital, and local aid.

Comparing State Agency Spending by Department

Exhibit 1.1 shows that State agency general fund spending increased by $1.6 billion, or 3.4%, annually. State agency spending is dominated by three areas: Department of Health and Mental Hygiene (DHMH); the Department of Public Safety and Correctional Services (DPSCS); and State higher education institutions. They account for $3.9 billion of the $6.1 billion in fiscal 2013 appropriations, which is just under two-thirds of agency spending.

Exhibit 1.1
General Fund State Agency Spending
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Public Safety and State Police	$825	$1,309	$484	58.6%	5.3%
Juvenile Services	170	270	99	58.2%	5.2%
Other Education	261	367	106	40.8%	3.9%
Legislative and Judicial	329	461	132	40.1%	3.8%
Higher Education	838	1,107	269	32.1%	3.1%
Human Resources	285	372	87	30.5%	3.0%
Other Executive Agencies	482	608	127	26.3%	2.6%
Health	1,182	1,470	289	24.5%	2.5%
Agriculture, Natural Resources, and Environment	135	107	-28	-20.4%	-2.5%
Total	**$4,507**	**$6,072**	**$1,565**	**34.7%**	**3.4%**

Note: Excludes entitlement, pay-as-you-go capital, and local aid spending.

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

State personnel costs account for 41.0% of State agency costs. Personnel costs are influenced by State personnel policies that are generally uniform across agencies.[1] This analysis separates employee compensation from agency costs and begins with an analysis of statewide agency costs. The remaining costs reflect specific operations within agencies and are analyzed separately. **Exhibit 1.2** shows that personnel costs increased by $704 million, or 3.7%, annually, from fiscal 2004 to 2013. This is somewhat higher than the 3.1% growth in nonpersonnel costs. Changes to personnel costs are examined in Chapter 4.

Exhibit 1.2
General Fund Spending
Personnel and Nonpersonnel Agency
Fiscal 2004 and 2013
($ in Millions)

	2004	**2013**	**Change**	**Total Percent Change**	**Annual Percent Change**
Personnel Costs*	$1,803	$2,506	$704	39.0%	3.7%
Nonpersonnel Costs					
Public Safety and State Police	$240	$376	$136	56.7%	5.1%
Juvenile Services	85	122	36	42.7%	4.0%
Other Education	205	288	83	40.6%	3.9%
Other Executive Agencies	215	301	86	39.8%	3.8%
Health	840	1,118	278	33.0%	3.2%
Legislative and Judicial	106	127	21	19.9%	2.0%
Agriculture, Natural Resources, and Environment	33	26	-7	-20.2%	-2.5%
Human Resources	141	100	-41	-28.8%	-3.7%
Subtotal	***$1,866***	***$2,459***	***$593***	***31.8%***	***3.1%***
Higher Education**	$838	$1,107	$269	32.1%	3.1%
Total	**$4,507**	**$6,072**	**$1,565**	**34.7%**	**3.4%**

*Excludes higher education personnel costs.

**Includes higher education personnel costs.

Note: Excludes entitlement, pay-as-you-go capital, and local aid spending.

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

[1] Higher education institutions are one exception. They have a separate personnel system and policies regarding merit increases.

Exhibit 1.3 shows that total spending increased at a rate of 4.4% annually between fiscal 2004 and 2013. This is a higher rate than general fund spending, which increased at a rate of 3.4% over the same period. Over 70.0% of total agency spending supports higher education, health, public safety including police, and transportation.

Exhibit 1.3
Total Agency Spending
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Other Education	$396	$666	$270	68.1%	5.9%
Higher Education	3,185	5,072	1,887	59.2%	5.3%
Health	2,034	3,152	1,119	55.0%	5.0%
Juvenile Services	186	281	95	51.1%	4.7%
Public Safety and State Police	1,081	1,553	473	43.7%	4.1%
Legislative and Judicial	364	516	152	41.6%	3.9%
Transportation	1,169	1,631	462	39.6%	3.8%
Other Executive Agencies	1,328	1,777	449	33.8%	3.3%
Agriculture, Natural Resources, and Environment	276	367	91	33.0%	3.2%
Human Resources	826	932	106	12.9%	1.4%
Total	**$10,845**	**$15,948**	**$5,104**	**47.1%**	**4.4%**

Note: Excludes entitlement, pay-as-you-go capital, and local aid spending.

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

Exhibit 1.4 shows that the number of State positions increased from approximately 77,900 to 79,600, which is an increase of 1,700 positions. This is modest growth of 0.2% per year.

Exhibit 1.4
State Positions by Department and Service Area
Fiscal 2004 and 2013

Department/Service Area	2004	2013	Change	Total Percent Change	Annual Percent Change
Health and Human Services					
Health and Mental Hygiene	7,710	6,388	-1,322	-17.1%	-2.1%
Human Resources	7,140	6,529	-611	-8.6%	-1.0%
Juvenile Services	1,939	2,109	170	8.8%	0.9%
Subtotal	***16,789***	***15,026***	***-1,762***	***-10.5%***	***-1.2%***
Public Safety					
Public Safety and Correctional Services	11,231	11,050	-181	-1.6%	-0.2%
Police and Fire Marshal	2,480	2,390	-90	-3.6%	-0.4%
Subtotal	***13,711***	***13,440***	***-271***	***-2.0%***	***-0.2%***
Transportation	**9,096**	**8,771**	**-325**	**-3.6%**	**-0.4%**
Other Executive					
Legal (Excluding Judiciary)	1,445	1,492	46	3.2%	0.4%
Executive and Administrative Control	1,572	1,623	51	3.2%	0.4%
Financial and Revenue Administration	2,032	2,020	-12	-0.6%	-0.1%
Budget and Information Technology	472	438	-34	-7.2%	-0.8%
Retirement	181	205	25	13.6%	1.4%
General Services	728	576	-152	-20.9%	-2.6%
Natural Resources	1,454	1,294	-161	-11.0%	-1.3%
Agriculture	436	383	-53	-12.2%	-1.4%
Labor, Licensing, and Regulation	1,519	1,646	127	8.4%	0.9%
Maryland State Department of Education and Other Education	1,892	1,921	29	1.5%	0.2%
Housing and Community Development	366	316	-50	-13.5%	-1.6%
Commerce	299	222	-77	-25.8%	-3.3%
Environment	951	929	-22	-2.3%	-0.3%
Subtotal	***13,346***	***13,063***	***-283***	***-2.1%***	***-0.2%***
Executive Branch Subtotal	**52,941**	**50,300**	**-2,641**	**-5.0%**	**-0.6%**
Higher Education	**20,967**	**24,967**	**4,000**	**19.1%**	**2.0%**
Judiciary	**3,224**	**3,585**	**361**	**11.2%**	**1.2%**
Legislature	**730**	**748**	**18**	**2.5%**	**0.3%**
Grand Total	**77,861**	**79,600**	**1,738**	**2.2%**	**0.2%**

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

While overall, there was a modest increase in the number of State positions, there were substantial differences in position changes in different service areas. The Executive Branch lost over 2,600 positions while higher education gained 4,000 positions. Most of the lost positions were in the health and human services agencies, which lost almost 1,800 positions. The Judiciary received an additional 361 positions (at a growth rate of 1.2% annually) while the legislature received 18 additional positions (an annual growth rate of 0.3%).

Health Spending

DHMH regulates Maryland's health care system, coordinates the delivery of public health services, and acts as a direct care provider. DHMH personnel costs totaled $464.4 million in fiscal 2013, with general funds accounting for $352.3 million, or 75.9%, of the total. Personnel costs for the department have increased by $53.7 million since fiscal 2004, and general funds accounted for $11.3 million of the increase. Unlike many other State agencies, personnel costs do not dominate DHMH's budget; in fiscal 2013, personnel was only 14.7% of total costs of the department. In comparison to other State agencies, DHMH lost the most positions (1,322) from fiscal 2004 to 2013. Position losses for DHMH primarily occurred from fiscal 2008 to 2012 when the State workforce as a whole experienced reductions.

Nonpersonnel total expenditures for health services increased from $1,623 million to $2,685 million, which increased at a 5.8% annual growth rate. Similarly, nonpersonnel general fund expenditures increased from $840 million to $1,118 million, which is a more modest annual growth rate of 3.2%. Enrollment growth, provider rate increases, and program utilization in the Development Disabilities Administration (DDA) and the Behavioral Health Administration (BHA) Community Services programs were the primary drivers for the increase in expenditures across all funds. **Exhibit 1.5** shows that these programs tended to have moderate increases in funding.

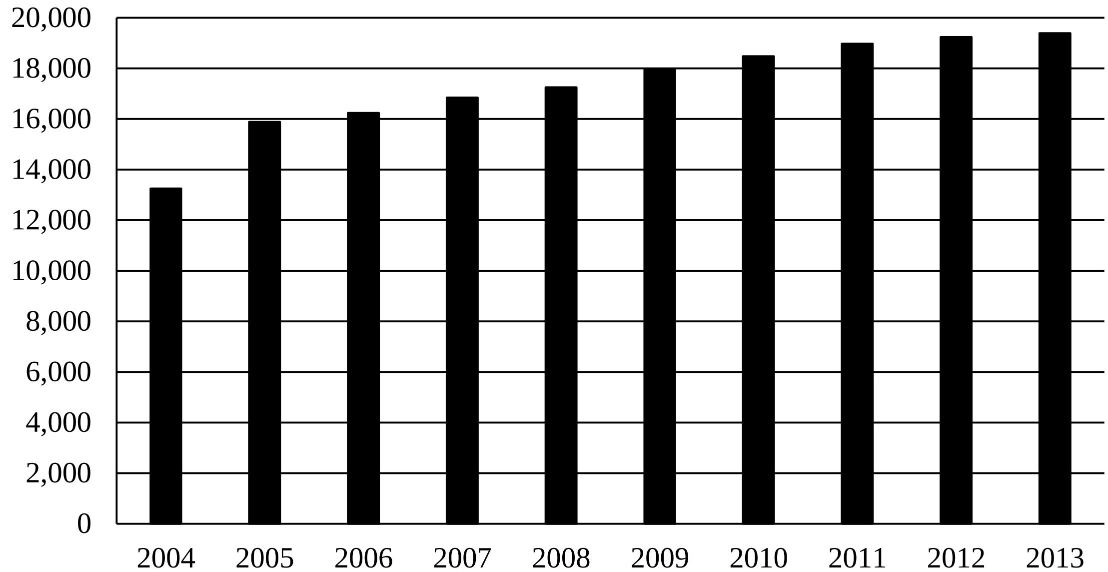
Exhibit 1.5
Health Services Provided
Fiscal 2004 and 2013
($ in Millions)

Description	Fund	2004	2013	Total Change	Total % Change	Annual % Change
Developmental Disabilities	General	$383.3	$519.2	$136.0	35.5%	3.4%
Developmental Disabilities	Total	565.4	910.4	345.0	61.0%	5.4%
Mental Health Facilities and Services	General	556.4	665.1	108.7	19.5%	2.0%
Mental Health Facilities and Services	Total	828.5	1,046.8	218.3	26.3%	2.6%
Chronic Disease Hospitals	General	32.5	41.3	8.9	27.3%	2.7%
Chronic Disease Hospitals	Total	38.9	46.4	7.4	19.1%	2.0%
Alcohol and Drug Abuse	General	77.8	82.4	4.7	6.0%	0.6%
Alcohol and Drug Abuse	Total	126.4	144.3	18.0	14.2%	1.5%

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

A developmental disability is a condition attributable to mental or physical impairment that results in substantial functional limitations in major life activities and is likely to continue indefinitely. DDA aims to serve individuals in the community rather than in institutions. DDA Community Services Program offers a variety of services to individuals, including residential, day, and support services. **Exhibit 1.6** shows that in fiscal 2004, 13,257 individuals were served in residential and/or day services, compared to 19,393 in fiscal 2013. This represents a 46.3% increase in the number of individuals receiving these services. In addition to specific initiatives to expand services (including, most recently, Chapter 571 of 2011, which tied increased funding for community services to an increase in the alcohol tax), the DDA budget has generally included increased funding to expand community services each year. As well as enrollment growth, there were several provider rate increases generally ranging between 2.0% and 3.0%.

Exhibit 1.6
Developmental Disabilities Administration Residential and Day Services Populations
Fiscal 2004-2013



Source: Governor's Budget Book

There has also been a reduction in the number of individuals on the waitlist. However, reductions in the waitlist have been much more attributable to the DDA verification efforts (such as removing the deceased) than to expansion of services. DDA also achieved an apparent reduction in its waitlist simply by moving some individuals from the waitlist to what they now call a future needs registry.

In recent years, populations have shifted from State facilities to community services. **Exhibit 1.7** shows that the agency reduced funding for State residential centers and increased funding for community services. DDA also closed the Brandenburg (Allegany County) and Rosewood (Baltimore County) facilities.

