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# **Spending Affordability Briefing**

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

**October 25, 2016**



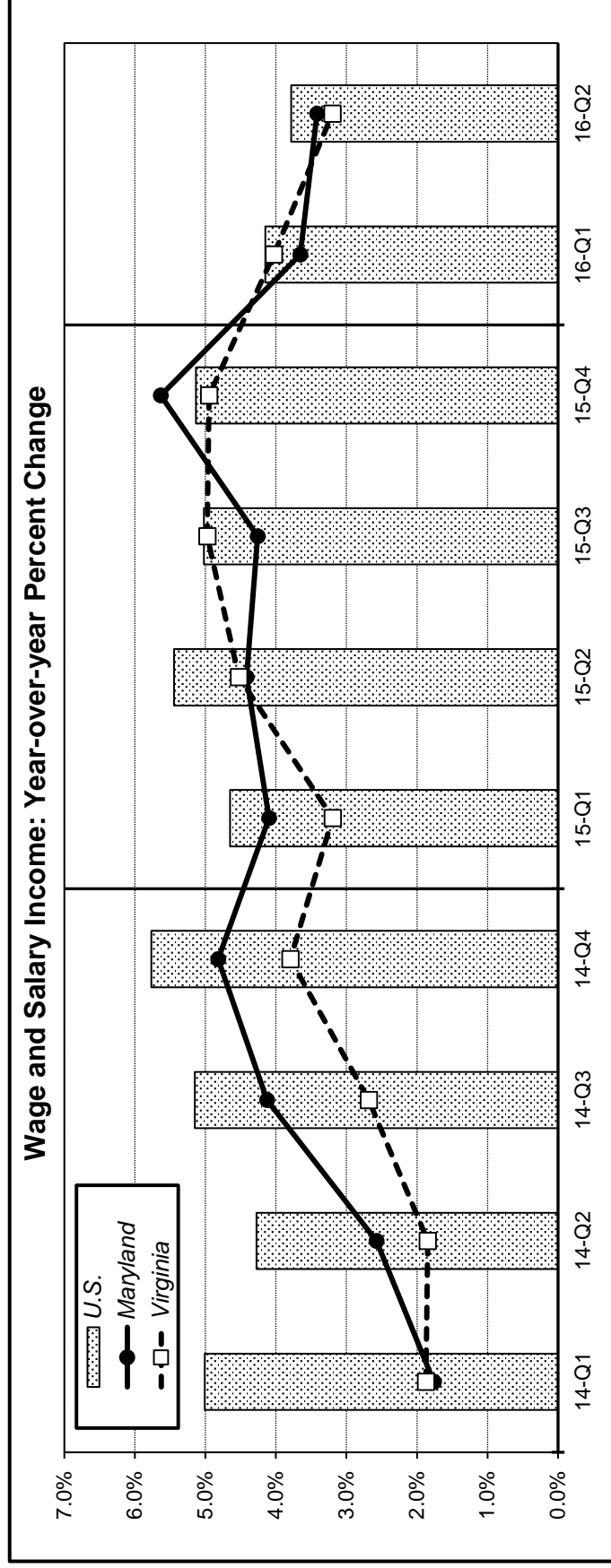
# Maryland Economic Performance

## Year-over-year Percent Change

Month-Year	Employment		Unemployment		Initial UI Claims	Existing Home Sales	Median Home Price	Vehicle Sales
	CES	QCEW	Rate	Home Sales				
Jan-16	1.7%	1.8%	4.8%	14.2%	3.0%	4.8%	-8.1%	
Feb-16	1.6%	1.6%	4.7%	21.2%	-2.3%	1.3%	12.2%	
Mar-16	2.5%	2.0%	4.7%	6.6%	-2.6%	2.3%	17.0%	
Apr-16	2.2%		4.6%	13.8%	-3.0%	5.2%	0.0%	
May-16	1.7%		4.5%	15.6%	20.8%	2.6%	11.5%	
Jun-16	2.2%		4.3%	10.8%	-2.6%	3.8%	16.1%	
Jul-16	2.3%		4.3%	-0.7%	0.3%	3.6%	-5.1%	
Aug-16	1.7%		4.3%	12.1%	15.2%	4.1%	10.3%	
Sep-16	1.6%		4.2%	6.3%	6.4%	3.8%	0.3%	

CES: Current Establishment Survey; QCEW: Quarterly Census of Employment and Wages; UI: unemployment insurance

Note: The unemployment rate is based on seasonally adjusted data. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Analytics.



## Maryland Employment and Wage Growth by Industry

	Employment: Percent Change			Wages: Percent Change			2015 % Emp.	2015 % Wage	2015 Avg. Wage
	Jan-Jun		Improved?	Jan-Jun		Improved?			
	2015	2016		2015	2016				
Total	1.5%	1.9%	Y	4.6%	3.5%		100%	100%	\$59,873
Private Sector	1.9%	2.4%	Y	5.0%	4.2%		81%	77%	\$57,036
Construction	3.0%	5.7%	Y	6.1%	10.1%	Y	6%	6%	62,625
Educational Services	1.0%	3.9%	Y	3.6%	4.0%	Y	3%	2%	47,444
Manufacturing	0.8%	2.9%	Y	4.4%	0.9%		4%	5%	74,795
Other Services*	2.0%	2.8%	Y	3.8%	3.9%	Y	4%	4%	50,361
Professional Services*	0.9%	3.0%	Y	2.8%	4.6%	Y	10%	16%	96,885
Recreation, Hotels, Restaurants	3.1%	4.4%	Y	7.3%	6.6%		10%	4%	24,932
Retail Trade	0.7%	1.3%	Y	5.5%	4.5%		11%	6%	31,591
Admin/Support/Waste Services	2.5%	0.3%		7.4%	5.8%		6%	4%	42,362
Finance, Insurance, and Real Estate	1.3%	1.3%		5.1%	1.6%		6%	8%	87,687
Health Care and Social Assistance	2.2%	1.3%		6.5%	3.5%		13%	12%	53,217
Information	-1.6%	-2.6%		-0.4%	0.7%	Y	1%	2%	86,183
Transportation and Utilities	5.3%	3.2%		8.8%	6.6%		3%	3%	60,942
Wholesale Trade	1.4%	1.0%		4.0%	0.5%		3%	4%	80,131
Federal Government	0.7%	1.3%	Y	3.8%	3.9%	Y	5%	11%	117,111 **
State and Local Government	-0.3%	-0.6%		3.6%	-0.5%		13%	12%	53,978

\* Other Services includes personal, laundry, and repair and maintenance services along with membership organizations. Professional Services includes Professional, Scientific, and Technical Services plus Management of Companies.

\*\* The average wage for the federal government is overstated because while the wage data includes an estimate of wages at classified agencies, the employment data excludes the jobs at those agencies. Both the employment and wage data excludes the uniformed military.

Source: Bureau of Labor Statistics; U.S. Department of Labor; Bureau of Economic Analysis; U.S. Department of Commerce

# Maryland Economic Forecasts

## Year-over-year Percent Change

Calendar <u>Year</u>	Employment		Personal Income*	
	<u>Dec. 2015</u>	<u>Sep. 2016</u>	<u>Dec. 2015</u>	<u>Sep. 2016</u>
2013	0.9%	0.9%	-0.2%	-0.6%
2014	0.9%	0.9%	3.8%	3.4%
2015	1.5%	1.5%	4.2%	4.1%
2016E	1.3%	1.9%	4.6%	3.7%
2017E	1.0%	1.0%	5.1%	4.4%
2018E	0.8%	0.8%	4.5%	4.6%
2019E	0.5%	0.5%	4.2%	4.2%

Calendar <u>Year</u>	Wage and Salary Income		Average Wage	
	<u>Dec. 2015</u>	<u>Sep. 2016</u>	<u>Dec. 2015</u>	<u>Sep. 2016</u>
2013	0.8%	0.8%	-0.1%	-0.1%
2014	3.4%	3.3%	2.4%	2.4%
2015	3.9%	4.6%	2.4%	3.1%
2016E	4.2%	4.0%	2.9%	2.1%
2017E	4.1%	3.9%	3.1%	2.9%
2018E	4.0%	4.0%	3.2%	3.2%
2019E	3.8%	3.8%	3.2%	3.2%

Calendar <u>Year</u>	Dividends, Interest, and Rent		Taxable Capital Gains Income**	
	<u>Dec. 2015</u>	<u>Sep. 2016</u>	<u>Dec. 2015</u>	<u>Sep. 2016</u>
2013	-2.0%	-2.5%	-15.6%	-15.6%
2014	4.3%	5.9%	24.5%	43.0%
2015	4.7%	3.5%	0.0%	-15.0%
2016E	6.8%	3.0%	1.3%	0.0%
2017E	8.9%	5.2%	3.8%	0.0%
2018E	6.9%	7.5%	6.9%	0.0%
2019E	5.5%	6.0%	6.0%	0.0%

\* The payroll tax holiday expired in calendar 2013 depressing growth in total personal income for that year. Total personal income growth in calendar 2013 was about 0.3%, excluding the impact of the tax holiday expiration.

\*\* The calendar 2014 figure is an estimate for December 2015, and calendar 2015 figures are estimates for both December 2015 and September 2016.

## Fiscal 2016 General Fund Revenues ( \$ in Millions )

<u>Source</u>	Fiscal 2016			FY 2015-2016				
	<u>Actual</u>	<u>Estimate<sup>(1)</sup></u>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>	<u>% Change</u>
Personal Income Tax	\$8,346.1	\$8,779.1	\$8,517.6	-\$261.5	-3.0%	5.2%	2.1%	2.1%
Sales and Use Tax	4,350.7	4,449.7	4,444.5	-5.2	-0.1%	2.3%	2.2%	2.2%
State Lottery	506.5	520.4	529.8	9.4	1.8%	2.7%	4.6%	4.6%
Corporate Income Tax	777.3	866.6	874.5	7.8	0.9%	11.5%	12.5%	12.5%
Business Franchise Taxes	225.7	230.4	222.0	-8.4	-3.7%	2.1%	-1.7%	-1.7%
Insurance Premiums Tax <sup>(2)</sup>	316.1	297.6	287.4	-10.2	-3.4%	-5.8%	-9.1%	-9.1%
Estate and Inheritance Taxes	243.4	251.1	261.9	10.8	4.3%	3.2%	7.6%	7.6%
Tobacco Tax	391.5	392.4	395.3	2.9	0.7%	0.2%	1.0%	1.0%
Alcohol Beverages Tax	31.3	31.5	31.9	0.4	1.4%	0.7%	2.0%	2.0%
Motor Vehicle Fuel Tax <sup>(3)</sup>	5.0	4.6	4.6	0.0	0.0%	-7.5%	-7.5%	-7.5%
District Courts	77.7	77.7	72.3	-5.4	-6.9%	0.0%	-6.9%	-6.9%
Clerks of the Court	34.4	37.6	34.2	-3.3	-8.9%	9.1%	-0.7%	-0.7%
Hospital Patient Recoveries	65.2	59.7	57.5	-2.2	-3.7%	-8.4%	-11.8%	-11.8%
Interest on Investments	10.7	11.0	15.0	4.0	36.4%	2.7%	40.1%	40.1%
Miscellaneous	396.7	323.3	334.1	10.9	3.4%	-18.5%	-15.8%	-15.8%
<b>Subtotal</b>	<b>\$15,778.4</b>	<b>\$16,332.7</b>	<b>\$16,082.6</b>	<b>-\$250.1</b>	<b>-1.5%</b>	<b>3.5%</b>	<b>1.9%</b>	<b>1.9%</b>
Transfer Tax <sup>(4)</sup>	\$144.2	\$115.4	\$115.4	\$0.0	0.0%	-20.0%	-20.0%	-20.0%
<b>Total Revenues</b>	<b>\$15,922.6</b>	<b>\$16,448.1</b>	<b>\$16,198.0</b>	<b>-\$250.1</b>	<b>-1.5%</b>	<b>3.3%</b>	<b>1.7%</b>	<b>1.7%</b>

<sup>(1)</sup> From the Board of Revenue Estimates, March 2016, with adjustments for action at the 2016 legislative session.

