Spending Affordability Committee Technical Supplement

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

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Contents

Fiscal 2018 Baseline Budget
Technical Supplement Overview

The Baseline Process

The baseline budget is an estimate of the cost of government services in the next budget year assuming:

- current laws, policies, and practices are continued;
- legislation, federal mandates, and multi-year commitments supported by the legislature are implemented and funded;
- efficiency is maintained at current levels;
- nondiscretionary changes in workload are recognized;
- unavoidable shortfalls in budgeted expenditures during the current fiscal year are funded as deficiencies;
- inflationary increases in costs are provided; and
- salary adjustments are funded consistent with statutory requirements and known legislative or executive intent.

General Assumptions

Forecasts of individual agency budget requirements are based on amounts appropriated for fiscal 2017. Adjustments are made to remove funds allowed for one-time purposes and to add funds as required to recognize expenses associated with legislation, new facilities, changes in caseloads, and continuing expenses related to fiscal 2017 budget deficiencies. The baseline estimate also allows for changes in personnel costs and inflationary increases in the cost of operating expenses.

Nonpersonnel Operating Cost Assumptions

The baseline also assumes inflationary changes in specific subobjects. Specific inflation assumptions are:

- medical contracts and supplies (3.4%);

- prescription drugs for State facilities (3.4%);
- postage (2.6%);
- utilities and electricity (2.8%);
- natural gas (6.7%);
- gas and oil (6.1%); and
- food (2.3%).

Zero inflation is assumed for all other items.

Baseline Results

Overall, the baseline budget projects budget growth as indicated below by fund type.

Projected Baseline Budget
Fiscal 2017-2018
($ in Millions)

Fund[1]	2017 Adjusted Appropriation[4]	2018 Baseline	2017-2018 $ Increase	2017-2018 % Change
General[2]	$17,338.2	$17,722.7	$384.5	2.2%
Special/Higher Education[3]	12,990.2	13,529.5	539.3	4.2%
Federal	12,929.8	13,032.0	102.2	0.8%
Total	**$43,258.2**	**$44,284.2**	**$1,026.0**	**2.4%**

(1) Excludes reimbursable and nonbudgeted funds.
(2) Net of reversions.
(3) Higher education funds include current restricted and unrestricted funds net of general and special fund appropriations.
(4) Adjusted for the following: language restrictions of $170.1 million ($137.6 million in general funds and $32.6 million in special funds) of which $76.6 million ($49.6 million in general funds and $27.0 million in special funds) is expected to be spent by the Governor for a net anticipated reversion of $93.5 million, and estimated deficiencies.

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

Source: Department of Legislative Services

The tables on the following pages summarize the budgetary changes by major category of expenditure. Fiscal 2017 deficiencies and the reversion of withheld allotments are discussed next as part of the *Technical Supplement* Overview. Separate sections of the *Technical Supplement* present the assumptions used for estimates for State agencies, aid to local governments, entitlements, debt service, and capital programs. Generally, the descriptions in the *Technical Supplement* are for adjustments greater than $500,000. The baseline estimates described in this document represent the judgments of the Department of Legislative Services as of October 19, 2016. Actions subsequent to that date, including reductions made by the Administration or further changes to the economic picture, are not reflected here.

State Expenditures – General Funds
Fiscal 2016-2018
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
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%
Aid to Local Governments	***$6,425.3***	***$6,554.5***	***$6,571.0***	***$16.5***	***0.3%***
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%
Entitlements	***$2,974.9***	***$3,258.2***	***$3,629.7***	***$371.5***	***11.4%***
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
State Agencies	***$6,534.0***	***$6,817.5***	***$7,165.4***	***$347.9***	***5.1%***
Anticipated Deficiencies (1)	$41.3	$220.5	$0.0	-$220.5	n/a
Total Operating	**$16,227.9**	**$17,133.7**	**$17,597.1**	**$463.3**	***2.7%***
Capital (2)	$26.5	$79.1	$55.6	-$23.5	-29.7%
Subtotal	***$16,254.4***	***$17,212.8***	***$17,652.7***	***$439.9***	***2.6%***
Reserve Funds	$72.5	$155.4	$100.0	-$55.4	-35.6%
Appropriations	**$16,326.9**	**$17,368.2**	**$17,752.7**	**$384.5**	***2.2%***
Reversions	-$87.0	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$16,239.9**	**$17,338.2**	**$17,722.7**	**$384.5**	***2.2%***

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

(2) 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 – Special and Higher Education Funds*
Fiscal 2016-2018
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
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
Aid to Local Governments	***$667.9***	***$800.9***	***$955.8***	***$155.0***	***19.4%***
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
Entitlements	***$1,020.0***	***$962.3***	***$966.1***	***$3.8***	***0.4%***
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
State Agencies	***$7,845.2***	***$8,049.9***	***$8,185.6***	***$135.7***	***1.7%***
Anticipated Deficiencies (1)	-$5.5	$10.2	$0.0	-$10.2	-100.0%
Total Operating	**$10,677.2**	**$11,025.8**	**$11,457.5**	**$431.8**	**3.9%**
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%
Grand Total	**$12,511.9**	**$12,990.2**	**$13,529.5**	**$539.3**	**4.2%**

(1) 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.

State Expenditures – Federal Funds
Fiscal 2016-2018
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
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%
Aid to Local Governments	***$917.9***	***$1,007.1***	***$1,007.1***	***$0.0***	***0.0%***
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
Entitlements	***$7,288.0***	***$7,367.3***	***$8,389.4***	***$1,022.1***	***13.9%***
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%
State Agencies	***$2,471.3***	***$2,561.3***	***$2,613.6***	***$52.2***	***2.0%***
Anticipated Deficiencies	$0.0	$889.0	$0.0	-$889.0	-100.0%
Total Operating	**$10,688.7**	**$11,836.3**	**$12,021.6**	**$185.3**	**1.6%**
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%
Grand Total	**$11,499.1**	**$12,929.8**	**$13,032.0**	**$102.2**	**0.8%**

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

State Expenditures – All Funds
Fiscal 2016-2018
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
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%
Aid to Local Governments	***$8,011.1***	***$8,362.5***	***$8,533.9***	***$171.5***	***2.1%***
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%
Entitlements	***$11,282.9***	***$11,587.8***	***$12,985.2***	***$1,397.4***	***12.1%***
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
State Agencies	***$16,850.5***	***$17,428.7***	***$17,964.6***	***$535.9***	***3.1%***
Anticipated Deficiencies (1)	$35.9	$1,119.7	$0.0	-$1,119.7	-100.0%
Total Operating	**$37,593.9**	**$39,995.7**	**$41,076.1**	**$1,080.4**	**2.7%**
Capital (2)	$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%
Subtotal	***$40,265.4***	***$43,132.9***	***$44,214.2***	***$1,081.4***	***2.5%***
Reserve Funds	$72.5	$155.4	$100.0	-$55.4	-35.6%
Appropriations	**$40,337.9**	**$43,288.2**	**$44,314.2**	**$1,026.0**	**2.4%**
Reversions	-$87.0	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$40,250.9**	**$43,258.2**	**$44,284.2**	**$1,026.0**	**2.4%**

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

(2) 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.

Fiscal 2017 Deficiencies

Fiscal 2017 deficiencies in the fiscal 2018 baseline total just over $1.1 billion, including $220.5 million in general funds, $10.2 million in special funds, and $889.0 million in federal funds (mostly federal Medicaid funds). This total includes $61.0 million in fiscal 2016 deficiencies rolled into fiscal 2017. Major general fund deficiencies are summarized in the following exhibit.

Potential Fiscal 2017 General Fund Deficiencies
($ in Millions)

Medicaid: 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
Long-term Liabilities: Developmental Disabilities Administration (DDA) 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
Human Resources: Underattainment of federal funds throughout the department based on the most recent actuals.	29.1
Other Operating Expenses: Fiscal 2016 costs carried into fiscal 2017 ($6.9 million) including Office of Public Defender ($5.2 million) and Department of State Police ($0.9 million); and fiscal 2017 deficiencies ($8.5 million) including Office of Public Defender ($5.2 million), Office of the Chief Medical Examiner ($1.1 million), the Department of State Police ($0.9 million), and the Department of Budget and Management ($0.6 million).	15.4
Maryland State Department of Education: Child care subsidy costs based on revised federal reimbursement methodology.	12.2
Public Safety and Correctional Services: Cell phone managed access system ($6.7 million) and State Law Enforcement Officers Labor Alliance collective bargaining costs ($1.0 million).	7.7
Behavioral Health Administration: Service costs for the uninsured.	3.5

2016 Legislation: Impact of 2016 legislation including Chapter 519 implementing the recommendations of the Public Safety and Policing Workgroup ($1.5 million); consulting for the Maryland Higher Education Commission to produce reports in Chapter 290 concerning student loans; Chapter 689 concerning financial aid ($0.3 million); the Governor's Office of Community Initiatives to implement Chapter 119 concerning small business procurement; and Chapter 654 establishing the Maryland Corps Program ($0.3 million).	3.0
Anticipated Fiscal 2017 Savings: Department of Juvenile Services lower per-diem placements ($9.0 million) and DDA lower program costs based on most recent actuals ($5.6 million).	-14.6
Total Deficiencies	**$220.5**

Reversion of Withheld Allotments

In acting upon the fiscal 2017 budget, the legislature adopted budget bill language restricting a total of $173.6 million in fiscal 2016 and 2017 appropriations to be used to address legislative priorities. Of this amount, $141.1 million was in general funds, of which $80.0 million was restricted in the appropriation to the Revenue Stabilization Account of the State Reserve Fund. The remaining $32.6 million consisted of special fund appropriations, largely in the Maryland Department of Transportation.

Approximately 52% of the funds, or $89.1 million, were restricted for pay-as-you-go (PAYGO) capital programs, and the remaining 48%, or $84.6 million, were restricted for operating purposes. Some of the larger items included:

- $22.0 million for improvements to the Greenbelt Metro station in conjunction with the possible relocation of the Federal Bureau of Investigation;
- $19.0 million to assist local school systems with higher than expected normal costs for teacher's retirement;
- $15.0 million for facility renewal;
- $14.1 million to increase physician and psychiatrist rates;
- $10.0 million for rental housing programs;
- $9.8 million for water quality and drinking water loan funds; and

- $9.2 million for the Public Safety Communication System.

In August 2016, Governor Lawrence J. Hogan, Jr. announced the intention to release $77.1 million of the restricted funds, including all of the $46.2 million in PAYGO projects, $22.0 million for the Greenbelt Metro Station, and $5.0 million in the Maryland State Department of Education for grants to provide scholarships for eligible students in nonpublic schools. It is expected that the remaining $96.5 million will either revert to the General Fund or be canceled and be credited to either the Transportation Trust Fund or the Strategic Energy Investment Fund. The $3.2 million withheld in fiscal 2016 from the University System of Maryland for completion initiatives has already reverted to the General Fund as part of the fiscal 2016 closeout.

Excluding special funds, the baseline assumes that $87.7 million in general fund appropriations will revert to the General Fund, including the entire $80.0 million restricted in the Rainy Day Fund. A complete list of all expected reversions, based on the Governor's announcement, is shown on the following page.

Restricted General Fund Appropriations
Fiscal 2017
($ in Millions)

Purpose	Funds
Rainy Day Fund	
Grant to School Systems to Fund Teacher's Retirement Costs	$19.0
Board of Public Works: Facilities Renewal	15.0
Increase Medicaid Physician and Psychiatrist Rates	14.1
Public Safety Communication System	9.2
Demolition of Baltimore City Correctional Complex	6.6
Aging Schools	6.1
Agricultural Cost Share Program	6.0
Baltimore City Safe Streets Program	1.0
State Supplement to Food Supplement Program	1.0
Grant to Baltimore City Health Department for Care Coordination	0.5
Lead Remediation in Homes of Children Enrolled in Medicaid	0.5
Maryland Business Roundtable on Education	0.3
Center for Construction Innovation and Education	0.3
National Great Blacks in Wax Museum	0.2
Maryland Humanities Council	0.2
Arts Everyday	0.0
901 Arts	0.0
Subtotal	***$80.0***
Other Restricted Funds	
DHMH: Springfield Hospital Center and RICAs	$2.1
CICF: Subcabinet Fund Youth Services Bureaus	1.8
CICF: Subcabinet Navigation Services	1.7
Department of General Services: Facilities Assessment	0.5
MHEC: Maryland Academy of Sciences	0.5
Department of Commerce: Transfer to TEDCO	0.4
MHEC: Consultant Review of Need-based Financial Aid Programs	0.3
DHMH: Restore Funding for PACT Helping Children Program	0.2
MHEC: Maryland Corps Program	0.2
Comptroller: ABLE	0.1
Subtotal	***$7.7***
Grand Total	**$87.7**

ABLE: Achieving a Better Life Experience
CICF: Children's Cabinet Interagency Fund
DHMH: Department of Health and Mental Hygiene
MHEC: Maryland Higher Education Commission
PACT: Parents and Children Together, Inc.
RICA: Regional Institute for Children and Adolescents
TEDCO: Maryland Technology Development Corporation

Employee Compensation Overview

Employee Compensation Overview

With respect to State employees, the following assumptions are made.

- ***Fiscal 2018 General Salary Increase:*** The baseline assumes that a 1% general salary adjustment will be awarded to all State employees on July 1, 2017. The increase raises salaries $35.9 million ($21.3 million in general funds) for State agencies (excluding higher education).

- ***Fiscal 2018 Merit Pay Increases:*** The baseline also assumes merit pay increases in fiscal 2018. This is expected to increase State agency (excluding higher education) costs by $64.6 million ($38.4 million in general funds). This assumes that half of employees will receive their merit increase at the beginning of the fiscal year and the other half will receive merit increases on January 1. For employees receiving their merit increases on January 1, 2018, an additional $21.5 million ($12.8 million in general funds) will need to be appropriated in fiscal 2019 to reflect the full annual cost of the merit increases.

- ***Adjusting Annual Salary Review (ASR):*** The fiscal 2017 budget appropriated $797,670 ($507,522 in general funds) for ASRs. This provides salary increases for building security officers, Department of General Services' procurement officers, the warrant apprehension job series, and fiscal staff for the Department of Housing and Community Development. These funds are removed from the baseline budget. The baseline budget assumes $1.5 million ($1.2 million in general funds) for ASRs. This is equal to the average amount of ASRs received in five previous years (fiscal 2013 to 2017).

- ***Change in Federal Regulations Expected to Increase Overtime Costs:*** The federal Fair Labor Standards Act requires that employees are paid a federal minimum wage and overtime. Currently, some managerial, administrative, or professional employees earning less than $23,660 can be exempt from the overtime requirement. However, federal overtime rules change effective December 1, 2016: the new regulations increase the exemption income to $47,476. The Department of Budget and Management (DBM) advises that 974 employees in the State Personnel Management System (Executive Branch agencies excluding the Maryland Department of Transportation (MDOT) and higher education institutions) are affected and MDOT advises that 72 positions are affected. While DBM was not able to provide any data concerning the number of hours that the formerly exempted employees are working, MDOT provided complete information. If each of these employees works one hour of overtime each week, additional overtime costs (including fringe benefits) would be approximately $1,030,000 ($607,000 in general funds) in fiscal 2017 and $1,772,000 ($1,041,000 in general funds) in fiscal 2018. To recognize this change in federal regulations, the baseline budget includes these potential overtime costs.

- ***Employee and Retiree Health Insurance:*** State health insurance expenditures support employee and retiree pay-as-you-go health insurance costs. The baseline budget projects that fiscal 2018 claims will total $1.75 billion, an increase of 7.8%, which is consistent with recent claims activity and growth in prescription drug costs. State agency, employee, and retiree contributions were reduced in fiscal 2014 and 2015 in order to draw down a high fund balance; however, increased expenditures, particularly in prescription drugs, necessitated a substantial increase in fiscal 2016 required contributions to cover costs. Contributions increase in fiscal 2018 by 4.3% (an increase of $54.4 million for State agency appropriations) over the fiscal 2017 legislative appropriation. Growth in required contributions is mitigated due to an unexpected surplus in fiscal 2016.[1]

- ***Employees' Retirement and Pensions:*** Fiscal 2018 baseline expenditures increase by $50.1 million, compared to the fiscal 2017 legislative appropriation. Approximately $8.0 million, or 16%, of this increase is attributable to rate changes. The remaining increases are attributable to salary enhancements and additional personnel. These estimates include higher education spending on pension costs. Specific changes to the different plans are as follows:

  - an additional $29.9 million ($18.2 million in general funds) for the Employees' State Retirement and Pension Systems, which includes $9.8 million ($6.0 million in general funds) attributable to rate changes and $20.0 million ($18.2 million in general funds) due to salary enhancements and additional personnel – fiscal 2018 appropriations total $655.6 million ($394.5 million in general funds);

  - an increase of approximately $588,000 (all general funds) for the judges' plan, which reflects a lower contribution rate reducing spending by $58,000 that is, in turn, offset by new judges and salary enhancements – fiscal 2018 appropriations total $31.8 million (all in general funds);

  - although most teachers work for local governments, the State does employ some teachers and, therefore, there is an adjustment to reflect that this plan's costs increase by $1.4 million ($0.9 million in general funds), which is attributable to salary enhancements, as the contribution rate declines modestly by 0.1% – fiscal 2018 appropriations total $31.8 million ($21.0 million in general funds);

  - for certain university employees, the State offers an Optional Retirement Program – a portable, defined contribution plan – for which the State contribution rate remains at 7.25% and, therefore, due to salary enhancements and new positions, fiscal 2018 expenditures increase by $3.2 million for a total of $98.3 million;

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[1] State agencies, employees, and retirees provided health insurance contributions for 25 pay periods in fiscal 2016, instead of the usual 24 pay periods, due to the timing of pay periods. The overpayment was distributed equally between State agencies, employees, and retirees, as is the benefit of the reduced growth rate for required contributions in fiscal 2018.

