
Spending Affordability Briefing

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

October 17, 2017

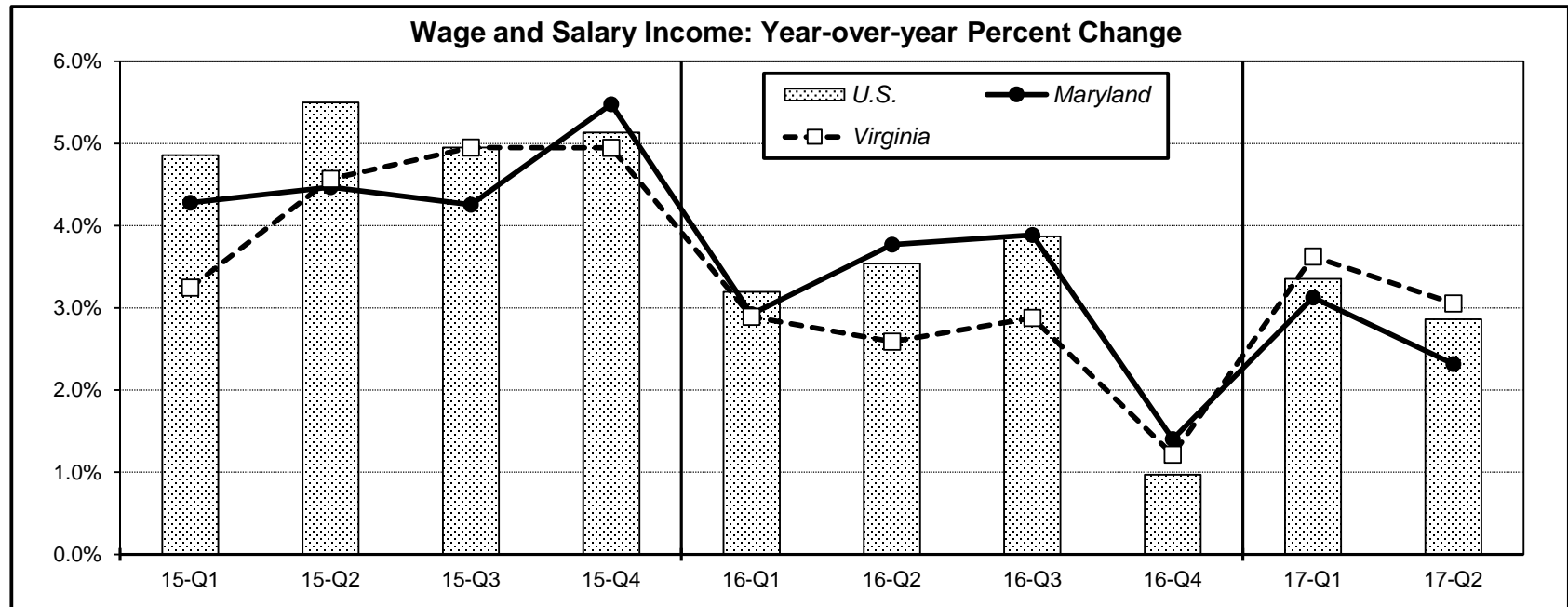
Maryland Economic Performance Year-over-year Percent Change

<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Initial</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>UI Claims</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>
Jan-17	1.5%	1.4%	4.2%	-10.5%	6.8%	8.4%	20.1%
Feb-17	2.2%	1.7%	4.2%	-16.4%	0.3%	7.0%	-4.9%
Mar-17	1.8%	1.4%	4.2%	-9.2%	18.8%	6.8%	-3.2%
Apr-17	1.6%		4.3%	6.9%	2.0%	6.7%	-8.0%
May-17	1.6%		4.2%	-7.0%	4.1%	4.8%	0.0%
Jun-17	2.5%		4.1%	-3.0%	3.9%	3.2%	-3.3%
Jul-17	2.4%		4.0%	-1.9%	1.4%	2.7%	-1.6%
Aug-17	2.4%		3.9%	-11.8%	1.5%	3.4%	-1.4%
Sep-17				-9.1%	-1.2%	4.4%	-6.9%
<i>Y-T-D</i>	<i>2.0%</i>	<i>1.5%</i>	<i>4.1%</i>	<i>-7.2%</i>	<i>3.9%</i>	<i>5.1%</i>	<i>-1.6%</i>