<sup>(2)</sup> The distribution of insurance premium tax revenue to the Maryland Health Benefit Exchange increased from \$13.0 million in fiscal 2015 to \$32.8 million in fiscal 2016 as required by the Maryland Health Progress Act of 2013 (Chapter 159). Revenues before the distribution were down 2.7% in fiscal 2016.

<sup>(3)</sup> The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) diverted \$5.0 million in motor fuel tax revenue to the General Fund that would otherwise have gone to the Chesapeake Bay 2010 Fund for fiscal 2012 through 2015 and \$4.6 million in fiscal 2016.

<sup>(4)</sup> The BRFA of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2014 (Chapter 464) increased the distribution in fiscal 2015 by \$69.1 million. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by \$37.7 million.

Note: Chapter 50 of 2015 required the Comptroller's Office to conduct a tax amnesty program from September 1, 2015, to October 30, 2015. Fiscal 2016 general fund revenues include approximately \$23.2 million from the tax amnesty, \$11.8 million more than expected.

Source: Board of Revenue Estimates

**Maryland State and Local Personal Income Tax**  
(\$ in Millions)

	<b>TY 2014</b> <b><u>Jan 2014 to Sep 2015</u></b>	<b>TY 2015</b> <b><u>Jan 2015 to Sep 2016</u></b>	<b><u>% Chng.</u></b>
Withholding	\$11,988	\$12,510	4.4%
Estimated	1,903	2,021	6.2%
<b><i>Subtotal</i></b>	<b><i>\$13,891</i></b>	<b><i>\$14,532</i></b>	<b><i>4.6%</i></b>
Payments with Returns	1,464	1,416	-3.2%
Refunds <sup>(1)</sup>	2,202	2,389	8.5%
Net Receipts	\$13,154	\$13,559	3.1%

TY: tax year

<sup>(1)</sup> TY 2014 excludes Wynne refunds, but TY 2015 would include refunds due to the use of the out-of-state tax credit against the local income tax. Refund data is not available by tax year so it is assumed that refunds in calendar 2016 are for TY 2015 and refunds in calendar 2015 were for TY 2014.

	<b>TY 2015</b> <b><u>Jan 2015 to Jun 2015</u></b>	<b>TY 2016</b> <b><u>Jan 2015 to Jun 2016</u></b>	<b><u>% Chng.</u></b>
Withholding	\$6,095	\$6,169	1.2%
Estimated	709	703	-0.8%
<b><i>Subtotal</i></b>	<b><i>\$6,803</i></b>	<b><i>\$6,872</i></b>	<b><i>1.0%</i></b>

	<b>TY 2015</b> <b><u>Jul 2015 to Sep 2015</u></b>	<b>TY 2016</b> <b><u>Jul 2016 to Sep 2016</u></b>	<b><u>% Chng.</u></b>
Withholding	\$2,528	\$2,741	8.4%
Estimated	397	495	24.4%
<b><i>Subtotal</i></b>	<b><i>\$2,925</i></b>	<b><i>\$3,235</i></b>	<b><i>10.6%</i></b>

	<b>TY 2015</b> <b><u>Jan 2015 to Sep 2015</u></b>	<b>TY 2016</b> <b><u>Jan 2016 to Sep 2016</u></b>	<b><u>% Chng.</u></b>
Withholding	\$8,623	\$8,910	3.3%
Estimated	1,106	1,198	8.2%
<b><i>Subtotal</i></b>	<b><i>\$9,729</i></b>	<b><i>\$10,107</i></b>	<b><i>3.9%</i></b>

Source: Comptroller of Maryland

## Maryland General Fund Revenue Forecast

(\$ in Millions)

Source	FY 2016	FY 2017 Estimate			% Change over FY 2016	FY 2018 Estimate	% Change over FY 2017
	Actual	March	September	\$ Difference			
Personal Income Tax	\$8,517.6	\$9,270.1	\$8,963.5	-\$306.5	-3.3%	\$9,370.4	4.5%
Sales and Use Tax	4,444.5	4,601.4	4,574.8	-26.7	-0.6%	4,725.3	3.3%
State Lottery <sup>(1)</sup>	529.8	519.5	512.7	-6.9	-1.3%	523.9	2.2%
Corporate Income Tax <sup>(2)</sup>	874.5	864.3	853.4	-10.9	-1.3%	898.2	5.3%
Business Franchise Taxes	222.0	235.2	226.4	-8.8	-3.7%	193.1	-14.7%
Insurance Premiums Tax	287.4	308.7	294.8	-13.9	-4.5%	304.6	3.3%
Estate and Inheritance Taxes	261.9	198.5	207.8	9.3	4.7%	184.8	-11.1%
Tobacco Tax	395.3	390.9	393.5	2.6	0.7%	391.9	-0.4%
Alcohol Beverages Tax	31.9	31.8	32.4	0.6	1.9%	32.8	1.4%
Motor Vehicle Fuel Tax <sup>(3)</sup>	4.6	0.0	0.0	0.0	n/a	0.0	n/a
District Courts	72.3	77.6	71.9	-5.7	-7.4%	71.9	0.0%
Clerks of the Court	34.2	39.3	36.9	-2.3	-5.9%	36.2	-1.9%
Hospital Patient Recoveries	57.5	58.3	58.3	0.0	0.0%	58.3	0.0%
Interest on Investments	15.0	20.0	20.0	0.0	0.0%	35.0	75.0%
Miscellaneous	334.1	321.9	326.0	4.1	1.3%	332.4	1.9%
<b>Subtotal</b>	<b>\$16,082.6</b>	<b>\$16,937.4</b>	<b>\$16,572.4</b>	<b>-\$365.1</b>	<b>-2.2%</b>	<b>\$17,158.8</b>	<b>3.5%</b>
Transfer Tax <sup>(4)</sup>	\$115.4	\$62.8	\$62.8	\$0.0	0.0%	\$46.0	-26.7%
<b>Total Revenues</b>	<b>\$16,198.0</b>	<b>\$17,000.2</b>	<b>\$16,635.2</b>	<b>-\$365.1</b>	<b>-2.1%</b>	<b>\$17,204.8</b>	<b>3.4%</b>

<sup>(1)</sup> Fiscal 2017 and 2018 reflect a distribution of \$1.0 million to the horse racing special fund required by The Maryland International and Preakness Stakes Incentive Act of 2016 (Chapter 727).

<sup>(2)</sup> The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) set the Transportation Trust Fund's share of the corporate income tax at 9.5% of net receipts (excluding the first 15.15%) in fiscal 2013, 19.5% in fiscal 2014 to 2016, and 17.2% for fiscal 2017 and beyond. Adjusted for this law change, baseline general fund corporate income tax revenues are expected to fall 4.8% in fiscal 2017.

<sup>(3)</sup> The BRFA of 2011 diverted \$5.0 million in motor fuel tax revenue to the General Fund that would otherwise have gone to the Chesapeake Bay 2010 Fund for fiscal 2012 through 2015 and \$4.6 million in fiscal 2016.

<sup>(4)</sup> The BRFA of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by \$37.7 million. Chapter 10 of the 2016 session reduced the distribution in fiscal 2017 by \$20.0 million and in fiscal 2018 by \$40.0 million.

Note: The estimate from March 2016 has been adjusted for actions taken at the 2016 legislative session.

Source: Board of Revenue Estimates



## Fiscal 2017 General Fund Revenues (\$ in Millions)

<u>Source</u>	<u>Fiscal Year through September</u>			<u>Full-year Estimated Growth Rate</u>	
	<u>FY 2016</u>	<u>FY 2017</u>	<u>\$ Difference</u>		<u>% Difference</u>
Personal Income Tax	\$1,572.2	\$1,753.0	\$180.8	11.5%	5.2%
Sales and Use Tax <sup>(1)</sup>	751.2	763.2	12.0	1.6%	2.9%
State Lottery	121.6	120.5	-1.1	-0.9%	-3.2%
Corporate Income Tax	189.0	165.6	-23.4	-12.4%	-2.4%
Business Franchise Taxes	44.4	44.4	0.0	-0.1%	2.0%
Insurance Premiums Tax	80.0	75.3	-4.7	-5.8%	2.6%
Estate and Inheritance Taxes	54.8	63.5	8.6	15.7%	-20.7%
Tobacco Tax	79.9	78.4	-1.5	-1.9%	-0.5%
Alcohol Beverages Tax	5.5	5.6	0.1	1.7%	1.4%
District Courts	23.0	21.5	-1.5	-6.7%	-0.6%
Clerks of the Court	13.9	14.7	0.8	5.7%	8.0%
Interest and Miscellaneous <sup>(2)</sup>	17.2	22.9	5.8	33.7%	-1.7%
<b>Total Revenues</b>	<b>\$2,952.7</b>	<b>\$3,128.5</b>	<b>\$175.7</b>	<b>6.0%</b>	<b>3.0%</b>

- The strong growth in the personal income tax is partly the result of timing issues and thus not a true reflection of the performance of the income tax. In the first three months of fiscal 2017, withholding is up 8.4% and estimated payments are up almost 24.0%.

- The strong growth in estimated payments is artificial as a significant amount of revenue that is normally booked in September was delayed and reported in October last year (fiscal 2016).

- The strong growth in withholding is due in part to the split of July withholding between the amount accrued back to June (fiscal 2016) and the amount booked in fiscal 2017. The accrual was very low resulting in significantly more revenue than normal falling in July, contributing to the large year-over-year increase.

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

<sup>(2)</sup> Includes interest on investments; hospital patient recovery revenues from Medicare, insurance, and sponsors; and general fund motor fuel tax revenue and other miscellaneous revenues.