Exhibit 1.7
Total Developmental Disabilities Administration Spending
Fiscal 2004 and 2013
($ in Millions)

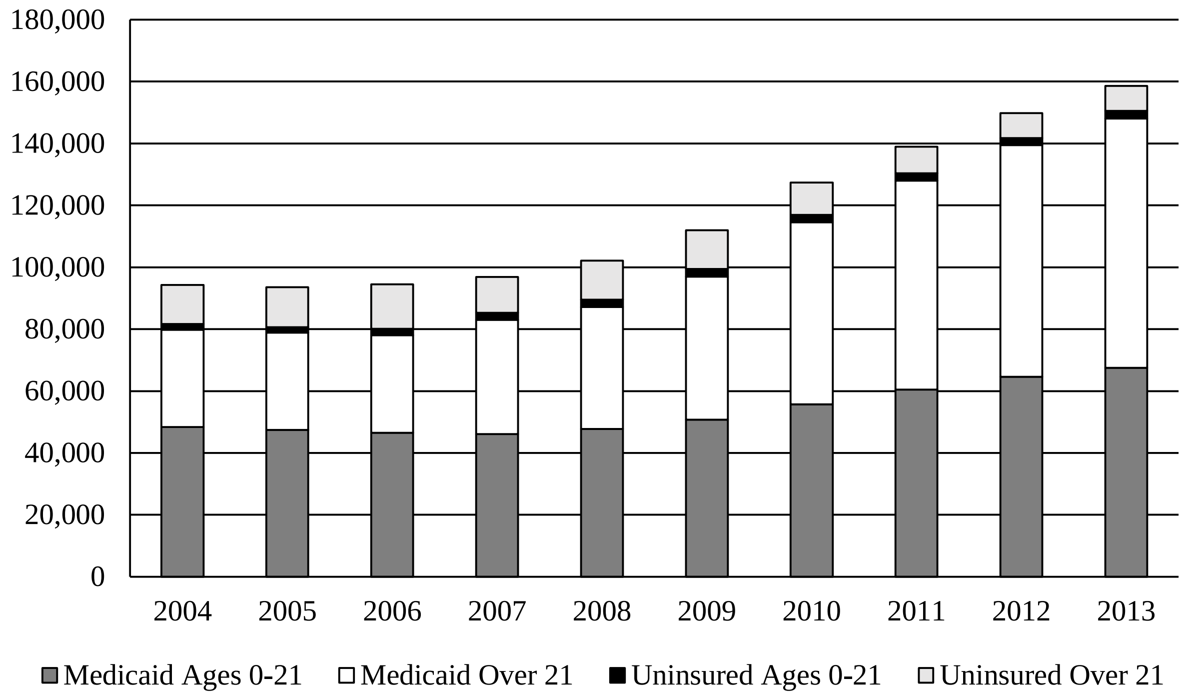
Description	2004	2013	Total Change	Total % Change	Annual % Change
State Residential Centers	$67.5	$39.8	-$27.6	-41.0%	-5.7%
Community Services	493.4	864.5	371.1	75.2%	6.4%
Program Direction	4.5	6.0	1.5	33.3%	3.2%
Total	**$565.4**	**$910.4**	**$345.0**	**61.0%**	**5.4%**

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

BHA is responsible for the treatment and rehabilitation of the mentally ill; individuals with drug, alcohol, and problem gambling addictions; and those with co-occurring addiction and mental illness. Factors that influence BHA costs are the level of service provided, rates paid to vendors, and eligibility. The level of services provided has been fairly constant over the period. To keep up with inflation, BHA's community service providers also received several provider rate increases during this timeframe. Eligibility has remained consistent with the exception of an expansion of services for parents of children in Medicaid beginning in fiscal 2009. The State funded 50% of costs, and Medicaid funded the remaining costs. The federal Affordable Care Act subsequently provided an additional expansion to individuals up to 138% of the federal poverty level, but this new expansion population is currently supported by 100% federal funds.

BHA's Mental Health Community Services Program experienced significant growth during the 10-year timeframe. **Exhibit 1.8** shows that in fiscal 2004, 90,469 individuals were served in the program compared to 158,644 in fiscal 2013. This represents a 68% increase in the number of individuals receiving community health services. Enrollment growth in the program has generally been attributed to the expansion of Medicaid eligibility.

Exhibit 1.8
Behavioral Health Administration Populations
Fiscal 2004-2013



Source: Behavioral Health Administration

BHA also funds alcohol and drug abuse treatment services. General funds for these programs have increased at a 0.6% annual rate from fiscal 2004 to 2013, while total funds increased at an annual rate of 1.5%.

Human Resources

At both the State and local levels, the structure of Maryland's human service delivery system varies by the population being served. The Department of Human Resources (DHR), which provides public welfare, child support enforcement, and social services, is Maryland's largest human service agency in both expenditures and personnel. Many of the department's services are coordinated and delivered through offices in the counties and Baltimore City. DHR is responsible for programs related to child and adult welfare, child support enforcement, and family investment. Spending related to cash assistance and foster care maintenance payments is discussed in Chapter 7.

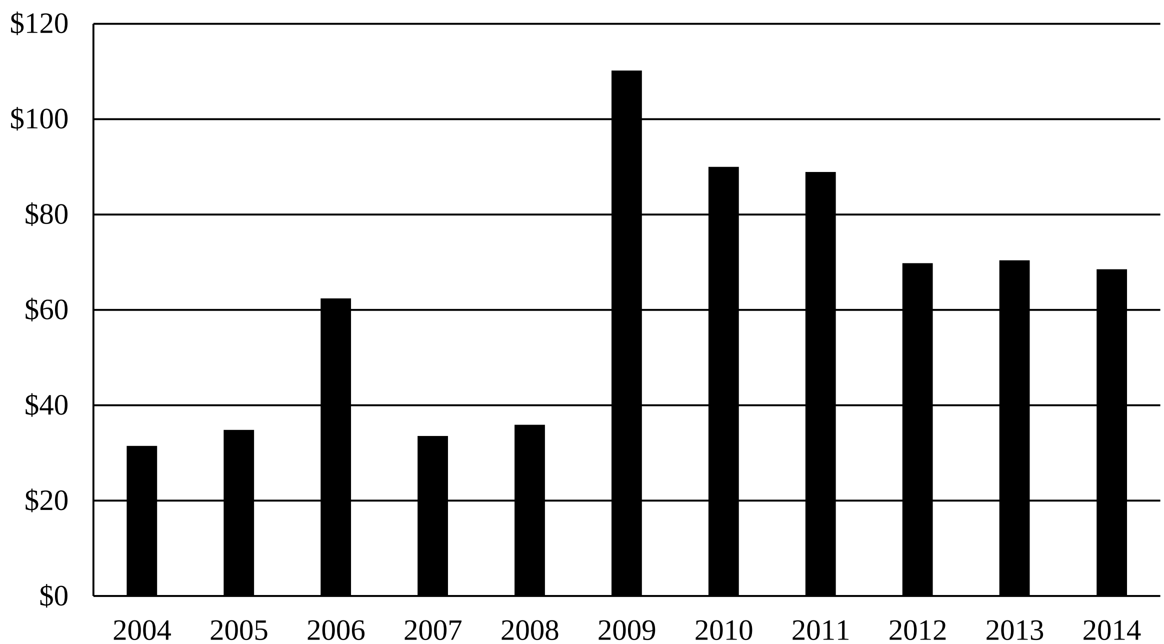
DHR personnel costs totaled $497.8 million in fiscal 2013, with general funds accounting for $272.0 million, or 54.6%, of the total. Personnel costs for the department have increased by $128.6 million since fiscal 2004; general funds accounted for $127.8 million of the increase. Unlike many other State agencies, personnel costs do not dominate the DHR budget; in fiscal 2013, personnel costs were 19.1% of total costs of the department. In comparison to other State agencies, DHR experienced the second largest decrease in the workforce (611 positions) from fiscal 2004 to 2013. DHR lost a majority of positions in fiscal 2005. Other general changes in personnel are addressed in the personnel discussion in Chapter 2 of this report.

Nonpersonnel expenditures for DHR declined from $457 million to $435 million. Similarly, general fund expenditures declined from $141 million to $100 million. While total funds declined by $22 million, or 0.6%, annually, general funds declined by $41 million, or 3.7%, annually. The decline in general funds was offset by an increase in special and federal funds.

Between fiscal 2004 and 2013, there were several notable program transfers to other State agencies that contributed to the decline in general funds. In an effort to consolidate early childhood programming into a single department, Chapter 585 of 2005 transferred the Child Care Administration to the Maryland State Department of Education (MSDE). Chapter 585 also transferred the Maryland After-School Opportunity Fund Program, the Maryland Child Care Resource Network, the Maryland Family Support Centers Network, and the Maryland Child Care Credential to MSDE. In addition to these programs, several of DHR victims' services grant programs were transferred to the Governor's Office of Crime Control and Prevention. These include general and federal fund grant programs such as the Victims of Crime Act Grant Program (Chapter 186 of 2009, as amended by Chapter 72 of 2010) and the Sexual Assault Rape Crisis and Domestic Violence Prevention grant programs (Chapter 356 of 2011).

Unlike the department's general fund expenditures, special and federal fund expenditures increased during this timeframe, mostly due to an increase in expenditures within the Office of Home Energy Programs (OHEP). The increase in OHEP funding was largely driven by an increase in the special and federal fund allocations for the Maryland Energy Assistance Program (MEAP) and Electric Universal Service Program (EUSP). MEAP, funded by the federal Low-Income Home Energy Assistance Program (LIHEAP), provides bill payment assistance, crisis assistance, and furnace repair/replacement for a variety of energy sources. Although the State's LIHEAP allocation fluctuates annually, since fiscal 2009, Maryland's federal fund allocation has generally been at least twice as much as the allocation prior to fiscal 2008, as seen in **Exhibit 1.9**. In fiscal 2004, 80,509 individuals received assistance from MEAP compared to 113,787 in fiscal 2013.

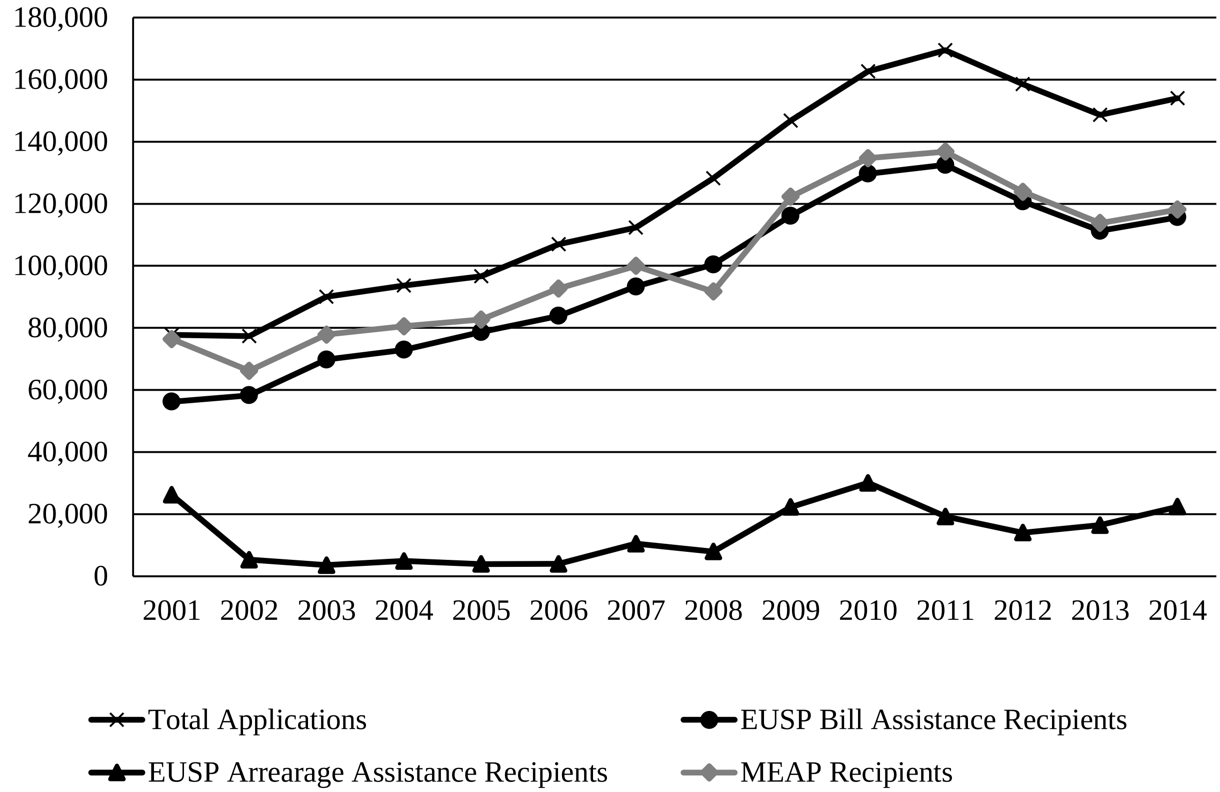
Exhibit 1.9
Low-Income Home Energy Assistance Program Allocation
Fiscal 2004-2014
($ in Millions)



Source: Department of Human Resources; U.S. Department of Health and Human Services

Similar to MEAP, funding for EUSP increased significantly during this timeframe. The majority of the special fund growth in the program was due to an increase in the maximum funding level for the program and the enactment of a new revenue source. Chapter 5 of the 2006 special session increased the level of EUSP funding (from $34 million to $37 million annually) and modified the income level for EUSP eligibility from 150% to 175% of the federal poverty level. The increase in funding was financed through an increase in ratepayer surcharge on the electric, commercial, and industrial customer classes. Additionally, Chapters 171 and 172 of 2009 established the Greenhouse Gas Emissions Reduction Act of 2009. A portion of the proceeds from the sale of Regional Greenhouse Gas Initiative carbon dioxide allowances are allocated to the program via the Strategic Energy Investment Fund (SEIF). **Exhibit 1.10** shows that 77,818 individuals received current billing and arrearage assistance from EUSP in fiscal 2004, compared to 127,711 in fiscal 2013.

Exhibit 1.10
Office of Home Energy Program Beneficiaries
Fiscal 2001-2014



EUSP: Electric Universal Service Program
MEAP: Maryland Energy Assistance Program

Source: Department of Human Resources

Juvenile Services

The Department of Juvenile Services (DJS) currently oversees youth involved in Maryland's juvenile justice system. The department's goal is to assist youths with reaching their full potential as valuable and positive members of society through family involvement and constructive programming. Additionally, the department supports community programs intended to prevent delinquent acts by juveniles before State involvement becomes necessary.

Personnel costs for DJS totaled $150.8 million in fiscal 2013, with general funds accounting for $147.9 million, or 98.0%, of the total. Personnel costs for the department have increased by a net $61.6 million since fiscal 2004; general funds increased by $62.8 million during this time. In fiscal 2013, personnel costs were 53.6% of the entire DJS budget. General changes in personnel are addressed in the personnel discussion in Chapter 2 of this report. Besides the major workforce expenditures (*i.e.*, salaries, health insurance, and retirement), overtime is the largest cost for DJS, with $9.9 million in fiscal 2013. Overtime expenses have almost doubled since fiscal 2004, when costs totaled $4.0 million.