- State Police retirement plan appropriations increase by $10.4 million ($8.6 million in general funds), which reflects, as with the judges' plan, a decline in contribution rates, saving $1.3 million ($1.0 million in general funds), but substantial pay increases resulting in another $11.7 million ($9.6 million in general funds) in expenditures – fiscal 2018 appropriations increase to $89.9 million ($74.4 million in general funds); and

- the Law Enforcement Officers' Pensions System contribution rate barely changes (the increase is 0.05%), but salary enhancements increase contributions by $2.9 million ($1.6 million in general funds) – fiscal 2018 appropriations total $32.5 million ($17.9 million in general funds).

Department of Health and Mental Hygiene

The Department of Health and Mental Hygiene (DHMH) regulates Maryland's health care system, coordinates the delivery of public health services, and acts as a direct care provider. For the purposes of this section, provider reimbursements made under the Medical Care Programs Administration (Medicaid), including Medicaid Behavioral Health, are excluded from the budget information provided below and are instead discussed in the Entitlements section. Thus, for example, Medicaid payments for nursing homes and somatic health care are excluded from this discussion, while Medicaid payments for services for the developmentally disabled are included.

Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene

Fiscal 2015-2018

($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	% Increase
Expenditures						
DHMH – Administration	$48,650	$48,958	$49,413	$50,665	$1,252	2.5%
DHMH – Office of Health Care Quality	21,319	20,064	20,208	21,141	933	4.6%
DHMH – Health Professional Boards and Commission	30,560	37,256	37,495	38,441	946	2.5%
DHMH – Public Health Administration	78,698	95,622	85,623	89,581	3,958	4.6%
DHMH – Prevention and Health Promotion Administration	331,570	363,471	375,626	394,653	19,026	5.1%
DHMH – Chronic Hospitals	49,320	50,290	49,341	51,722	2,381	4.8%
DHMH – Behavioral Health Administration	619,534	635,214	643,315	661,280	17,965	2.8%
DHMH – Developmental Disabilities Administration	978,359	1,087,971	1,150,558	1,225,297	74,739	6.5%
DHMH – Medical Care Programs Administration	108,156	122,105	120,459	105,588	-14,872	-12.4%
DHMH – Health Regulatory Commissions	177,770	236,479	230,431	201,339	-29,093	-12.6%
Total	**$2,443,937**	**$2,697,429**	**$2,762,471**	**$2,839,707**	**$77,236**	**2.8%**
Fund						
General Fund	$1,271,311	$1,306,979	$1,371,167	$1,452,772	$81,605	6.0%
Special Fund	364,959	469,767	442,263	417,558	-24,705	-5.6%
Federal Fund	781,622	885,830	928,195	948,192	19,998	2.2%
Reimbursable Fund	26,045	34,853	20,846	21,185	339	1.6%
Total	**$2,443,937**	**$2,697,429**	**$2,762,471**	**$2,839,707**	**$77,236**	**2.8%**
Personnel						
Regular Positions	6,332.0	6,354.0	6,182.0	6,185.0	3.0.	0.1%
Full-time Equivalent Contractuals	385.0	440.0	429.0	429.0	0.0	0.0%

DHMH: Department of Health and Mental Hygiene

Major Program Changes

Other than increases in personnel costs, which can be very significant in any given program based on the extent of the direct care mission of the various programs within the department, the most significant baseline changes within the various programs in DHMH are detailed below.

Administration

The major baseline change in the DHMH Administration budget is an $832,152 increase in funding for the next major phase in the development of the new computer system for the Board of Physicians. This increase is all in special funds.

Behavioral Health Administration

For the Behavioral Health Administration, the largest changes concern the fee-for-services programs. Beyond the traditional fee-for-services spending on behavioral health services through Medicaid, which are discussed in the Entitlements section, the State also funds certain services for the Medicaid-eligible population that are not covered under Medicaid. The State also continues to provide behavioral health services for those who may have lost their Medicaid or other health coverage but due to certain factors, continue to receive the behavioral health services that they need. For fiscal 2017, there is an expected deficiency of $3.5 million in general funds that is expected to carry over into fiscal 2018. This is based on the assumption that enrollment and utilization of these services will remain flat compared to fiscal 2016 as opposed to declining as was originally projected for the fiscal 2017 budget.

For the fiscal 2018 baseline, expenditures are expected to increase by $5.3 million over the legislative appropriation. Factors contributing to this growth include an assumed 2.0% rate increase for community behavioral health services assumed to begin on July 1, 2017, and between 1.5% and 2.5% rate increases for rate-regulated providers.

Beyond the fee-for-services programs, the Behavioral Health Administration's fiscal 2018 baseline budget includes two significant items. The first is an increase of $716,393 in special funds available from the Problem Gambling Fund based on the expected level of table games and video lottery terminals subject to the statutory fee. The second is a reduction of $3.8 million, which is almost entirely general funds, for the privatization contracts for Springfield Hospital Center and the John L. Gildner Regional Institute for Children and Adolescents which are no longer going forward. These functions are being backfilled with other vacant positions and, thus, the amounts for the contracts are no longer necessary.

Health Regulatory Commissions

Baseline changes to the Health Regulatory Commissions include the reduction of $30 million in special funds due to a decrease in expected expenditures tied to the Uncompensated Care Fund.

Developmental Disabilities Administration

The following changes were made to the baseline budget of the Developmental Disabilities Administration:

- a $35.1 million increase in total funds (including $19.3 million in general funds) to account for annualization of community services provided for first-time clients in fiscal 2017 that will be ongoing in fiscal 2018 as well as funding for new placements; and

- a $38.2 million increase in total funds (including $20.5 million in general funds) to reflect provider inflation (3.5%) associated with community service contracts as provided for under Chapter 262 of 2014 (Maryland Minimum Wage Act).

Prevention and Health Promotion Administration

Chapter 13 of 2016 (Prince George's County Regional Medical Center Act) requires the State to provide $30 million of operating funding for the new Prince George's County Regional Medical Center in fiscal 2018 if certain funding requirements were not met in fiscal 2017, an increase of $15 million over fiscal 2017.

Department of Human Resources

The Department of Human Resources (DHR) administers its programs through a State supervised and locally administered system. DHR is responsible for programs related to child and adult welfare, child support enforcement, and family investment. Spending related to public assistance and foster care maintenance payments is discussed in the Entitlements Program section.

Expenditures, Funds, and Positions for the Department of Human Resources
Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
DHR – Administration	$176,750	$174,734	$175,455	$217,769	$42,314	24.1%
DHR – Social Services	278,960	291,587	308,316	321,478	13,162	4.3%
DHR – Child Support Enforcement	88,368	90,781	91,721	95,600	3,879	4.2%
DHR – Family Investment	261,945	250,327	261,210	269,254	8,044	3.1%
DHR – Office of Home Energy Programs	123,471	137,572	140,800	146,128	5,328	3.8%
Total	**$929,493**	**$945,001**	**$977,502**	**$1,050,228**	**$72,726**	**7.4%**
Fund						
General Fund	$361,201	$359,008	$378,262	$414,825	$36,562	9.7%
Special Fund	81,378	90,571	97,938	100,573	2,635	2.7%
Federal Fund	486,501	494,852	501,303	534,831	33,528	6.7%
Reimbursable Fund	414	569	0	0	0	0.0%
Total	**$929,493**	**$945,001**	**$977,502**	**$1,050,228**	**$72,726**	**7.4%**
Personnel						
Regular Positions	6,465.0	6,360.0	6,265.0	6,286.0	21.0	0.3%
Full-time Equivalent Contractuals	136.0	74.0	74.0	74.0	0.0	0%

DHR: Department of Human Resources

Administration

The fiscal 2018 baseline assumes changes in two major information technology (IT) projects in DHR, the Automated Financial System replacement project and the new IT modernization project. The Automated Financial System replacement project decreases by $671,833 in federal funds in fiscal 2018. The fiscal 2017 legislative appropriation includes funds for the IT modernization project. However, the appropriation includes only the general funds budgeted in the Department of Information Technology (DoIT). The baseline assumes a fiscal 2017 deficiency appropriation of $230,652 in federal funds to match the general funds budgeted in DoIT in fiscal 2017. The fiscal 2018 baseline reflects $39,618,075 in federal funds for DHR's new IT modernization project. There is an equivalent amount in general funds in the DoIT budget.

Local Operations

The fiscal 2018 baseline includes a series of deficiency appropriations in local department operations programs to account for the availability of certain fund sources. In the Local Family Investment Program, this adjustment results in a fiscal 2017 increase of $13.0 million in general funds, an increase of $2.2 million in special funds, and a decrease of $15.3 million in federal funds. In Local Child Welfare Services, this adjustment results in a fiscal 2017 increase of $16.0 million in general funds, an increase of $79,744 in special funds, and a decrease of $16.1 million in federal funds. In Local Adult Services, this adjustment results in a fiscal 2017 decrease of $7.8 million in general funds, a decrease of $0.2 million in special funds, and an increase of $8.0 million in federal funds. These fund source adjustments carry forward into fiscal 2018.

Chapter 312 of 2016 (Child Support Enforcement – Noncustodial Parent Employment Assistance Pilot Program) creates a noncustodial parent employment program in DHR. The program is expected to be funded using Supplemental Nutrition Assistance Program federal funds (50%) and general funds (50%). The pilot program is expected to begin in October 2016. To account for the implementation of the legislation, the fiscal 2018 baseline provides for an increase of $75,000 in fiscal 2017 and an additional $25,000 in fiscal 2018.

Child Support Enforcement Administration

Adjustments are made to account for transfers of personnel from two county State Attorney's Offices (SAO) to the Child Support Enforcement Administration (CSEA). One SAO ended its cooperative reimbursement agreement (CRA) to provide legal services for its local office of CSEA in fiscal 2017, and one SAO will end its CRA in fiscal 2018.

DHR received advance notice that the Carroll County SAO would not continue its CRA with DHR prior to the 2016 legislative session. Chapter 53 of 2016 (Carroll County – State's Attorney Office and Child Support Enforcement Administration – Transfer of Personnel) authorized the transfer of personnel in fiscal 2017, but the transfer of personnel was not reflected in the budget. The baseline assumes a deficiency of $578,898 ($196,825 in general funds and $382,073 in federal funds) to account for 11 positions in fiscal 2017, most of which carries forward into fiscal 2018.

DHR received advance notice that the Charles County SAO would not continue its CRA in fiscal 2018. The transfer requires 10 new positions and an increase of $534,601 ($181,764 in general funds and $352,837 in federal funds) in fiscal 2018.

Both transfers are offset by reductions in federal fund expenditures for the CRAs in the State office of CSEA. The end of the Carroll County SAO agreement results in a reduction of $576,246 in federal funds in fiscal 2017. The end of the Charles County SAO agreement results in a reduction of $690,349 in federal funds in fiscal 2018.

Office of Home Energy Programs

The Office of Home Energy Programs (OHEP) baseline includes a fiscal 2017 deficiency appropriation of $12.3 million in federal funds due to available Low Income Home Energy Assistance Program (LIHEAP) funding that was not spent in fiscal 2016. The fiscal 2018 baseline for the OHEP decreases federal funds from the LIHEAP by $7.0 million in funding for energy assistance benefits to return the funding to the three-year average of the State allocation.

Department of Public Safety and Correctional Services

The Department of Public Safety and Correctional Services is a unit of State government whose primary focus is the supervision and management of Maryland's criminal population. The department's functions include the operation of State correctional and Baltimore City pretrial facilities, as well as the supervision of offenders in the community via parole and/or probation. Other agencies within the department include the Office of the Secretary, the Maryland Parole Commission, the Inmate Grievance Office, the Police and Correctional Training Commissions, the Criminal Injuries Compensation Board, and the Maryland Commission on Correctional Standards.

Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services
Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
DPSCS – Administration	$128,459	$144,784	$146,223	$146,360	$137	0.1%
DPSCS – Division of Correction	708,510	741,104	754,925	789,736	34,812	4.6%
DPSCS – Maryland Parole Commission	5,697	5,925	5,891	6,335	443	7.5%
DPSCS – Division of Parole and Probation	106,590	108,554	117,303	122,608	5,305	4.5%
DPSCS – Patuxent Institution	49,256	52,075	54,297	56,499	2,202	4.1%
DPSCS – Inmate Grievance Office	960	1,082	1,161	1,186	25	2.2%
DPSCS – Police and Correctional Training Commissions	8,718	10,389	10,640	12,886	2,246	21.1%
DPSCS – Criminal Injuries Compensation Board	4,578	5,196	5,249	5,332	83	1.6%
DPSCS – Maryland Commission on Correctional Standards	560	531	554	583	29	5.2%
DPSCS – Division of Pretrial Detention	263,171	278,472	256,902	268,035	11,133	4.3%
Total	**$1,276,497**	**$1,348,110**	**$1,353,145**	**$1,409,561**	**$56,416**	**4.2%**
Fund						
General Fund	$1,162,630	$1,228,546	$1,230,201	$1,286,950	$56,749	4.6%
Special Fund	80,917	84,326	83,816	84,283	467	0.6%
Federal Fund	26,902	29,150	32,846	31,808	-1,038	-3.2%
Reimbursable Fund	6,049	6,089	6,282	6,519	238	3.8%
Total	**$1,276,497**	**$1,348,110**	**$1,353,145**	**$1,409,561**	**$56,416**	**4.2%**
Personnel						
Regular Positions	11,063.0	11,020.0	10,951.0	11,068.0	117.0	1.1%
Full-time Equivalent Contractuals	266.0	367.0	364.0	366.0	2.0	0.6%

DPSCS: Department of Public Safety and Correctional Services

Administration

Significant administrative adjustments in the fiscal 2018 baseline include a decrease of $2.3 million in federal funds reflecting a one-time grant the department received in fiscal 2017 to begin replacement of the Computerized Criminal History Information Technology System. A corresponding increase of $1.6 million in general funds is included to continue the project.

Division of Correction

The primary area of general fund increase in the 2018 baseline is $5.0 million in costs associated with Chapter 515 of 2016 – the Justice Reinvestment Act. The fiscal effect of the Act for the Division of Correction includes an estimated 84 new regular positions and $4.4 million in personnel costs, as well as $454,000 in equipment purchases and smaller amounts for various other costs. The new positions and associated costs are primarily a result of the Act's requirements for increased risk and needs assessment and individual case planning, identification of academic needs, and increased programming and treatment for inmates. Equipment and other costs associated with the Act are related to implementation of a new risk and needs assessment instrument and a new adult basic education instrument, as well as technical changes to the Offender Case Management System to track the earning of inmate diminution credits.

The fiscal 2018 baseline also reflects a reduction of $950,000 in special funds for the Maryland Correctional Enterprises' Enterprise Resource Planning Information Technology project, as well as a reduction of $1 million in general funds for the removal of one-time funding to purchase drone detection systems at the Eastern and Western correctional institutions. The decrease for drone detection systems is partially offset by an increase of $500,000 in general funds for anticipated ongoing maintenance costs associated with the systems.

Maryland Parole Commission

The fiscal 2018 baseline adds $358,000 in general fund costs associated with Chapter 515. The fiscal effect of the Act for the Maryland Parole Commission includes an estimated six new regular positions and $321,000 in personnel costs. The new positions and associated costs are related to the Act's requirement regarding administrative release orders. The remaining $37,000 is for equipment replacement and various other costs.

Division of Parole and Probation

The fiscal 2018 baseline includes one significant increase, $817,000 in general funds, associated with Chapter 515. The fiscal effect of the Act for the Division of Parole and Probation includes an estimated 14 new regular positions and $754,000 in personnel costs. The new positions and associated costs are a result of the Act's requirements regarding the issuing of certificates of rehabilitation. The remaining $63,000 is for equipment purchases and various other costs.