Source: Comptroller of Maryland; State Lottery and Gaming Control Agency

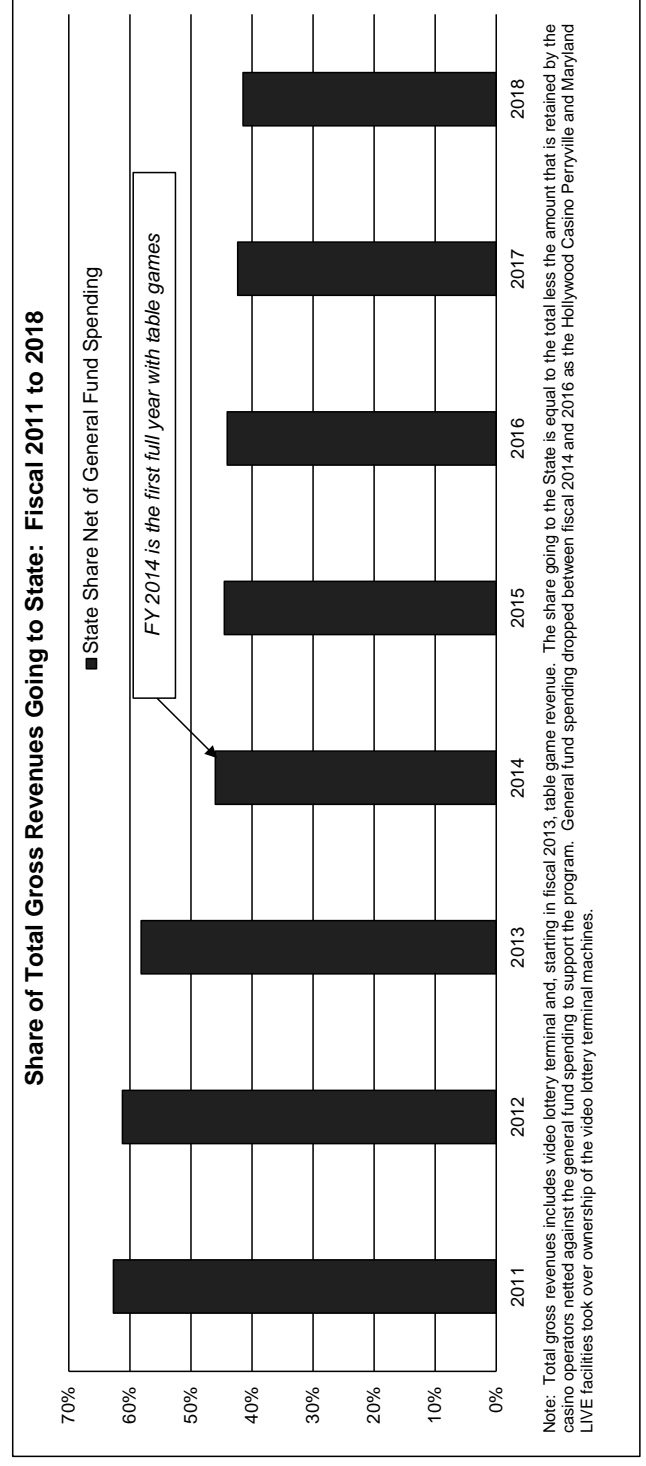
## Gaming Program Revenues and Impact on the Education Trust Fund (\$ in Millions)

	Video Lottery Terminals						
	FY 2016		FY 2017*		FY 2018		
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$312.9	\$322.0	\$9.2	\$382.8	\$376.3	-\$6.5	\$452.3
Casino Operators	295.6	304.3	8.7	408.4	402.2	-6.2	523.4
Local Impact Grants	38.6	39.7	1.1	50.2	49.2	-0.9	61.7
Small, Minority, and Women-owned Businesses	10.5	10.8	0.3	13.7	13.4	-0.3	16.8
Purse Dedication	48.7	50.1	1.4	58.0	57.0	-1.0	67.1
Race Tracks Facility Renewal Account	6.8	7.0	0.2	8.9	8.7	-0.2	11.0
State Lottery Agency	7.6	7.8	0.2	9.7	9.6	-0.1	11.9
<b>Total Gross Revenues</b>	<b>\$720.6</b>	<b>\$741.7</b>	<b>\$21.0</b>	<b>\$931.6</b>	<b>\$916.4</b>	<b>-\$15.2</b>	<b>\$1,144.3</b>

	Table Games						
	FY 2016		FY 2017*		FY 2018		
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$75.0	\$80.5	\$5.4	\$76.0	\$86.4	\$10.4	\$94.0
Casino Operators	300.1	321.8	21.8	355.0	406.5	51.6	501.3
Local Impact Grants	0.0	0.0	0.0	12.7	15.2	2.5	31.3
<b>Total Gross Revenues</b>	<b>\$375.1</b>	<b>\$402.3</b>	<b>\$27.2</b>	<b>\$443.7</b>	<b>\$508.2</b>	<b>\$64.5</b>	<b>\$626.6</b>

\* The Board of Revenue Estimates' forecast assumes the Prince George's County facility will open in January 2017.

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates



**General Fund: Recent History and Outlook**  
**Fiscal 2016-2018**  
**(\$ in Millions)**

	<u>2016</u> <u>Actual</u>	<u>2017</u> <u>Working</u>	<u>2018</u> <u>Baseline</u>
<b>Funds Available</b>			
Ongoing Revenues	\$16,216	\$16,667	\$17,237
Balances and Transfers	325	385	0
<b>Total Funds Available</b>	<b>\$16,541</b>	<b>\$17,051</b>	<b>\$17,237</b>
<b>Appropriations, Deficiencies, and Cost Containment</b>			
Net Ongoing Operating Costs and Deficiencies	\$16,249	\$17,074	\$17,576
One-time Spending	41	46	0
One-time Spending/Reductions	-236	-88	0
Pay-as-you-go Capital	17	70	47
Appropriations to Reserve Fund	85	235	100
<b>Total Spending</b>	<b>\$16,156</b>	<b>\$17,338</b>	<b>\$17,723</b>
<b>Cash Balance/Shortfall</b>	<b>\$385</b>	<b>-\$287</b>	<b>-\$486</b>
<b>Structural</b>			
<b>Balance</b> (Ongoing Revenues Less Operating Costs)	<b>-\$33</b>	<b>-\$408</b>	<b>-\$339</b>
<b>Ratio</b> (Ongoing Revenues/Operating Costs)	<b>99.8%</b>	<b>97.6%</b>	<b>98.1%</b>
<b>Reserve Fund Activity</b>			
Appropriations to Rainy Day Fund	\$50	\$235	\$50
Transfers to General Fund	0	0	0
<b>Estimated Rainy Day Fund Balance – June 30</b>	<b>\$832</b>	<b>\$999</b>	<b>\$1,059</b>
<b>Total Cash (Rainy Day Fund and General Fund Balance)</b>	<b>\$1,217</b>	<b>\$712</b>	<b>\$573</b>
<b>Rainy Day Fund Balance In Excess of 5%</b>	<b>\$22</b>	<b>\$167</b>	<b>\$199</b>

## Fiscal 2017 Fund Balance Reconciliation (\$ in Millions)

<b>Estimated Ending Fund Balance (July 2016)</b>	<b>\$363.3</b>
 <b>Revenues</b>	
Fiscal 2016 Closeout	-\$250.5
September 2016 BRE Revisions	-365.1
Higher Than Expected Tax Credit Reimbursements	14.4
<b><i>Subtotal</i></b>	<b>-\$601.2</b>
 <b>Spending</b>	
Fiscal 2016 Closeout Reversions	\$83.7
Targeted Fiscal 2017 Reversions	87.7
Estimated Fiscal 2017 Deficiencies	-220.5
<b><i>Subtotal</i></b>	<b>-\$49.1</b>
 <b>Estimated Closing Fund Balance (October 2016)</b>	 <b>-\$287.0</b>

BRE: Board of Revenue Estimates

**Potential Fiscal 2017 General Fund Deficiencies**  
**(\$ in Millions)**

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<b>Medicaid:</b> Fiscal 2016 behavioral health costs carried into fiscal 2017 primarily for substance use disorder services (\$10.7 million) and fiscal 2017 deficiencies (\$113.3 million).	\$124.1
<b>Long-term Liabilities:</b> Developmental Disabilities Administration federal fund audit disallowance for residential habilitation services (\$30.3 million) and Department of Human Resources Temporary Assistance for Needy Families shortfall (\$9.8 million).	40.1
<b>Department of Human Resources:</b> Underattainment of federal funds throughout the department based on the most recent actuals.	29.1
<b>Other Operating Expenses:</b> Fiscal 2016 costs carried into fiscal 2017 (\$6.9 million) and fiscal 2017 deficiencies (\$8.5 million).	15.4
<b>Maryland State Department of Education:</b> Child care subsidy costs based on revised federal reimbursement methodology.	12.2
<b>Public Safety and Correctional Services:</b> Cell phone managed access system (\$6.7 million) and State Law Enforcement Officers Labor Alliance collective bargaining costs (\$1.0 million).	7.7
<b>Behavioral Health Administration:</b> Service costs for the uninsured.	3.5
<b>Impact of 2016 Legislation</b>	3.0
<b>Anticipated Fiscal 2017 Savings:</b> Department of Juvenile Services lower per diem placements (\$9.0 million) and Developmental Disabilities Administration lower program costs based on most recent actuals (\$5.6 million).	-14.6
<b>Total Deficiencies</b>	<b>\$220.5</b>

# Fiscal 2018 Baseline Budget Forecast Assumptions

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## Baseline Budget Concepts

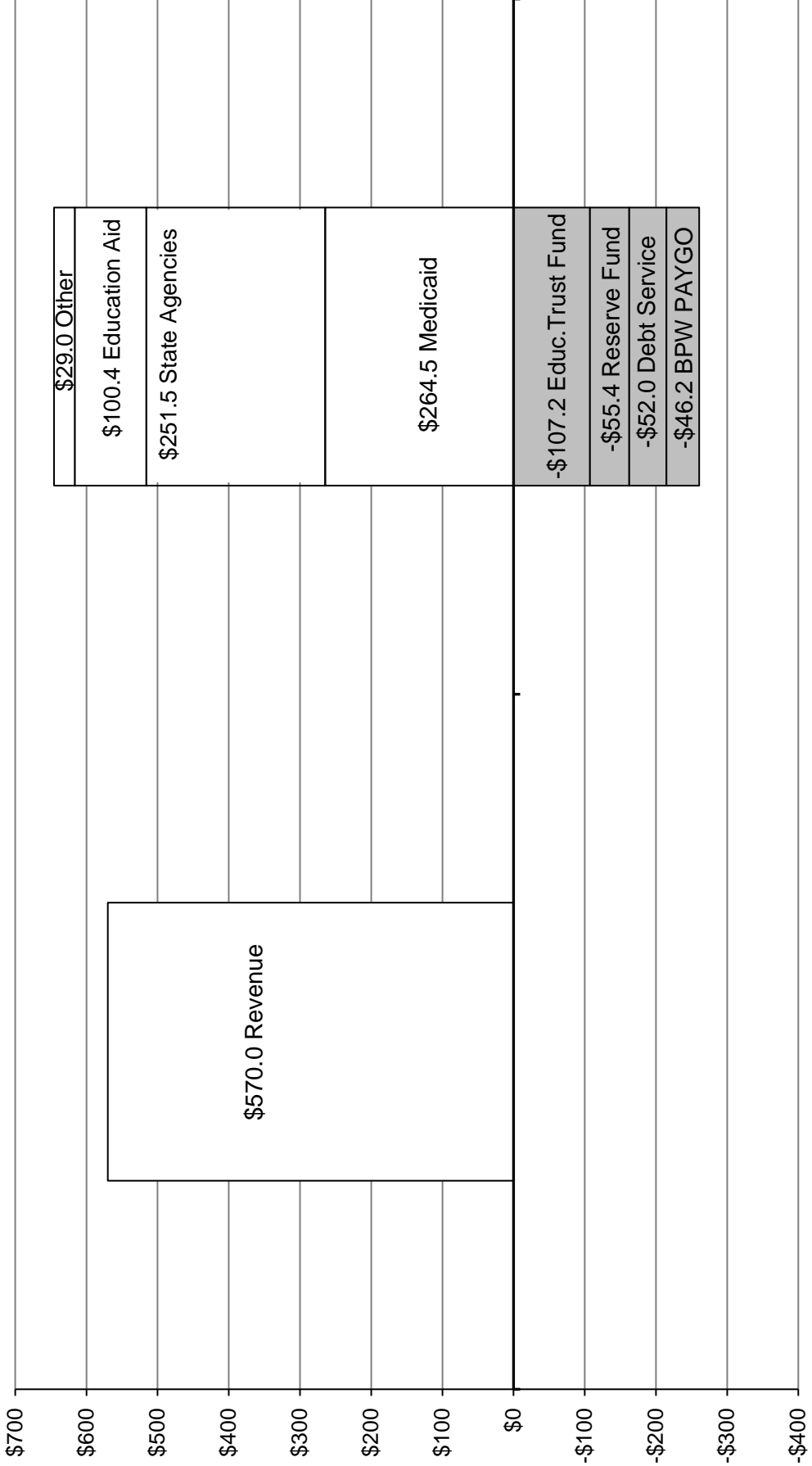
- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions.
- Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.
- Major inflation assumptions include natural gas (6.7%), gas/oil (6.1%), medical care and medicine/drugs at State facilities (3.4%), utilities/electricity (2.8%), postage (2.6%), and food (2.3%).
- Employee compensation costs include:
  - a general salary increase of 1.0% effective July 2017, and funding for employee increments on the regular July-January schedule;
  - employee and retiree health insurance inflation (4.3%); and
  - employee retirement costs (0.4%).
- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

## Caseload Assumptions

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>% Change FY 2017-2018</u>
Pupil Enrollment*	842,229	845,861	853,173	0.9%
Medicaid	853,863	899,028	916,410	1.9%
Children's Health	134,931	148,424	152,877	3.0%
Expansion under Affordable Care Act	233,128	282,084	290,547	3.0%
Temporary Cash Assistance	56,115	51,649	48,950	-5.2%
Foster Care/Adoption/Guardianship	13,410	13,238	13,068	-1.3%
Adult Prison Population	20,576	20,642	20,642	0.0%

\* Data for fiscal 2016, 2017, and 2018 reflect September 2014, September 2015, and September 2016 (est.) full-time equivalent enrollments.