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

→

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



Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment		Personal Income*	
	<u>Dec. 2016</u>	<u>Sep. 2017</u>	<u>Dec. 2016</u>	<u>Sep. 2017</u>
2014	0.9%	0.9%	3.4%	3.3%
2015	1.5%	1.6%	4.1%	4.5%
2016	1.6%	1.4%	3.3%	3.6%
2017E	1.0%	1.3%	4.0%	4.1%
2018E	0.8%	0.8%	4.2%	4.3%
2019E	0.5%	0.5%	4.1%	4.1%
2020E	0.6%	0.6%	4.1%	4.1%

Calendar Year	Wage and Salary Income		Average Wage	
	<u>Dec. 2016</u>	<u>Sep. 2017</u>	<u>Dec. 2016</u>	<u>Sep. 2017</u>
2014	3.3%	3.4%	2.4%	2.5%
2015	4.6%	4.6%	3.1%	3.0%
2016	3.3%	3.0%	1.7%	1.6%
2017E	3.9%	4.0%	2.9%	2.6%
2018E	4.0%	4.0%	3.2%	3.2%
2019E	3.8%	3.8%	3.2%	3.2%
2020E	4.0%	4.0%	3.4%	3.4%

Calendar Year	Dividends, Interest, Rent		Taxable Capital Gains Income*	
	<u>Dec. 2016</u>	<u>Sep. 2017</u>	<u>Dec. 2016</u>	<u>Sep. 2017</u>
2014	5.9%	5.8%	43.0%	43.0%
2015	3.5%	4.8%	-10.0%	1.4%
2016	2.5%	1.9%	0.0%	0.0%
2017E	3.7%	3.7%	0.0%	0.0%
2018E	4.6%	4.6%	0.0%	0.0%
2019E	4.4%	4.4%	0.0%	0.0%
2020E	4.1%	4.1%	0.0%	0.0%

* The calendar 2015 figure is an estimate for December 2016, and calendar 2016 figures are estimates for both December 2016 and September 2017.

Fiscal 2017 General Fund Revenues

(\$ in Millions)

<u>Source</u>	FY 2016	Fiscal 2017				FY 2016-2017 % Change	
	<u>Actual</u>	<u>Estimate⁽¹⁾</u>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$8,517.6	\$8,942.4	\$9,019.3	\$76.9	0.9%	5.0%	5.9%
Sales and Use Tax	4,444.5	4,587.3	4,539.3	-47.9	-1.0%	3.2%	2.1%
State Lottery	529.8	493.8	484.3	-9.5	-1.9%	-6.8%	-8.6%
Corporate Income Tax	874.5	784.6	795.6	11.0	1.4%	-10.3%	-9.0%
Business Franchise Taxes	222.0	223.5	228.4	4.9	2.2%	0.7%	2.9%
Insurance Premiums Tax	287.4	294.8	328.7	33.9	11.5%	2.6%	14.4%
Estate and Inheritance Taxes	261.9	206.7	227.9	21.2	10.3%	-21.1%	-13.0%
Tobacco Tax	395.3	393.8	387.0	-6.9	-1.7%	-0.4%	-2.1%
Alcohol Beverages Tax	31.9	32.9	32.5	-0.5	-1.4%	3.1%	1.7%
Other ⁽²⁾	517.8	538.4	545.4	7.0	1.3%	4.0%	5.3%
Subtotal	\$16,082.6	\$16,498.2	\$16,588.5	\$90.3	0.5%	2.6%	3.1%
Transfer Tax ⁽³⁾	\$115.4	\$62.8	\$62.8	\$0.0	0.0%	-45.6%	-45.6%
GAAP transfer ⁽⁴⁾	0.0	47.4	47.4	0.0	0.0%	n/a	n/a
Total Revenues	\$16,198.0	\$16,608.4	\$16,698.7	\$90.3	0.5%	2.5%	3.1%

GAAP: generally accepted accounting principles

⁽¹⁾ From the Board of Revenue Estimates, March 2017, with adjustments for action at the 2017 legislative session.

⁽²⁾ Includes revenues from the courts, interest earnings, hospital patient recoveries, and other miscellaneous revenues. Fiscal 2016 also includes \$4.6 million of motor fuel tax revenue.