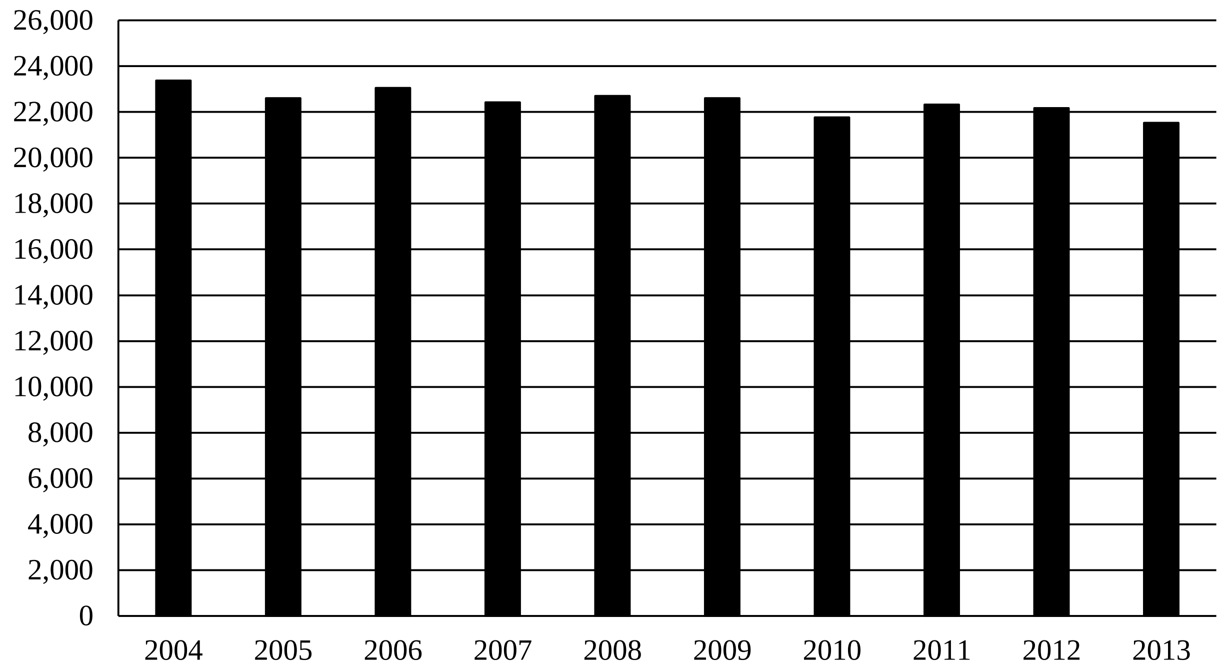
The department's nonpersonnel expenditures increased from $97 million to $130 million across all funds. General funds, which comprise the vast majority of the department's funding, increased from $85 million to $122 million. The annual growth rate for general funds (4.0%) was slightly higher than the growth rate for total funds (3.3%).

Contractual services costs related to both residential and nonresidential care and behavioral health services accounted for the majority of the department's growth in expenditures. Unlike residential care expenditures, which have increased mainly due to inflation and general cost increases, nonresidential and behavioral health care services have increased due to the department's efforts over the past decade to become a more therapeutic social services agency by providing more services to youth involved in the juvenile justice system without removing them from their homes. This has included the expanded use of nonresidential or community-based programs, and most notably, additional funding for evidence-based services programs such as multi-systemic therapy, functional family therapy, and multidimensional treatment foster care.

Public Safety

Over the past decade, inmate populations at DPSCS have declined. **Exhibit 1.11** shows that the average daily population (ADP) was approximately 23,400 in fiscal 2004 and 21,500 by fiscal 2013.

Exhibit 1.11
Average Daily Population in Maryland State Prisons
Fiscal 2004-2013



Source: Governor's Budget Book

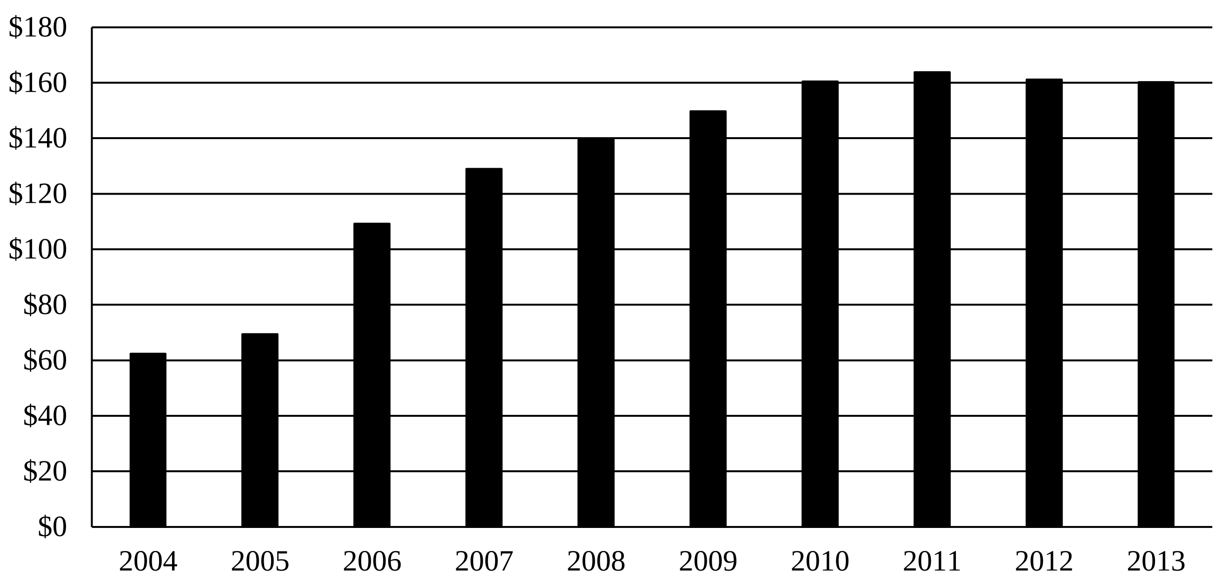
DPSCS personnel costs totaled $800.1 million in fiscal 2013, with general funds accounting for $750.8 million, or 93.8%, of the total. Personnel costs for the department have increased by $226.8 million since fiscal 2004; general funds accounted for $202.6 million of the increase. In fiscal 2013, personnel costs were 61.3% of the entire DPSCS budget. General changes in personnel are addressed in the personnel discussion in Chapter 2 of this report. Besides the largest workforce expenditures (*i.e.*, salaries, health insurance, and retirement), overtime is the largest cost for DPSCS, with $41.0 million in fiscal 2013, which is $15.6 million more than in fiscal 2004. This accounts for over half of the increase in State overtime costs since fiscal 2004.

The Department of State Police (DSP) personnel costs totaled $247.0 million in fiscal 2013, with general funds accounting for $182.2 million, or 73.8%, of the total. Personnel costs for DSP have increased by $85.8 million since fiscal 2004, and general funds accounted for $48.6 million of the increase. In fiscal 2013, personnel costs were 81.5% of the entire DSP budget. Like DPSCS, overtime expenditures are the largest personnel cost, removing the largest workforce expenditures (*i.e.*, salaries, health insurance, and retirement). In fiscal 2013, DSP overtime totaled $14.8 million, almost double the cost in fiscal 2004 ($6.1 million).

Total nonpersonnel expenditures for DPSCS and State police increased from $346 million to $506 million. Similarly, general fund expenditures increased from $240 million to $376 million. While total funds increased by 4.3% annually, general funds increased by a slightly higher annual growth rate of 5.1%. Inmate medical care, inflation, and Maryland Correctional Enterprises (MCE) expenditures were the primary drivers for the growth in DPSCS expenditures. By contrast, motor vehicle, helicopter maintenance, and contractual services expenditures accounted for the majority of the growth in DSP expenditures.

Inmate medical services comprised the majority of the growth in the DPSCS general fund expenditures. Funding for therapeutic programming increased significantly due to the expansion of therapeutic communities at the Maryland Correctional Training Center, the Metropolitan Transition Center, Patuxent Institution, and the Maryland Correctional Institute for Women. Prior to fiscal 2005, therapeutic treatment services were unavailable at these facilities. Other factors that contributed to the increase in inmate medical services during this timeframe included medical contract cost escalation, general inflation, and an aging inmate population. **Exhibit 1.12** shows the increase in medical costs.

Exhibit 1.12
Department of Public Safety and Correctional Services
Inmate Medical Costs
Fiscal 2004-2013
($ in Millions)



Source: Department of Public Safety and Correctional Services

There was also a significant increase in special fund expenditures for MCE during this timeframe. MCE provides work and job training for incarcerated inmates through the production of goods and provision of services used by local, State, and federal agencies, in addition to a variety of nonprofit organizations. The majority of MCE's expenditures were for supply and material purchases.

Despite a 10.2% reduction in the ADP at State correctional facilities over the 10-year period, DPSCS experienced significant growth in its routine operating expenditures (*e.g.*, utility and sewage treatment services) due to inflation.

Department of State Police

Similar to DPSCS, DSP experienced growth in its motor vehicle, helicopter maintenance, and contractual services expenditures during this timeframe. The State also began implementing a new 700 megahertz public safety communication system in fiscal 2013, which required that DSP spend $13.8 million in radio equipment.

Escalating motor vehicle gas and oil costs due to inflation accounted for a portion of the growth in motor vehicle expenditures, whereas vehicle maintenance and replacement accounted for the majority of the remaining growth in motor vehicle expenditures. In an effort to constrain spending, the department reduced its motor vehicle replacement purchases during this timeframe. As a result, DSP began to experience a significant increase in its vehicle maintenance costs due to excessive mileage. In an effort to address this concern, Chapter 397 of 2011 required that, for fiscal 2013 through 2015, $3.0 million of the revenues derived from work zone speed control systems be distributed to DSP for the purchase of replacement vehicles and related equipment. Consequently, there was a spike in motor vehicle purchases in fiscal 2013. Despite these efforts, the number of vehicles requiring replacement due to excessive mileage and attrition continue to outpace the number of vehicles replaced annually. Fiscal 2013 spending on motor vehicles totaled $25.8 million, which is $6.0 million more than in fiscal 2004.

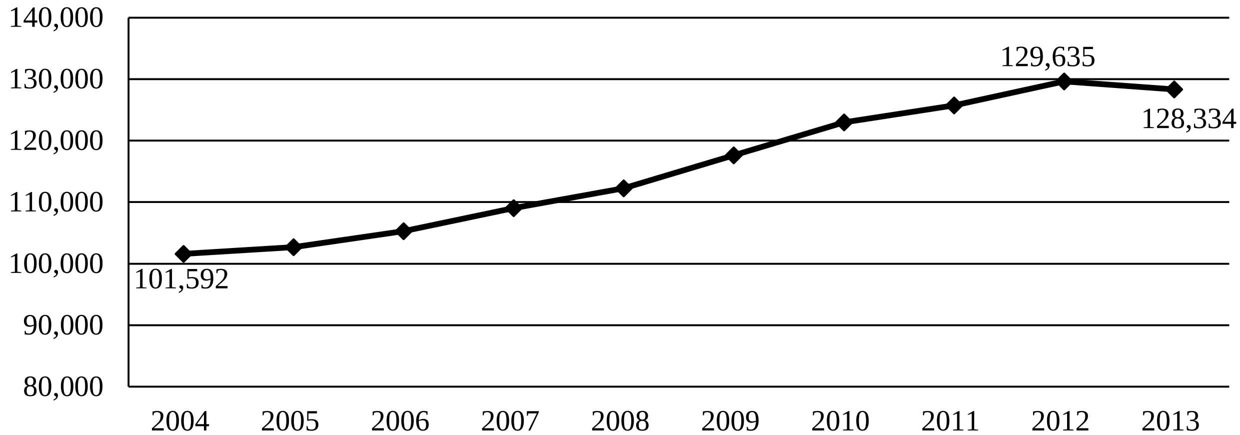
Lastly, the $6.9 million increase in contractual services expenditures (which brought total spending to $13.2 million) was primarily due to an increase in information technology and data processing expenditures in the Support Services Bureau.

Higher Education

Maryland's higher education system consists of the Maryland Higher Education Commission (MHEC), which is the State's postsecondary coordinating body; the University System of Maryland (USM); and two public four-year institutions independent of USM, Morgan State University and St. Mary's College of Maryland. Operation of Maryland's public higher education system is primarily a State function. The State also provides grants to local jurisdictions to support community colleges. These grants are included in the local aid chapter.

Total higher education expenditures increased from $3.2 billion to $5.1 billion. The $1.9 billion increase in expenditures reflects an annual growth rate of approximately 5.3%. Excluding current restricted funds (which include grants dedicated to specific purposes or research) shows a growth rate of 5.2%. Full-time equivalent student (FTES) enrollment growth was an impetus for the increase in higher education expenditures. **Exhibit 1.13** shows that Maryland's public, four-year higher education institutions enrolled 101,592 FTES in fiscal 2004 compared to 128,742 in fiscal 2013. This represents a 2.6% annual increase in the number of FTES enrolled at Maryland's higher education institutions.

Exhibit 1.13
Higher Education Enrollment
Fiscal 2004-2013



Source: Governor's Budget Books

State support for higher education exceeded increases in enrollment. **Exhibit 1.14** shows that State general and special fund appropriations increased at an annual rate of 4.2%, while enrollment increased at an annual rate of 2.6%. The substantial increase in special funds is attributable to the State providing a new revenue source, the Higher Education Investment Fund (HEIF), for higher education institutions. The HEIF is supported by a share of the State's corporate income tax revenues.

Exhibit 1.14
Higher Education Spending and Enrollment
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
General Funds	$838	$1,107	$269	32.1%	3.1%
Special Funds	6	110	104	1,775.7%	38.5%
Subtotal	***$843***	***$1,217***	***$373***	***44.2%***	***4.2%***
Unrestricted Funds	1,562	2,581	1,019	65.3%	5.7%
Total	**$2,405**	**$3,798**	**$1,392**	**57.9%**	**5.2%**
Enrollment	**101,592**	**128,334**	**26,742**	**26.3%**	**2.6%**

Source: Governor's Budget Books; Department of Legislative Services

State support for higher education varied throughout the period. As with other programs, the early part of the program saw higher increases in State support than the later part. **Exhibit 1.15** shows that general and special fund support declined from an average increase of 7.2% from fiscal 2004 to 2009 to 0.4% from fiscal 2009 and 2013. Unrestricted funds, whose largest component is tuition, also increased at a slower rate after fiscal 2009. However, they did increase at a substantially higher rate than general funds. This demonstrates an advantage that higher education institutions have over other State agencies; higher education institutions can mitigate the effect of slowing general fund revenues by increasing rates on unrestricted funds.

Exhibit 1.15
Annual Spending and Enrollment Growth Rates

	General and Special Fund Spending Growth	Unrestricted Fund Spending Growth	Enrollment Growth
Fiscal 2004 to 2009	7.2%	7.0%	3.0%
Fiscal 2009 to 2013	0.4%	4.2%	2.2%

Source: Governor's Budget Books; Department of Legislative Services

State financial aid programs are primarily funded with general funds. However, the federal government also provides substantial need-based grants and loans directly to students, primarily through the Pell Grant Program. These grants are budgeted in institutions' budgets and are awarded by institutions, and are included in the previously discussed spending totals. (The State also provides statewide grants that are budgeted in MHEC, which is discussed in the other education section of this chapter.) Federal Pell grants are awarded to eligible undergraduate students based solely on financial need. In fiscal 2004, 23,147 Pell grants were awarded compared to 39,458 in fiscal 2013. This represents a 6.1% annual increase in the number of Pell grant recipients. Similarly, the total amount of Pell grant awards increased from $56 million to $142 million, or by 10.9% annually. The maximum Pell grant award amount increased from $4,050 to $5,550 during this timeframe.