**Large One-time Offsets in Fiscal 2018 Mask the Fact that  
Ongoing Budget Growth  
Continues to Outpace Ongoing Revenue Growth  
(\$ in Millions)  
Fiscal 2017-2018**



BPW: Board of Public Works  
PAYGO: pay-as-you-go

## State Expenditures – General Funds (\$ in Millions)

<b>Category</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2017-2018</b>	
	<b>Working Appropriation</b>	<b>Legislative Appropriation</b>	<b>Baseline</b>	<b>\$ Change</b>	<b>% Change</b>
Debt Service	\$252.4	\$283.0	\$231.0	-\$52.0	-18.4%
County/Municipal	254.7	265.1	278.1	13.1	4.9%
Community Colleges	297.5	314.3	320.7	6.4	2.0%
Education/Libraries	5,827.5	5,925.6	5,918.8	-6.8	-0.1%
Health	45.7	49.5	53.4	3.9	7.9%
<b>Aid to Local Governments</b>	<b>\$6,425.3</b>	<b>\$6,554.5</b>	<b>\$6,571.0</b>	<b>\$16.5</b>	<b>0.3%</b>
Foster Care Payments	\$185.2	\$177.8	\$182.8	\$5.0	2.8%
Assistance Payments	61.9	68.2	53.1	-15.1	-22.1%
Medical Assistance	2,646.4	2,926.5	3,315.1	388.6	13.3%
Property Tax Credits	81.5	85.7	78.7	-7.0	-8.2%
<b>Entitlements</b>	<b>\$2,974.9</b>	<b>\$3,258.2</b>	<b>\$3,629.7</b>	<b>\$371.5</b>	<b>11.4%</b>
Health	\$1,316.3	\$1,377.3	\$1,453.0	\$75.7	5.5%
Human Resources	359.0	382.2	414.8	32.6	8.5%
Children's Cabinet Interagency Fund	22.5	17.3	20.4	3.1	18.0%
Juvenile Services	272.5	285.5	286.6	1.1	0.4%
Public Safety/Police	1,479.2	1,525.9	1,580.0	54.1	3.5%
Higher Education	1,348.9	1,426.7	1,510.7	83.9	5.9%
Other Education	411.5	427.7	466.4	38.7	9.0%
Agriculture/Natural Res./Environment	113.4	123.6	131.2	7.6	6.2%
Other Executive Agencies	673.3	680.4	712.1	31.7	4.7%
Judiciary	452.9	481.7	500.4	18.7	3.9%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$6,534.0</b>	<b>\$6,817.5</b>	<b>\$7,165.4</b>	<b>\$347.9</b>	<b>5.1%</b>
Anticipated Deficiencies <sup>(1)</sup>	\$41.3	\$220.5	\$0.0	-\$220.5	n/a
<b>Total Operating</b>	<b>\$16,227.9</b>	<b>\$17,133.7</b>	<b>\$17,597.1</b>	<b>\$463.3</b>	<b>2.7%</b>
Capital <sup>(2)</sup>	\$26.5	\$79.1	\$55.6	-\$23.5	-29.7%
<b>Subtotal</b>	<b>\$16,254.4</b>	<b>\$17,212.8</b>	<b>\$17,652.7</b>	<b>\$439.9</b>	<b>2.6%</b>
Reserve Funds	\$72.5	\$155.4	\$100.0	-\$55.4	-35.6%
<b>Appropriations</b>	<b>\$16,326.9</b>	<b>\$17,368.2</b>	<b>\$17,752.7</b>	<b>\$384.5</b>	<b>2.2%</b>
Reversions	-\$87.0	-\$30.0	-\$30.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$16,239.9</b>	<b>\$17,338.2</b>	<b>\$17,722.7</b>	<b>\$384.5</b>	<b>2.2%</b>

<sup>(1)</sup> Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes \$207.3 million in deficiencies and \$371.6 million in targeted reversions. The fiscal 2017 legislative appropriation reflects language restrictions of \$137.6 million of which \$49.6 million is expected to be spent by the Governor for a net anticipated reversion of \$88.0 million.



# State Expenditures – State Funds

## (\$ in Millions)

<u>Category</u>	FY 2016	FY 2017	FY 2018 <u>Baseline</u>	FY 2017-2018	
	<u>Working Appropriation</u>	<u>Legislative Appropriation</u>		<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$1,402.0	\$1,485.6	\$1,581.0	\$95.4	6.4%
County/Municipal	534.7	607.1	667.9	60.8	10.0%
Community Colleges	297.5	314.3	320.7	6.4	2.0%
Education/Libraries	6,215.4	6,384.5	6,484.9	100.4	1.6%
Health	45.7	49.5	53.4	3.9	7.9%
<b>Aid to Local Governments</b>	<b>\$7,093.2</b>	<b>\$7,355.4</b>	<b>\$7,526.8</b>	<b>\$171.5</b>	<b>2.3%</b>
Foster Care Payments	\$190.1	\$180.0	\$187.1	\$7.1	3.9%
Assistance Payments	78.5	81.5	64.4	-17.1	-21.0%
Medical Assistance	3,644.9	3,873.2	4,265.5	392.3	10.1%
Property Tax Credits	81.5	85.7	78.7	-7.0	-8.2%
<b>Entitlements</b>	<b>\$3,994.9</b>	<b>\$4,220.5</b>	<b>\$4,595.8</b>	<b>\$375.3</b>	<b>8.9%</b>
Health	\$1,804.7	\$1,895.3	\$1,926.8	\$31.6	1.7%
Human Resources	449.6	480.3	515.4	35.1	7.3%
Children's Cabinet Interagency Fund	22.5	17.3	20.4	3.1	18.0%
Juvenile Services	277.4	289.4	290.4	1.0	0.4%
Public Safety/Police	1,700.9	1,750.7	1,810.0	59.3	3.4%
Higher Education	5,557.1	5,716.9	5,867.7	150.8	2.6%
Other Education	471.5	494.6	533.1	38.5	7.8%
Transportation	1,766.1	1,807.2	1,913.8	106.6	5.9%
Agriculture/Natural Res./Environment	366.7	403.1	430.5	27.4	6.8%
Other Executive Agencies	1,360.7	1,382.5	1,395.0	12.5	0.9%
Judiciary	517.6	541.0	558.1	17.1	3.2%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$14,379.2</b>	<b>\$14,867.3</b>	<b>\$15,351.0</b>	<b>\$483.7</b>	<b>3.3%</b>
Anticipated Deficiencies <sup>(1)</sup>	\$35.9	\$230.7	\$0.0	-\$230.7	-100.0%
<b>Total Operating</b>	<b>\$26,905.2</b>	<b>\$28,159.5</b>	<b>\$29,054.6</b>	<b>\$895.1</b>	<b>3.2%</b>
Capital <sup>(2)</sup>	\$1,861.2	\$2,043.6	\$2,127.6	\$84.0	4.1%
– Transportation	1,580.3	1,650.8	1,760.5	109.6	6.6%
– Environment	193.7	220.1	165.0	-55.1	-25.0%
– Other	87.1	172.7	202.1	29.5	17.1%
<b>Subtotal</b>	<b>\$28,766.3</b>	<b>\$30,203.0</b>	<b>\$31,182.2</b>	<b>\$979.2</b>	<b>3.2%</b>
Reserve Funds	\$72.5	\$155.4	\$100.0	-\$55.4	-35.6%
<b>Appropriations</b>	<b>\$28,838.8</b>	<b>\$30,358.4</b>	<b>\$31,282.2</b>	<b>\$923.8</b>	<b>3.0%</b>
Reversions	-\$87.0	-\$30.0	-\$30.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$28,751.8</b>	<b>\$30,328.4</b>	<b>\$31,252.2</b>	<b>\$923.8</b>	<b>3.0%</b>

<sup>(1)</sup> Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes \$200.5 million in deficiencies and \$371.6 million in targeted reversions. The fiscal 2017 legislative appropriation reflects language restrictions of \$170.1 million of which \$76.6 million is expected to be spent by the Governor for a net anticipated reversion of \$93.5 million.

## Components of General Fund Budget Change (\$ in Millions)

Summary of Budget Growth Compared to Legislative Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$336.0	49.1%
State Agency Costs	347.9	50.9%
<b>Growth in Operating Budget, Including Anticipated Deficiencies</b>	<b>\$683.9</b>	
Pay-as-you-go (PAYGO)	-\$23.5	
Appropriation to Reserve Fund	-55.4	
<b>Total Baseline Increase in State Expenditures</b>	<b>\$605.0</b>	
Deficiency Appropriations	-\$220.5	
<b>Total</b>	<b>\$384.5</b>	

### Ongoing Requirements/Entitlements

#### Impact of 2016 Legislation

Chapter 740 – Teacher Induction, Retention, and Advancement	\$8.2
Chapter 32 – Public Schools Opportunities Advancement	7.5
Chapter 738 – Additional Disparity Grant	5.3
Chapter 33 – Next Generation Scholars	4.9
Chapter 683 – Preschool Development Grants	3.7
Chapter 714 – Enoch Pratt Free Library	3.0
Chapter 696 – Food Stamp State Supplement	2.9
Chapter 516 – Internet Crimes Against Children Task Force	2.0
Chapter 549 – Regional, State, and County Library Funding	0.8
Chapter 519 – Community Law Enforcement Fund	0.5
Chapter 681 – Robotics Grant	0.3

#### Other Changes

Medical Assistance	\$388.6
Education Aid Formulas	8.8
Community College Formula Plus Miscellaneous Grants	6.4
Disparity Grant Formula	5.6
Foster Care Payments – Caseload trends versus appropriation (\$2.2 million) and provider rate increase (\$2.8 million)	5.0
Local Health Department Funding	3.9
Library Aid Formulas	1.2
Other Aid	-0.4
Property Tax Credit Programs	-7.0
Assistance Payments – Declining enrollment trends	-17.9
Teachers and Librarians Retirement Payments	-45.2
Debt Service – Available bond premiums reduce need for general funds to supplement property tax revenues	-52.0