⁽³⁾ The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by \$37.7 million. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by \$20.0 million.

⁽⁴⁾ The Comptroller's annual analysis of the local income tax reserve account determined the account was overfunded at the end of fiscal 2016 by \$47.4 million.

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

Source: Board of Revenue Estimates

Factors Impacting Revenue Performance

- General fund sales tax revenues were below the estimate in fiscal 2017 by almost \$50 million. Year-over-year growth was just 2.1%. Growth below 3.0% has become the new normal for the sales tax as five of the past six years have experienced growth of less than 3.0% (adjusted for law changes).
- A number of factors are impacting the sales tax, some long-term trends and others more recent. Consumer preferences have been shifting from spending on goods (generally taxable) to spending on services (generally not taxable) for the last several decades. Over the past 20 years, spending in Maryland on goods fell from around 35% of total consumer spending to 29%.
- Although Amazon began collecting the tax on its sales in Maryland in fiscal 2015, sales from retailers without a physical presence in the State remain untaxable. Nationally, e-commerce sales continue to grow at double-digit rates and account for around 8% of total retail sales and 10% of retail sales excluding motor vehicles and gas stations.
- The proliferation of nontaxable digital goods such as music streaming and downloads, e-books, mobile applications, and video streaming services has replaced spending on taxable goods. In addition, online and mobile applications have also facilitated the sharing economy, allowing consumers to exchange used goods easily.
- Low inflation is another factor weighing on revenue growth. Over the last five fiscal years (2012-2017), the U.S. consumer price index (CPI) increased annually on average by just 1.2%. Low inflation has likely contributed to slow nominal wage growth which has implications for both the income and sales taxes. In addition, durable goods prices have been falling in recent years. The average annual change in the durable goods CPI was -1.4% between fiscal 2012 and 2017.
- Changing demographics also has important implications for revenue growth. In 2005, the share of the Maryland population age 65 and over was 11.4%. By 2016, it had increased to 14.5% and is projected to exceed 20.0% by 2030. At the same time, the prime working age population (25-59) is projected to fall from 48.0% of the total in 2016 to 44.0% by 2030. An aging population will change consumer spending patterns in ways that will likely be a drag on sales tax growth. A large and growing population of retirees also has implications for the income tax as the composition of taxable income shifts.

Maryland General Fund Revenue Forecast
(\$ in Millions)

<u>Source</u>	<u>FY 2017</u>	<u>FY 2018 Estimate</u>				<u>% Change</u>	<u>FY 2019</u>	<u>% Change</u>
	<u>Actual</u>	<u>March</u>	<u>September</u>	<u>\$ Difference</u>	<u>% Difference</u>	<u>over FY 2017</u>	<u>Estimate</u>	<u>over FY 2018</u>
Personal Income Tax	\$9,019.3	\$9,395.9	\$9,380.7	-\$15.1	-0.2%	4.0%	\$9,764.9	4.1%
Sales and Use Tax	4,539.3	4,727.1	4,654.9	-72.2	-1.5%	2.5%	4,787.4	2.8%
State Lottery	484.3	504.5	519.5	15.0	3.0%	7.3%	522.8	0.6%
Corporate Income Tax	795.6	827.4	827.3	-0.2	0.0%	4.0%	873.5	5.6%
Business Franchise Taxes ⁽¹⁾	228.4	227.3	232.2	4.8	2.1%	1.6%	198.1	-14.7%
Insurance Premiums Tax	328.7	304.1	326.3	22.3	7.3%	-0.7%	350.0	7.2%
Estate and Inheritance Taxes ⁽²⁾	227.9	184.5	198.5	14.0	7.6%	-12.9%	184.1	-7.3%
Tobacco Tax	387.0	392.2	381.6	-10.7	-2.7%	-1.4%	378.3	-0.8%
Alcohol Beverages Tax	32.5	33.4	32.9	-0.5	-1.5%	1.2%	33.3	1.3%
Other ⁽³⁾	545.4	526.5	516.8	-9.7	-1.8%	-5.2%	521.5	0.9%
Subtotal	\$16,588.5	\$17,123.0	\$17,070.7	-\$52.3	-0.3%	2.9%	\$17,613.9	3.2%
Transfer Tax ⁽⁴⁾	\$62.8	\$46.0	\$46.0	\$0.0	0.0%	-26.7%	\$0.0	n/a
GAAP Transfer	47.4	0.0	0.0	0.0	n/a	n/a	0.0	n/a
Extraordinary Revenues ⁽⁵⁾	0.0	15.7	15.0	-0.7	-4.4%	n/a	0.0	n/a
Total Revenues	\$16,698.7	\$17,184.7	\$17,131.7	-\$53.0	-0.3%	2.6%	\$17,613.9	2.8%