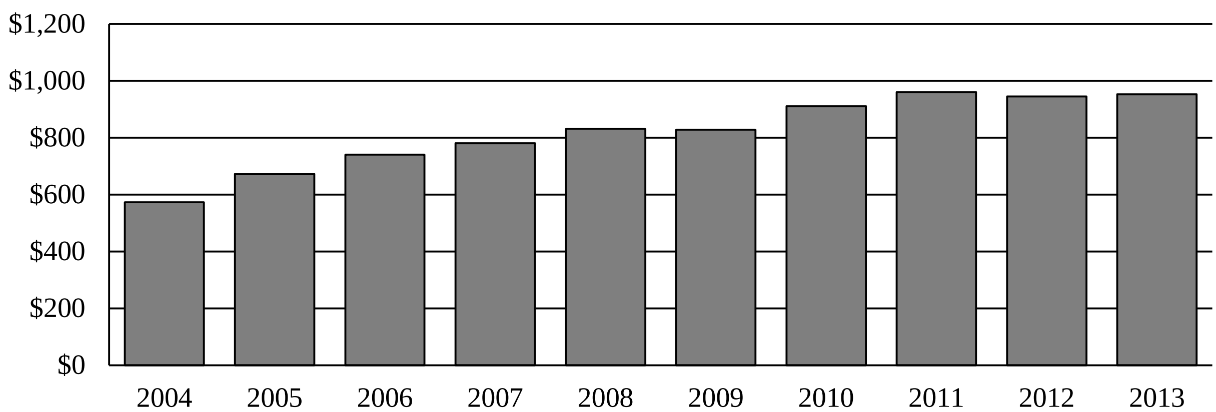
In addition to Pell grant awards, there was also an increase in expenditures for research contracts and grants. **Exhibit 1.16** shows that fiscal 2004 expenditures for research totaled $572 million compared to $952 million in fiscal 2013. The $379 million increase in research expenditures reflected an annual increase of 5.8%. Similarly, auxiliary services, which are self-supporting activities that provide goods or services for a fee (*e.g.*, residence and dining halls, bookstores, intercollegiate athletics, *etc.*) increased significantly during this timeframe due to enrollment growth. In fiscal 2004, expenditures related to auxiliary services totaled $385 million compared to $634 million in fiscal 2013.

Exhibit 1.16

Total Research Expenditures in Higher Education

Fiscal 2004-2013

($ in Millions)



Source: Governor's Budget Books

Other Education

Education is one of the key functions of government. There are two main agencies responsible for the coordination of Maryland's educational system: MSDE and MHEC. MSDE is responsible for coordinating the State's K-12 education policies, including developing the State's overall policies and guidelines for primary and secondary education and directing the State's vocational rehabilitation programs. Similarly, MHEC is responsible for coordinating the overall growth and development of postsecondary education in the State. In addition to these agencies, there are several other State agencies, such as the Department of Labor, Licensing, and Regulation (DLLR), that administer educational and literacy services throughout Maryland.

Personnel costs for other education totaled $163.4 million in fiscal 2013, with general funds accounting for $78.6 million, or 48.1%, of the total. Personnel costs have increased by $49.6 million since fiscal 2004; general funds accounted for $23.1 million of the increase. In fiscal 2013, personnel costs were 24.5% of the entire budget for other education. General changes in personnel are addressed in the personnel discussion in Chapter 2 of this report.

Total nonpersonnel expenditures for other education increased from $282.1 million to $502.3 million. Similarly, general fund expenditures increased from $205.1 million to $288.4 million. While total funds increased by $220.2 million, or 6.6% annually, general funds increased by $83.2 million, which is a more modest annual growth rate of 3.9%. Grant awards and program transfers to both MSDE and DLLR were the primary drivers for the growth in other education nonpersonnel expenditures.

Federal Race to the Top (RTT) grant funding comprised the majority of the growth in MSDE expenditures. RTT is a $4 billion competitive grant program authorized under the American Recovery and Reinvestment Act of 2009 (ARRA). Maryland's share of the grant, which was awarded in calendar 2010, provided the State with $250 million in grant funds over four years. Of this amount, 50% was passed through to local school systems, and the remainder was retained by MSDE to implement projects with statewide applicability. The goal of the grant program was to (1) assist the State in implementing projects to boost student achievement; (2) reduce gaps in achievement among student subgroups; (3) turnaround the lowest-achieving schools; and (4) improve the teaching profession.

Additionally, between fiscal 2004 and 2013, there were multiple program transfers to MSDE from DHR. For example, in an effort to consolidate early childhood programming into a single department, Chapter 585 of 2005 transferred the Child Care Administration to MSDE. Chapter 585 also transferred the Maryland After-School Opportunity Fund Program, the Maryland Child Care Resource Network, and the Maryland Family Support Centers Network from DHR to MSDE.

Grant awards comprised the majority of the growth in MHEC funding. MHEC grants are separate from grants offered by higher education institutions. This increase was primarily due to the State's largest scholarship program, the need-based Delegate Howard P. Rawlings Educational Excellence Award Program. Educational Excellence Awards are used to provide low- and moderate-income households with grants to cover the costs of college attendance. Between fiscal 2004 and 2013, there was a general policy shift toward providing more need-based aid rather than merit-based aid. This change in policy was the result of tuition and fee increases, as well as the number of students requiring financial assistance. In fiscal 2004, 23,000 need-based grants were awarded compared to over 28,000 in fiscal 2013.

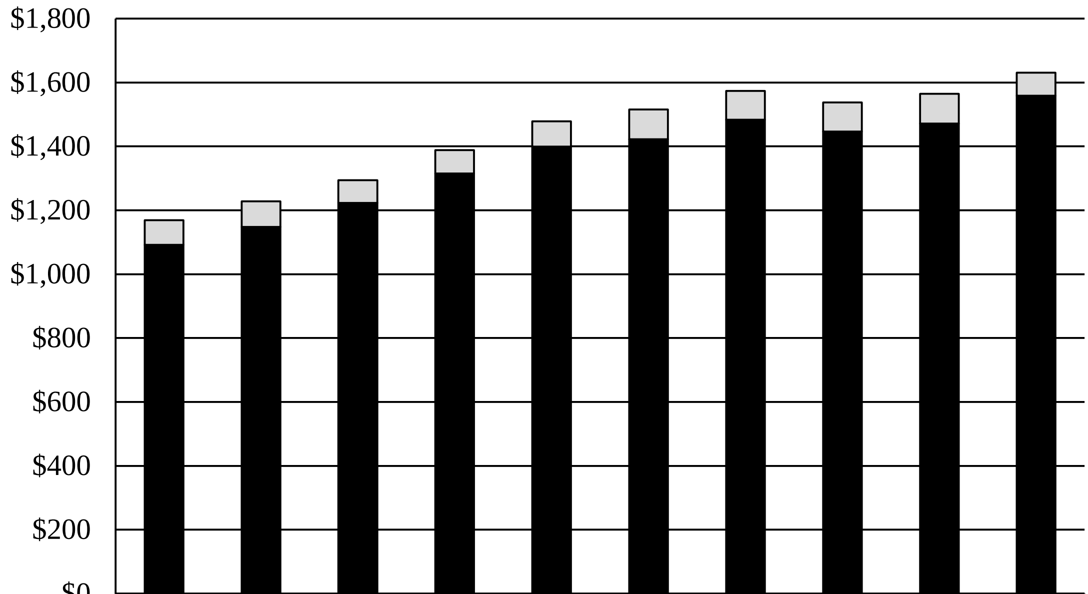
Transportation

The Maryland Department of Transportation is charged with managing the State's transportation systems. The department is organized into the State Highway Administration (SHA), the Motor Vehicle Administration (MVA), the Maryland Aviation Administration (MAA), the Maryland Port Administration (MPA), and the Maryland Transit Administration (MTA). Other departmental components include the Office of the Secretary and certain advisory and zoning boards. The department is also responsible for making payments to the Washington Metropolitan Area Transit Authority (WMATA) apportioned to the State by formula or through agreements.

Total noncapital expenditures for the department increased from $1,169 million to $1,631 million. This represents a $462 million, or 3.8%, annual increase in the department's operating expenditures. The State's operating subsidy with WMATA, inflation, and contractual services expenditures were several of the primary drivers for the growth in expenditures. **Exhibit 1.17** shows that most of the department's operating budget is supported by special funds.

WMATA, which was created in 1967 by an interstate compact in which Maryland, Virginia, and the District of Columbia participate, operates the second largest rail transit system and the fifth largest bus network in the United States. Since fiscal 2004, there has been a significant increase in the annual operating grant provided to the Washington Suburban Transit Commission for the operation of WMATA's Metrorail, Metrobus, and MetroAccess programs. This increase was due, in part, to the additional expenditures resulting from the extension of Metro's Blue Line to Largo Town Center. Other significant cost drivers during this timeframe included WMATA's paratransit and MetroAccess services, as well as increased labor costs associated with collective bargaining agreements between WMATA and its labor unions. Currently, WMATA's operating grants are based on multiple factors, including miles of service, number of stations, number of passengers, and population density in each jurisdiction. WMATA's operating expenditures are offset by the fare revenues generated by each service.

Exhibit 1.17
Transportation Operating Spending by Fund
Fiscal 2004-2013
($ in Millions)



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Federal Funds	$76	$80	$71	$73	$79	$94	$91	$91	$93	$72
Special Funds	1,092	1,148	1,223	1,315	1,399	1,422	1,483	1,447	1,472	1,559

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

MTA's Maryland Area Regional Commuter (MARC) and mobility services contracts accounted for the majority of the growth in the department's contractual services expenditures. Prior to fiscal 2013, MARC service was contracted with Amtrak and CSX Transportation (CSX). However, due to CSX's desire to end its role as operator of the MARC service, CSX began assessing financial penalties in fiscal 2008 as an incentive for the State to identify a third-party contractor. Consequently, Maryland procured a more costly third-party contractor for Amtrak-related MARC service. Also during this timeframe, the State began paying CSX a new access fee for the right to use the rail lines.

In December 2005, MTA reached a settlement agreement with the Maryland Disability Law Center on a lawsuit filed by paratransit riders. The lawsuit alleged that the MTA paratransit service violated the Americans with Disabilities Act due to continuing service deficiencies. As a result, MTA instituted a new service delivery model that uses multiple contractors (First Transit, Inc., MV Transportation, and Veolia Transportation) instead of one, to provide service. In the wake of the lawsuit, MTA also developed a TaxiAccess Program, subsidized by MTA, which allows customers to use a taxi company for their transportation needs. Customers pay an initial $3 fare and any amount showing on the meter that exceeds $20. As on-time performance and service began to improve, so did the demand for mobility services. In fiscal 2004, there were 542 paratransit riders compared to 2,084 paratransit and TaxiAccess riders in fiscal 2013.

MTA also experienced significant growth in its routine operating expenses for bus and rail services due to inflation. For example, diesel fuel, vehicle maintenance, equipment repairs and maintenance, and utilities expenditures increased significantly during this timeframe.

Similar to MTA, MAA also experienced significant growth during this timeframe. The majority of the increase in the MAA operating expenditures was due to the additional costs associated with the opening of the new Concourse A and the expansion of Concourse B at the Baltimore/Washington International Thurgood Marshall Airport. As a result of the opening and expansion of concourses A and B, additional funding was required for debt service payments to the Maryland Economic Development Corporation for the construction of these facilities, as well as new expenses associated with opening the concourses (*e.g.*, electricity, heating/ventilation, other utilities, security, and other supplies needed for maintaining the facility).

There was also a notable increase in the costs associated with the shuttle bus contract, due in part, to a change in the way the shuttle bus contract was budgeted. Prior to fiscal 2005, shuttle bus costs were netted against the percentage of gross parking revenue paid to MAA by the vendor. Previously, the shuttle bus contract was operated as a subcontractor to the vendor, and expenses were not included in MAA's operating budget. Under the new contract, MAA began paying shuttle bus expenses directly to the shuttle bus operator. Although there was an increase in operating costs, there was an offsetting increase in parking revenue.

Similar to MAA, MVA experienced a significant increase in its operating expenditures due to a change in MVA's budgeting practices. Prior to fiscal 2011, MVA only reported the net costs associated with vendor operations of the Vehicle Emissions Inspection Program (VEIP) stations. Previously, these expenditures were offset by VEIP inspection fees. In response to the legislature's request, MVA began reflecting the total cost of the program in MVA's annual budget. Other significant increases in the MVA budget included the transfer of the Maryland Highway Safety Office from SHA to MVA and an increase in credit card banking fees due to the increased use of credit cards by MVA customers.

Lastly, there was a significant reduction in expenditures for MPA, primarily due to the privatization of the Seagirt Marine Terminal. In January 2010, operations of the Seagirt Marine Terminal were turned over to Ports America Chesapeake as a result of a public-private partnership agreement. Other significant reductions included a reduction in legal services and lease payments for the Point Breeze and Seagirt facilities. These reductions more than offset the increase in security services expenditures.

Agriculture, Natural Resources, and the Environment

This section examines spending by the Maryland Department of Agriculture (MDA), the Maryland Department of the Environment, and the Department of Natural Resources.

Exhibit 1.18 shows that funding for these agencies increased at a 3% annual rate from fiscal 2004 to 2013. The most striking trend is that general fund spending declines in all three agencies while special fund spending increases substantially to make up the difference.