### State Agency Costs

#### Statewide Personnel Expenses (Excluding Higher Education)

Merit Pay (increments) Including Fiscal 2017 Annualization	\$51.2
General Salary Increase (1.0%)	21.3
Health Insurance	14.1
Employee Retirement	3.8

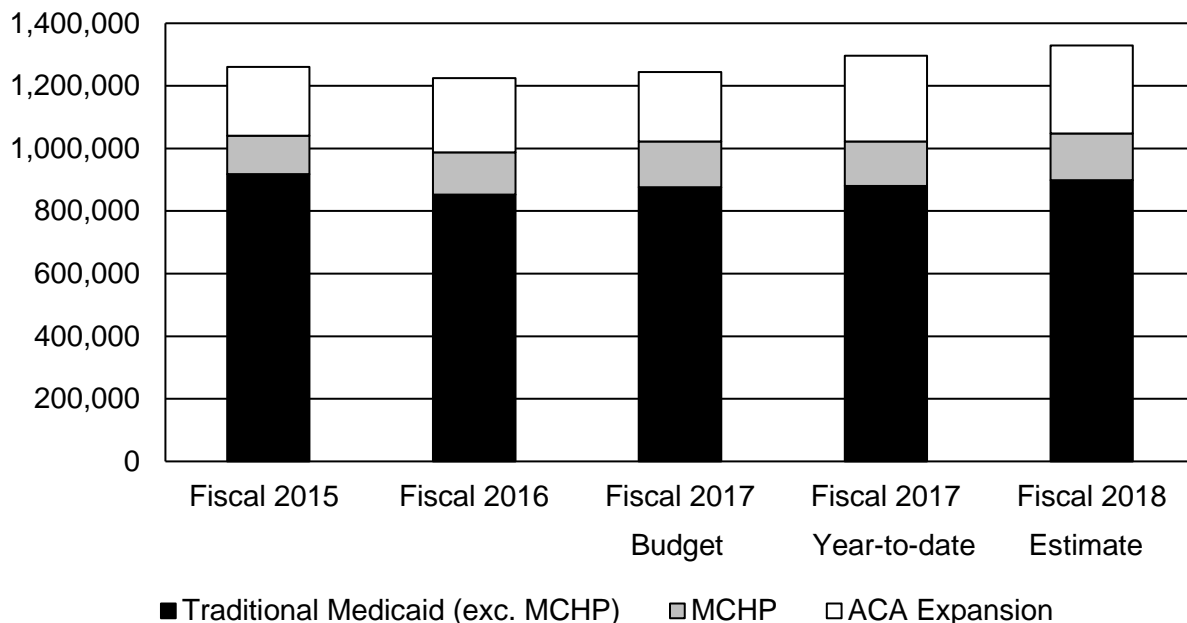
## Components of Budget Change (cont.)

<b>Impact of 2016 Legislation</b>	
Chapter 13 – Prince George’s County Regional Medical Center	\$15.0
Chapter 25 – University of Maryland Strategic Partnership	10.0
Chapter 515 – Justice Reinvestment Act (including 104 full-time equivalent (FTE) regular positions)	6.3
Chapter 10 – Grant for Next Generation Farmland Acquisition Program	5.0
Chapter 689 – State matching contribution under the College Affordability Act	5.0
Chapter 654 – Maryland Corps Program	1.8
Chapter 713 – Morgan State University Office of Technology Transfer	1.0
Chapter 91 – New judges and associated staff (12 FTE regular positions)	0.9
<b>Significant Fiscal 2017 Deficiencies Carried Over into Fiscal 2018</b>	<b>\$38.7</b>
<b>Other Major Agency Programmatic and Operating Expenses</b>	
University System of Maryland – General funds required to cover growth in base costs not provided for through tuition and Higher Education Investment Fund (HEIF) revenue	\$71.1
Developmental Disabilities Administration – Mandated 3.5% provider rate increase (\$20.5 million), fiscal 2018 expansion (\$10.1 million), and annualization of fiscal 2017 expansion (\$9.2 million)	39.9
Maryland State Department of Education – Additional child care subsidies based on change in federal authorization	9.5
Major Information Technology Projects	8.3
Maryland Higher Education Commission – Educational Excellence Awards	5.6
Sellinger Formula for Aid to Private Colleges and Universities	5.4
Subcabinet Fund Competitive Funding	3.1
Archives – Lower special fund support for land records	3.0
Department of Natural Resources – Park Service mandated funding	1.9
Behavioral Health Administration – Behavioral health services for the uninsured	1.8
Morgan State University – General funds required to cover growth in base costs not provided for through tuition and HEIF revenue	1.4
Department of State Police – Backfill of Section 20 reduction	1.1
Department of Juvenile Services – Provider rate increase	1.0
Department for Public Safety and Correctional Services – Cell Phone Managed Access maintenance	1.0
Maryland School for the Deaf Formula Adjustment	0.9
St. Mary’s College of Maryland – Elimination of one-time grant	-1.1
Baltimore City Convention Center Operating Subsidy	-1.2
Rural Maryland Council – Elimination of one-time grant	-2.0
General Fund Support for Video Lottery Terminal operations	-2.3
Department of Health and Mental Hygiene – Removal of privatization contracts	-3.7
Enterprise Budget System costs	-6.3
Other	35.6
<b>Reserve Fund and PAYGO</b>	
<b>Impact of 2016 Legislation</b>	
PAYGO – Chapter 29 – Baltimore Regional Neighborhood Initiative	\$12.0
PAYGO – Chapter 31 – Seed Community Development Anchor Institution Fund	5.0
PAYGO – Chapter 30 – Strategic Demolition and Smart Growth Impact Fund (increase over fiscal 2017)	4.1
PAYGO – Chapter 698/699 – Shelter and Transitional Housing Facilities Grant	3.0
<b>Other Changes</b>	
PAYGO – Reduction of one-time PAYGO funding (\$46.2 million) and other changes (\$1.4 million)	-\$47.6
Rebuild of reserve fund to fund \$50.0 million for the Rainy Day Fund per statute and \$50.0 million pension sweeper	-55.4
<b>Total</b>	<b>\$605.0</b>

## Increased Managed Care Organization Rates and Higher Behavioral Health Costs Drive a Projected Fiscal 2017 Medicaid Deficit and Growth in Fiscal 2018

- Medicaid’s fiscal 2017 general fund deficiencies are estimated at \$124.1 million.
- On the somatic health side, deficits are estimated at \$93.4 million. The primary driver of this deficit is managed care organization (MCO) rates. Specifically, a mid-year increase of 3.7% brought the total calendar 2016 MCO rate increase to 11.0%. Calendar 2017 MCO rates are scheduled to grow at 1.1%. However, rates for the population groups for which the State has a greater financial responsibility increase by an estimated 4.7%.
- Behavioral health deficits total \$30.7 million, \$10.7 million attributed to fiscal 2016 and \$20.0 million to fiscal 2017. These deficits are attributed to higher than anticipated expenditures for substance use disorder (SUD) treatment. Fiscal 2016 was the first full year of expenditures for SUD treatment under fee-for-service (FFS) rather than through MCOs.

### Medicaid Enrollment Bounces Back from the Effects of Redeterminations in Fiscal 2016 However, the Budgetary Impact Is Modest Fiscal 2015-2018



ACA: Affordable Care Act

MCHP: Maryland Children’s Health Program

- Projected enrollment for fiscal 2017 is considerably higher than that budgeted for, reflecting a quicker than expected bounce-back in enrollment from the impact of redetermination. However, the fiscal impact of this growth is reduced because most of the growth is in enrollment categories for which the State share of payments is low. Further, enrollment in expensive eligibility categories (e.g., disabled adults) has been revised down, and more enrollees are being served through MCOs rather than FFS, which tends to lower overall costs.
- Medicaid spending in fiscal 2018 is anticipated to grow by just under \$1.5 billion, 14.7% over the fiscal 2017 legislative appropriation. Growth over the fiscal 2017 estimate is more modest, \$464 million, or 4.2%. Most of the growth is in federal funds, reflecting both increased enrollment and service expenditures in eligibility groups with large federal support.
- General fund growth in fiscal 2018 is expected to be \$388.7 million, or 13.3% above the legislative appropriation, or \$273.0 million, or 9.0%, above the fiscal 2017 estimate.

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**Fiscal 2017 Deficiencies Add to an Increased Demand for  
General Fund Support in Fiscal 2018 Compared to  
Fiscal 2017 Appropriations**  
Fiscal 2016-2018  
(\$ in Millions)

	<u>2016</u>	<u>2017 Budget</u>	<u>2017 Est.</u>	<u>2018 Baseline</u>
General Funds	\$2,631.9	\$2,926.5	\$3,042.1	\$3,315.2
Special Funds	1,001.9	946.8	948.3	950.5
Federal Funds	5,948.4	6,029.4	6,912.5	7,101.2
Reimbursable Funds	68.9	57.7	57.7	57.7
<b>Total</b>	<b>\$9,651.1</b>	<b>\$9,960.3</b>	<b>\$10,960.6</b>	<b>\$11,424.4</b>

Source: Department of Legislative Services

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- Compared to the fiscal 2017 legislative appropriation, \$113.4 million of the projected general fund growth in Medicaid in the fiscal 2018 baseline is due to fiscal 2017 deficiencies that carry over into fiscal 2018. Other key cost drivers include the full impact of the calendar 2017 MCO rate increase, the assumption of a 3.1% calendar 2018 MCO rate increase due to the expiration of a one-year moratorium on an insurer fee imposed under the Affordable Care Act (ACA), accommodating the first full fiscal year of the State's growing share of the costs associated with the ACA expansion population, modest rate increases for FFS providers, and accommodating projecting enrollment growth of 2.3%.

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

	<b>FY 2018</b>	
	<b><u>State Aid Amount</u></b>	<b><u>% of Total</u></b>
Public Schools	\$6,412.8	85.1%
County/Municipal	667.9	8.9%
Community Colleges	320.7	4.3%
Libraries	78.2	1.0%
Local Health	53.4	0.7%
<b>Total</b>	<b>\$7,532.9</b>	<b>100.0%</b>