GAAP: generally accepted accounting principles

⁽¹⁾ Corporate filing fees decline in fiscal 2019 due to implementation of Chapters 323 and 324 of 2016 which exempts companies that participate in the Maryland Small Business Retirement Savings Program and Trust or otherwise offer a retirement savings arrangement from the annual filing fee for corporations and business entities.

⁽²⁾ Estate tax revenues decline due to Chapter 612 of 2014 which raises the unified credit over a number of years until it reaches the federal credit in calendar 2019.

⁽³⁾ Includes revenues from the courts, hospital patient recoveries, interest earnings, and other miscellaneous revenues.

⁽⁴⁾ The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by \$20.0 million and in fiscal 2018 by \$40.0 million.

⁽⁵⁾ The BRFA of 2017 (Chapter 23) distributed to the General Fund casino revenues that would normally go to the Small, Minority, and Women-Owned Businesses Account in fiscal 2018.

Note: The estimate from March 2017 has been adjusted for actions taken at the 2017 legislative session.

Source: Board of Revenue Estimates

Fiscal 2018 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through September</i>				<u>Full-year Estimated Growth Rate</u>
	<u>FY 2017</u>	<u>FY 2018</u>	<u>\$ Difference</u>	<u>% Difference</u>	
Personal Income Tax	\$1,753.0	\$1,686.0	-\$67.0	-3.8%	4.0%
Sales and Use Tax ⁽¹⁾	763.2	763.9	0.7	0.1%	2.5%
State Lottery	121.2	136.3	15.0	12.4%	7.3%
Corporate Income Tax	165.6	203.1	37.5	22.6%	4.0%
Business Franchise Taxes	44.4	50.3	6.0	13.4%	1.6%
Insurance Premiums Tax	75.3	84.3	9.0	11.9%	-0.7%
Estate and Inheritance Taxes	63.5	45.4	-18.1	-28.5%	-12.9%
Alcohol and Tobacco Taxes	84.0	81.6	-2.4	-2.8%	-1.2%
Other ⁽²⁾	59.1	64.2	5.1	8.6%	-5.2%
Total Revenues	\$3,129.2	\$3,114.9	-\$14.3	-0.5%	2.9%

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

(2) Includes revenues from the courts, interest on investments, miscellaneous revenues, and hospital patient recovery revenues from Medicare, insurance, and sponsors. Fiscal 2018 includes \$3.8 million in casino revenue representing money that would normally go to the Small, Minority, and Women-Owned Businesses Account but was diverted to the General Fund per the Budget Reconciliation and Financing Act of 2017 (Chapter 23).