Exhibit 1.18
Changes in Funding
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
General Funds					
DNR	$69.8	$48.2	-$21.6	-30.9%	-4.0%
MDA	26.9	26.8	-0.1	-0.3%	0.0%
MDE	38.2	32.4	-5.8	-15.2%	-1.8%
Subtotal	***$135.0***	***$107.5***	***-$27.5***	***-20.4%***	***-2.5%***
Special Funds					
DNR	$59.5	$105.4	$45.9	77.1%	6.6%
MDA	10.6	43.4	32.8	308.2%	16.9%
MDE	23.6	49.1	25.4	107.5%	8.5%
Subtotal	***$93.8***	***$197.9***	***$104.1***	***111.0%***	***8.7%***
Federal Funds					
DNR	$23.0	$24.7	$1.7	7.4%	0.8%
MDA	2.4	3.7	1.2	51.6%	4.7%
MDE	21.8	33.2	11.4	52.2%	4.8%
Subtotal	***$47.2***	***$61.5***	***$14.3***	***30.4%***	***3.0%***
Agency Totals					
DNR	$152.3	$178.3	$28.7	18.8%	1.8%
MDA	40.0	73.9	57.4	143.5%	7.1%
MDE	83.7	114.7	113.0	135.1%	3.6%
Total	**$275.9**	**$366.9**	**$199.1**	**72.1%**	**3.2%**

DNR: Department of Natural Resources
MDA: Maryland Department of Agriculture
MDE: Maryland Department of the Environment

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

With respect to total spending, MDA spending increased at a much higher rate than the other departments. This is primarily attributable to increased grant funding for the Resource Conservation Grants program. The program provides cost-share grants to farmers that install best management practices to control soil erosion and runoff. Examples of best practices include planting cover crops in the fall. Spending increased from $3.0 million in fiscal 2004 to $25.1 million in fiscal 2013. If this increase is excluded, MDA spending increased at an annual rate of 2.9%.

Exhibit 1.19 shows the significant new or enhanced special funds introduced since fiscal 2004. These changes expanded the use of Program Open Space (POS) and created the Chesapeake Bay 2010 Trust Fund and Bay Restoration Fund. Chapter 2 of the 2007 special session, expanded the POS uses so that it would also provide funds to maintain State parks. Chapter 6 of the 2007 special session created a Chesapeake Bay 2010 Trust Fund. The fund provides financial assistance to meet the Chesapeake Bay 2000 Agreement goals for the restoration of the Chesapeake Bay and its tributaries. The fund is composed of a portion of existing revenues from the motor fuel tax and existing revenues from the sales and use tax on short-term vehicle rentals that would otherwise go to the general fund. Chapter 428 for 2004 created the Bay Restoration Fund. The fund's objective is to provide funding or activities that reduce nutrient runoff into the bay, such as enhancing waste water treatment facilities. Revenues are generated by charging a fee to sewer and septic users.

Exhibit 1.19
New and Enhanced Special Funds
Fiscal 2004 and 2013
($ in Millions)

		2004	2013	Change
DNR	Program Open Space Transfer Tax	$1.0	$22.2	$21.3
MDA	Chesapeake Bay 2010 Trust Fund	0.0	16.4	16.4
MDA	Chesapeake Bay Restoration Fund	0.0	9.9	9.9
MDE	Chesapeake Bay Restoration Fund	0.0	7.5	7.5
DNR	Chesapeake Bay 2010 Trust Fund	0.0	7.5	7.5
Total		**$1.0**	**$63.6**	**$62.6**

DNR: Department of Natural Resources
MDA: Maryland Department of Agriculture
MDE: Maryland Department of the Environment

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

Other State Agencies

This section describes significant fiscal changes over the period for State agencies that are not included in the other sections of this analysis. **Exhibit 1.20** shows that general fund spending increased from $482 million in fiscal 2004 to $608 million in fiscal 2013.

Exhibit 1.20
Other State Agency General Fund Spending
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Budget and Information Technology	$29	$70	$41	144.1%	10.4%
Financial and Revenue	104	164	60	57.1%	5.1%
Legal (excluding Judiciary)	78	111	34	43.4%	4.1%
Executive and Administrative	100	117	17	17.1%	1.8%
General Services	48	54	6	13.6%	1.4%
Business and Economic Development	59	58	-1	-1.8%	-0.2%
Labor, Licensing, and Regulation	24	15	-10	-39.0%	-5.3%
Other Education	29	13	-16	-53.6%	-8.2%
Housing and Community Development	10	4	-6	-56.5%	-8.8%
Total	**$482**	**$608**	**$127**	**26.3%**	**2.6%**

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

Exhibit 1.21 shows that total expenditures for other State agencies increased from $1,328 million to $1,777 million. While total funds increased by 3.3% annually, general funds increased by 2.6%. In fiscal 2013, personnel expenditures totaled $583 million, which is almost one-third of costs.

Exhibit 1.21
Other State Agency Total Spending
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Budget and Information Technology	$41	$93	$52	127.7%	9.6%
Financial and Revenue	172	339	167	97.2%	7.8%
Business and Economic Development	76	139	63	82.3%	6.9%
Housing and Community Development	187	290	103	55.4%	5.0%
Labor, Licensing, and Regulation	180	255	75	42.0%	4.0%
Legal (excluding Judiciary)	111	155	44	39.7%	3.8%
General Services	50	59	9	19.0%	2.0%
Executive and Administrative	428	416	-12	-2.9%	-0.3%
Retirement	21	19	-3	-13.6%	-1.6%
Other Education	63	13	-50	-78.7%	-15.8%
Total	**$1,328**	**$1,777**	**$449**	**33.8%**	**3.3%**

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

The areas that increased most substantially with respect to total spending are budget and information technology, financial and revenue administration, and the Department of Business and Economic Development (DBED). Additional spending for budget and information technology is attributable to the Department of Information Technology (DoIT), which is discussed later in this chapter. Financial and revenue administration spending increases are related to newly added video lottery terminal (VLT) administration, also discussed later in the chapter.

The substantial declines in retirement and other education spending are attributable to budget process changes. The reduction in retirement spending is attributable to a change in budgeting procedures. The State Retirement Agency (SRA) now receives a larger share of its spending from reimbursable funds from other State agencies. Since these funds are already included as spending in those agencies, this analysis excludes these funds to avoid double-counting them. The change is due to cost sharing legislation that requires that local governments pay a share of the costs for administering SRA. Including these funds shows spending increased from

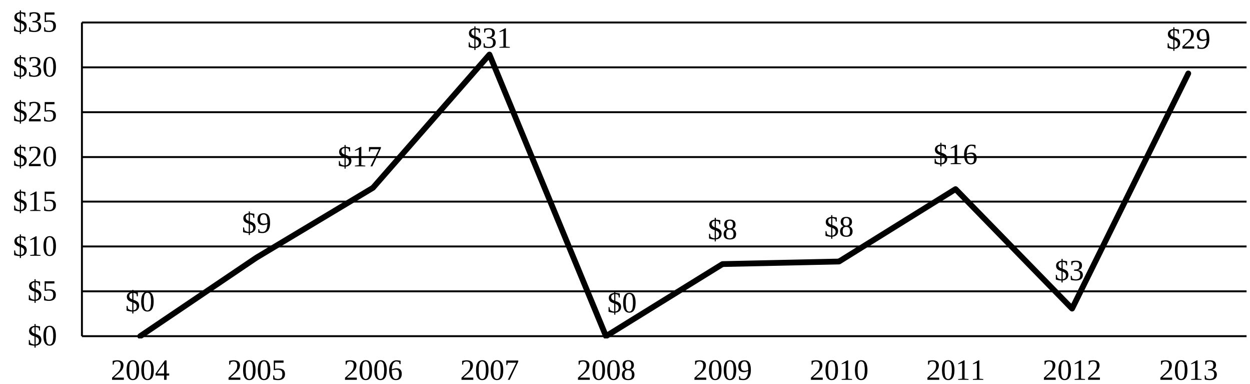
$21.4 million to $26.2 million, which is an annual increase of 2.3%. Other education spending reductions are a reflection of reduced spending in the Children's Cabinet Interagency Fund (program R00A04.01). Federal fund spending, which included $22.9 million from the Temporary Assistance for Needy Families block grant, did not receive the grant in fiscal 2013. In fiscal 2004, the State emphasized the Interagency Fund. This is no longer the case, and these funds are now spent in State agencies.

Department of Information Technology

Chapter 9 of 2008 created DoIT. Prior to 2008, the department was organized within the Department of Budget and Management. The mission of DoIT is to provide information technology (IT) leadership to the Executive Branch in order to effectively oversee and manage State IT resources.

The fiscal 2004 budget did not provide any general funds for major IT projects, while fiscal 2013 provided $29 million. General funds were not needed in fiscal 2004 because in fiscal 2003 and 2004 the Major Information Technology Development Project Fund had received $9 million in special funds and another $18 million by redirecting revenues from other projects. Projects receiving appropriations in fiscal 2013 include radio equipment for the Public Safety Communication System, Comptroller's Modernized Integrated Tax System, and State Police's Computer Aided Dispatch/Record Management System. **Exhibit 1.22** shows general fund appropriations over the period.

Exhibit 1.22
Major Information Technology Development Project Fund
General Fund Appropriations
Fiscal 2004-2013
($ in Millions)



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

State Lottery and Gaming Control Agency

The State Lottery and Gaming Control Agency (SLGCA) is responsible for the administration and operation of the State's lottery games. The agency is also responsible for the administration of the State's gaming program, including accounting for and distributing gaming revenues, managing the program's central system, and regulation and licensing of operators.

SLGCA has significantly expanded its responsibilities since fiscal 2004. Chapter 5 of the 2007 special session authorized the issuance of a limited number of video lottery operation licenses in the State, subject to voter referendum. Following voter approval, in 2008, the State instituted a gaming program that includes the regulation of several casinos. In 2012, the agency's responsibilities were further expanded to include the regulation of table games at the previously authorized gaming facilities, among other new duties. The lottery agency is tasked with the oversight of the State's gaming program. Specifically, the agency is charged with licensing casino facility owners and employees, monitoring the gaming central system, accounting for facility revenues, and providing State staff to each facility. The additional duties necessitated a significant increase in resources reflecting a large increase in staff, an investment in new IT, and the ownership of VLTs used at the facilities. VLT program costs totaled $132 million in fiscal 2013.

Department of Business and Economic Development

The DBED mission is to strengthen the Maryland economy. DBED develops and implements programs aimed at generating new jobs or retaining existing jobs, attracting business investment in new or expanding companies, and promoting the State's strategic assets. The department's primary goals are to increase business investment in Maryland, enhance business success and the competitiveness of businesses in their distinct markets, develop a diverse economic base, and ensure that all jurisdictions share in the State's economic vitality.

The DBED resources increased significantly between fiscal 2004 and 2013, mostly due to enhancements in existing business incentive programs and the creation of new programs. Specifically, the Maryland Enterprise Fund increased from approximately $800,000 in fiscal 2004 to $26.8 million in fiscal 2013. As a result of the InvestMaryland initiative, which is aimed at investing in the State's promising start-up and early stage companies, special funds increased for the Enterprise Fund through the auctioning of tax credits. There were also increases in funding for tourism and international investment. Furthermore, there were two new programs established via legislation, the Maryland Biotechnology Investment Tax Credit (Chapter 99 of 2005) and the Maryland Small, Minority, and Women-Owned Business Account (Chapter 4 of the 2007 special session). The Biotechnology Tax Credit program received $8.0 million in fiscal 2013 and the Small, Minority and Women-Owned Business program received $7.9 million. It should be noted that these increases were mitigated, in part, by decreases to programs such as the Partnership for Workforce Quality and the Small Business Development Financing Authority.

Department of Housing and Community Development

The Department of Housing and Community Development (DHCD) works to encourage homeownership, expand affordable rental housing, and revitalize communities. DHCD administers several federal housing programs, issues housing revenue bonds to support homeownership and the development of multifamily housing, operates a mortgage insurance fund, and manages programs aimed at revitalizing blighted neighborhoods.

Between fiscal 2004 and 2013, DHCD reduced its use of general funds for operations and increasingly relied on special and federal funds to meet its objectives. **Exhibit 1.23** shows special funds that are either newly created or have increased substantially from fiscal 2004 to 2013.

Exhibit 1.23
New and Enhanced Special Funds
Fiscal 2004 and 2013
($ in Millions)

Fund	**2004**	**2013**	**Change**
Mortgage Loan Servicing Practices Settlement Fund	$0.0	$23.1	$23.1
EmPOWER Maryland	0.0	12.5	12.5
Rental Housing Loan Program Fund	6.8	18.3	11.4
Housing Counseling and Foreclosure Mediation Fund	0.0	3.5	3.5
Total	**$6.8**	**$57.4**	**$50.5**

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

Following the enactment of Chapters 171 and 172 of 2009 (Greenhouse Gas Emissions Reduction Act), the department began using the SEIF for weatherization activities. Additionally, Chapter 485 of 2010 created a Foreclosure Mediation Fund in DHCD to assist with providing foreclosure-related legal assistance, education, and mediations. Furthermore, in fiscal 2012, DHCD began administering the ratepayer funded EmPOWER Low Income Energy Efficiency Program (LIEEP), which was transferred from the five EmPOWER utilities to DHCD. The LIEEP supports energy efficiency and low-income weatherization.

Federal funds also supported a number of activities within the department during this timeframe. For example, there was a significant increase in the amount of federal funding received by DHCD to manage subsidized Section 8 properties on behalf of the U.S. Department of Housing and Urban Development. Additionally, there was an influx of federal stimulus funding, which was made available by the ARRA. This funding was used to supplement existing funding for low-income weatherization, emergency shelter grants, and grants to local governments to support community action agencies that offer a variety of services to low-income individuals.

Lastly, the DHCD foreclosure prevention efforts received a significant boost in special and federal funds as a result of a national mortgage settlement and the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. In fiscal 2013, the State received funding from a national mortgage settlement between 49 states and the District of Columbia and the nation's five largest mortgage servicers. This funding was primarily used to provide housing counselors and legal assistance grants. In addition, the federal funding received from the Consumer Protection Act of 2010 was used to provide financial assistance to homeowners facing foreclosure due to loss of income.

Department of Labor, Licensing, and Regulation

DLLR includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. The department also administers a variety of employment service and adult learning programs.

Between fiscal 2004 and 2013, the budget for DLLR increased significantly. The licensing and regulation duties under the Division of Financial Regulation expanded in the aftermath of the foreclosure crisis. Mortgage fraud efforts have increased and additional professions (*i.e.*, mortgage originators) are now regulated; as such, DLLR special fund expenditures have increased. Special funds under the Division of Racing have significantly increased as well due to the introduction of a gaming program in the State that directs a portion of its revenues to horse racing purse enhancement, racetrack redevelopment, and local impact aid.

Lastly, several of DLLR programs are federally funded programs that are formula based. The formulas are weighted heavily on factors related to the economy and employment. The recent recession resulted in significant increases to DLLR's workforce development and unemployment insurance programs. A major IT project under the unemployment insurance program also added federal funds to the budget.

Judicial and Legislative Branches

The Judicial Branch is responsible for the resolution of all matters involving civil and criminal law in the State of Maryland. The Maryland Judiciary is composed of four courts and seven programs which support the administrative, personnel, and regulatory functions of the Judicial Branch of the State government. The Legislative Branch passes all laws necessary for the welfare of the State's citizens and certain laws dealing with the counties and special taxing districts. The General Assembly of Maryland is the Legislative Branch of State government. The General Assembly's budget includes funding for members of the Senate, the House of Delegates, and members' administrative staff. The General Assembly's budget also includes funding for the nonpartisan staff of the Department of Legislative Services.