Division of Pretrial Detention

Significant adjustments in the fiscal 2018 baseline for the Division of Pretrial Detention include $1 million in new, ongoing maintenance costs associated with the implementation of cell phone managed access technology at the Metropolitan Reception, Diagnostic, and Classification Center, and the Baltimore Central Booking and Intake Facility.

Maryland Department of Transportation

The Maryland Department of Transportation (MDOT) is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. It is involved in all modes of transportation within the State, including owning and operating the Baltimore-Washington International Thurgood Marshall Airport, Martin State Airport, and the public terminals at the Port of Baltimore; constructing and maintaining State roads; regulating and licensing drivers and vehicles; and operating bus and rail transit systems.

MDOT is funded through the Transportation Trust Fund, a nonlapsing special fund account whose revenue sources include motor fuel tax receipts, titling tax revenues, vehicle registration fees, a portion of the State's corporate income and sales tax, revenues generated by the individual modes, and proceeds from the sale of bonds.

This section discusses MDOT's operating budget. Debt service, local highway user revenue and transit grants, and capital programs are discussed elsewhere in this report. Changes in the baseline operating budgets of the individual modes are discussed in more detail below.

Expenditures, Funds, and Positions for the Maryland Department of Transportation
Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
The Secretary's Office	$75,339	$83,051	$82,833	$85,248	$2,415	2.9%
WMATA – Operating Budget	284,844	320,422	323,422	346,000	22,578	7.0%
Debt Service Requirements	248,348	282,667	309,912	342,477	32,565	10.5%
State Highway Administration	301,488	262,031	270,773	307,301	36,529	13.5%
Maryland Port Administration	47,867	50,979	51,421	52,782	1,361	2.7%
Motor Vehicle Administration	194,887	204,678	206,008	210,905	4,897	2.4%
Maryland Transit Administration	767,009	763,837	786,932	824,127	37,195	4.7%
Maryland Aviation Administration	188,090	186,903	186,843	195,093	8,250	4.4%
Total	**$2,107,872**	**$2,154,567**	**$2,218,144**	**$2,363,933**	**$145,789**	**6.6%**
Fund						
Special Fund	$2,017,072	$2,057,112	$2,120,004	$2,264,477	$144,474	6.8%
Federal Fund	89,843	96,555	97,241	98,533	1,292	1.3%
Reimbursable Fund	957	900	900	923	23	2.6%
Total	**$2,107,872**	**$2,154,567**	**$2,218,144**	**$2,363,93**	**$145,789**	**6.6%**
Personnel						
Regular Positions	7,376.0	7,416.0	8,909.0	8,921.0	13.0	0.1%
Full-time Equivalent Contractuals	25.0	27.0	28.0	36.0	8.0	28.4%

MDOT: Maryland Department of Transportation   WMATA: Washington Metropolitan Area Transit Authority

Washington Metropolitan Area Transit Authority

The operating grant subsidy for the Washington Metropolitan Area Transit Authority increases by $22.6 million, or 7%, in the fiscal 2018 baseline. This is due to increases in operating costs for personnel, paratransit services, and formula-driven costs for bus and rail services that are not paid from farebox revenues. The increase is based on the department's assumed grant level in its draft forecast.

State Highway Administration

The fiscal 2018 baseline budget includes an adjustment to set winter maintenance funding at the five-year average level of $93.8 million, which is a $32.8 million increase over the amount budgeted in fiscal 2017.

Maryland Port Administration

The fiscal 2018 baseline budget for the Maryland Port Administration includes a $552,508 increase in contractual costs for security provided by the Maryland Transportation Authority.

Motor Vehicle Administration

The fiscal 2018 baseline budget for the Motor Vehicle Administration includes the following adjustments:

- a deficiency of more than $400,000 in fiscal 2017 for the implementation of Chapter 512 of 2016 (Noah's Law), as well as the creation of 6.5 full-time equivalent positions, of which all but $33,000 of the deficiency carries forward into fiscal 2018;

- a deficiency of $587,006 in fiscal 2017 for the implementation of Chapter 446 of 2016 (Motor Vehicle Insurance – Program to Incentivize and Enable Uninsured Vehicle Owners to Be Insured) – which establishes a program to assist uninsured drivers with past-due insurance fines and uninsured vehicles to become insured – of which approximately $402,000 of this amount are one-time costs, with the rest carrying forward into fiscal 2018; and

- a reduction of $639,435 in credit card processing fees to align with actual fiscal 2016 spending.

Maryland Transit Administration

The fiscal 2018 baseline budget for the Maryland Transit Administration includes the following adjustments:

- a $13.5 million increase for union salaries to reflect retroactive cost-of-living allowances pursuant to provisions in the Memorandum of Understanding signed to replace the collective bargaining contract that ended June 30, 2014;

- a $9.9 million increase for the Maryland Area Regional Commuter service contracts;

- a $2.5 million increase for paratransit services reflecting increased ridership;

- a $2.2 million fiscal 2017 deficiency that is expected to be carried forward into fiscal 2018 for portions of the BaltimoreLink initiative not funded in the base budget; and

- an increase of $322,000 for overtime to be used to expand Light Rail service hours as part of the BaltimoreLink initiative.

Maryland Aviation Administration

The fiscal 2018 baseline budget for the Motor Vehicle Administration includes the following adjustments:

- a reduction of $1.2 million in debt service payments for debt used to purchase shuttle buses;

- an increase of $2.1 million in contractual costs for security provided by the Maryland Transportation Authority;

- an increase of $4.2 million in contractual costs for various contracts with curbside customer service providers, marketing consultants, information technology service providers, and international baggage claim customer service providers; and

- an increase of $623,061 for increased compensation for officers who missed step increases agreed to as part of the State Law Enforcement Officers Labor Alliance collective bargaining agreement.

Higher Education – State Colleges and Universities

The baseline budget is comprised of estimated current unrestricted and restricted expenditures for the University System of Maryland (USM), Morgan State University (MSU), St. Mary's College of Maryland (SMCM), and Baltimore City Community College (BCCC). Expenditures are based on estimated mandatory costs and are funded by various revenue sources including general funds, the Higher Education Investment Fund (HEIF), tuition and fees, and other unrestricted and restricted fund sources such as the sale of auxiliary and educational services and grants and contracts at each institution. The following table shows total State support for USM institutions, MSU, SMCM, and BCCC.

Expenditures, Funds, and Positions for Higher Education
Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
Morgan State University	$215,109	$228,445	$239,690	$245,878	$6,189	2.6%
St. Mary's College of Maryland	65,643	72,402	72,956	75,022	2,065	2.8%
University of Maryland (UM), Baltimore	1,046,183	1,084,530	1,094,296	1,123,504	29,208	2.7%
UM, College Park	1,850,543	1,911,751	1,961,944	2,063,536	101,592	5.2%
Bowie State University	114,910	121,572	122,239	124,366	2,126	1.7%
Towson University	440,598	466,798	482,573	491,901	9,328	1.9%
UM Eastern Shore	129,501	140,314	141,811	145,132	3,320	2.3%
Frostburg State University	110,011	113,750	116,965	121,432	4,467	3.8%
Coppin State University	81,869	91,340	92,991	94,098	1,108	1.2%
University of Baltimore	127,541	139,771	139,539	139,197	-342	-0.3%
Salisbury University	182,552	187,744	196,133	201,730	5,597	2.9%
UM University College	391,199	391,227	407,178	416,279	9,101	2.2%
UM Baltimore County	403,703	419,566	429,951	444,825	14,874	3.5%
UM Center for Environmental Science	45,250	47,614	48,102	49,841	1,739	3.6%
University System of Maryland Office	29,395	48,990	39,067	39,732	664	1.7%
Baltimore City Community College	82,780	91,263	91,043	91,221	178	0.2%
Total	**$5,316,787**	**$5,557,079**	**$5,676,478**	**$5,867,693**	**$191,215**	**3.4%**
Fund						
Unrestricted Fund	$4,095,896	$4,270,787	$4,368,374	$4,490,767	$122,393	2.8%
Restricted Fund	1,220,891	1,286,292	1,308,104	1,376,926	68,822	5.3%
Total	**$5,316,787**	**$5,557,079**	**$5,676,478**	**$5,867,693**	**$191,215**	**3.4%**
Personnel						
Regular Positions	25,516.0	25,632.0	25,631.0	26,019.0	389.0	1.5%
Full-time Equivalent Contractuals	7,006.0	6,568.0	6,650.0	6,650.0	0.0	0%

University System of Maryland and Morgan State University

- Total mandatory costs increase by an estimated $229.8 million for USM, which includes current unrestricted (primarily State funds, and tuition and fee revenue) and restricted funds.

- The baseline budget provides the State funding (comprised of general funds and the HEIF) portion of USM's mandatory costs. In fiscal 2018, the State-funded portion of mandatory costs is estimated to increase by $80.0 million, or 6.0%, over fiscal 2017. This includes increases for personnel similar to that of other State employees, new facilities, legislative mandates, and other operating costs.

- Total mandatory costs increase by an estimated $9.9 million for MSU. The State funded portion of MSU's mandatory costs is estimated to increase by $5.1 million, or 5.5%, over fiscal 2017. This includes increases for personnel, legislative mandates, and other operating costs.

- For both USM and MSU, the State share of mandatory costs represents the amount not covered by a projected 3.0% tuition increase as well as additional enrollment growth. However, legislative mandates are fully funded through general funds.

- Resident undergraduate enrollment growth accounts for $7.2 million of the total increase in mandatory costs, of which $6.7 million and $0.5 million are attributed to USM and MSU, respectively. The cost of enrollment growth was calculated by multiplying the budgeted fiscal 2017 enrollment by the fiscal 2017 to 2018 growth rate projected by the Maryland Higher Education Commission. The estimated fiscal 2018 enrollment was multiplied by a per-student funding rate, which is based on USM's fiscal 2009 rate that has been inflated by the three-year Higher Education Price Index average.

- Of the estimated $30.4 million increase in USM undergraduate tuition and fee revenues, $9.7 million is attributable to new enrollments, which was based on each institution's projected enrollment growth and the projected fiscal 2018 resident and nonresident tuition and fee rate. For MSU, $0.4 million of the $1.2 million increase in undergraduate tuition and fee revenues is attributable to new enrollments.

- Graduate tuition and fee revenues for USM institutions and MSU are estimated to increase by $10.4 million and $0.2 million, respectively.

- Other current revenues are estimated to increase by $36.1 million for USM institutions, assuming auxiliary and other sources increase 3.0%. Other current revenues are estimated to increase by $1.1 million for MSU assuming auxiliary and other sources increase by 3.0%.

St. Mary's College of Maryland

- SMCM receives State support through a statutory formula that increases the working appropriation by the funds required to offset inflation as determined by the implicit price deflator for State and local government. The implicit price deflator is estimated to be 2.35% in fiscal 2018. General funds through this formula for SMCM are expected to increase 2.5%, or $0.5 million.

- Beginning in fiscal 2013, SMCM was authorized to receive a fixed $0.4 million from the HEIF to use in its funding formula. Due to Chapter 563 of 2013, SMCM received an additional $2.2 million in 2015 to support a tuition freeze and expand certain financial aid programs. Total special funds for the college are estimated to be $2.5 million in fiscal 2018, the same amount as in fiscal 2017.

Baltimore County Community College

- General funds for BCCC are determined by a statutory formula that takes into account enrollment and State support for selected public four-year institutions. In fiscal 2018, BCCC will receive either 60.0% of funds per full-time equivalent student (FTES) that the selected public four-year institutions receive per FTES or the prior year's appropriation, whichever is higher. In fiscal 2018, per-FTES funding is estimated to be $7,338 using the 60.0% calculation, for a total of $38.0 million. This is a decrease of $1.8 million, or 4.5%, from fiscal 2017. Hold harmless funding is, therefore, necessary to make the fiscal 2018 appropriation equal to the fiscal 2017 appropriation of $39.8 million.

- BCCC also receives funding through the English for Speakers of Other Languages Program, estimated at $0.9 million in fiscal 2018.

Other State Agencies

C00A Judiciary

The Judiciary is composed of four courts and six agencies, which support the administrative, personnel, and regulatory functions of the Judicial Branch of government. The four courts are the Court of Appeals, Court of Special Appeals, circuit courts, and the District Court. The fiscal 2018 baseline budget is primarily driven by the following adjustments:

- $0.9 million in general funds have been added for three circuit court and three District Court judges as well as support positions and operational funds consistent with the judicial certification of need introduced during the 2016 session and the assumption that positions will be requested during the 2017 session for funding in fiscal 2018; and

- $3.0 million in special funds have been removed due to a decrease in the payment from the Circuit Court Real Property Records Improvement Fund to the State Archives under the Memorandum of Understanding (MOU) between the two departments.

C80B Office of the Public Defender

The Office of the Public Defender provides legal representation and related services to indigent persons in most criminal matters and involuntary commitment proceedings. The agency provides these services through 12 district offices and two specialized units. The fiscal 2018 baseline budget includes an increase of $5.5 million in general funds for an anticipated deficiency for panel attorneys, personnel, and other operating expenses, based on fiscal 2016 cost overruns, which are projected to recur in fiscal 2018.

C81C Office of the Attorney General

The Attorney General acts as legal counsel to the Governor, General Assembly, Judiciary, and all departments, boards, and commissions. The Office of the Attorney General represents the State in all matters of interest to the State, including civil litigation and criminal appeals in all State and federal courts. The fiscal 2018 baseline budget is primarily driven by the following adjustments:

- an increase of $486,469 for five new positions and other operating costs attributable to the implementation of Chapter 165 of 2015 (Maryland False Claims Act); and

- a decrease of $3.2 million in special funds due to the anticipated expenditure of the remaining funds in the Mortgage Loan Servicing Practices Settlement Fund.

C90G00 Public Service Commission

The Public Service Commission regulates gas, electric, telephone, water, sewage disposal, and certain for-hire passenger transportation companies doing business in Maryland. The fiscal 2018 baseline includes one major change: a decrease in the amount of grants to non-State agencies receiving funds from the Customer Investment Fund, which was created as a condition of the merger between Exelon Corporation and Constellation Energy Group. Consistent with the remaining available funds for these grants, the fiscal 2018 baseline reflects a decrease of approximately $8.0 million, which provides for a total of $0.57 million.

D12A02 Department of Disabilities

The Maryland Department of Disabilities (MDOD) is the principal State agency responsible for developing, maintaining, revising, and enforcing statewide disability policies and standards throughout the units of State government. For MDOD, the baseline assumes a $500,000 increase in federal funds for the federal PROMISE grant, a multi-year federal grant with the goal of increasing the educational attainment and employment of individuals to improve self-sufficiency and reduce their reliance on State and federal resources.

D13A13 Maryland Energy Administration

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy-related policies and activities among State and local agencies.

The primary funding source for MEA is the Strategic Energy Investment Fund (SEIF). The SEIF is primarily composed of Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auction proceeds. The fiscal 2018 baseline assumes the allowance clearing price is equal to the average clearing price in auctions held in the current control period, which is equal to $5.54 and, thus, there is an overall reduction in available SEIF revenue. Adjustments to the fiscal 2018 baseline are also impacted by the planned use of the SEIF fund balance in fiscal 2017, lower revenue than was anticipated at the time of fiscal 2017 budget development (providing higher funding in that year than might otherwise occur), and changes in the anticipated need for the SEIF to support Energy Performance Contracts in other State agencies. Adjustments to the fiscal 2018 baseline for MEA related to the SEIF revenue from RGGI auctions are as follows:

- a decrease of $5.2 million for low- and moderate-income energy efficiency programs; providing $5.1 million;

- a decrease of $2.5 million for general energy efficiency projects; providing $3.3 million; and

- a decrease of $6.3 million for renewable and clean energy programs and initiatives; providing a total of $11.6 million.

Other major changes in MEA's fiscal 2017 baseline are as follows:

- a one-time withdrawal of $3.3 million in funds that were restricted from MEA's budget for use by the Maryland Clean Energy Center which are not expected to be released, but that are fully replaced in MEA's fiscal 2017 baseline by budget amendment;

- a decrease of $5.0 million in the State Agency Loan Program, which is used for State agency energy efficiency, due to one-time federal funding that was available as a result of a swap of SEIF special funds with federal funds from the American Recovery and Reinvestment Act of 2009;

- a decrease of $3.0 million in special funds available as a result of a condition of the approval of the Certificate of Public Convenience and Necessity for the electric generation station at Cove Point because of a decrease in overall available funding from this source in fiscal 2018; and

- a decrease of $145,275 due to the end of a federal grant for building code assistance in fiscal 2017.