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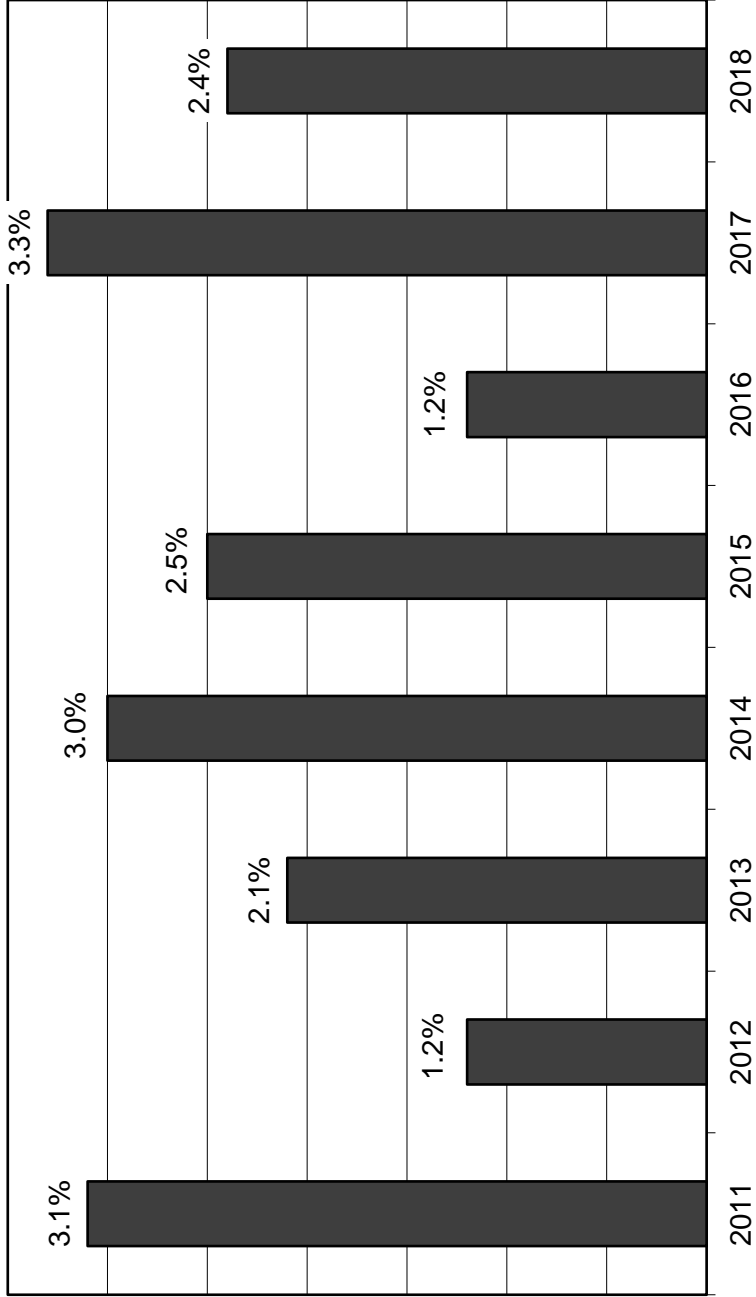
**Change in State Aid**  
**State Funds**  
**(\$ in Millions)**

	<b>FY 2018</b>	
	<b><u>Aid Change</u></b>	<b><u>% Change</u></b>
Public Schools	\$102.5	1.6%
County/Municipal	60.8	10.0%
Community Colleges	6.4	2.0%
Libraries	4.2	5.6%
Local Health	3.9	7.9%
<b>Total</b>	<b>\$177.8</b>	<b>2.4%</b>

**State Aid by Major Programs**  
**Fiscal 2016-2018**  
**State Funds**  
**(\$ in Millions)**

	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018 Baseline</u>	<u>FY 2017-2018 \$ Change</u>	<u>FY 2017-2018 % Change</u>
<b>Public Schools</b>					
Foundation Program	\$2,947.1	\$2,962.0	\$3,006.3	\$44.3	1.5%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	68.1	136.9	139.1	2.2	1.6%
Net Taxable Income Education Grants	23.8	39.7	50.9	11.2	28.2%
Foundation – Special Grants	0.1	19.4	0.0	-19.4	-100.0%
Compensatory Aid	1,305.1	1,309.1	1,362.2	53.1	4.1%
Student Transportation	266.2	270.8	275.7	4.9	1.8%
Special Education – Formula Aid	276.0	279.6	283.8	4.2	1.5%
Special Education – Nonpublic Placements	130.5	126.6	126.1	-0.5	-0.4%
Limited English Proficiency Grants	217.2	227.0	246.1	19.1	8.4%
Guaranteed Tax Base	53.8	54.5	52.1	-2.4	-4.5%
Aging Schools Program	6.1	0.0	6.1	6.1	
Head Start/Pre-kindergarten	6.1	6.1	9.8	3.7	60.2%
Other Education Programs	74.4	64.5	85.1	20.6	31.9%
<b>Subtotal Direct Aid</b>	<b>\$5,421.1</b>	<b>\$5,543.0</b>	<b>\$5,689.8</b>	<b>\$146.9</b>	<b>2.6%</b>
Retirement Payments	\$729.3	\$767.3	\$722.9	-\$44.3	-5.8%
<b>Total Public School Aid</b>	<b>\$6,150.4</b>	<b>\$6,310.2</b>	<b>\$6,412.8</b>	<b>\$102.5</b>	<b>1.6%</b>
<b>Libraries</b>					
Library Aid Formula	\$35.4	\$36.4	\$40.7	\$4.3	11.9%
State Library Network	16.6	17.0	17.7	0.7	4.1%
<b>Subtotal Direct Aid</b>	<b>\$52.0</b>	<b>\$53.4</b>	<b>\$58.4</b>	<b>\$5.0</b>	<b>9.4%</b>
Retirement Payments	\$19.7	\$20.7	\$19.8	-\$0.8	-4.1%
<b>Total Library Aid</b>	<b>\$71.7</b>	<b>\$74.0</b>	<b>\$78.2</b>	<b>\$4.2</b>	<b>5.6%</b>
<b>Community Colleges</b>					
Community College Formula	\$222.7	\$234.4	\$242.3	\$7.9	3.4%
Other Programs	31.4	33.5	34.0	0.5	1.4%
<b>Subtotal Direct Aid</b>	<b>\$254.1</b>	<b>\$267.9</b>	<b>\$276.2</b>	<b>\$8.4</b>	<b>3.1%</b>
Retirement Payments	\$42.0	\$46.5	\$44.5	-\$2.0	-4.3%
<b>Total Community College Aid</b>	<b>\$296.1</b>	<b>\$314.3</b>	<b>\$320.7</b>	<b>\$6.4</b>	<b>2.0%</b>
<b>Local Health Grants</b>	<b>\$45.7</b>	<b>\$49.5</b>	<b>\$53.4</b>	<b>\$3.9</b>	<b>7.9%</b>
<b>County/Municipal Aid</b>					
Transportation	\$201.5	\$209.6	\$212.0	\$2.3	1.1%
Public Safety	117.9	126.7	129.9	3.2	2.6%
Program Open Space	23.5	27.2	40.7	13.5	49.7%
Disparity Grant	129.8	136.7	147.7	10.9	8.0%
Gaming Impact Grants	38.6	62.9	93.0	30.2	48.0%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	17.4	16.3	16.9	0.6	3.8%
<b>Total County/Municipal Aid</b>	<b>\$556.3</b>	<b>\$607.1</b>	<b>\$667.9</b>	<b>\$60.8</b>	<b>10.0%</b>
<b>Total State Aid</b>	<b>\$7,120.2</b>	<b>\$7,355.2</b>	<b>\$7,532.9</b>	<b>\$177.8</b>	<b>2.4%</b>

# Annual Change in State Aid to Local Governments Fiscal 2011-2018





## General Fund Budget Outlook

Fiscal 2017-2022

(\$ in Millions)

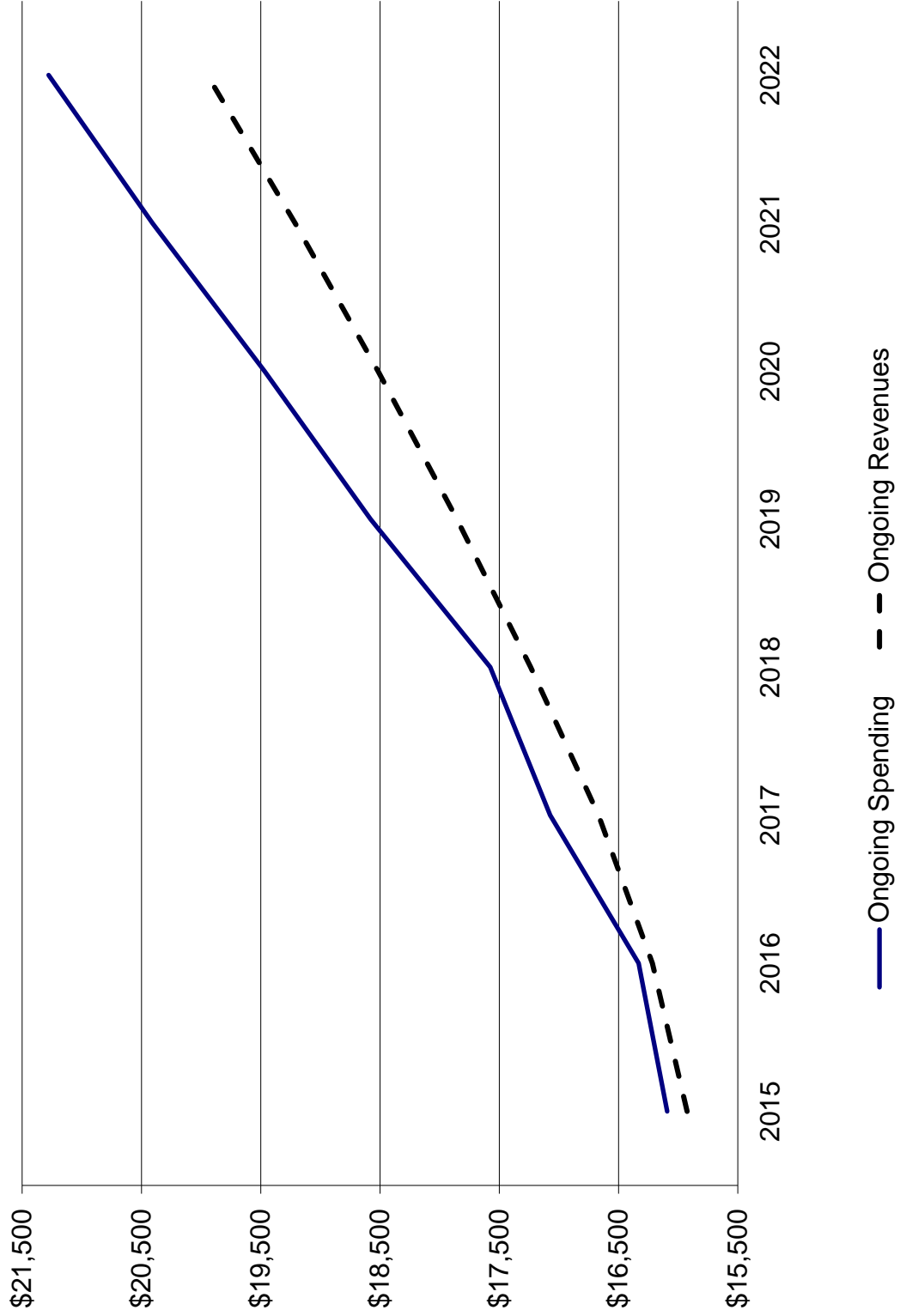
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	% Average Annual Change
	Work. App.	Baseline	Est.	Est.	Est.	Est.	
<b>Revenues</b>							
Opening Fund Balance	\$385	\$0	\$0	\$0	\$0	\$0	
Transfer	0	0	0	0	0	0	
One-time Revenues/Legislation	0	0	0	0	0	0	
<b>Subtotal One-time Revenue</b>	<b>\$385</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	
Ongoing Revenues	\$16,667	\$17,237	\$17,855	\$18,515	\$19,211	\$19,947	
Revenue Adjustments – Legislation	0	0	0	0	0	0	
<b>Subtotal Ongoing Revenue</b>	<b>\$16,667</b>	<b>\$17,237</b>	<b>\$17,855</b>	<b>\$18,515</b>	<b>\$19,211</b>	<b>\$19,947</b>	<b>3.7%</b>
<b>Total Revenues and Fund Balance</b>	<b>\$17,051</b>	<b>\$17,237</b>	<b>\$17,855</b>	<b>\$18,515</b>	<b>\$19,211</b>	<b>\$19,947</b>	<b>3.7%</b>
<b>Ongoing Spending</b>							
Operating Spending	\$17,528	\$18,103	\$19,106	\$20,014	\$20,964	\$21,848	
Education Trust Fund <sup>1</sup>	-463	-566	-554	-562	-570	-579	
Multi-year Commitments	9	39	24	14	14	9	
Programs Restored/Enhanced	0	0	0	0	0	0	
Ongoing Spending – Legislation	0	0	0	0	0	0	
<b>Subtotal Ongoing Spending</b>	<b>\$17,074</b>	<b>\$17,576</b>	<b>\$18,577</b>	<b>\$19,466</b>	<b>\$20,407</b>	<b>\$21,278</b>	<b>4.9%</b>
<b>One-time Spending</b>							
PAYGO Capital	\$70	\$47	\$93	\$67	\$93	\$21	
One-time Reductions	-80	0	0	0	0	0	
Legislation/One-time Adjustments/Swaps	38	0	0	0	0	0	
Appropriation to Reserve Fund	235	100	50	50	83	83	
<b>Subtotal One-time Spending</b>	<b>\$264</b>	<b>\$147</b>	<b>\$143</b>	<b>\$117</b>	<b>\$176</b>	<b>\$104</b>	
<b>Total Spending</b>	<b>\$17,338</b>	<b>\$17,723</b>	<b>\$18,719</b>	<b>\$19,583</b>	<b>\$20,583</b>	<b>\$21,382</b>	<b>4.8%</b>
<b>Ending Balance</b>	<b>-\$287</b>	<b>-\$486</b>	<b>-\$864</b>	<b>-\$1,068</b>	<b>-\$1,373</b>	<b>-\$1,435</b>	
Rainy Day Fund Balance	\$998	\$1,059	\$1,120	\$1,187	\$1,256	\$1,333	
Balance over 5.0% of General Fund (GF) Rev	165	197	227	262	296	335.2	
As % of GF Revenues	5.99%	6.14%	6.27%	6.41%	6.54%	6.68%	
<b>Structural Balance</b>	<b>-\$408</b>	<b>-\$339</b>	<b>-\$722</b>	<b>-\$951</b>	<b>-\$1,197</b>	<b>-\$1,331</b>	