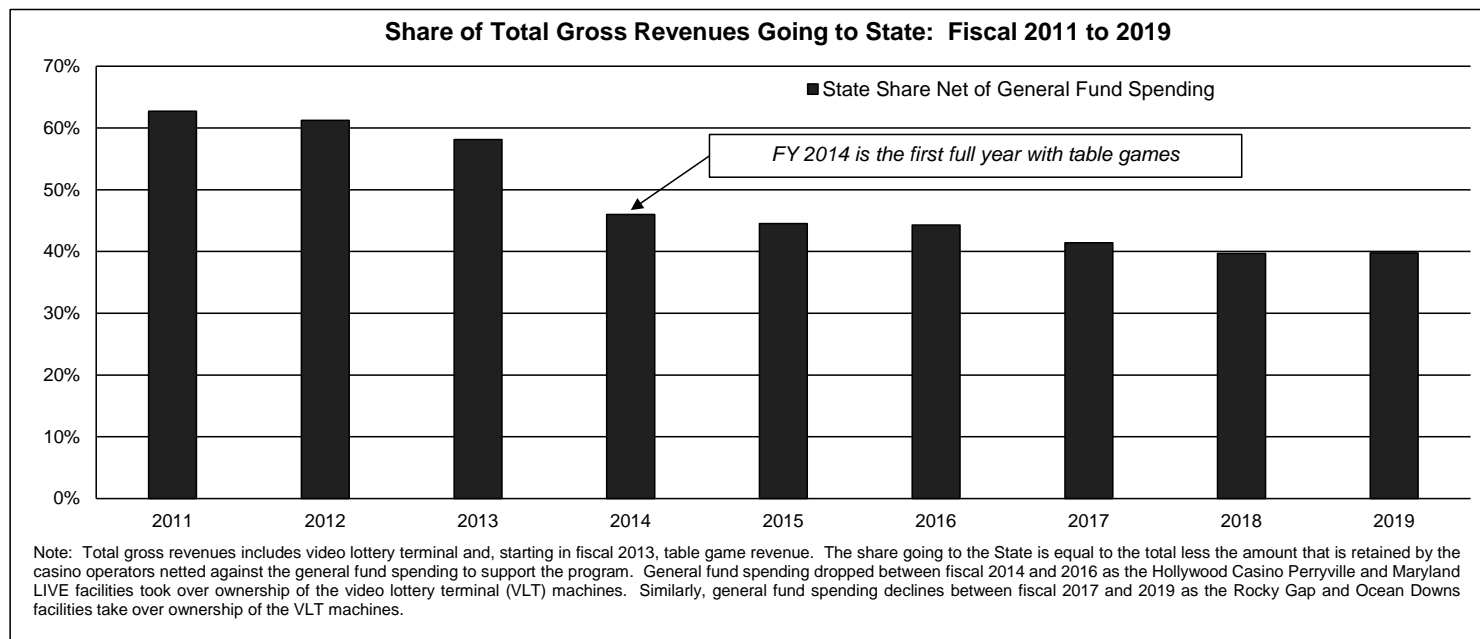
Source: Comptroller of Maryland; State Lottery and Gaming Control Agency

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

	Video Lottery Terminals						
	FY 2017			FY 2018			FY 2019
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$365.9	\$361.7	-\$4.2	\$409.8	\$392.4	-\$17.4	\$412.0
Casino Operators	396.6	391.3	-5.3	501.7	480.5	-21.2	487.2
Local Impact Grants	48.1	47.5	-0.6	58.0	55.5	-2.5	56.2
Small, Minority, and Women-owned Businesses	13.1	12.9	-0.2	0.0	0.0	0.0	0.0
Purse Dedication	55.4	54.6	-0.7	62.5	59.8	-2.8	60.5
Race Tracks Facility Renewal Account	8.5	8.4	-0.1	10.2	9.8	-0.5	9.9
State Lottery Agency	9.4	9.3	-0.1	10.7	10.2	-0.5	10.4
General Fund	0.0	0.0	0.0	15.7	15.0	-0.7	0.0
Total Gross Revenues	\$897.1	\$885.9	-\$11.2	\$1,068.6	\$1,023.1	-\$45.5	\$1,036.2

	Table Games						
	FY 2017			FY 2018			FY 2019
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$92.7	\$89.5	-\$3.3	\$100.4	\$94.7	-\$5.8	\$95.8
Casino Operators	445.6	428.1	-17.5	535.7	505.0	-30.7	511.2
Local Impact Grants	18.7	17.6	-1.1	33.5	31.6	-1.9	31.9
Total Gross Revenues	\$557.0	\$535.1	-\$21.9	\$669.6	\$631.2	-\$38.3	\$638.9

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates. March estimate has been adjusted for legislation adopted at the 2017 session.