D15A05 Executive Department – Boards, Commissions, and Offices

The Boards, Commissions, and Offices unit of the Executive Department contains various entities created by executive order to provide planning and coordination for Executive Branch functions or to investigate and make recommendations on problems affecting the administration of government or the welfare of the State. The fiscal 2018 baseline budget is primarily driven by an increase of $1.8 million in general funds and $1.8 million in special funds for the implementation of Chapter 654 of 2016 (Maryland Corps Program) in the Governor's Office of Community Initiatives.

D18A18 Governor's Office for Children and Interagency Fund

The Governor's Office for Children (GOC) oversees a coordinated, comprehensive, interagency approach to the development of integrated systems of care that are child and family focused and driven; emphasizes prevention, early intervention, and community-based services for all children and families; and pays special attention to at-risk populations. GOC administers the Children's Cabinet Interagency Fund, which makes competitive and non-competitive grants to Local Management Boards (LMB). The fiscal 2018 baseline includes an increase of $3.1 million in general funds for competitive grants to LMBs. This increase is part of a multi-year commitment by GOC to alter the grant award process to LMBs.

D26A07 Department of Aging

The Maryland Department of Aging has the responsibility for administering community-based programs and services for older Marylanders, evaluating the services they need, and determining the extent to which public and private programs meet those needs. The fiscal 2018 baseline includes the following changes:

- a decrease of $1.4 million ($1.3 million in federal funds and $132,300 in general funds) due to the transfer of the Senior Community Service Employment Program to the Department of Labor, Licensing, and Regulation (DLLR); and

- an increase of $3.9 million in federal funds due to three new programs that started in fiscal 2016, but were not budgeted: $900,000 for the Veterans Home Based Program; $178,871 for the Commodity Supplemental Food Program; and $2.8 million for reimbursements to local Area Agencies on Aging for Medicaid planning activities.

D28A03 Maryland Stadium Authority

The Maryland Stadium Authority manages facilities for professional baseball and football teams and studies, constructs, and finances other projects such as convention centers and the Baltimore City School Revitalization program. The fiscal 2018 baseline includes updated debt service payments for the Montgomery County Conference Center and the Hippodrome Performing Arts Center. Additionally, the baseline assumes updated estimates of the State's share of the operating deficits for the Baltimore City Convention Center and the Ocean City Convention Center. Finally, the baseline includes an additional $350,000 in special funds reflecting a mandate for youth and amateur sporting events as provided in Chapter 727 of 2016 (The Maryland International and Preakness Stakes Incentives Act).

D38I01 State Board of Elections

The State Board of Elections (SBE) supervises and manages elections and ensures compliance with State and federal elections laws. The fiscal 2018 baseline reflects a $1.4 million decrease in payments for the new optical scan voting system and all associated costs. An equivalent decrease in spending is reflected in the Department of Information Technology (DoIT).

D50H01 Military Department

The Military Department provides overall direction, development, and maintenance of the Maryland National Guard (MDNG). MDNG may be called up by the Governor during State emergencies or activated by the federal Department of Defense. The department also operates the Maryland Emergency Management Agency, which is responsible for statewide emergency response activities. The fiscal 2018 baseline anticipates two fiscal 2017 budget amendments that will reallocate $24,377 in general funds for salary increases through the Annual Salary Review process and will increase the department's federal fund appropriation by $850,000 to continue funding provided for armed security at the Fifth Regiment Armory in Baltimore City. This funding is expected to continue in fiscal 2018.

D55P00 Department of Veterans Affairs

The Maryland Department of Veterans Affairs (MDVA) provides a variety of administrative, outreach, and support services to the State's veterans and their families, dependents, and survivors. The department also manages veterans' cemeteries, maintains three veterans' war memorials in cooperation with local jurisdictions, and operates and manages the Charlotte Hall Veterans Home (CHVH) in St. Mary's County.

The fiscal 2018 baseline reflects an increase of $1.3 million in special funds to pay for CHVH operating expenses that are not covered by the contractor. This increase is the result of a change in the funding model at CHVH. In previous years, MDVA covered operating expenses at CHVH directly with federal funds left over at the end of the fiscal year after paying the contractor. However, federal funding was uncertain and sometimes resulted in account payable deficits. Beginning mid-way through fiscal 2017, MDVA is charging a per-diem bed-lease fee to the contractor during the fiscal year, which is the source of the special funds. This creates more certainty that MDVA will have sufficient funding to cover operating expenses. At the same time, MDVA continues to remit the federal funds to the contractor at the end of the year and, thus, shifts the funding uncertainty to the contractor. Therefore, the special fund increase anticipated in the fiscal 2018 budget is the difference between the amount in the fiscal 2017 legislative appropriation, which covered a part of the year, and the amount required to cover operating expenses at CHVH for an entire year since the whole federal fund appropriation now will be remitted to the contractor.

D60A State Archives

The Maryland State Archives is the central depository for government and designated private records of permanent value. The fiscal 2017 appropriation includes $5 million in special funds from the Maryland Land Records Fund – housed in the Judiciary – to be used by State Archives for the transfer and storage of Maryland Land Records. In prior years, State Archives and the Judiciary negotiated an annual MOU for the $5 million but fiscal 2018 starts a five-year MOU decreasing the amount received with State Archives receiving $2 million in special funds in fiscal 2018. As a result, there will be the need for $3 million in general fund support in fiscal 2018.

D78Y01 Maryland Health Benefit Exchange

The Maryland Health Benefit Exchange (MHBE) was created during the 2011 session in response to the federal Patient Protection and Affordable Care Act of 2010. The MHBE is intended to provide a marketplace for individuals and small businesses to purchase affordable health care coverage. Following the change in fiscal 2016 required by Chapter 159 of 2013 (Maryland Health Progress Act), it is expected that the MHBE will be funded with $56.5 million in special funds, which includes the mandated $35.0 million and $21.3 million for reinsurance, in addition to federal funds.

E00A Comptroller of Maryland

The Comptroller of Maryland is responsible for the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administrating financial accounts. The fiscal 2017 appropriation includes $642,600 in general funds for one-time expenditures associated with the Maryland Achieving a Better Life Experience program. The $642,000 consists of $102,000 for operating expenses for the Comptroller and $540,600 for the College Savings Plan to implement the program. The fiscal 2018 baseline reflects the removal of these one-time expenditures.

E75D State Lottery Agency

The State Lottery Agency is responsible for administering and operating lottery games that generate revenue for the State and for regulating the gaming industry. Under regular lottery operations, the baseline assumes no growth in the contracts for the online lottery games. Further, the fiscal 2018 baseline assumes no increase in lottery personnel for the first time since the enactment of Chapter 1 of the second special session of 2012 which created the video lottery terminal (VLT) and gaming program. However, the baseline does reflect an adjustment to the special funds available to the lottery agency based on its share of VLT revenues expected in fiscal 2018.

F10A02 Department of Budget and Management – Personnel

The Office of Personnel Services and Benefits (OPSB) within the Department of Budget and Management (DBM) administers State personnel policies and the health benefits program. OPSB shares responsibility with State agencies for the administration of personnel functions through policy development, guidance, and interpretation, as well as specifically administers salaries and classifications, recruitment and examination, employee relations, employee benefits, and medical services. The budget decreases by $918,406 in reimbursable funds in the fiscal 2018 baseline to reflect one-time fiscal 2017 funding for the Benefit Administration System that will not be needed in fiscal 2018.

F50 Department of Information Technology

DoIT provides information technology (IT) leadership to manage State IT resources. DoIT also supports statewide telecommunications networks, daily agency IT operations, and web systems. The department provides technical guidance for major IT development projects and funding for these projects through the Major Information Technology Development Project Fund (MITDPF).

In the fiscal 2018 baseline, funding for the MITDPF is expected to decrease from $52.2 million in fiscal 2017 to $48.3 million in fiscal 2018. General funds are expected to increase by $8.3 million, while special funds fall by $12.1 million. The most significant adjustments are in the following projects:

- an increase of $11.8 million in general funds for the Department of Human Resources modernization project as the project ramps up, which assumes a 50% fund split between the State and federal government;

- a decrease of $8.0 million ($5.5 million in general funds and $2.5 million in special funds) for the purchase of Maryland First Responders Interoperable Radio System Team (FiRST) 700 Megahertz public safety communication system equipment in response to the Administration slowing the project construction schedule;

- a decrease of $5.8 million (an increase of $3.8 million in general funds and a decrease of $9.6 million in special funds) for the Comptroller’s Integrated Tax System project;

- an increase of $1.5 million in general funds for the Department of Public Safety and Correctional Services’ Computerized Criminal History Replacement project;

- a decrease of $1.4 million in general funds for SBE’s Voting System Replacement project as the project nears completion; and

- a decrease of $1.2 million in general funds for the State Police’s Auto, Licensing, and Registration Tracking System.

DoIT is also managing three IT projects for DBM. The baseline adjusts the cash flow of these projects. The adjustments made are:

- a decrease of $1,875,000 in special funds for the Central Collection Unit project, which reflects the deletion of funds, since prior year appropriations are sufficient to complete the project;

- an increase of $86,038 in reimbursable funds appropriated for the Statewide Personnel System project, of which approximately 88% of the appropriation is supported by general funds and so the general fund share totals approximately $76,000; and

- a decrease of $13,054,670 in reimbursable funds for the Enterprise Budgeting System, of which approximately $11,500,000 is general funds, since the project has been fully funded and no additional funds are needed.

The department also operates the new Maryland FiRST 700 Megahertz public safety communication system. To support additional system maintenance, $0.6 million is added to the baseline budget.

H00 Department of General Services

The Department of General Services performs a variety of functions, including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; the provision of real estate services; and operation of the Maryland Capitol Police. The fiscal 2018 baseline is largely flat; however, it does reflect an increase in salaries based on budget amendments to allocate funds related to an Annual Salary Review and collective bargaining agreements for security officers.

K00A Department of Natural Resources

The Department of Natural Resources manages the protection, enhancement, and use of the State’s natural resources. The fiscal 2018 baseline assumes the following adjustments:

- **Maryland Park Service:** an increase of $8.9 million in special funds, comprised of $6.9 million in additional transfer tax special funds due to the increase in the transfer tax revenue available and, thus, the funding that is allocated for administration; and an increase of $1.9 million in special funds to reflect increased spending from Forest or Park Reserve Fund revenue mandated by Chapter 389 of 2015 (Maryland Park Service – Operations Revenue – Mandated Appropriation);

- **Forest Service:** an increase of $1.9 million in general funds since the Forest Service is no longer receiving an equivalent amount of Forest or Park Reserve Fund special funds that are now allocated to the Maryland Park Service per Chapter 389;

- **Chesapeake and Coastal Service:** a decrease of $1.4 million in Chesapeake and Atlantic Coastal Bays 2010 Trust Fund special funds in Chesapeake and Coastal Service for a total of $51.6 million in trust fund-supported fiscal 2018 spending based on estimated revenues from the motor fuel tax ($13.2 million) and short-term rental vehicles tax ($38.4 million);

- **Land Acquisition and Planning:** an overall decrease of $822,439 in special funds to reflect a decrease of $918,000 due to the removal of the funding that was budgeted from the Calvert County Gaming Tax Fund – State admissions and amusement tax on electronic bingo and electronic tip jars in Calvert County – for the Boys and Girls Club of North Beach, the Town of North Beach, and the Town of Chesapeake Beach that will now be budgeted in Payments to Civil Divisions of the State, which is offset partially by an increase of $95,561 to reflect the fiscal 2016 actual amount budgeted for grants to increase youth recreational opportunities in Calvert County and, thus, bringing the fiscal 2018 amount to $1,040,803; and

- **Natural Resources Police:** a decrease of $765,000 in general funds for one-time vehicle expenses in fiscal 2017.

In addition to the unit specific adjustments noted above, there is also an adjustment for the State Law Enforcement Officer Labor Alliance (SLEOLA) collective bargaining funding in the Maryland Park Service and Natural Resources Police. There is an increase of $119,260 in special funds in fiscal 2017 for the Maryland Park Service, which carries over into fiscal 2018 and is increased by $7,156 in special funds to reflect the allocation of missed step funding. Similarly, for the Natural Resources Police there is an increase of $2,022,094 in general funds in fiscal 2017, which carries over into fiscal 2018 and is increased by $121,326 in general funds.

L00A Maryland Department of Agriculture

The Maryland Department of Agriculture administers and promotes agricultural services and activities throughout the State. The fiscal 2018 baseline includes the following adjustments:

- **Maryland Agricultural and Resource-based Industry Development Corporation:** an increase of $5 million in general funds to reflect the mandated allocation of funding per Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds) to provide grants for the use of the Next Generation Farmland Acquisition Program; and

- **Rural Maryland Council:** a decrease of $2 million in general funds to reflect the one-time nature of the nonmandated enhancement grant funding provided in fiscal 2017 for implementing Chapter 469 of 2014 (Rural Maryland Prosperity Investment Fund – Revisions and Extensions of Termination Date) by encouraging and increasing entrepreneurism; reducing unemployment and underemployment; preserving valuable working landscapes; promoting intergovernmental cooperation and public-private partnerships throughout the State; and enhancing housing, transportation, water, wastewater, and broadband infrastructure and services.

P00 Department of Labor, Licensing, and Regulation

DLLR is responsible for administering programs related to business regulation, worker safety, occupational and professional licensing, workforce development, and unemployment insurance. The fiscal 2018 baseline reflects an increase of $250,000 in general funds and $250,000 in special funds for the Center for Construction and Innovation Excellence based on funding mandated by Chapter 34 of 2016 (Construction Education and Innovation – Establishment of Fund). There is also an increase of $132,000 in general funds and $1,191,863 in federal funds because of a transfer of the Senior Community Service Employment Program from the Department of Aging to the Division of Workforce Development in DLLR.

The fiscal 2018 baseline also assumes $23,558,483 in federal fund spending to cover the costs associated with a new Unemployment Insurance (UI) Modernization program, an increase of $1,010,832 in federal funds relative to fiscal 2017. The current UI program is functioning with an out-of-date technological system. With the current system, any updates to the distribution of UI resources takes several days to complete. With the new system, the update process will be significantly faster allowing for more timely and accurate processing of information.

In fiscal 2017, there was an increase of $500,000 in special funds for the implementation of Preakness Stakes Incentives, Chapter 727 of 2016, in the Maryland Horseracing Commission. This funding is not budgeted in fiscal 2017 and, thus, is reflected as a deficiency appropriation of $500,000 in special funds in the fiscal 2018 baseline. In addition, there is an increase of $150,000 in special funds for fiscal 2018 bringing the total funding to $650,000.

As a result of the new Prince George's County facility opening in fiscal 2017, VLT revenues are anticipated to increase in fiscal 2018, which will increase special funds for the local impact grants, racetrack facility grants, and purse dedication for Maryland Horseracing. The local impact grants are anticipated to increase by $30,164,546, with an increase of $2,072,054 for racetrack facility grants, and $8,233,596 for the purse dedication.

R00A02 Maryland State Department of Education – Aid to Education

The Maryland State Department of Education coordinates the State's K-12 education policies. The fiscal 2018 baseline includes a fiscal 2017 deficiency of $12.2 million for the Child Care Subsidy Program for costs due to changes in the federal reauthorization of the Child Care and Development Block Grant. These changes now stipulate that eligibility for assistance may only be redetermined every 12 months, which began implementation in October 2016. The fiscal 2018 baseline also reflects an increase of approximately $9.5 million in fiscal 2018 for increased costs due to implementation for a full fiscal year.

R62I Maryland Higher Education Commission

The Maryland Higher Education Commission (MHEC) is the State's coordinating body for the 13 campuses of the University System of Maryland, Morgan State University, St. Mary's College of Maryland, 16 community colleges, and the State's private colleges and universities. Adjustments to the fiscal 2018 baseline budget include the following:

- an increase of $5.4 million in general funds for the Sellinger Program for private institutions to reflect funding at 10.5% of the current year appropriation for select public four-year institutions on a per student basis;

- an increase of $5.2 million in general funds from Chapter 689 of 2016 (College Affordability Act), which creates a new student loan tax credit, to reflect personnel needed by MHEC to manage that program and the State matching funding; and

- a decrease of $0.8 million in special funds due to Chapter 178 of 2016 (State Board of Physicians – Distribution of Fees by Comptroller – Loan Assistance Repayment for Physicians and Physicians Assistants), which ends the transfer of fee revenue from the Maryland Board of Physicians to MHEC for the Health Personnel Shortage Incentive Grant Program.

Two financial aid programs were increased 3% to reflect an assumed 3% tuition increase for undergraduates at public institutions as well as some funding assumptions. The largest financial aid program, Educational Excellence Awards, increases by $5.6 million for a total of $85.6 million in general funds, while the Delegate Scholarships Program grows by almost $0.2 million to $6.5 million in general funds.