PAYGO: pay-as-you-go

<sup>1</sup>Education Trust Fund is supported by revenues from video lottery terminals and table games.

# The Structural Shortfall Grows to \$1.3 Billion by Fiscal 2022

Fiscal 2015-2022  
(\$ in Millions)



# The Structural Problem

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Forecast Annual Increase Fiscal 2018-2022

Operating Spending

4.90%

Ongoing Revenues

3.70%

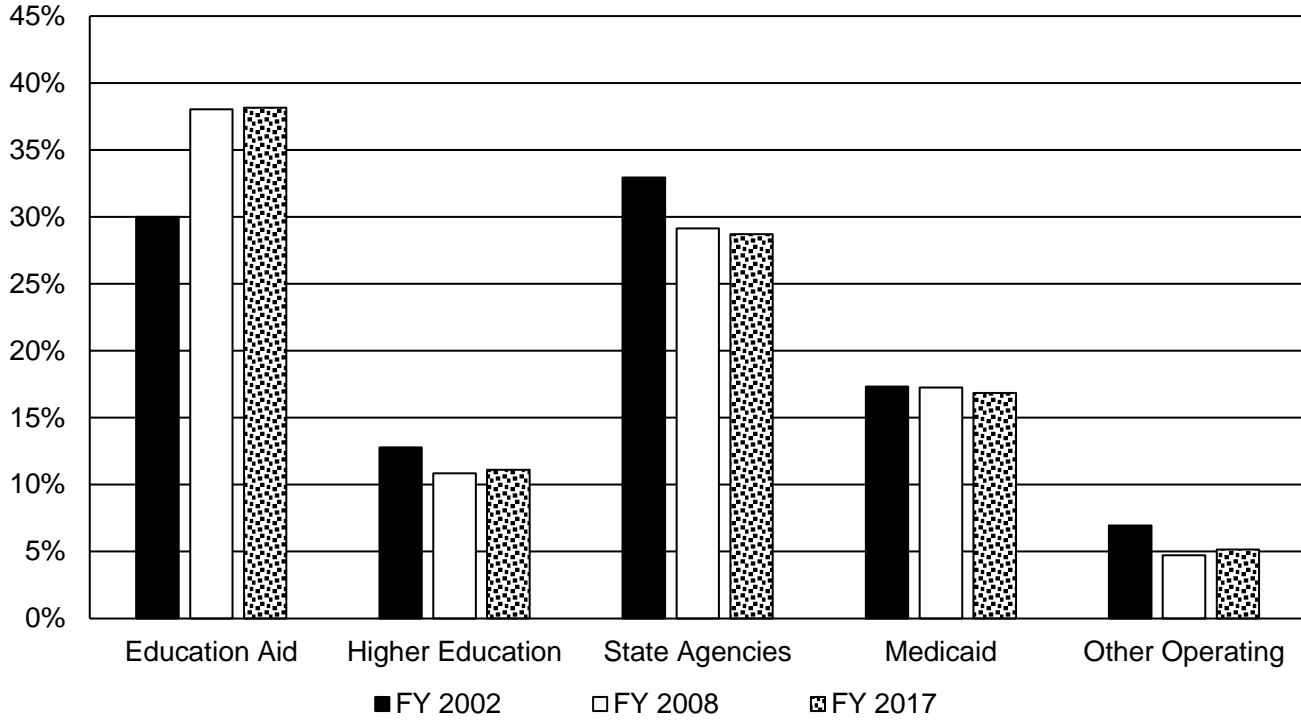
Growth Gap

1.20%

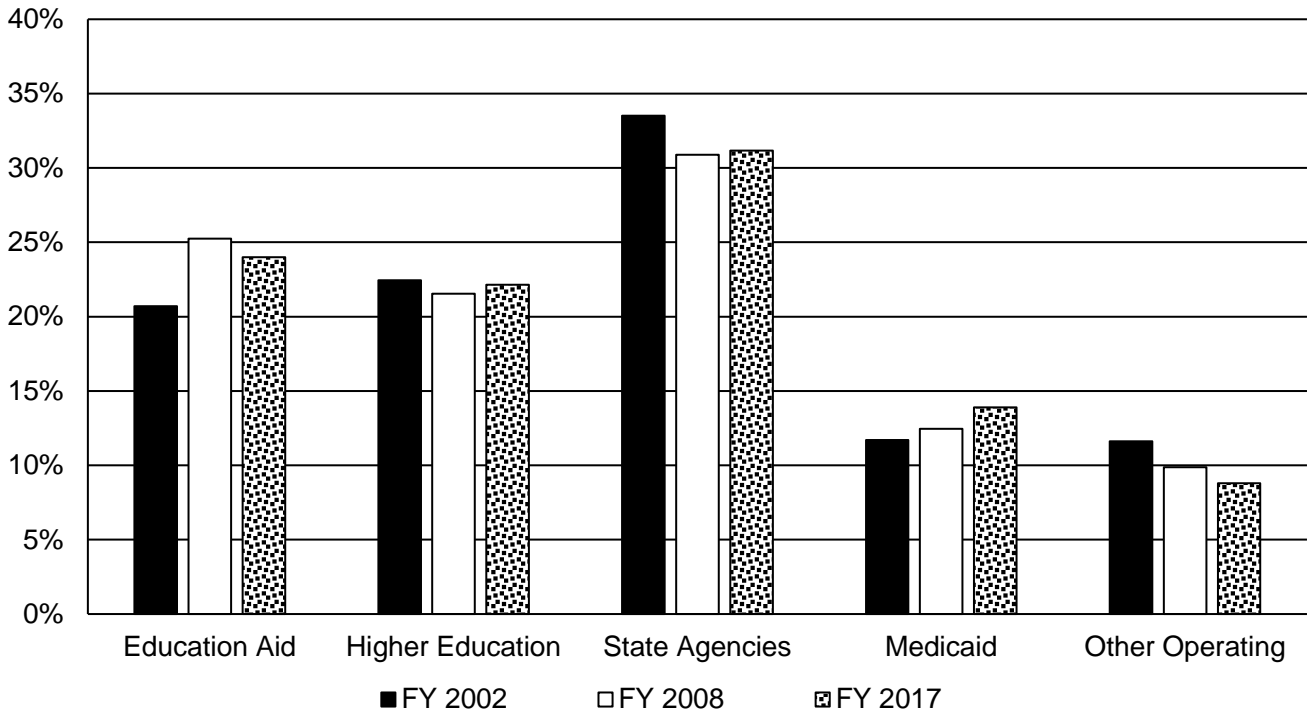
Annual Budget Gap

\$250 Million

### Budget Components as a Percent of General Funds



### Budget Components as a Percent of State Funds



## Spending Growth by Component (\$ in Millions)

	<u>FY 2018</u> <u>Baseline</u>	<u>FY 2022</u> <u>Est.</u>	<u>\$</u> <u>Growth</u>	<u>Avg. Annual</u> <u>% Change</u>
Debt Service	\$231	\$544	\$313	23.9%
Entitlements	3,630	4,932	1,302	8.0%
Employee Salary, COLA, Merits, Health Benefits	2,049	2,453	404	4.6%
Employee Retirement	357	426	70	4.6%
Mandates (Local Aid, Sellinger)	6,627	7,855	1,228	4.3%
Agencies and Higher Education	4,700	5,161	461	2.4%
Ongoing Spending	\$17,576	\$21,278	\$3,702	4.9%
Ongoing Revenues	17,237	19,947	2,711	3.7%
Structural Gap	<b>-\$339</b>	<b>-\$1,331</b>	<b>-\$991</b>	<b>40.7%</b>

COLA: cost-of-living adjustment

## Status of the General Fund

### Fiscal 2017

### (\$ in Millions)

<b>Starting Balance</b>		<b>\$384.5</b>
<b>Revenues</b>		
BRE Estimated Revenue March 2016	\$17,021.3	
September 2016 BRE Revision	-365.1	
Administration Assumptions	-1.1	
<b>Total</b>		<b>\$16,655.2</b>
<b>Transfers</b>		
Budgeted Tax Credits	\$31.5	
Program Open Space	-20.0	
<b>Total</b>		<b>\$11.5</b>
<b>Funds Available</b>		<b>\$17,051.1</b>
<b>Spending</b>		
Fiscal 2017 Working Appropriation	\$17,235.6	
DLS Estimated Deficiencies	220.5	
Reversion of Fenced Off Items	-87.7	
Estimated Agency Reversions	-30.3	
<b>Net Expenditures</b>		<b>\$17,338.2</b>
<b>Ending Balance</b>		<b>-\$287.0</b>

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

**Status of the General Fund**  
**Fiscal 2018**  
**(\$ in Millions)**

<b>Starting Balance</b>		<b>\$0.0</b>
<b>Revenues</b>		
BRE Estimated Revenue September 2016	\$17,204.8	
<b>Total</b>		<b>\$17,204.8</b>
<b>Transfers</b>		
Budgeted Tax Credits	\$31.9	
<b>Total</b>		<b>\$31.9</b>
<b>Funds Available</b>		<b>\$17,236.8</b>
<b>Spending</b>		
Fiscal 2018 DLS Baseline	\$17,752.7	
Estimated Agency Reversions	-30.0	
<b>Net Expenditures</b>		<b>\$17,722.7</b>
<b>Ending Balance</b>		<b>-\$485.9</b>

DLS: Department of Legislative Services

BRE: Board of Revenue Estimates

**State Reserve Fund Activity**  
**Fiscal 2017 and 2018**  
**(\$ in Millions)**

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>
<b>Balances 6/30/16</b>	<b>\$832.3</b>	<b>\$1.8</b>	<b>\$9.6</b>
Fiscal 2017 Appropriations	235.3	0.0	0.0
Information Technology Upgrades	0.0	-1.8	0.0
Excess Revenue/Transfers	-80.0	0.0	0.0
Ellicott City Flood Relief Assistance	0.0	0.0	-2.5
Interest and Other Net Revenues	10.9	0.0	0.0
<b>Estimated Balances 6/30/17</b>	<b>\$998.6</b>	<b>\$0.0</b>	<b>\$7.1</b>
Fiscal 2018 Appropriations	50.0	50.0	0.0
Transfer to Pension Fund	0.0	-50.0	0.0
Interest and Other Net Revenues	10.7	0.0	0.0
<b>Estimated Balances 6/30/17</b>	<b>\$1,059.3</b>	<b>\$0.0</b>	<b>\$7.1</b>
<b>Percent of Revenues in Reserve</b>	<b>6.2%</b>		

Note: The fiscal 2017 budget bill restricted approximately \$80.0 million from within the Rainy Day Fund appropriation to fund other projects and programs. With the Administration's decision to not release those funds for the identified purposes, the restricted funds will revert to the General Fund at the close of fiscal 2017.