Total expenditures for the Judicial and Legislative branches increased from $364 million to $516 million. Similarly, general fund expenditures increased from $329 million to $461 million. Total funds increased by $152 million, or 3.9% annually, and general funds increased by $132 million, which is a slightly lower annual growth rate of 3.8%. While there was a significant growth in the Judiciary's grant and contractual services expenditures, there was only a modest growth in the General Assembly's operating expenditures.

Most of these costs support employees; in fiscal 2013, personnel costs totaled $352 million, which is over two-thirds of total costs. Personnel cost increases are attributable to general salary and merit increases provided early in the period, health care inflation, and higher pension contributions. Over the period, the Judiciary added 361 positions, increasing the number of positions to 3,585 while the Legislative Branch added 18 positions, for a total of 748 in fiscal 2013.

The Judiciary also experienced a significant increase in contractual services expenditures during this timeframe. Several of the key drivers for the increase in contractual services included funding for building repair and maintenance, IT expenditures associated with the Judiciary's major IT projects, and court interpreters. According to the Maryland Rules of Court, court interpreter services must be provided to any party or witness who is deaf or unable to adequately understand or express himself or herself in spoken or written English.

There was a relatively modest growth in the General Assembly's operating expenditures during this timeframe. The increase was generally attributed to replacement equipment, management studies, and routine operating cost growth.

Chapter 2. Entitlement Program Spending

This chapter provides a summary of entitlement spending. **Exhibit 2.1** shows that entitlement spending increased by $4 billion and at an annual rate of 7.2% per year between fiscal 2004 and 2013. Much of this growth was in special and federal funds, which increased at a combined rate of 9.4%. General funds increased at a more moderate 3.7% rate per year. Much of the increases in assistance payments relate to higher caseloads and a higher monthly benefit amount in the Supplemental Nutrition Assistance Program (SNAP). Medicaid is a large program that has undergone significant changes and is discussed in Chapter 4, which addresses the most significant changes.

Exhibit 2.1
Entitlement Spending
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
General Fund					
Medicaid	$1,623	$2,312	$688	42.4%	4.0%
Foster Care	205	203	-2	-0.9%	-0.1%
SNAP	0	0	0	n/a	n/a
Other Assistance Payments	60	85	25	41.7%	3.9%
Property Tax Credits	49	82	33	67.8%	5.9%
Subtotal	***$1,937***	***$2,682***	***$745***	***38.4%***	***3.7%***
Special and Federal Funds					
Medicaid	$2,144	$4,452	$2,309	107.7%	8.5%
Foster Care	70	95	26	36.8%	3.5%
SNAP	242	1,170	928	383.5%	19.1%
Other Assistance Payments	153	119	-34	-22.4%	-2.8%
Property Tax Credits	0	0	0	-100.0%	-100.0%
Subtotal	***$2,609***	***$5,836***	***$3,228***	***123.7%***	***9.4%***
All Funds					
Medicaid	$3,767	$6,764	$2,997	79.6%	6.7%
Foster Care	275	298	24	8.7%	0.9%
SNAP	242	1,170	928	383.5%	19.1%
Other Assistance Payments	213	204	-9	-4.4%	-0.5%
Property Tax Credits	49	82	33	67.8%	5.9%
Total	**$4,546**	**$8,518**	**$3,972**	**87.4%**	**7.2%**

SNAP: Supplemental Nutrition Assistance Program

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

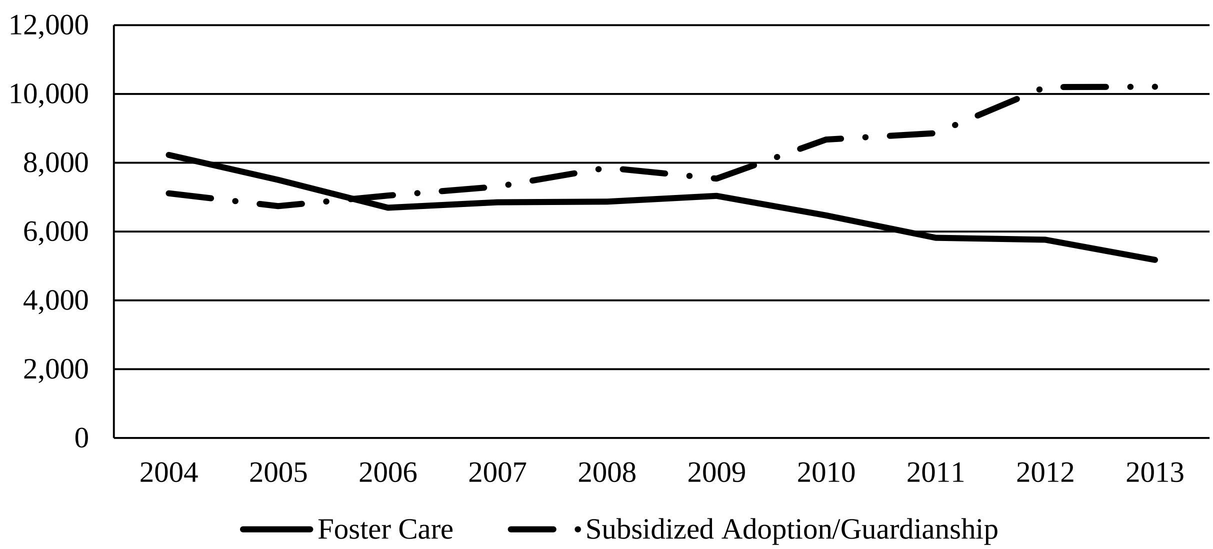
Foster Care Payments

The State's foster care and subsidized adoption/guardianship programs provide temporary and permanent homes for children in need of out-of-home placements due to abuse or neglect. Foster care placements – such as family homes, group homes, and institutions – offer temporary out-of-home care until implementation of a permanency plan. Permanency options include reunification with family, adoption, and guardianship. Families that accept legal custody of a child with special needs may receive monthly payments under the subsidized adoption program.

Total funds for foster care payments increased from $275 million to $298 million. By contrast, general funds declined from $205 million to $203 million. While total funds increased by $24 million, or 0.9%, annually, general funds declined by $2 million. Alternative special and federal fund sources for activities such as foster care education were the primary drivers for the increase in expenditures across all funds.

In fiscal 2004, Maryland's combined foster care/subsidized adoption caseload totaled 15,024 compared to 15,386 in fiscal 2013. During this timeframe, there was a 36.5% decline in the foster care caseload; however, this decline was more than offset by a 48.5% increase in the subsidized adoption caseload, as shown in **Exhibit 2.2**. These trends reflect the philosophy behind the Department of Human Resources' (DHR) Place Matters Initiative, which is aimed at finding permanent families for foster children.

Exhibit 2.2
Foster Care and Subsidized Adoption/Guardianship Caseloads
Fiscal 2004-2013



Source: Department of Human Resources

There was also significant growth in the use of special funds as an alternative to general funds over the 10-year period. Special funds increased from $143,482 to $7 million, or 54.4%, annually. The majority of the growth was due to the enactment of new revenue sources. For example, the Budget Reconciliation and Financing Act of 2011 (Chapter 397) required local boards of education to reimburse DHR for the education of certain children placed in State-supervised care.

Also, while not as significant of an increase as special funds, federal funds increased from $70 million to $88 million, or 2.7%, annually. The increase in federal funds was primarily due to an expansion in funding under the Medical Assistance Program. In fiscal 2006, the State's foster care and subsidized adoption/guardianship programs began receiving Medicaid, which is used to reimburse providers that house foster children in therapeutic group homes.

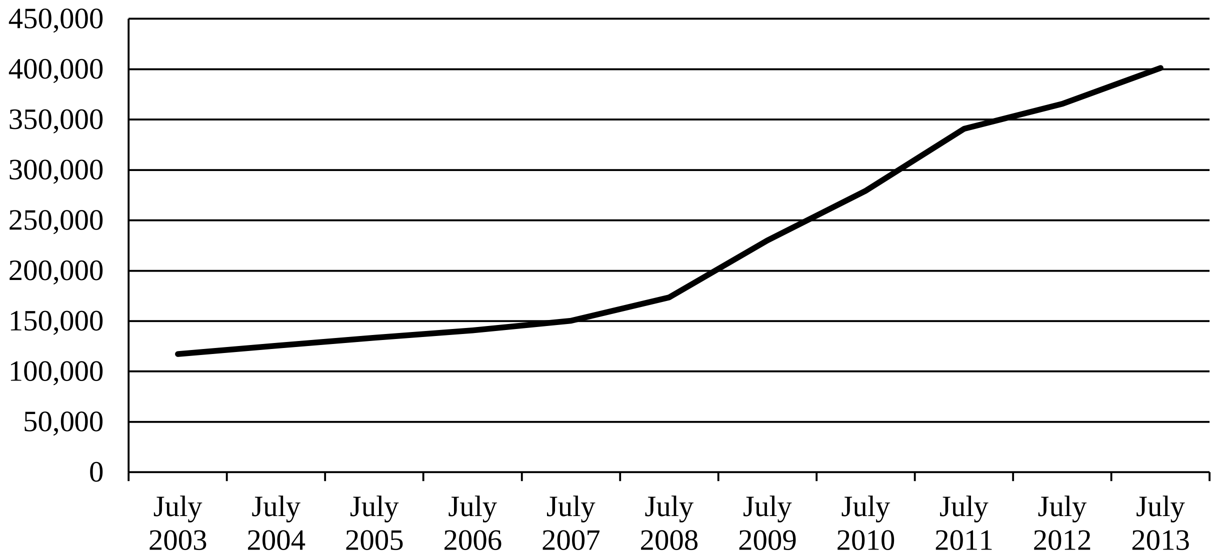
Assistance Payments

The Assistance Payments Program provides eligible Maryland residents with funds to maintain themselves at a safe level of health, nutrition, and personal independence. The program includes the following payment categories: (1) supplemental nutrition assistance; (2) temporary cash assistance; (3) temporary disability assistance; (4) refugee assistance; (5) welfare avoidance grants; (6) emergency assistance to families with children; (7) burial assistance grants; (8) eviction assistance; and (9) public assistance to adults.

Total funds for assistance payments increased from $455 million to $1,374 million, and general funds increased from $60 million to $85 million. While total funds increased by $919 million, or 13.1%, annually, general funds increased by $25 million, which is a more modest annual growth rate of 3.9%. The SNAP and the Temporary Cash Assistance (TCA) program utilization, in conjunction with an increase in the dollar amount of the average monthly benefit payment, were the primary drivers for the growth in assistance payment expenditures.

SNAP and TCA are the two largest categories of assistance payments, totaling over 95.0% of the program's expenditures. SNAP, formerly known as the Food Stamp Program, provides benefits solely for the purchase of food items to families who meet income and resource requirements. As shown in **Exhibit 2.3**, in fiscal 2004, the average monthly caseload for SNAP was 126,526 compared to 383,656 in fiscal 2013. This represents a 13.1% annual increase in the average monthly caseload for SNAP over the 10-year period. In addition, the average monthly benefit amount for SNAP increased from $87.14 in fiscal 2004 to $127.05 in fiscal 2013.

Exhibit 2.3
Supplemental Nutrition Assistance Program Caseloads
July 2003-July 2013



Source: Department of Human Resources

TCA, the State's largest cash assistance program, provides monthly cash grants to dependent children and other family members deprived of support due to death, incapacitation, underemployment, or unemployment of one or both parents. In fiscal 2004, the average monthly enrollment for TCA totaled 71,179 compared to 67,876 in fiscal 2013. Despite the 0.5% annual decline in program participation, the TCA average monthly grant amount increased from $146.15 to $174.82. TCA expenditures are primarily impacted by the State's minimum living level. State law requires that the value of TCA, combined with federal SNAP benefits, equal at least 61.0% of the Maryland minimum living level.

Federal funds increased from $379 million to $1,270 million, or 14.4%, annually. The increase in federal funds was primarily due to an $886 million increase in SNAP expenditures over the 10-year period. The benefit costs under SNAP are 100.0% federally funded.

Property Tax Credits

The State Department of Assessments and Taxation (SDAT) administers four budgeted tax credit programs that are authorized in statute and considered to be entitlements: the Homeowners' Property Tax Credit Program, the Renters' Tax Credit Program, the Base Realignment and Closure

(BRAC) Revitalization and Incentive Zone Tax Credit Program, and the Urban Enterprise Zone Tax Credit Program. The homeowners' and renters' programs provide property tax relief to all eligible homeowners and renters. The BRAC zone program provides tax-related financial incentives to local governments by providing State support for property tax increases on qualifying properties located in BRAC zones. The enterprise zone program reimburses local governments for property tax credits given to businesses, which are located in, or expand into, enterprise zones.

Property tax credit expenditures, which are typically funded with general funds, increased from $49 million to $82 million across all funds, between fiscal 2004 and 2013, or 5.9%, annually. Program utilization, in conjunction with an increase in the dollar amount of the average tax credits issued, were the primary drivers of the growth in the State's tax credit programs.

The Homeowners' (Circuit Breaker) Tax Credit Program provides credits against State and local real property taxes for homeowners who qualify based on a sliding scale of property tax liability and income. While the program was originally limited to homeowners ages 60 and older and homeowners with disabilities, the program is now available to homeowners of all ages. In fiscal 2004, there were 50,208 program participants compared to 53,196 in fiscal 2013. This represents a 6% increase in the number of participants receiving tax credits under the program. In addition, the dollar amount of the average credit issued increased from $785 in fiscal 2004 to $1,177 in fiscal 2013.

The Renters' Tax Credit Program, which is modeled after the Homeowners' Tax Credit Program, is based on the concept that renters indirectly pay property taxes as a component of their rent and, therefore, should also benefit from the tax credit afforded to homeowners. The program provides credits to renters who meet certain income and familial requirements. Unlike the Homeowners' Tax Credit Program, participation in the Renters' Tax Program declined from 11,373 in fiscal 2004 to 8,249 in fiscal 2013. Despite the decline in program participation, the dollar amount of the average credit issued increased from $243 to $294.