R99E Maryland School for the Deaf

The Maryland School for the Deaf (MSD) provides comprehensive preK-12 education to deaf students through day and residential programs. Formula funding for MSD is based on growth in State per-pupil funding provided to local school systems and enrollment as determined by a four-year moving average. The fiscal 2018 baseline reflects an increase of $891,778 in general funds to accommodate anticipated enrollment and per pupil funding changes.

S00A Department of Housing and Community Development

The Department of Housing and Community Development works to encourage homeownership, expand affordable rental housing, and revitalize communities. The fiscal 2018 baseline budget includes the following adjustments:

- a decrease of $4.3 million in special funds to reflect reduced EmPOWER funding due to a scheduled reduction in the allocation of funds from the surcharge on utility bills available for energy efficiency programs; and

- a decrease of $3.0 million in special funds to reflect reduced funding available from the Customer Investment Fund for energy efficiency programs.

T00 Department of Commerce

The Department of Commerce aims to increase business investment and promote job creation. The fiscal 2018 baseline reflects an increase in the Small, Minority, and Women-Owned Business account based on the increase in VLT proceeds expected in fiscal 2018. The baselines for the State Arts Council, Maryland Tourism Board, and the Cyber Maryland Program reflect spending levels that are mandated by statute. Further, federal funds in the baseline are reduced due to the termination of the U.S. Small Business Credit Initiative Program.

U00A Maryland Department of the Environment

The Maryland Department of the Environment is responsible for protecting and restoring the quality of the State's air, land, and water resources and safeguarding citizens from health risks associated with pollution. The fiscal 2018 baseline includes the following adjustments:

- **Bay Restoration Fund Debt Service:** an increase of $10.3 million in Bay Restoration Fund special funds for debt service on Bay Restoration Fund bonds for principal and interest on debt issued in fiscal 2008 ($50.0 million), fiscal 2014 ($100.0 million), and fiscal 2016 ($180.0 million), and for interest on debt anticipated to be issued in March/April of fiscal 2017 ($100.0 million), according to the September 7, 2016 Capital Debt Affordability Committee meeting document; and

- **Coordinating Offices:** an increase of $2.0 million in Bay Restoration Fund special funds for operation and maintenance grants to local jurisdictions based on additional wastewater treatment plants that will be upgraded to enhanced nutrient removal technology and, thus, eligible for funding in fiscal 2018.

V10A Department of Juvenile Services

The Department of Juvenile Services is primarily responsible for providing the appropriate management, supervision, and treatment of youth who are involved in the juvenile justice system in Maryland. The fiscal 2018 baseline budget assumes:

- the fiscal 2017 reduction in per diem placements of $9 million carries forward into fiscal 2018;
- an additional $1 million in general funds for residential per diems based on a 2% provider rate increase;
- a nearly $570,000 increase in general funds for contractual mental health evaluations based on fiscal 2016 actual spending;
- an additional $560,000 for general fund utility payments through the Energy Conservation Project/State Agency Loan Payment program; and
- a $398,000 decrease in general funds for the one-time purchase of computer equipment in fiscal 2017.

W00A00 Department of State Police

The Department of State Police (DSP) exists to safeguard persons within the State, protect property, and assist in providing all persons equal protection under the law. Major changes to the fiscal 2018 baseline budget include the following:

- recognition of a fiscal 2017 budget amendment to transfer $8.0 million from DBM to DSP to fund personnel costs associated with the new SLEOLA collective bargaining agreement. This includes $6.7 million in general funds and $1.3 million in special funds. The expenses are anticipated to be ongoing costs for fiscal 2018, with an additional increase of $843,712 to recognize salary enhancements at the start of calendar 2018 for those who had missed steps in previous years;

- an increase of $506,916 in general funds for utility payments through the Energy Conservation Project/State Agency Loan Payment program; and

- an increase of $750,000 in special funds for a new grant provided to DSP through Chapter 516 of 2016 (Public Safety – Internet Crimes Against Children Task Force Fund – Establishment (Alicia's Law)), which creates a dedicated funding stream for the Internet Crimes Against Children Task Force operated by the department.

Y01A State Reserve Fund

The State Reserve Fund baseline budget consists of the Revenue Stabilization Account (Rainy Day Fund), Dedicated Purpose Account (DPA), and Catastrophic Event Account. There are no appropriations to the Catastrophic Event Account.

The Rainy Day Fund was created to retain revenues to meet future needs. Section 7-311 of the State Finance and Procurement Article requires that an amount equal to the unappropriated general fund surplus exceeding $10 million from two fiscal years prior to the allowance year shall be appropriated into the Rainy Day Fund. Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds), however, temporarily eliminated this requirement for fiscal 2017 through 2019. An appropriation totaling $50 million is still required if projected revenues are less than 7.5% of general fund revenues.

The Budget Reconciliation and Financing Act of 2015 also required that half of any surplus in excess of $10 million support the State's pension fund to reduce the unfunded liability. The annual appropriation is limited to $50 million.

Fiscal 2016 ended with an unappropriated general fund balance totaling $384.5 million, requiring the following baseline budget adjustments:

- $50.0 million appropriated into the DPA to support the State's pension fund; and

- $50.0 million appropriated into the Rainy Day Fund due to projected revenues being less than 7.5% of general fund revenues.

State Aid to Local Governments

State aid includes direct grants to local governments for various public services such as education, libraries, community colleges, transportation, public safety, health, and recreation; and State-paid retirement costs for public school teachers, librarians, and community college faculty. Although the grants may be for specific programs or purposes, local governments usually have considerable flexibility in the expenditure of these funds.

State Aid by Governmental Entity
Fiscal 2015-2018
($ in Thousands)

Entity	2015 Actual	2016 Working	2017 Working	2018 Baseline	2017-2018 $ Increase	2017-2018 % Change
Public Schools	$6,102,990	$6,150,394	$6,310,207	$6,412,754	$102,547	1.6%
County/Municipal	531,756	556,329	607,079	667,884	60,805	10.0%
Community Colleges	290,264	296,129	314,335	320,695	6,360	2.0%
Libraries	69,867	71,719	74,050	78,227	4,177	5.6%
Health	41,743	45,664	49,488	53,385	3,896	7.9%
Total	**$7,036,620**	**$7,120,235**	**$7,355,159**	**$7,532,945**	**$177,786**	**2.4%**

Overview

State aid is projected to total $7.5 billion in fiscal 2018, representing a $177.8 million, or 2.4%, increase over the prior year. Most of the State aid in fiscal 2018, as in prior years, is targeted to public schools, while funding for counties and municipalities will account for 8.9% of total State aid. Public schools will receive $6.4 billion in fiscal 2018, 85.1% of total State aid. Counties and municipalities will receive $667.9 million; community colleges will receive $320.7 million; libraries will receive $78.2 million; and local health departments will receive $53.4 million. In terms of year-over-year funding enhancements, State aid for public schools will increase by $102.5 million (1.6%); library aid will increase by $4.2 million (5.6%); community college aid will increase by $6.4 million (2.0%); and local health department grants will increase by $3.9 million (7.9%). Also, county and municipal governments will realize a $60.8 million (10.0%) increase in State aid.

Public Schools

Public schools will receive an estimated $6.4 billion in fiscal 2018, representing a $102.5 million (1.6%) increase over the prior fiscal year. The per pupil foundation amount is estimated at $7,011, a 0.7% increase from fiscal 2017. The per pupil foundation amount is inflated by the lesser of (1) the increase in the Implicit Price Deflator (IPD) for State and Local Government Purchases in the second prior fiscal year; (2) the increase in the Consumer Price Index for all urban consumers for the Washington/Baltimore Metropolitan Area in the second prior year; or (3) 5.0%. The 0.7% increase in the per pupil foundation amount is equivalent to the change in the IPD. The per pupil foundation amount is an important factor in determining State education aid because it is used in five of the major State aid formulas (the foundation program; the Geographic Cost of Education Index (GCEI); and the compensatory education, special education, and limited English proficiency formulas) that together account for approximately three-quarters of total education aid. Limited inflation results in limited growth in State education aid.

General funds are expected to decrease by $10.8 million. Special funds (Education Trust Fund, (ETF)) increase by $107.2 million over the budgeted fiscal 2017 amount, after accounting for an estimated ETF fund balance of $19.8 million at the end of fiscal 2017. General obligation bond funds total $6.1 million. The ETF special funds derived from casino gaming support State aid for public schools. These special funds are currently estimated to total $566.1 million in fiscal 2018. The September 2016 estimate by the Board of Revenue Estimates assumes that the Prince George’s County gaming facility will open on January 1, 2017, although the facility is now expected to open in early December 2016.

Foundation Program

The baseline includes $3.0 billion for the State’s foundation program, a $44.3 million (1.5%) increase from the fiscal 2017 appropriation. Part of the increase is attributable to the rise in the per pupil foundation amount from $6,964 to $7,011 ($47). Another portion of the increase is attributable to an estimated 7,311 (0.86%) increase in full-time equivalent students (FTES).

Geographic Cost of Education Index

The GCEI is a formula grant that accounts for differences in the costs of educational resources among local school systems and provides additional funding to school systems where educational resource costs are above the State average. Chapter 477 of 2015 makes funding of the program mandatory, rather than discretionary, contingent upon full funding *not* being provided in the fiscal 2016 operating budget. The Governor opted not to release funds set aside by the General Assembly ($68.1 million) to fund the GCEI at 100% in fiscal 2016, thus making full funding mandatory beginning in fiscal 2017. The formula applies a cost index to the foundation amount calculated for a school system; each eligible school system receives additional funds equal to the product of the foundation amount and the cost index. Thirteen local school systems are eligible for the GCEI funds in fiscal 2018. Fiscal 2018 funding is estimated to reach $139.1 million, an increase of $2.2 million.

Net Taxable Income Education Grants

Approximately 75% of State aid to public schools is distributed inversely to local wealth, whereby the less affluent school systems receive relatively more State aid. Net taxable income (NTI) is one component of calculating local wealth for purposes of State aid for education. Chapter 4 of 2013 provides additional education grants in counties whose formula aid is higher using November NTI as compared to September NTI. Chapter 4 established a phase-in of the grant amounts to counties receiving them beginning in fiscal 2014 at 20%, reaching 40% in fiscal 2015, and increasing incrementally toward full funding in fiscal 2018. However, Chapter 489 of 2015 delayed the scheduled phase-in of the grants by one year, altering the phase-in percentage to 40% in fiscal 2016, 60% in fiscal 2017, and 80% in fiscal 2018, with funding fully phased in by fiscal 2019. The NTI education grants totaled $8.3 million in fiscal 2014, $26.9 million in fiscal 2015, $23.8 million in fiscal 2016, $39.7 million in fiscal 2017, and increase to an estimated $50.9 million in fiscal 2018. Beginning in fiscal 2014, 18 local school systems received NTI education grants each year, except fiscal 2016, in which 19 school systems received these grants; current estimates indicate that 18 school systems will receive these grants in fiscal 2018.

Compensatory Aid

The compensatory aid program is expected to total $1.4 billion in fiscal 2018, representing a $53.1 million (4.1%) increase. This program provides additional funding to local school systems based on their enrollment of students eligible for free and reduced-price meals. The statewide funding level is calculated by using the number of eligible students multiplied by a factor of the per pupil foundation amount. The projected increase is due to a 3.4% increase in the number of children who are eligible for free and reduced-price meals and from the increase in the per pupil foundation amount.

Students with Disabilities Funding

Funding for the special education formula is expected to increase by $4.2 million (1.5%), to a total of $283.8 million in fiscal 2018. The increase is attributable to a projected 0.8% increase in the enrollment of students with disabilities and the increase in the per pupil foundation amount. A decrease of $521,600 (0.4%) is anticipated for funding of the nonpublic placement of special education students. This would bring the State’s contribution to the program to $126.1 million in fiscal 2018.

Limited English Proficiency Grants

Funding for students for whom English is a second language is based on estimated limited English proficient (LEP) enrollment counts and the per pupil foundation amount. This program is expected to increase by $19.1 million (8.4%), to a total of $246.1 million in fiscal 2018. This increase is driven by anticipated LEP enrollment growth of 7.8% and the increase in the per pupil foundation amount.

Guaranteed Tax Base Program

The baseline budget includes $52.1 million in funding for the guaranteed tax base program, a $2.4 million (4.5%) decrease compared to the fiscal 2017 amount. This program provides additional State funding to local education agencies with less than 80.0% of statewide wealth per pupil through a formula based on local wealth and the amount of local funding each jurisdiction provides to the local school system. As currently estimated, nine local school systems will receive funding under this program in fiscal 2018.

Student Transportation Funding

The baseline estimate for student transportation includes $250.4 million to fund the transportation formula, an increase of $4.7 million (1.9%) over the fiscal 2017 appropriation. In addition, $25.3 million is included for the transportation of disabled students, representing a $225,000 (0.9%) increase in funding. Changes in the student transportation formula are attributable to inflation and projected increases in FTES in 20 school systems. The increase in the disabled student transportation formula reflects an expected rise in the enrollment of students with special transportation needs; the State provides $1,000 annually for each qualifying student.

Innovative Programs

The fiscal 2018 baseline reflects $12.6 million in mandated general funds resulting from the creation of three programs through legislation passed during the 2016 legislative session. Chapter 32 of 2016 established the Public School Opportunities Enhancement Program, a grant program to assist local school systems, public community schools, and nonprofit organizations in the State in expanding or creating extended day and summer enhancement programs, as well as assisting nonprofit organizations in expanding or supporting existing educational programming during the school day. The baseline includes $7.5 million in funding for the program. Chapter 33 of 2016 established the Next Generation Scholars of Maryland Program, which allows qualified students to receive guidance and services and pre-qualify for grants to be used at the time of enrollment in an institution of higher education, provided they meet certain requirements. The baseline includes $5.0 million for the program, approximately $4.9 million of which will be provided as grants to nonprofit organizations and public school systems to provide guidance and services to students. Lastly, Chapters 681 and 682 of 2016 established a Robotics Grant Program to support public schools and nonprofit robotics clubs in maintaining existing robotics programs in the State and increasing the number of these programs. The baseline includes $250,000 for this program.

Teacher Retirement

State retirement costs for public school teachers and other professional personnel will total an estimated $722.9 million in fiscal 2018, representing a $44.3 million (5.8%) decrease. This decrease is attributed to an increase in the salary base for teachers and a slight decrease in local government contributions being more than offset by a decrease in the State contribution rate. In addition to the State's share of teacher pension costs, local governments will contribute approximately $290.9 million in fiscal 2018: $275.5 million for the local share of pension contributions as well as $15.4 million toward State Retirement Agency (SRA) administrative costs.

Community Colleges

The majority of funding for the State's locally operated community colleges is determined by the Cade formula. The Cade formula bases per pupil funding on a set statutory percentage of current year State appropriations per FTES at selected public four-year institutions of higher education. The resulting community college per student amount is multiplied by the number of FTES enrolled in the colleges in the second preceding fiscal year to identify a total formula amount. The Cade formula distributes funding based upon three components: fixed costs (38.0% of funding) proportional to full formula funding in the previous fiscal year; marginal costs (60.0% of funding) in proportion to the distribution of FTES across community colleges; and a size factor (2.0% of funding) providing additional funds to community colleges with enrollments below 80.0% of the statewide median enrollment. In fiscal 2018, the Cade formula funding totals $242.3 million. This represents an increase of $7.9 million, or 3.4%. Baltimore City Community College is a State agency and receives funding through a separate funding formula.

The fiscal 2018 baseline also includes $5.7 million for the English Speakers of Other Languages Program and $6.0 million for statewide and regional programs. In addition, small colleges are estimated to receive $5.3 million in Small College and Mountain grants and reciprocity agreement funding. The baseline also includes $61.5 million for retirement benefits to employees of community colleges. This is down 2.9% compared to the fiscal 2017 working appropriation due to payroll growing less than 1.0% and a lower contribution rate.

Libraries

The baseline estimates an increase of $1.3 million in the State library aid formula, with total funding in fiscal 2018 estimated at $37.7 million. Under Chapter 489 of 2015, the per resident amount for this aid formula was set at $14.27 in fiscal 2016 and was to be fully phased in at $16.70 in fiscal 2025. However, under Chapter 549 of 2016, the full phase-in to $16.70 per resident occurs in fiscal 2022. In addition, Chapter 715 of 2016 provides $3.0 million in the annual State budget for fiscal 2018 through 2022 to support additional operating expenses for branches of the Enoch Pratt Free Library in Baltimore City that increase their operating hours above the hours in effect as of January 1, 2016. The full $3.0 million is assumed within the fiscal 2018 baseline.