## State Expenditures – All Funds (\$ in Millions)

<u>Category</u>	FY 2016	FY 2017	FY 2018	FY 2017-2018	
	<u>Working Appropriation</u>	<u>Legislative Appropriation</u>	<u>Baseline</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$1,413.5	\$1,497.1	\$1,592.5	\$95.4	6.4%
County/Municipal	600.5	672.9	733.7	60.8	9.0%
Community Colleges	297.5	314.3	320.7	6.4	2.0%
Education/Libraries	7,063.0	7,321.2	7,421.6	100.4	1.4%
Health	50.2	54.0	57.9	3.9	7.2%
<b>Aid to Local Governments</b>	<b>\$8,011.1</b>	<b>\$8,362.5</b>	<b>\$8,533.9</b>	<b>\$171.5</b>	<b>2.1%</b>
Foster Care Payments	\$288.7	\$262.3	\$265.2	\$2.9	1.1%
Assistance Payments	1,338.0	1,337.1	1,274.6	-62.5	-4.7%
Medical Assistance	9,574.7	9,902.7	11,366.7	1,464.0	14.8%
Property Tax Credits	81.5	85.7	78.7	-7.0	-8.2%
<b>Entitlements</b>	<b>\$11,282.9</b>	<b>\$11,587.8</b>	<b>\$12,985.2</b>	<b>\$1,397.4</b>	<b>12.1%</b>
Health	\$2,751.3	\$2,872.0	\$2,922.5	\$50.6	1.8%
Human Resources	944.4	985.2	1,050.2	65.0	6.6%
Children's Cabinet Interagency Fund	22.5	17.3	20.4	3.1	18.0%
Juvenile Services	284.7	294.2	295.5	1.3	0.4%
Public Safety/Police	1,738.3	1,793.2	1,852.0	58.7	3.3%
Higher Education	5,557.1	5,716.9	5,867.7	150.8	2.6%
Other Education	717.5	748.8	791.8	43.0	5.7%
Transportation	1,862.6	1,904.4	2,012.3	107.8	5.7%
Agriculture/Natural Res./Environment	436.5	469.6	498.6	29.0	6.2%
Other Executive Agencies	1,932.3	1,996.7	2,005.6	8.8	0.4%
Judiciary	518.8	541.1	558.2	17.1	3.2%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$16,850.5</b>	<b>\$17,428.7</b>	<b>\$17,964.6</b>	<b>\$535.9</b>	<b>3.1%</b>
Anticipated Deficiencies <sup>(1)</sup>	\$35.9	\$1,119.7	\$0.0	-\$1,119.7	-100.0%
<b>Total Operating</b>	<b>\$37,593.9</b>	<b>\$39,995.7</b>	<b>\$41,076.1</b>	<b>\$1,080.4</b>	<b>2.7%</b>
Capital <sup>(2)</sup>	\$2,671.5	\$3,137.1	\$3,138.1	\$1.0	0.0%
– Transportation	2,285.8	2,671.2	2,673.2	2.0	0.1%
– Environment	238.6	264.4	209.2	-55.2	-20.9%
– Other	147.1	201.5	255.6	54.1	26.8%
<b>Subtotal</b>	<b>\$40,265.4</b>	<b>\$43,132.9</b>	<b>\$44,214.2</b>	<b>\$1,081.4</b>	<b>2.5%</b>
Reserve Funds	\$72.5	\$155.4	\$100.0	-\$55.4	-35.6%
<b>Appropriations</b>	<b>\$40,337.9</b>	<b>\$43,288.2</b>	<b>\$44,314.2</b>	<b>\$1,026.0</b>	<b>2.4%</b>
Reversions	-\$87.0	-\$30.0	-\$30.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$40,250.9</b>	<b>\$43,258.2</b>	<b>\$44,284.2</b>	<b>\$1,026.0</b>	<b>2.4%</b>

<sup>(1)</sup> Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes \$210.8 million in deficiencies and \$371.6 million in targeted reversions. The fiscal 2017 legislative appropriation reflects language restrictions of \$170.1 million of which \$76.6 million is expected to be spent by the Governor for a net anticipated reversion of \$93.5 million.

## State Expenditures – Federal Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2016 Working Appropriation</u>	<u>FY 2017 Legislative Appropriation</u>	<u>FY 2018 Baseline</u>	<u>FY 2017-2018 \$ Change</u>	<u>% Change</u>
Debt Service	\$11.5	\$11.5	\$11.5	-\$0.1	-0.5%
County/Municipal	65.9	65.9	65.9	0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	847.6	936.8	936.8	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
<b><i>Aid to Local Governments</i></b>	<b><i>\$917.9</i></b>	<b><i>\$1,007.1</i></b>	<b><i>\$1,007.1</i></b>	<b><i>\$0.0</i></b>	<b><i>0.0%</i></b>
Foster Care Payments	\$98.7	\$82.3	\$78.1	-\$4.2	-5.1%
Assistance Payments	1,259.5	1,255.6	1,210.1	-45.4	-3.6%
Medical Assistance	5,929.8	6,029.4	7,101.2	1,071.7	17.8%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b><i>Entitlements</i></b>	<b><i>\$7,288.0</i></b>	<b><i>\$7,367.3</i></b>	<b><i>\$8,389.4</i></b>	<b><i>\$1,022.1</i></b>	<b><i>13.9%</i></b>
Health	\$946.6	\$976.7	\$995.7	\$19.0	1.9%
Human Resources	494.9	504.9	534.8	29.9	5.9%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	7.4	4.8	5.0	0.2	4.3%
Public Safety/Police	37.4	42.5	41.9	-0.6	-1.4%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	246.0	254.2	258.7	4.5	1.8%
Transportation	96.6	97.2	98.5	1.3	1.3%
Agriculture/Natural Res./Environment	69.8	66.5	68.1	1.5	2.3%
Other Executive Agencies	571.6	614.2	610.6	-3.6	-0.6%
Judiciary	1.2	0.2	0.2	0.0	0.8%
<b><i>State Agencies</i></b>	<b><i>\$2,471.3</i></b>	<b><i>\$2,561.3</i></b>	<b><i>\$2,613.6</i></b>	<b><i>\$52.2</i></b>	<b><i>2.0%</i></b>
Anticipated Deficiencies	\$0.0	\$889.0	\$0.0	-\$889.0	-100.0%
<b>Total Operating</b>	<b>\$10,688.7</b>	<b>\$11,836.3</b>	<b>\$12,021.6</b>	<b>\$185.3</b>	<b>1.6%</b>
Capital	\$810.4	\$1,093.6	\$1,010.5	-\$83.1	-7.6%
– Transportation	705.5	1,020.4	912.8	-107.6	-10.5%
– Environment	44.9	44.3	44.2	-0.1	-0.2%
– Other	60.0	28.9	53.5	24.6	85.2%
<b>Grand Total</b>	<b>\$11,499.1</b>	<b>\$12,929.8</b>	<b>\$13,032.0</b>	<b>\$102.2</b>	<b>0.8%</b>

Note: The fiscal 2016 working appropriation includes \$10.3 million in deficiencies.

## State Expenditures – Special and Higher Education Funds\*

(\$ in Millions)

<u>Category</u>	FY 2016	FY 2017	FY 2018	FY 2017-2018	
	<u>Working</u> <u>Appropriation</u>	<u>Legislative</u> <u>Appropriation</u>	<u>Baseline</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$1,149.6	\$1,202.6	\$1,350.0	\$147.4	12.3%
County/Municipal	280.0	342.0	389.8	47.7	14.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	387.9	458.8	566.1	107.2	23.4%
Health	0.0	0.0	0.0	0.0	n/a
<b>Aid to Local Governments</b>	<b>\$667.9</b>	<b>\$800.9</b>	<b>\$955.8</b>	<b>\$155.0</b>	<b>19.4%</b>
Foster Care Payments	\$4.8	\$2.2	\$4.3	\$2.1	94.1%
Assistance Payments	16.6	13.3	11.3	-2.0	-15.0%
Medical Assistance	998.5	946.8	950.5	3.7	0.4%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b>Entitlements</b>	<b>\$1,020.0</b>	<b>\$962.3</b>	<b>\$966.1</b>	<b>\$3.8</b>	<b>0.4%</b>
Health	\$488.4	\$518.0	\$473.9	-\$44.1	-8.5%
Human Resources	90.6	98.1	100.6	2.5	2.6%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.9	3.9	3.8	0.0	-1.2%
Public Safety/Police	221.7	224.8	230.0	5.2	2.3%
Higher Education	4,208.2	4,290.2	4,357.0	66.8	1.6%
Other Education	60.0	66.9	66.7	-0.1	-0.2%
Transportation	1,766.1	1,807.2	1,913.8	106.6	5.9%
Agriculture/Natural Res./Environment	253.3	279.5	299.3	19.8	7.1%
Other Executive Agencies	687.4	702.2	682.9	-19.3	-2.7%
Judiciary	64.7	59.3	57.7	-1.6	-2.7%
Legislative	0.0	0.0	0.0	0.0	n/a
Across-the-board Cuts	0.0	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$7,845.2</b>	<b>\$8,049.9</b>	<b>\$8,185.6</b>	<b>\$135.7</b>	<b>1.7%</b>
Anticipated Deficiencies <sup>(1)</sup>	-\$5.5	\$10.2	\$0.0	-\$10.2	-100.0%
<b>Total Operating</b>	<b>\$10,677.2</b>	<b>\$11,025.8</b>	<b>\$11,457.5</b>	<b>\$431.8</b>	<b>3.9%</b>
Capital	\$1,834.7	\$1,964.5	\$2,072.0	\$107.5	5.5%
– Transportation	1,580.3	1,650.8	1,760.5	109.6	6.6%
– Environment	193.3	210.1	164.0	-46.1	-21.9%
– Other	61.0	103.6	147.5	44.0	42.4%
<b>Grand Total</b>	<b>\$12,511.9</b>	<b>\$12,990.2</b>	<b>\$13,529.5</b>	<b>\$539.3</b>	<b>4.2%</b>

<sup>(1)</sup> Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

\* Includes higher education fund (current unrestricted and current restricted) net of general and special funds.

Note: The fiscal 2016 working appropriation reflects deficiencies of -\$6.8 million. The fiscal 2017 legislative appropriation reflects language restrictions of \$32.6 million of which \$27.0 million is expected to be spent by the Governor for a net reduction of \$5.6 million.