The Urban Enterprise Zone Tax Credit Program provides property and income tax credits for businesses that locate or expand within designated areas. Under the program, businesses receive a 10-year credit against local real property taxes on a portion of real property improvements. During the course of the 10-year period, SDAT reimburses local governments for one-half of the lost revenues, which otherwise would have been realized from the increased property assessment. In fiscal 2004, the amount of the State's share of the enterprise tax credit was $4.7 million compared to $19.0 million in fiscal 2013. In addition, the number of businesses participating in the program increased from 531 participants in fiscal 2004 to 878 participants in fiscal 2013. This represents a 65.3% increase in the number of businesses receiving tax credits under the program. While the number of enterprise zones remained fairly constant, several of the jurisdictions expanded their existing zone, thereby creating additional opportunities for businesses to qualify for property tax credits.

Chapter 338 of 2008, which was later modified by Chapter 728 of 2009, created financial incentives for local subdivisions with approved BRAC zones. The BRAC provides tax-related financial incentives for qualifying properties that are located in designated BRAC zones, including State support of up to 100% of the increase in the State property tax of any qualifying property and 50% of the increased value in local tax revenues collected on the qualifying property. Under State law, these financial incentives are limited to $5 million per year. The State began issuing BRAC incentive zone credits in fiscal 2011.

Chapter 3. Local Aid, Pay-as-you-go Capital, Debt Service, and Reserve Fund Appropriations

State Aid to Local Governments

Approximately three-quarters of State aid supports public schools. The State provides a substantial amount of support for public schools, and this has undergone significant changes in recent years. These issues are discussed in Chapter 4, which addresses major programmatic changes. The remaining local aid supports community colleges, libraries, health departments, and county and municipal governments.

Exhibit 3.1 shows that most local aid supports public education. While total local aid increased, aid for health and general local governments decreased.

Exhibit 3.1
Summary of Local Aid
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Public Schools					
General Fund Appropriations	$3,327	$5,404	$2,078	62.5%	5.5%
ETF Appropriations	0	251	251	n/a	n/a
Subtotal	***$3,327***	***$5,655***	***$2,329***	***70.0%***	***6.1%***
Other Local Aid					
Libraries	$41	$50	$9	20.6%	2.1%
Community Colleges	175	252	77	44.3%	4.2%
Health	60	37	-23	-38.3%	-5.2%
General Government	204	159	-45	-22.0%	-2.7%
Subtotal	***$481***	***$498***	***$18***	***3.7%***	***0.4%***
Total	**$3,807**	**$6,154**	**$2,346**	**61.6%**	**5.5%**

ETF: Education Trust Fund

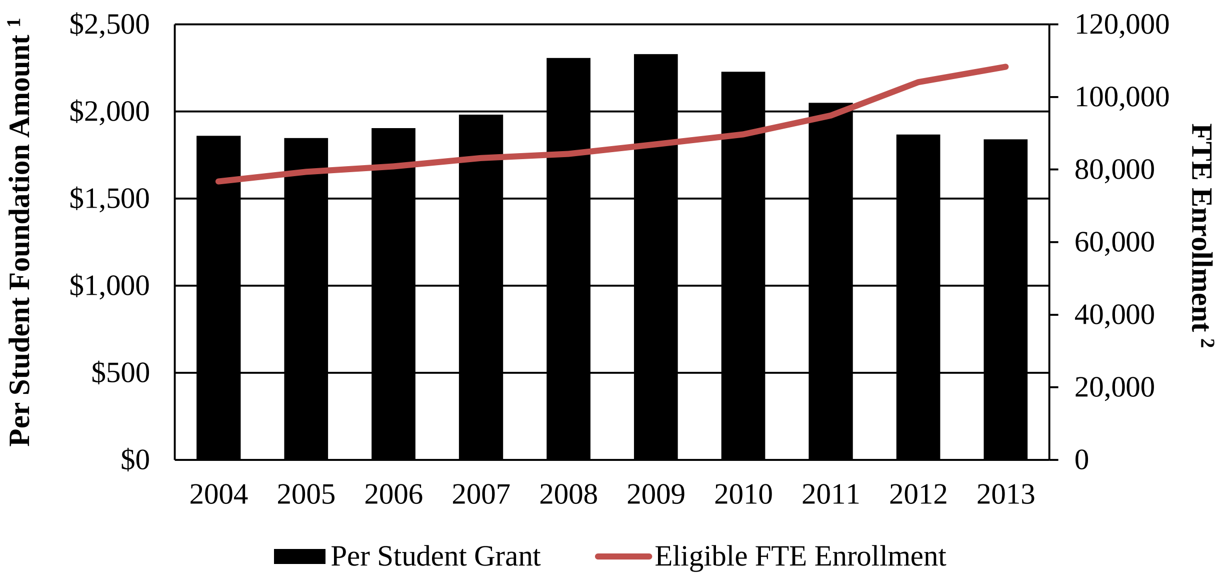
Source: Department of Budget and Management; Department of Legislative Services

Community Colleges

The majority of State aid for community colleges comes through the Cade funding formula. Cade funding has grown by $56.5 million, or 39.6%, from fiscal 2004 to 2013, despite cost containment actions during this period. Chapter 333 of 2006 phased in an increase in the formula over five years, ending in fiscal 2013, but the formula has since been adjusted frequently by budget reconciliation legislation. Chapter 484 of 2010 reduced funding under the Cade formula to $194.4 million in fiscal 2011 and 2012 and reset the phase in of scheduled formula enhancements. Chapter 397 of 2011 reduced funding under the formula from fiscal 2013 through 2022 by adding two years to the phase in of formula enhancements in order to reach full funding by fiscal 2023 rather than fiscal 2021.

Exhibit 3.2 shows that enrollment tended to increase. As with other programs during this period, the per student formula was increasing in the early years and then steadily decreased.

Exhibit 3.2
Per Student Enrollment and Grants Per Student
Fiscal 2004-2013



FTE: full-time equivalent

[1] This is the per student Cade amount using Cade-eligible enrollment.
[2] This shows the enrollment figure that relates to State aid for a given fiscal year. For example, fiscal 2004 uses audited fiscal 2002 enrollment.

Source: Department of Legislative Services

Libraries

Direct State aid for local libraries, through the minimum per capita library program and to the State library network, increased by $8.5 million from fiscal 2004 to 2013. Chapter 481 of 2005 accelerated per capita funding levels through both funding programs for fiscal 2007 to 2010. However, legislation each year from fiscal 2008 to 2011 (Chapter 414 of 2008, Chapter 487 of 2009, Chapter 484 of 2010, and Chapter 397 of 2011) combined to reduce, or defer scheduled enhancements to, per capita aid. As a result, per capita funding through the minimum library program increased from $12.00 in fiscal 2006 to $14.00 in fiscal 2008, where it remained beyond fiscal 2013. State library network funding was similarly affected. The per capita grant in support of regional resource centers increased from $4.50 in fiscal 2006 to $6.50 in fiscal 2008, where it remained beyond fiscal 2013. Also, per capita aid for the State Library Resource Center (Enoch Pratt) was held at $1.85 for fiscal 2004 to 2009, and was reduced to $1.67 beginning in fiscal 2010.

Health

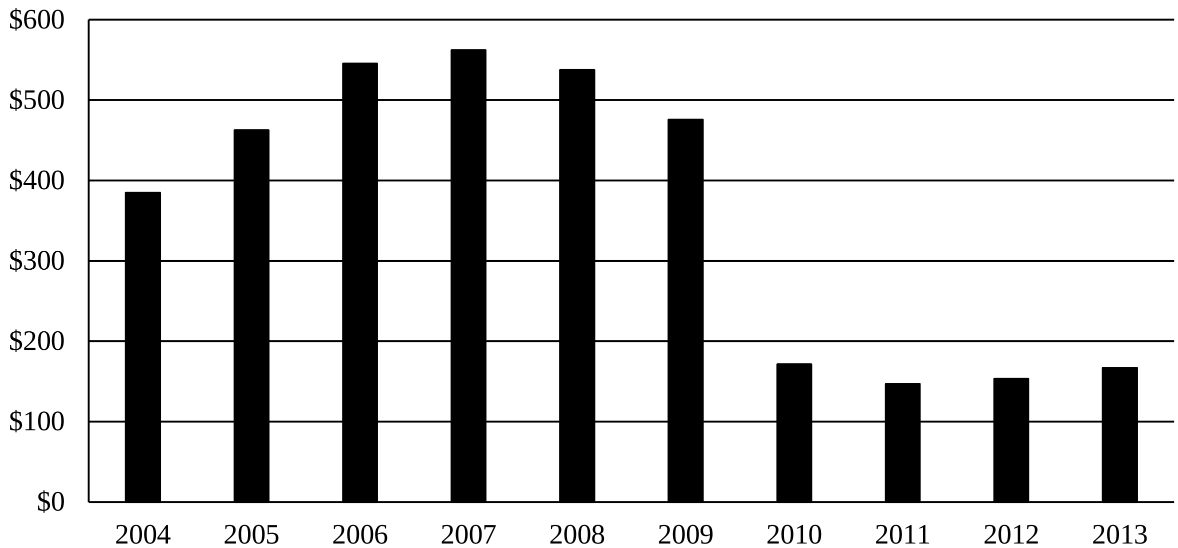
State aid to local health departments through the Targeted Funding Program totaled $60.4 million in fiscal 2004. Generally, funding through the program is adjusted annually for inflation and population growth. However, due to budget constraints, the fiscal 2010 appropriation was reduced to $37.3 million. With the exception of an additional $1.0 million to cover one-time bonuses in fiscal 2012, funding remained at $37.3 million through fiscal 2013.

County and Municipal Governments

In fiscal 2004, the State provided $635 million in grants to county and municipal governments. Over 90% of these grants supported transportation aid ($385 million), the Disparity Grant program ($106 million), and public safety ($99 million). By fiscal 2013, these grants totaled $449 million, and the three largest grants dropped to 84% of total grants. Two new grants were introduced. Video lottery terminal legislation provided gaming impact grants for communities around the facilities. This totaled $29 million in fiscal 2013. The State also awarded $28 million in Teacher Supplemental Retirement Grants in fiscal 2013.

Transportation aid is supported by a share of Transportation Trust Fund (TTF) revenues, referred to as the Highway User Fund. This grant to county and municipal governments was reduced during the Great Recession. **Exhibit 3.3** shows that State grants declined from $476 million in fiscal 2009 to $171 million in fiscal 2010.

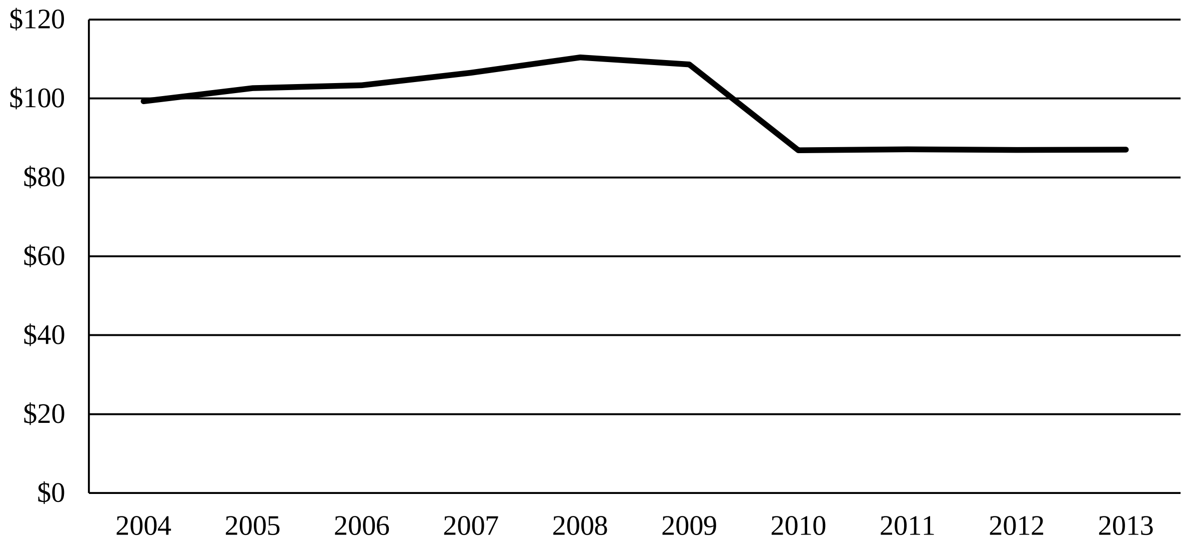
Exhibit 3.3
Transportation Aid
Fiscal 2004-2013
($ in Millions)



Source: Department of Legislative Services

Public safety aid consists of a number of grants such as the State Aid for Police Protection Fund; the Senator Amoss Fire, Rescue, and Ambulance Fund; 9-1-1 grants; domestic violence grants; and body armor grants. **Exhibit 3.4** shows that total grants declined from $109 million in fiscal 2009 to $87 million in fiscal 2010. The reduction is almost entirely attributable to a reduction in the State Aid for Police Protection Fund, which was reduced from $66 million in fiscal 2009 to $45 million in fiscal 2010.

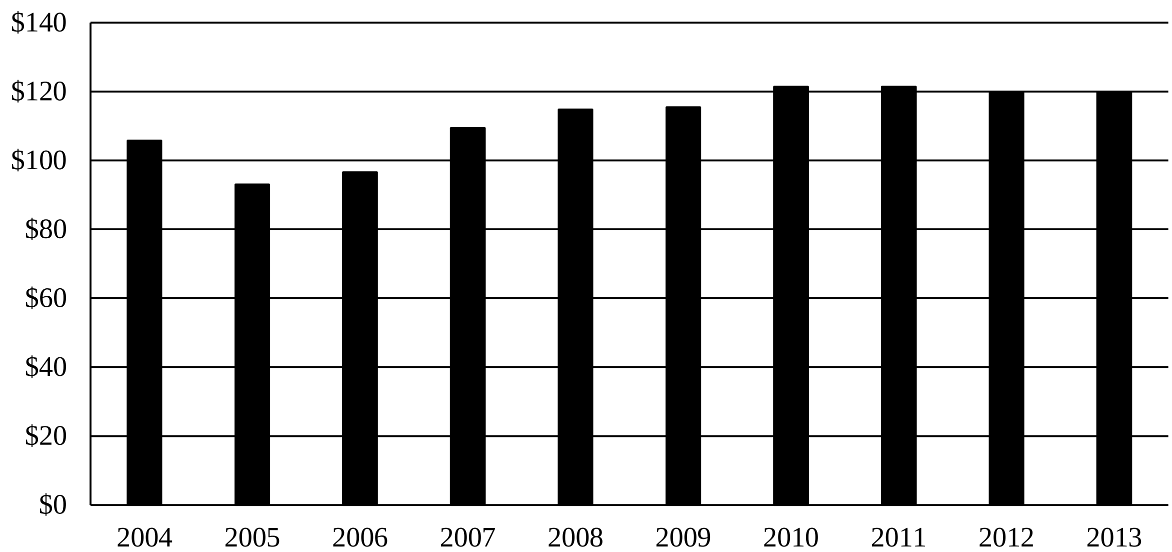
Exhibit 3.4
Public Safety Aid
Fiscal 2004-2013
($ in Millions)



Source: Department of Legislative Services

The Disparity Grant program provides noncategorical State aid to low-wealth jurisdictions for county government purposes. Disparity grants address the difference in the abilities of counties to raise revenues from the local income tax, which for most counties is one of their larger revenue sources. The amount given is defined in statute and changes from time to time. Grants are given to counties with incomes below the defined threshold. **Exhibit 3.5** shows that the program remained at approximately $120 million from fiscal 2010 to 2013. This is attributable to a cap on spending that became effective in fiscal 2010.