The baseline also reflects an anticipated increase in State Library Network funding of $690,500 (4.1%), bringing total funding for this program to $17.7 million in fiscal 2018. Under Chapter 489 of 2015, State Library Resource Center funding was to increase from $1.69 per resident in fiscal 2017 to $1.85 per resident in fiscal 2025 and in subsequent fiscal years. However, under Chapter 549 of 2016, the full phase-in to $1.85 per resident occurs in fiscal 2021. Chapter 489 of 2015 increased per resident funding for regional resource centers from $7.15 in fiscal 2017 to $8.75 per resident by fiscal 2025. However, under Chapter 549 of 2016, the full phase-in to $8.75 per resident occurs in fiscal 2022. The network is comprised of the State Library Resource Center, which includes the Enoch Pratt Free Central Library and the Library for the Blind and Physically Handicapped, both in Baltimore City; three regional resource centers; and metropolitan cooperative service programs.

Finally, retirement costs for librarians will total an estimated $19.8 million, representing a 4.1% decrease. Unlike the boards of education and community colleges, the State continues to pay SRA's administrative costs for local library employees.

County and Municipal Governments

Approximately 8.9% of State aid is allocated to county and municipal governments to finance general government, transportation, public safety, and recreation projects. County and municipal governments will receive $667.9 million in fiscal 2018, an increase of $60.8 million (10.0%) above the prior fiscal year. The major State aid programs assisting county and municipal governments include highway user revenues (HUR), disparity grants, teacher retirement supplemental grants (which remain level-funded at $27.7 million in fiscal 2018), police aid, gaming impact aid, Program Open Space, and local voting system grants.

Transportation

The State shares various transportation revenues, commonly referred to as HURs, with the counties and municipalities. Prior to fiscal 2010 cost containment reductions, Maryland's local governments received 30.0% of HURs. For fiscal 2011 and 2012, Chapter 484 of 2010 lowered the local shares to 8.5% and 8.1%, respectively. However, Chapter 397 of 2011 increased the fiscal 2012 local share to 8.9% and set the fiscal 2013 local share at 10.0%. The local share for fiscal 2014 and subsequent fiscal years is set at 9.6%. The local government share of the distribution of HURs is projected to total $179.7 million in fiscal 2018, a $2.3 million increase when compared to the fiscal 2017 working appropriation. This estimate is based on projected Transportation Trust Fund revenue from motor fuel taxes, motor vehicle titling taxes, motor vehicle registration fees, and corporate income taxes.

Chapter 425 of 2013 included $15.4 million in fiscal 2014 to fund transportation grants to municipal governments, allocated in a manner consistent with the HUR formula. The fiscal 2015 State budget funded the municipal transportation grants for a second year at $16.0 million. The fiscal 2016 and 2017 budgets funded the municipal transportation grants at $19.0 million and special grants to counties at $6.0 million. The fiscal 2018 baseline assumes $19.0 million in funding for municipal transportation grants as well as $6.0 million for special transportation grants to county governments. State aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2018 at $7.2 million.

Disparity Grants

Disparity grants were initiated to address the differences in the abilities of counties to raise revenues from the local income tax, which is one of the larger revenue sources for counties. Counties with per capita local income tax revenues less than 75.0% of the statewide average receive grants, assuming that all counties impose a 2.54% local tax rate. Chapter 487 of 2009 capped each county's funding under the program at the fiscal 2010 level. Chapter 425 of 2013 further modified the program in order to provide a floor funding level in conjunction with the fiscal 2010 cap for an eligible county based on the income tax rate of that county. Beginning in fiscal 2014, an eligible county or Baltimore City may receive no more than the amount distributed in fiscal 2010 or a minimum of (1) 20.0% of the total grant if the local income tax rate is at least 2.8% but less than 3.0%; (2) 40.0% of the total grant if the rate is at least 3.0% but less than 3.2%; or (3) 60.0% of the total grant if the rate is at least 3.2%. Disparity grant funding totaled $129.8 million in fiscal 2016 and $136.7 million in fiscal 2017.

Based on the statutory formula, Baltimore City and nine counties (Allegany, Caroline, Cecil, Dorchester, Garrett, Prince George's, Somerset, Washington, and Wicomico) will qualify for disparity grants in fiscal 2018. Chapter 738 of 2016 alters the calculation of the Disparity Grant program for counties with a local income tax rate of 3.2% by increasing the minimum grant amount (funding floor) to 67.5% of the formula calculation in both fiscal 2018 and 2019. Pursuant to this legislation, State aid will increase in two counties (Prince George's and Wicomico) by approximately $5.0 million in both fiscal 2018 and 2019. As a result, funding for this program is projected to total $147.7 million in fiscal 2018, which is a $10.9 million increase from fiscal 2017.

Public Safety

Maryland's counties and municipalities receive grants for police protection through the police aid formula and special crime grants. The police aid formula allocates funds on a per capita basis, and jurisdictions with higher population density receive greater per capita grants. Municipalities receive additional grants based on the number of sworn officers. Police aid in fiscal 2018 is projected to total $74.5 million, a $737,200, or 1%, increase over fiscal 2017.

Chapter 429 of 2013 expresses legislative intent to increase annual fire and rescue funding from the $10.0 million level (where it had been since fiscal 2000) to $11.7 million in fiscal 2015, $13.3 million in fiscal 2016, and $15.0 million beginning in fiscal 2017. The fiscal 2016 State budget included an additional $100,000 above the targeted amount. The fiscal 2018 baseline reflects $15.0 million for annual fire and rescue funding, which is the same as fiscal 2017. Vehicle theft prevention grants are projected to total $1.9 million, and emergency 9-1-1 grants are projected to total $14.4 million in fiscal 2018, which is the same as fiscal 2017. Other public safety grants totaling $21.7 million (targeted crime grants, State Attorney's grant, *etc*.) are also level funded in the fiscal 2018 baseline.

Chapter 516 of 2016 established the Internet Crimes Against Children (ICAC) Task Force Fund administered by the Executive Director of the Governor's Office of Crime Control and Prevention (GOCCP) to (1) provide grants to local law enforcement agencies for salaries, training, and equipment to be used for the investigation and prosecution of Internet crimes against children; (2) support the ongoing operations of the Maryland ICAC Task Force established by the Department of State Police; and (3) provide funding to specified child advocacy centers. Chapter 516 requires the Governor to include at least $2 million in the annual budget bill for the program beginning in fiscal 2018.

Chapter 519 of 2016 makes changes relating to public safety and policing generally consistent with the recommendations of the Public Safety and Policing Workgroup, including establishing a Community Program Fund within GOCCP to assist (1) local law enforcement agencies in establishing community programs and (2) agencies of local government in establishing violence intervention programs. Beginning in fiscal 2018, the Governor must include $500,000 in the annual budget bill for the fund.

Gaming Impact Grants

From the proceeds generated by video lottery terminals at video lottery facilities in the State, 5.5% is distributed to local governments in which a video lottery facility is operating. Of this amount, 18.0% would go for 20 years (starting in fiscal 2012 and ending in fiscal 2032) to Baltimore City through the Pimlico Community Development Authority and to Prince George's County for the community surrounding Rosecroft ($1.0 million annually), except that the 18.0% dedication does not apply to facilities located in Allegany, Cecil, and Worcester counties upon issuance of the Baltimore City license. Furthermore, under Chapter 464 of 2014, for fiscal 2015 through 2019, $500,000 of the 18.0% dedication is distributed to communities within three miles of Laurel Race Course, resulting in $89,300 for Howard County and an additional $357,100 for Anne Arundel County and $53,600 for Laurel in each of these five fiscal years. Upon issuance of a Prince George's County license, 5.0% of table game revenues will be distributed to local jurisdictions where a video lottery facility is located. The fiscal 2018 baseline assumes the Board of Revenue Estimates estimate based on a January 2017 opening of the Prince George's County facility; therefore, gaming impact grants will total $93.0 million in fiscal 2018, an increase of $30.2 million, or 48.0%.

Program Open Space

Under Program Open Space (POS), the State provides grants to counties and Baltimore City for land acquisition and the development of parks and recreation facilities. The fiscal 2018 baseline assumes that transfer tax revenues used to fund POS will be allocated first in accordance with the statutory formula and then distributed in accordance with provisions in Chapter 425 of 2013 (the Budget Reconciliation and Financing Act (BRFA)) as modified by Chapter 10 of 2016. The POS local allocation increases from $21.7 million in fiscal 2017 to $37.2 million in fiscal 2018. The Baltimore City Direct Grant decreases from $5.5 million in fiscal 2017 to $3.5 million in fiscal 2018.

Senior Citizen Activities Center Operating Fund

The Senior Citizen Activities Center Operating Fund is a nonlapsing fund that consists of appropriations from the State budget; the Governor is required to appropriate $750,000 annually to the fund and does so with general funds. The Senior Citizen Activities Center Operating Fund supplements any other funding for senior citizen activities centers in the State budget; it may not be used to replace existing funding. Money is distributed to counties based on a competitive grant process, with at least 50% of the funds distributed based on need for senior citizen activities centers in counties determined by the Maryland Department of Aging to meet criteria related to economic distress.

Chapter 17 of 2016 increases, from $500,000 to $750,000, the required annual appropriation to the Senior Citizen Activities Center Operating Fund beginning in fiscal 2018; requires additional expenditures under specified circumstances; and alters how the funds are distributed to counties within the State.

Local Voting System Grants

Chapter 564 of 2001 required the State Board of Elections, in consultation with local election boards, to select and certify a uniform statewide voting system with the costs to be split equally between the State and local jurisdictions. The legislation was the result of the Governor's Special Committee on Voting Systems and Election Procedures, which submitted its recommendations in February 2001. The recommendations addressed concerns arising from the 2000 presidential election regarding uniformity in voting systems among local jurisdictions. The legislation required the State to provide funding through the annual budget bill for the exclusive purpose of reducing the fiscal impact of purchasing new voting equipment. Baseline funding of grants to local boards of elections totals $3.7 million, a $1.4 million decrease from the fiscal 2017 working appropriation of $5.0 million.

Local Health Departments

The State provides funds to support the delivery of public health services, including child health, communicable disease prevention, maternal health, family planning, environmental health, and administration of the departments. Funding is adjusted annually for inflation and statewide population growth for the second preceding fiscal year. The annual adjustment is generally allocated to each county based on its percentage share of State funds distributed in the previous fiscal year. The need to address a substantial change in community health needs, as determined by the Secretary of Health and Mental Hygiene, may also affect allocations of the annual adjustment. The BRFA of 2014 clarified that, beginning in fiscal 2015, the formula adjustment factor must be applied to the prior year’s allocation. For the fiscal 2018 baseline, aid increases by $3.9 million over fiscal 2017, or 7.9%, for a total of $53.4 million due to inflation and population adjustments, as well as projected cost-of-living adjustments and other salary enhancements.

Entitlement Programs

Entitlements include the State Department of Assessments and Taxation's tax credit programs, the Department of Health and Mental Hygiene's Medicaid program, and the Department of Human Resources' (DHR) foster care and cash assistance programs. Although not an entitlement program, DHR's Temporary Disability Assistance Program (TDAP), part of the Family Investment Assistance Payments which provide assistance to childless adults who are temporarily disabled or are disabled and in the process of applying for federal Supplemental Security Income benefits, is treated for baseline purposes as if it were an entitlement. The following table shows State support for entitlement programs.

Expenditures and Funds for Entitlement Programs

Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
State Department of Assessments and Taxation	$76,014	$81,450	$85,722	$78,675	-$7,047	-8.2%
DHMH – Behavioral Health Administration	927,574	1,047,333	1,042,451	1,258,192	215,741	20.7%
DHMH – Medical Care Programs Administration	8,652,787	8,809,884	8,920,095	10,166,155	1,246,060	14.0%
DHR – Social Services	269,292	295,141	262,320	265,250	2,930	1.1%
DHR – Family Investment	1,347,636	1,351,001	1,337,067	1,274,556	-62,511	-4.7%
Total	**$11,273,304**	**$11,584,808**	**$11,647,655**	**$13,042,827**	**$1,395,172**	**12.0%**
Fund						
General Fund	$3,100,491	$3,235,028	$3,260,400	$3,629,651	$369,251	11.3%
Special Fund	1,023,260	1,001,882	962,319	966,122	3,803	0.4%
Federal Fund	7,085,828	7,288,003	7,367,280	8,389,399	1,022,118	13.9%
Reimbursable Fund	63,725	59,895	57,656	57,656	0	0%
Total	**$11,273,304**	**$11,584,808**	**$11,647,655**	**$13,042,827**	**$1,395,172**	**12.0%**

DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources

Medicaid Enrollment and Expenditure Trends

Overview

Maryland's Medical Assistance Programs (Medicaid, Maryland Children's Health Program (MCHP), Employed Individuals with Disabilities, *etc*.) provide eligible low-income individuals with comprehensive health care coverage. Funding is derived from both federal and State sources with a federal fund participation rate in fiscal 2018 of 50.0% to 94.5% for Medicaid depending on the eligibility category and 88.0% for the MCHP. For the purpose of this discussion, expenditures are limited to the major provider reimbursement budgets and exclude behavioral health which is discussed later.

Fiscal 2017 Projected Deficit

There is a projected general fund deficit of $93.4 million in the Medicaid program in fiscal 2017. The deficit is driven by both a calendar 2016 mid-year adjustment to Managed Care Organization (MCO) rates (an increase of 3.7%), plus a calendar 2017 1.1% rate increase. Although the calendar 2017 rate increase overall is small, rates for the population groups for which the State has a greater financial responsibility increase by an estimated 4.7%. Conversely, rates for the new Affordable Care Act (ACA) expansion group, largely federally funded, fall by an estimated 4.9%.

The other major contributor to the deficit is a higher than anticipated growth in enrollment. However, the general fund budgetary impact of this enrollment growth is mitigated as more of the projected growth is in eligibility categories for which the State gets a large federal match. Additionally, a greater proportion of the overall enrollment is being served in MCOs rather than through fee-for-service, which tends to lower overall costs.

Other factors which are softening the general fund impact of MCO rate increases and enrollment growth include lower than anticipated inpatient and outpatient rate increases and higher than budgeted pharmacy rebates.

Fiscal 2018 Medicaid Outlook

In fiscal 2018, expenditures for Medicaid are estimated to be just under $10.2 billion, a $1.25 billion (14.0%) increase over the fiscal 2017 legislative appropriation. As shown in the exhibit, most of this increase, $902.5 million, or 72.4%, is in federal funds. However, growth over projected fiscal 2017 expenditures is only $410.0 million, or 4.2%. Of this amount, $247.0 million, or 60.1%, is general funds. Special fund attainment is virtually unchanged.

Medicaid Expenditures
Fiscal 2016-2018
($ Millions)

	2016 Actual	2017 Legislative Appropriation	2017 Projected	2018 Baseline
General Funds	$2,267.6	$2,555.0	$2,648.3	$2,895.0
Special Funds	990.8	935.7	937.2	939.4
Federal Funds	5,232.9	5,371.8	6,112.8	6,274.3
Reimbursable Funds	68.9	57.7	57.7	57.7
Total	**$8,560.1**	**$8,920.1**	**$9,756.0**	**$10,166.3**

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

Source: Department of Legislative Services

The key drivers of growth in the fiscal 2018 baseline are MCO rate increases. The impact of the rate increases that are primarily responsible for the projected fiscal 2017 deficit carry over into fiscal 2018. Further, the fiscal 2018 baseline assumes a 3.1% MCO rate increase to recognize the resumption of the ACA insurer fee that is scheduled to be reinstituted in calendar 2018 after a one-year moratorium in calendar 2017. Other significant costs assumed in the fiscal 2018 baseline include the first full fiscal year of the State's growing responsibility for a share of the costs associated with the new ACA expansion eligibility population, modest rate increases for fee-for-service providers, and accommodating enrollment growth of 2.3% (see exhibit).

Enrollment and Service Year Expenditures*
Fiscal 2016-2018

	2016 Actual	2017 Estimate	2018 Baseline	2017-2018 % Change
Enrollment by Category				
Medicaid	853,863	899,028	916,410	1.93%
MCHP	134,931	148,424	152,877	3.00%
ACA Medicaid Expansion	233,128	282,084	290,547	3.00%
Total	**1,221,921**	**1,329,536**	**1,359,833**	**2.28%**

	2016 Actual	2017 Estimate	2018 Baseline	2017-2018 % Change
Cost Per Enrollee				
Medicaid	$7,718	$7,978	$8,225	3.09%
MCHP	1,751	1,917	1,968	2.63%
ACA Medicaid Expansion	7,817	8,149	8,014	-1.66%

ACA: Affordable Care Act
MCHP: Maryland Children's Health Program

*Expenditures by fiscal year are based on the cost of providing services during that fiscal year rather than the year that the bills were paid. Cost estimates are based on provider reimbursements and expenditures in programs MQ0103 and MQ0107 only. Expenditures noted in the exhibit are based on the actual estimates of spending and differ from other reported actuals and the fiscal 2017 legislative appropriation including those shown in the Medicaid Expenditures exhibit.

Source: Department of Legislative Services

Medicaid Behavioral Health

Within the Medicaid budget, services for behavioral health (mental health and substance disorders) are carved out and administered through a separate administrative service organization. Fiscal 2016 is expected to end with a deficit of $43.6 million in total funds, including $10.7 million in general funds. This is due to higher than expected enrollment in fiscal 2016 and a growing demand for substance use disorder treatment.

For fiscal 2017, there is an expected deficit of $162.1 million, including $20.1 million in general funds. This is due to numerous factors, but primarily it is due to a dramatic increase in the projected enrollment for the ACA expansion population, which is projected to grow at 21% for fiscal 2017.

Major changes to the fiscal 2018 baseline for the behavioral health component of the Medicaid budget include an increase of $215.7 million (total funds) from the legislative appropriation, including $46.5 million in general funds. This is due to numerous factors including expected enrollment growth in the traditional Medicaid fee-for-service behavioral health population as well as growth in the ACA Medicaid expansion population, a 2.0% rate increase for community mental health services assumed to begin on July 1, 2017, and between 1.5% and 2.5% rate increases for rate-regulated providers.

Tax Credit Programs

There are four tax credit programs authorized in statute: the Homeowners' Tax Credit, the Renters' Tax Credit, the Urban Enterprise Zone Tax Credit, and the Base Realignment and Closure (BRAC) Revitalization and Incentive Zones Credit programs. The fiscal 2018 baseline reflects a $7.1 million decrease in these tax credit entitlements as follows.

- **Homeowners' Tax Credit Program** expenditures are expected to decrease for fiscal 2018 by $4.9 million to $58.4 million. This adjustment is based on actual utilization of the credit in fiscal 2016. While it is anticipated that an increase in the number of retirees with low retirement incomes will increase program participation at some time in the future, this effect has not yet resulted in a significant increase in recipients qualifying for the tax credit.

- **Renters' Tax Credit Program** expenditures are projected to increase by $1.0 million to $2.9 million for fiscal 2018. This increase is attributable to an increase in program utilization in 2016 and the impact of Chapter 483 of 2016 (Property Tax – Renters' Property Tax Relief Program), which increased benefits and broadened eligibility for the credit.

- **Urban Enterprise Zone Tax Credit Program** provides property and income tax credits for businesses that locate or expand within designated areas. Under this program, a business that locates or expands in a designated area is eligible for reduced property taxes for a number of years. The State then reimburses the locality one-half of the lost revenues, which otherwise would have been realized from the increased property assessment. The fiscal 2018 appropriation for the Urban Enterprise Zone Tax Credit Program is projected to be $16.5 million, a decrease of $3.2 million, based on actual expenditures in fiscal 2016.

- **BRAC Revitalization Credit Program** is expected to remain unchanged in fiscal 2018 at $838,000.

Department of Human Resources

DHR oversees two areas of entitlement spending: foster care and subsidized adoption/guardianship payments and cash assistance for needy children and their families or relative caretakers.

Foster Care and Subsidized Adoption/Guardianship Caseloads and Expenditures

The State's foster care and subsidized adoption/guardianship program provides 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. The goal of subsidized guardianships is to encourage relative caregivers to become legal guardians of children who have been placed in their homes by a local department of social services by removing financial barriers.

Declines in the foster care caseload are expected to continue into fiscal 2018 as DHR's focus remains on reducing the number of children entering into care and quickly moving children in care to permanent homes. After the average monthly caseload decreased by more than 8.0% annually since fiscal 2011, the decline slowed to just over 3.0% in fiscal 2016 compared to the prior year. Consistent with that slow down, the average monthly foster care caseload is projected to decline by 2.0% in each of fiscal 2017 and 2018. While the average monthly cases of subsidized adoptions and guardianships has increased in all recent years, in fiscal 2016 the average monthly cases of subsidized adoption decreased by 2.6%. In that year, the increase in subsidized guardianships offset this reduction. However, the baseline projects a decrease in the average monthly number of subsidized adoptions and guardianships cases of 1.0% in each of fiscal 2017 and 2018.

The monthly cost per case for rates set by the Interagency Rates Committee (IRC) is expected to increase by 1.9% in fiscal 2017 and 2.0% in fiscal 2018, which is generally consistent with inflation as measured by the Consumer Price Index. Rates not set by IRC are expected to remain level from fiscal 2016. The combined average cost per case increases by 1.8%. Total expenditures are expected to decrease slightly in fiscal 2017 and 2018 ($1.15 million and $1.18 million, respectively).

While the total expenditures are expected to decrease in fiscal 2017, the expenditures are expected to exceed budgeted revenue by approximately $4.1 million in total. General fund expenditures are expected to exceed budgeted funds by $14.0 million. The larger shortfall in general funds is the result of lower anticipated federal revenue more consistent with fiscal 2016 receipts. However, Temporary Cash Assistance (TCA) and TDAP surpluses are expected to exceed the general fund shortfall and, as a result, no deficiency appropriation is anticipated in the baseline.

The federal Fostering Connections to Success and Increasing Adoptions Act of 2008, among other changes, phases in a change that increases the number of children which are eligible for Title IV-E reimbursement by separating the eligibility from the Aid to Families with Dependent Children income eligibility criteria. Under the change, which began in federal fiscal 2010, children of a certain age at the time the adoption assistance agreement is signed do not have to be from a home that would have met this criteria. The change is fully phased in beginning in federal fiscal 2018. However, Title IV-E reimbursement will still not be available for all children at that time, but the fiscal 2018 baseline accounts for an increase in federal funds due to this change.

Due to the increase in anticipated federal funds, general funds needed for foster care maintenance payments are expected to decrease.

Foster Care and Subsidized Adoption/Guardianship Caseloads and Expenditures
Fiscal 2016-2018

	2016	2017 Working	2017 DLS Estimate	2018 DLS Estimate	2016-2018 Average Annual % Change
Caseload					
Foster Care	3,790	3,849	3,714	3,640	-2.0%
Subsidized Adoption Guardianship	9,620	9,546	9,524	9,429	-1.0%
Total Combined	**13,410**	**13,395**	**13,238**	**13,069**	**-1.3%**
Expenditures					
Monthly Cost Per Case					
Foster Care	$3,361	$3,330	$3,423	$3,486	1.8%
Subsidized Adoption/Guardianship	773	752	773	773	0.0%
Combined Average Cost	**$1,505**	**$1,566**	**$1,517**	**$1,529**	**0.8%**
Total Cost ($ in Millions)	**$267.6**	**$262.3**	**$266.4**	**$265.2**	**-0.4%**
Projected General Fund Deficit			-$14.0		
Projected Total Fund Deficit			**-$4.1**		

DLS: Department of Legislative Services

Source: Department of Human Resources; Department of Legislative Services

Temporary Cash Assistance Caseloads and Expenditure Trends

TCA provides monthly cash grants to needy children and their parents or relative caretakers. The program is funded with general funds, federal Temporary Assistance for Needy Families block grant dollars, and certain child support collections.

Following recession-related increases, the caseload for TCA has generally declined. After a slowdown in fiscal 2015, the decline in the caseload accelerated in fiscal 2016 with a year-over-year decrease of 9.1% in the average monthly cases. The Department of Legislative Services (DLS) projects the decline to slow slightly in fiscal 2017 and 2018 with an average monthly decrease of 0.5%, which translates to a decrease in the average monthly caseload of 8.0%

in fiscal 2017 and 5.2% in fiscal 2018. These decreases would bring the average monthly TCA enrollment to 48,950 in fiscal 2018.

The fiscal 2017 and 2018 average monthly grant amounts increase by 1% to ensure that the TCA benefit, in combination with the Supplemental Nutrition Assistance Program (SNAP), equals at least 61% of the Maryland Minimum Living Level as required by statue.

DLS projects a surplus of $13.0 million in TCA in fiscal 2017, due to a lower caseload than the budget was based on. General fund expenditures for fiscal 2018 are expected to decline to $8.2 million due to the continued decline in the caseload.

TCA Enrollment and Funding Trends
Fiscal 2016-2018

	2016 Actual	2016 Approp.	2017 Estimate	2018 Estimate	2017-2018 % Change
Average Monthly Enrollment	56,115	57,768	51,649	48,950	-5.2%
Average Monthly Grant	$192.65	$192.30	$194.10	$195.55	0.8%
Budgeted Funds ($ in Millions)					
General Funds	$12.1	$25.3	$12.3	$8.2	-33.7%
Total Funds	**$129.7**	**$133.3**	**$120.3**	**$114.9**	**-4.5%**
Estimated Surplus			**$13.0**		

TCA: Temporary Cash Assistance

Source: Department of Human Resources; Department of Legislative Services

Temporary Disability Assistance Program Caseloads and Expenditure Trends

TDAP provides a limited monthly cash benefit for disabled adults. The State provides the benefits for individuals with a short-term disability (at least 3 months but less than 12 months) or for a long-term disability for individuals pursuing a Supplemental Security Income (SSI) benefit. The State is reimbursed for the cash assistance paid during the processing of the SSI application.

After declining in each year from fiscal 2012 through 2014, the average monthly caseload for the TDAP increased slightly in fiscal 2015 (0.12%). In fiscal 2016, the average monthly caseload resumed the general declining trend with a decrease of 1.36%. DLS projects the average monthly caseload to continue to decrease in fiscal 2017 and 2018 with average monthly decreases of 0.25% and 0.20%, respectively. The average monthly caseload, as a result, is expected to fall to 17,498 in fiscal 2017 and to 17,035 in fiscal 2018. The fiscal 2017 budget assumed an average monthly caseload of 18,281. Due to the lower projected caseload, DLS anticipates a surplus of $1.5 million in fiscal 2017. Total funding is expected to decrease from $40.1 million in fiscal 2016 to $37.5 million in fiscal 2018.

Supplemental Nutrition Assistance Program Minimum Benefit

Chapter 696 of 2016 establishes a new State minimum benefit of $30 for SNAP households which include at least one member that is at least 62 years old. The federal minimum benefit is $16. As a result, the State SNAP benefit will pay up to $14 for eligible households. Chapter 696 became effective on October 1, 2016. DHR estimates that the new State minimum benefit will impact 17,999 households. The baseline anticipates DHR will begin providing this benefit on the effective date resulting in general fund expenditures of $2.15 million in fiscal 2017, which increases to $2.9 million in fiscal 2018 when the benefit is available for a full year. In general, the SNAP caseload has been declining in recent years. The federal expenditures are estimated at the fiscal 2016 level of $1.1 billion, a decrease of approximately $44.6 million compared to the fiscal 2017 budget.

Debt Service

State tax supported debt includes general obligation (GO) bonds sold by the State Treasurer and Consolidated Transportation Bonds sold by the Maryland Department of Transportation (MDOT). 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). The State also receives federal funds that support Build America Bonds, Qualified Zone Academy Bonds, Qualified School Construction Bonds, and Qualified Energy Conservation Bonds issued by the State.

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 Transportation Trust Fund revenues (such as modal operating revenues).

Expenditures and Funds for Debt Service
Fiscal 2015-2018
($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	% Increase
Expenditures						
MDOT Debt Service Requirements	$248,348	$282,667	$309,912	$342,477	$32,565	10.5%
Public Debt	1,027,091	1,130,855	1,187,179	1,249,973	62,794	5.3%
Total	**$1,275,438**	**$1,413,522**	**$1,497,091**	**$1,592,450**	**$95,360**	**6.4%**
Fund						
General Fund	$140,000	$252,400	$283,000	$231,000	-$52,000	-18.4%
Special Fund	1,123,955	1,149,645	1,202,552	1,349,973	147,422	12.3%
Federal Fund	11,483	11,477	11,539	11,477	-62	-0.5%
Total	**$1,275,438**	**$1,413,522**	**$1,497,091**	**$1,592,450**	**$95,360**	**6.4%**

MDOT: Maryland Department of Transportation

Public Debt

The fiscal 2018 baseline budget for GO bond debt service costs reflects steady increases in debt issuance, from $675 million in fiscal 2007 to over $1 billion annually since fiscal 2010, with the exception of fiscal 2017. Reflecting these changes, debt service costs were increased by $63 million in fiscal 2018.

The largest revenue source for the ABF is State property taxes. The current rate is $0.112 per $100 of assessable base. In recent years, debt service costs have increased at a higher rate than State property tax revenues. Continuing the trend, fiscal 2018 State property tax receipts are projected to be $799 million compared to debt service costs that total $1,250 million.

Partially offsetting this shortfall are bond sale premiums ($49 million projected in fiscal 2018), federal funds ($11 million), ABF balance remaining from prior years ($151 million), and other special fund revenues (such as repayment for issuance of bonds for Program Open Space).

Insofar as these sources are insufficient, $231 million in general funds will need to be appropriated in fiscal 2018. However, these general funds are less than anticipated and are projected to be $52 million less than fiscal 2017 general fund appropriations. This is primarily due to the high level of bond sale premiums, which increases the end of fiscal 2017 fund balance to $151 million. Reducing authorizations in fiscal 2017 have not yet had an appreciable effect on debt service, but will have an appreciable impact in the out-years.

Maryland Department of Transportation Bonds

The fiscal 2018 baseline budget for MDOT's debt service reflects an increased reliance on debt in recent years. Over the past three fiscal years (2014 to 2016) debt issuances, net of refunding, totaled just over $1.0 billion – an amount that exceeded the combined issuances of the prior seven fiscal years. Bond issuances in the draft MDOT fiscal 2017 to 2022 financial forecast are projected to continue at elevated levels, reflecting the larger capital program put in place following the transportation revenue increase passed during the 2013 legislative session.

Pay-as-you-go Capital Programs

The baseline for capital programs includes programs funded with pay-as-you-go (PAYGO) funds for economic development, housing, and environmental programs for which the use of tax-exempt general obligation (GO) debt is limited under federal tax guidelines. In addition, the baseline includes estimated funding for transportation programs supported by Transportation Trust Fund revenues, federal funds, and transportation revenue bonds.

The baseline assumes that the State's fiscal condition will restrain the use of general funds to support grant and loan programs administered by the Department of Housing and Community Development (DHCD) and the Maryland Department of the Environment (MDE). Accordingly, the baseline maximizes the use of estimated special and federal funds with the goal of level funding programs to the fiscal 2017 legislative appropriation or to the level of anticipated fiscal 2018 encumbrance activity as programmed in the State five-year *Capital Improvement Program* (CIP). However, to the extent that these funds are not sufficient to level fund the programs, the use of GO bond funds may be considered in much the same manner that bond funds have been used in place of general funds in recent budgets. The baseline assumes that special fund transfer tax revenues used to fund Program Open Space (POS) will be allocated first in accordance with the statutory formula and then distributed in accordance with provisions in Chapter 425 of 2013 (The Budget Reconciliation and Financing Act (BRFA)) as modified by Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds), which authorizes the Governor to reduce the transfer to the General Fund in fiscal 2018 from $86 million to $46 million. The baseline assumes that all other special funds will be available and distributed according to statutory requirements.

Expenditures and Funds for PAYGO Capital Programs

Fiscal 2015-2018

($ in Thousands)

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
Expenditures						
Board of Public Works (BPW) PAYGO	$1,100	$0	$46,200	$0	-$46,200	-100.0%
BPW – Public School Construction PAYGO	0	15,000	0	0	0	0.0%
Maryland Energy Administration PAYGO	1,806	4,150	3,700	3,200	-500	-13.5%
Department of Planning PAYGO	9,175	9,300	9,150	9,150	0	0.0%
Military Department PAYGO	0	34,200	4,329	20,195	15,866	366.5%
MIEMSS PAYGO)	0	0	0	11,343	11,343	0.0%
Department of Veterans Affairs PAYGO	4,355	4,401	2,180	13,980	11,800	541.3%
Department of Information Technology PAYGO	0	4,450	0	0	0	0.0%
MDOT –Secretary's Office PAYGO Capital	49,678	104,028	115,169	58,984	-56,185	-48.8%
MDOT – WMATA – Capital Budget	157,120	130,715	127,567	155,900	28,333	22.2%

	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Increase	2017-2018 % Increase
MDOT – State Highway Administration PAYGO Capital	1,166,922	1,402,838	1,577,042	1,557,235	-19,807	-1.2%
MDOT – Maryland Port Administration PAYGO Capital	88,878	121,241	116,873	107,487	-9,386	-8.0%
MDOT – Motor Vehicle Administration PAYGO Capital	20,620	23,240	29,589	28,321	-1,268	-4.3%
MDOT – Maryland Transit Administration PAYGO Capital	434,285	439,357	675,230	754,082	78,852	11.7%
MDOT – Maryland Aviation Administration PAYGO Capital	123,398	155,271	120,464	102,094	-18,370	-15.3%
Department of Natural Resources PAYGO	13,835	19,296	82,135	121,500	39,365	47.9%
Department of Agriculture PAYGO	3,914	9,968	22,228	33,935	11,707	52.7%
Department of Housing and Community Development PAYGO	55,085	65,250	68,850	94,370	25,520	37.1%
Department of the Environment PAYGO	247,839	248,400	264,400	218,800	-45,600	-17.3%
Total	**$2,378,012**	**$2,791,105**	**$3,265,107**	**$3,290,569**	**$25,463**	**0.8%**
Fund						
General Fund	$11,545	$39,506	$79,080	$55,620	-$23,460	-29.7%
Special Fund	1,548,285	1,861,162	2,016,824	2,149,048	132,224	6.6%
Federal Fund	808,624	876,202	1,159,408	1,076,323	-83,085	-7.2%
Reimbursable Fund	9,558	14,235	9,795	9,578	-217	-2.2%
Total	**$2,378,012**	**$2,791,105**	**$3,265,107**	**$3,290,569**	**$25,463**	**0.8%**

MDOT: Maryland Department of Transportation
MIEMSS: Maryland Institute for Emergency Medical Services Systems
PAYGO: pay-as-you-go
WMATA: Washington Metropolitan Area Transit Administration

Board of Public Works

The fiscal 2018 baseline estimate for the Maryland Board of Public Works (BPW) removes $46.2 million in general funds restricted in the fiscal 2017 budget for the purposes of funding various DHCD and MDE capital grant in loan programs that would otherwise require the issuance of taxable GO bonds. These funds are of a one-time nature and the 2016 CIP reflects the return to the use of GO bonds to fund these programs.