Exhibit 3.5
Disparity Grant
Fiscal 2004-2013
($ in Millions)



Source: Department of Legislative Services

Pay-as-you-go Capital

Spending for pay-as-you-go (PAYGO) capital, debt service, and the Reserve Fund fluctuated between fiscal 2004 and 2013. **Exhibit 3.6** shows that debt service costs increased at a rate of 5.5% annually while PAYGO capital increased at a more moderate 3.3% rate.

Exhibit 3.6
Capital, Debt Service, and Reserve Fund Appropriations
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Capital	$1,556	$2,078	$522	33.6%	3.3%
Debt Service	672	1,090	419	62.3%	5.5%
Reserve Fund	10	38	28	277.6%	15.9%
Total	**$2,237**	**$3,206**	**$968**	**43.3%**	**4.1%**

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

PAYGO Capital Spending

All funds included, the fiscal 2004 and 2013 PAYGO component of the capital program totaled $1,556 million and $2,078 million, respectively. **Exhibit 3.7** shows that spending increased by $522 million from fiscal 2004 to 2013.

Exhibit 3.7
PAYGO Capital Program
Fiscal 2004 and 2013
($ in Millions)

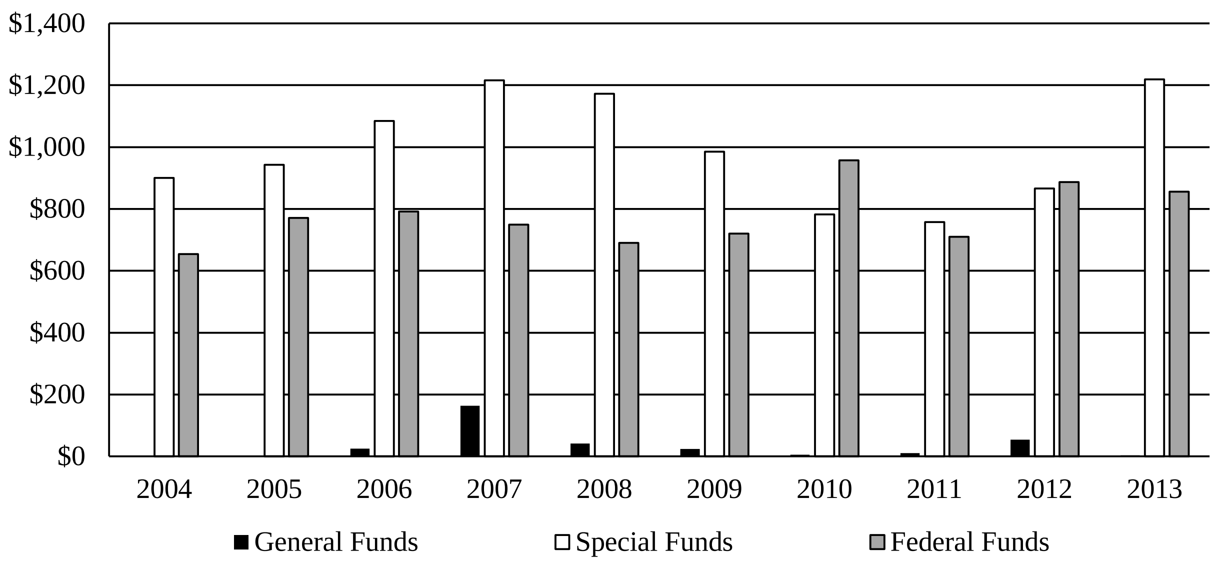
	2004	2013	Change	Total Percent Change	Annual Percent Change
General Funds	$1	$3	$2	253.6%	15.1%
Special Funds	900	1,219	318	35.4%	3.4%
Federal Funds	654	856	201	30.8%	3.0%
Total	**$1,556**	**$2,078**	**$522**	**33.6%**	**3.3%**

PAYGO: pay-as-you-go

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

In both fiscal 2004 and 2013, the fund split of the PAYGO capital program was essentially the same, as special funds were just under 60%, and federal funds were just over 40%. While general fund spending was proportionally greater in most of the intervening years, the use of general funds in fiscal 2004 and 2013 was constrained due to the fiscal climate. Further, the proportion of special funds as a part of the PAYGO capital program, mainly in the areas of agriculture and natural resources, would have been greater if not for the diversion of special fund transfer tax revenues that, absent budget reconciliation actions, would have been appropriated to capital programs. **Exhibit 3.8** shows annual spending fluctuations.

Exhibit 3.8
PAYGO Capital Spending
Fiscal 2004-2013
($ in Millions)



PAYGO: pay-as-you-go

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

Special funds accounted for $318 million of the $522 million increase. Environmental programs accounted for the greatest proportion of the increase. In fiscal 2004, funding for environmental programs totaled $35 million but grew $291 million by fiscal 2013. As a proportion of the total PAYGO capital program, environmental programs went from accounting for 4.6% in fiscal 2004 to 15.7% in fiscal 2013. A majority of this increase is attributable to (1) the establishment of the Bay Restoration Fund and doubling of the flush tax; and (2) the Water Quality and Drinking Water loan programs to assist local governments with the financing of wastewater and drinking water-related infrastructure improvements. Housing and community development programs and projects increased 118.0% from $19 million in fiscal 2004 to $40 million in fiscal 2013; a large proportion of that increase is attributable to the National Mortgage Settlement, as funds awarded to Maryland as a result of the settlement were allocated to neighborhood conservation.

Federal funds also increased. Most of the growth is attributable to federal transportation grants. Other areas receiving funding included housing and community development programs, environmental programs, and information technology projects supporting an expanded statewide broadband.

Exhibit 3.9 shows that $1.6 billion of the fiscal 2013 PAYGO appropriations supports transportation spending. This is over 75% of the total PAYGO spending.

Exhibit 3.9
PAYGO Capital Spending by Department
Fiscal 2004 and 2013
($ in Millions)

	2004	2013	Change	Total Percent Change	Annual Percent Change
Transportation	$1,378	$1,563	$185	13.4%	1.4%
Environment	73	336	263	360.4%	18.5%
Natural Resources	16	15	-2	-10.9%	-1.3%
Agriculture	24	10	-15	-60.2%	-9.7%
Housing and Community Development	38	67	29	76.0%	6.5%
Business and Economic Development	21	0	-21	-100.0%	-100.0%
Information Technology	0	51	51	n/a	n/a
Military	0	19	19	n/a	n/a
Other	5	18	12	228.7%	14.1%
Total	**$1,556**	**$2,078**	**$1,902**	**122.3%**	**3.3%**

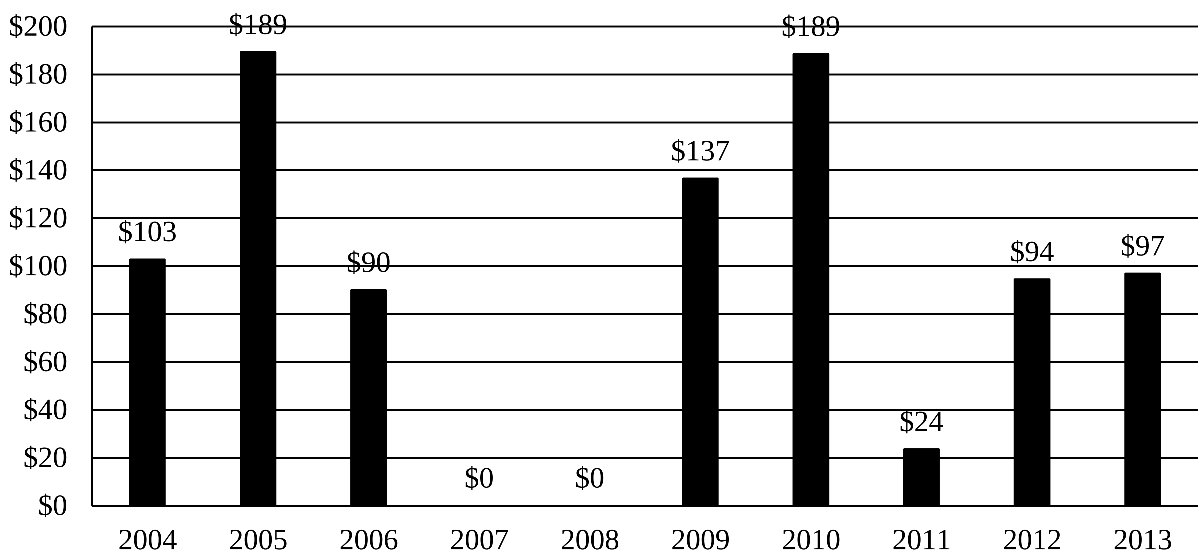
PAYGO: pay-as-you-go

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

Transfer Tax Revenue Diverted to the General Fund

When general fund revenues are deemed to be insufficient, the State transfers special fund revenue into the General Fund. This reduces the funding available for whatever those special funds supported. In recent years, one of the largest transfers was moving transfer tax revenues, which supported natural resources and agriculture programs such as Program Open Space and the Maryland Agricultural Land Preservation Fund. **Exhibit 3.10** shows that from fiscal 2004 to 2013, transfer tax revenues were moved to the General Fund in all but two fiscal years. In total, $922 million has been transferred to the General Fund. Legislation was enacted that requires that transfers made after fiscal 2005 be repaid. This has been done by authorizing general obligation (GO) bonds, often in years after the initial transfer was made. The exception is the $90 million transferred in fiscal 2006, which has seen the repayment date delayed a number of times. Current law begins repayment in fiscal 2019.

Exhibit 3.10
Transfer Tax Revenues Diverted to the General Fund
Fiscal 2004-2013
($ in Millions)



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

Debt Service

State tax supported debt includes GO bonds sold by the State Treasurer and Consolidated Transportation Bonds (CTB) sold by the Maryland Department of Transportation. GO bonds are secured by the full faith and credit of the State and are supported by property taxes and other funds, such as premiums realized at bond sales deposited into the Annuity Bond Fund (ABF). Transportation bonds are supported by pledged taxes (motor fuel taxes, vehicle excise taxes, motor vehicle registration fees, and a portion of the corporate income tax) and other TTF revenues (such as modal operating revenues). General funds may subsidize debt service costs if these funds are insufficient.

Debt service payments are impacted by the amount of debt issued; higher GO bond authorizations will increase debt service costs. Generally, the revenues supporting debt service are generated through property tax receipts that are deposited into the ABF and from taxes and fees deposited into the TTF. As such, special funds are the primary source for debt service payments. Total funds for debt service increased from $672 million to $1,090 million. The increase reflects an annual increase of approximately 5.5%.

Since the 2001 legislative session, the State has regularly increased debt authorizations to support a growing capital program. For example, during the 2003 to 2006 legislative term, $100 million was added annually to the capital budget, beginning in fiscal 2005. Similarly, during the 2004 legislative session, the statutory debt outstanding limit on CTB increased from $1.5 billion to $2.0 billion. The CTB debt limit was raised again during the 2007 special session to $2.6 billion. Between fiscal 2004 and 2007, debt service payments increased by $97 million, or 4.6%, annually. Although a substantial amount of debt was authorized during the 2003 to 2006 legislative term, the full impact of the debt service costs associated with issuing this debt was delayed due to (1) the length of time it takes to construct capital projects; and (2) the State's policy to only pay interest costs during the first two years (and delay principal payments to years 3 to 15) of the duration of the bond.

The 2007 to 2011 legislative term was affected by the Great Recession. While the first two years were characterized by substantial GO and CTB bond authorization increases, the severe recession reduced revenues, and consequently, capital spending was reduced from fiscal 2011 through 2013. Between fiscal 2008 and 2013, debt service payments increased by $279 million, or 6.1% annually. The increase in debt service costs was mainly attributed to the debt that was issued during the previous two terms.

Reserve Fund

The State Reserve Fund comprises four individual accounts: (1) Revenue Stabilization Account (Rainy Day Fund); (2) Dedicated Purpose Account; (3) Catastrophic Event Account; and (4) Economic Development Opportunities Account (Sunny Day Fund). Although the Reserve

Fund comprises four accounts, appropriations made to the Rainy Day Fund comprise the bulk of the Reserve Fund's activity.

Appropriations to the Reserve Fund are not generally driven by additional costs but rather the amount of projected general fund revenues and surplus cash reserves appropriated into the Rainy Day Fund. State law requires that if the Rainy Day Fund's balance is between 3.0% and 7.5% of projected general fund revenues, annual appropriations of at least $50 million must be made until the account balance reaches 7.5% of estimated general fund revenues. If the account balance is below 3.0%, State law requires an appropriation of at least $100 million. State law also requires that an amount equal to any unassigned general fund surplus at closeout in excess of $10 million be appropriated to the Rainy Day Fund. This is generally referred to as the sweeper provision.

Between fiscal 2004 and 2013, appropriations to the Reserve Fund fluctuated between a low of $10 million in fiscal 2004 to a high of $739 million in fiscal 2007. During this timeframe, there were multiple statutory changes to the accounts within the Reserve Fund. Of note was legislation (Chapters 51 and 52 of 2006) requiring the Rainy Day Fund to maintain an account balance of 7.5% of estimated general fund revenues. Previously, State law required that specified annual appropriations be made into the fund until the account balance reached 5.0% of estimated general fund revenues. The new objective, which was aimed at enhancing the fund's account balance, was attained briefly at the end of fiscal 2007. By fiscal 2008, funds had been withdrawn from the Rainy Day Fund, and the balance has hovered around 5.0% of estimated general fund revenues since that time. State law permits the transfer of funds from the Rainy Day Fund (by Act of the General Assembly or specific authorization in the budget bill) if the transfer results in a Rainy Day Fund balance that is at least 5.0% of projected general fund revenues.