Maryland Energy Administration

The Maryland Energy Administration operates two ongoing capital programs: the Jane E. Lawton Conservation Loan Program (JELLP), and the State Agency Loan Program (SALP). The JELLP provides low-interest loans and credit enhancements for energy conservation projects to nonprofits, businesses, and local governments. The SALP provides zero interest loans with a 1% administrative fee for energy conservation projects to State agencies. The SALP loans are often made in conjunction with energy performance contracts. Due to an oversubscription of fiscal 2017 SALP funds by an estimated $1.2 million, the baseline accounts for a $1.0 million adjustment to the fiscal 2017 appropriation to support more of the projects seeking funding in that year, providing for a total of $3.2 million in fiscal 2017. The fiscal 2018 baseline for the SALP is reduced to $1.7 million, primarily due to federal funds which are fully expended in fiscal 2017. This level of funding is $0.5 million higher than the 2016 CIP. The JELLP is level funded in the fiscal 2018 baseline at $1.5 million.

Maryland Department of Planning

The fiscal 2018 baseline estimate for the Maryland Department of Planning includes $9 million in general funds for the Heritage Structure Rehabilitation Tax Credit Program (formerly Sustainable Communities Tax Credit Program), which is reauthorized by Chapter 578 of 2016 (Heritage Structure Rehabilitation Tax Credit – Alteration and Extension). This is level with the fiscal 2017 appropriation. In addition, the baseline includes $150,000 in special funds for the Maryland Historical Trust Revolving Loan Fund, which is consistent with the 2016 CIP. The 2016 CIP also reflects an additional $150,000 in GO bonds to capitalize the loan fund.

Military Department

The Military Department's capital improvements are typically made on a 75% federal and 25% State cost-share basis for eligible project costs. Grants from the National Guard Bureau provide the source for the federal fund portion of the cost-share. The fiscal 2018 baseline reflects the removal of $4.3 million in federal funds appropriated in fiscal 2017 for the Havre de Grace Readiness Center and the Freedom Readiness Center projects and recognizes $20.2 million in anticipated federal PAYGO funding for fiscal 2018 to support the continued construction of the Freedom Readiness and Easton Readiness centers.

Maryland Institute for Emergency Medical Services Systems

The Maryland Institute for Emergency Medical Services Systems oversees and coordinates all components of the State's emergency medical services systems. The fiscal 2018 baseline provides $11.3 million in special funds to implement the remaining phases of the agency's new Communications System Upgrade project.

Maryland Department of Veterans Affairs

Maryland operates five veteran cemeteries throughout the State to provide interment to eligible veterans and their dependents. The Department of Veterans Affairs (MDVA) requests federal funds for expansion of the cemeteries. The design portion of projects are funded with general funds, which are reimbursed with federal funds after the projects are completed. The construction portion of projects are federally funded. The baseline includes $13.98 million in federal funds for the expansion of the Cheltenham and Garrison Forest cemeteries. MDVA began design for the two cemetery expansions in fiscal 2017. Construction is expected to begin in fiscal 2018. The baseline includes a fiscal 2017 deficiency appropriation of $965,581 in federal funds to restore a previous appropriation for the Crownsville Cemetery expansion that was canceled erroneously.

Maryland Department of Transportation

For the Maryland Department of Transportation PAYGO capital programs, adjustments were made to conform to the draft *Consolidated Transportation Program: Fiscal 2017-2022*. An adjustment was also included to continue the $25 million transportation grants to local jurisdictions into fiscal 2018.

Maryland Department of Natural Resources

The baseline assumes that transfer tax revenues used to fund POS will be allocated first in accordance with the statutory formula and then distributed in accordance with provisions in Chapter 425 of 2013 (BRFA) as modified by Chapter 10 of 2016 (Program Open Space – Transfer Tax Repayment – Use of Funds), which authorizes the Governor to reduce the transfer to the General Fund in fiscal 2018 from $86.0 million to $46.0 million. The baseline reflects adjustments in the amount of transfer tax revenues available to support the department's capital programs. This includes the following adjustments which in combination leave more funding available to support programs in fiscal 2018 than in fiscal 2017.

- **Lower Transfer Amount:** Chapter 425 authorized a $82.8 million transfer to the General Fund in fiscal 2017 and $86.0 million transfer in fiscal 2018, which were modified to $62.8 million and $46.0 million, respectively, by Chapter 10, a reduction between the two years in the amount of revenue transferred to the General Fund.

- **Overattainment:** The fiscal 2016 actual revenue attainment was $191.8 million, which is $17.2 million greater than the fiscal 2016 estimate of $174.5 million, which increases fiscal 2018 program levels.

- **Revenue Estimate Increase:** The revenue estimate for fiscal 2018 is $214.8 million, which is greater than the $185.0 million revenue figure for fiscal 2017.

The fiscal 2018 baseline for the Department of Natural Resources' POS State allocation includes $40.7 million in special funds and $3.0 million in federal funds, reflecting a $15.6 million increase over the fiscal 2017 legislative appropriation comprised of an additional $18.3 million in special funds and a reduction of $2.8 million in federal funds. Of note, per Chapter 10 (Program Open Space – Transfer Tax Repayment – Use of Funds), $3.5 million of the $40.7 million in POS State allocation is required to be used for the Baltimore City Direct Grant, which is an increase from the base amount of $1.5 million for Baltimore City. In addition, Chapter 10 specifies that the additional $2.0 million must be used for capital purposes related to the following projects: Herring Run Park – $500,000; Clifton Park – $600,000; Druid Hill Park Trail Head – $300,000; James Mosher Park – $300,000; and Patterson Park – $300,000. The POS Local allocation increases from $21.7 million in fiscal 2017 to $37.2 million in fiscal 2018.

The baseline includes $18.9 million in special funds for the Rural Legacy Program, which provides funds for the acquisition of conservation easements. The availability of special fund transfer tax revenues that support the program are estimated to increase for the reasons noted above. Assuming the mandated $5.0 million GO bond appropriation in fiscal 2018, the baseline includes $23.9 million ($18.9 million in special funds and $5.0 million in GO bond appropriation), an increase of $6.3 million relative to the fiscal 2017 legislative appropriation of $17.7 million ($12.7 million in special funds and $5.0 million in GO bond appropriation).

The baseline includes $12.6 million for capital development projects, which is an increase of $3.0 million relative to the fiscal 2017 legislative appropriation of $9.6 million. capital development projects include transfer tax special fund appropriations for the Critical Maintenance Program, Natural Resources Development Fund, and the State contribution to the Ocean City Beach Maintenance Program. The increase in the fiscal 2018 baseline as compared to fiscal 2017 reflects the increase in available transfer tax revenues that support the programs as outlined above. The 2016 CIP programs $2.0 million in GO bonds for the Natural Resources Development Fund in fiscal 2018.

Full funding of $1 million in special funds is assumed for the Ocean City Beach Maintenance Program from Worcester County and Ocean City in the fiscal 2018 baseline to reflect the 2016 CIP and assumed funding needed to address Winter Storm Jonas that hit in late January 2016. Overall, funding is shared at 50% State, 25% Worcester County, and 25% Ocean City. The State component is reflected under Capital Development Projects above.

The fiscal 2018 baseline reflects the 2016 CIP funding level for the Waterway Improvement Program (WIP). The total fiscal 2018 baseline is $11.1 million, which reflects $10.5 million in ongoing special fund revenue available from the motor fuel tax and the vessel excise tax (Chapter 180 of 2013 – Natural Resources – Vessel Excise Tax – Waterway Improvement Fund) and $0.6 million in federal funding. This reflects level funding from special funds and a $1.5 million reduction in federal funds relative to the fiscal 2017 legislative appropriation. The WIP provides grants and loans to local, State, and federal government agencies for projects that improve and promote recreational and commercial capabilities, conditions, and safety of Maryland's waterways for the benefit of the general boating public.

Maryland Department of Agriculture

The 2018 baseline for the Maryland Agricultural Land Preservation Program consists of $32.9 million in special funds. Overall, the baseline reflects an increase of $11.7 million relative to the fiscal 2017 legislative appropriation of $21.2 million in special funds. The special fund baseline estimate is comprised of funding from the State transfer tax's statutory distribution as adjusted by the transfer to the General Fund ($28.9 million), an assumed reduction in county funding ($4.0 million) due to the combination of easement purchase cycles, and no funding from either the agricultural transfer tax or miscellaneous fees. No federal funds are assumed due to ongoing concerns about Agriculture Conservation Easement Program (formerly the Farm and Ranchland Protection Program) restrictions.

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program reflects $1 million in special funds as programmed in the 2016 CIP for agricultural land preservation, which is level with the fiscal 2017 legislative appropriation. The Tobacco Transition Program provides funds for the voluntary tobacco buyout program, which is now complete except for repayment of prior year GO bonds issued to accelerate the program and agricultural land preservation efforts. No funding is programmed in the 2016 CIP for the Tobacco Transition Program beyond fiscal 2018.

Department of Housing and Community Development

DHCD works to encourage homeownership, expand affordable rental housing, and revitalize communities. The fiscal 2018 baseline includes changes in various PAYGO capital grant and loan programs based on the agency's estimates of revenues, encumbrances, fund balances, and the 2017 CIP. Overall, the fiscal 2018 baseline assumes that general and special funds for DHCD's PAYGO programs will increase by $24.1 million in general funds and $1.5 million in special funds, respectively, compared to the fiscal 2017 legislative appropriation. For fiscal 2017, $36.4 million in general funds was transferred from BPW to DHCD to replace GO bonds in various programs. It is assumed those funds are a one-time replacement, and continued GO bond use is anticipated in the current CIP and in the Department of Legislative Services baseline budget. The general funds from BPW are not a part of the adjustments detailed below. The following adjustments to special and federal funds were made to the fiscal 2018 baseline:

- **Strategic Demolition and Smart Growth Impact Fund:** The fiscal 2018 baseline is increased by $4.125 million in general funds due to mandated spending amounts included in Chapter 30 of 2016.

- **Neighborhood Business Development Program:** The fiscal 2018 baseline is increased by $300,000 in special funds based on the 2016 CIP.

- **Baltimore Region Neighborhood Initiative:** The fiscal 2018 baseline is increased by $12 million in general funds due to mandated spending amounts included in Chapter 29 of 2016.

- **Seed Community Development Anchor Institution Fund:** The fiscal 2018 baseline is increased by $5 million in general funds due to mandated spending amounts included in Chapter 31 of 2016. The legislation established the fund to provide grants and loans to anchor institutions for community development projects in blighted areas of the State.

- **Shelter and Transitional Housing Facilities Grant Program:** The fiscal 2018 baseline is increased by $3 million in general funds due to mandated spending amounts included in Chapter 698 of 2016.

- **Homeownership Programs:** The baseline assumes an increase in fiscal 2018 of $100,000 in special funds for homeownership programs based on the 2016 CIP.

- **Special Loan Programs:** Funding for these programs increases by $500,000 in the fiscal 2018 baseline based on the 2016 CIP.

- **Partnership Rental Housing:** The baseline assumes a decrease in fiscal 2018 of $500,000 in special funds based on the 2016 CIP.

- **Maryland Base Realignment and Closure Preservation Loan Fund:** The baseline assumes a decrease in fiscal 2018 of $500,000 in special funds based on the 2016 CIP.

- **Energy Programs:** The baseline assumes an increase in fiscal 2018 of $1.5 million in special funds based on the 2016 CIP.

Funding for the Rental Housing programs, the Community Development Block Grant, and the Community Legacy programs are assumed to remain unchanged from the fiscal 2017 appropriation levels.

Maryland Department of the Environment

MDE's baseline of $130.0 million for the Water Quality Revolving Loan Fund Program reflects the 2016 CIP funding level, which is equal to the fiscal 2017 legislative appropriation, but reflects a different fund mix in accordance with the federal fiscal 2017 continuing resolution funding level. The continuing resolution provides $1.4 billion nationally of which Maryland's 2.4% share is estimated to be $33.3 million. Maryland's share requires a 20.0% match, or $6.7 million, which is funded with GO bonds as is consistent with recent years. Finally, there is $90.1 million in special fund appropriation available. In total, the PAYGO budget reflects $90.1 million in special funds, $33.3 million in federal funds, and $6.7 million in GO bonds.

Relative to the fiscal 2017 legislative appropriation, there is no change in the funding level, but there is a change in the fund mix as follows: $0.8 million increase in special funds, $0.7 million decrease in federal funds, and $0.1 million decrease in GO bonds. The program provides low-interest loans to local governments and eligible private entities for water quality improvement projects such as upgrading wastewater treatment plants and capping closed landfills.

The Drinking Water Revolving Loan Fund Program's baseline estimate of $26.0 million reflects the 2016 CIP level of funding, but the fund mix is modified to reflect the federal fiscal 2017 continuing resolution funding level. The continuing resolution provides $859.0 million nationally of which Maryland's 1.7% share is estimated to be $14.6 million. Maryland's share requires a 20.0% match, or $2.9 million, which is funded with GO bonds as is consistent with recent years. In addition, Maryland's federal funding share is divided between an estimated $3.7 million in the operating budget for nonproject set aside funding and the remaining $10.9 million in the PAYGO budget. Finally, there is $12.2 million in special fund appropriation available. In total, the PAYGO budget reflects $12.2 million in special funds, $10.9 million in federal funds, and $2.9 million in GO bonds. Relative to the fiscal 2017 legislative appropriation, there is an overall increase of $2.0 million as follows: an increase of $1.5 million in special funds, an increase of $0.6 million in federal funds, and a decrease of $0.1 million in GO bonds. The program provides low-interest loans to local governments and eligible private entities for drinking water projects such as the construction of water distribution mains, water storage facilities, and water treatment plant upgrades.

The baseline of $1.0 million in general funds for the Hazardous Substance Cleanup Program is greater than the fiscal 2017 level of $0.2 million, but is level with the 2016 CIP. The program provides funds for cleanup of uncontrolled sites listed on the federal National Priorities List (Superfund) and other uncontrolled waste sites within the State that do not qualify for federal funding through the Superfund program.

The baseline estimate of $14 million for the capital grant program associated with the Bay Restoration Fund fee on septic system users is level with both the 2016 CIP and fiscal 2017 legislative appropriation. This funding level is lower than in fiscal 2015 and prior fiscal years due to the use of funding in the operating budget as cost recovery for local jurisdictions to implement septic system regulations (Chapter 379 of 2014 – Bay Restoration Fund – Authorized Uses – Local Entities). The baseline estimate for the Enhanced Nutrient Removal Program funded by a fee on public sewer/water users is $40 million in special funds, which is $40 million less than the fiscal 2017 legislative appropriation, but level with the 2016 CIP.

The fiscal 2018 baseline includes $7.8 million in special funds for the Energy-Water Infrastructure Program, which reflects a decrease of $8.4 million relative to the fiscal 2017 funding level. The funding comes from the agreement by which, under Public Service Commission Order 86372, Dominion Cove Point is allowed to construct a 130 megawatt nameplate capacity electric generating station at the existing liquefied natural gas terminal site in Calvert County near Cove Point. It is assumed the full $8.0 million available in fiscal 2018 will be used for the Energy-Water Infrastructure Program ($7.8 million in PAYGO capital budget and $0.2 million in the operating budget for administrative expenses). The program provides 100% grants to water and wastewater treatment plant owners for energy efficient equipment and combined heat and power projects.