2017 Legislation Impacting Casino Revenue

- Chapter 339 of 2017 requires the casinos at Rocky Gap and Ocean Downs to own or lease the video lottery terminal (VLT) machines by March 31, 2020. The casinos receive an additional 10% of gross VLT proceeds if the licensee owns or leases the equipment by January 1, 2019. Rocky Gap took over ownership of its VLT machines as of July 1, 2017, and Ocean Downs assumed ownership as of July 31, 2017. The casino at Rocky Gap retains 60% of gross VLT revenue and the Education Trust Fund (ETF) receives 32%. The Ocean Downs facility receives 53% of gross VLT revenue with the ETF getting 32%. The legislation also lowered the share of VLT revenues going to the State Lottery and Gaming Control Agency from 2% to 1% and increased the share going to local impact grants from 2.75% to 3.75% for the first 10 years of operation of the Rocky Gap facility.
- Chapter 445 of 2017 allows casinos to carry forward losses and offset the loss with proceeds from the subsequent day or days. A loss represents payouts to successful players that exceed the amount bet through VLTs or table games on a given day. Prior to this legislation, a daily loss was borne by the casino owner. The ability to carry forward the loss reduces the total gross revenue to be distributed resulting in the loss now being shared by the licensee and the State. Daily losses are very rare for VLTs but fairly common for table games. Table game revenue is distributed 80% to the casino licensee, 5% to local impact grants, and 15% to the ETF.
- Chapters 451 and 452 of 2017 alter the distribution of unclaimed VLT prize revenue. A prize won on a VLT machine and not claimed within 182 days becomes the property of the State. Prior to this legislation, the unclaimed prize revenue was distributed in the same manner as total gross revenue for the particular casino. The legislation changes the distribution of VLT unclaimed prize revenue to the following: 2.5% to the Small, Minority, and Women-Owned Businesses Account, 9.5% to local impact grants, 10% to the Purse Dedication Account, 1.5% to the Racetrack Facility Renewal Account, and the remainder to the ETF. In fiscal 2017, total unclaimed prize revenue was around \$875,000.
- The Budget Reconciliation and Financing Act of 2017 (Chapter 23) diverts the distribution that normally goes to the Small, Minority, and Women-Owned Business Account to the General Fund in fiscal 2018 and to the ETF in fiscal 2019 and 2020. The distribution is 0.75% of gross VLT revenues at the Rocky Gap facility and 1.5% at all other casinos.

Recent Federal Tax Proposals with Potential Impacts for Maryland Taxpayers

- **Increased Standard Deduction Amount**

- The standard deduction for the federal income tax is proposed to increase from \$6,350 to \$12,000 for single filers and from \$12,700 to \$24,000 for joint filers.
- A taxpayer who claims the federal standard deduction is required to claim the standard deduction on the Maryland income tax return. The increased standard deduction amount would potentially result in an increase in State and local income tax revenues due to additional taxpayers claiming the standard deduction instead of itemizing deductions.

- **Eliminating the Deduction for State and Local Taxes Paid**

- A taxpayer who itemizes deductions may deduct certain taxes paid to state and local governments when determining federal taxable income. It has been proposed that this deduction be eliminated, which would increase tax liabilities for Maryland taxpayers that claim the deduction.
- In tax year 2015, about 46% of Maryland federal tax returns claimed this deduction, which is significantly higher than the national average of 30%.
- Approximately 1.4 million Maryland federal income tax returns deducted a total of \$17.5 billion in State and local taxes in tax year 2015.
- If the deduction would have been eliminated in tax year 2015, Maryland taxpayers would have paid an estimated \$3 billion in additional federal income taxes, with the average Maryland taxpayer paying an additional \$2,328.
- State and local income tax liabilities would also increase for taxpayers who claim the deduction for real estate taxes and sales taxes paid.

- **Repatriation of Corporate Earnings**

- Income earned by a domestic parent corporation from foreign operations conducted by foreign corporate subsidiaries is subject to U.S. tax only when the income is distributed as a dividend to the domestic parent corporation.

- One recent study estimates that approximately \$2.6 trillion of foreign earnings are currently not subject to U.S. tax. The current proposal calls for a reduced federal tax rate on repatriated profits.
 - The repatriation of these profits could result in a significant increase in State income tax revenues.
 - Legislation has been introduced in Maryland in recent years that would have provided a subtraction modification for dividends received by a corporation from a controlled foreign corporation if the dividends are included in federal taxable income as part of a repatriation holiday.
- **Estate Tax – Repeal**
 - The federal estate tax excludes certain amounts from taxation each year. The amount is indexed to inflation and adjusted annually. For decedents dying in calendar 2017, \$5.49 million can be excluded for federal estate tax purposes.
 - For decedents dying in calendar 2017, \$3 million can be excluded from an estate when calculating the Maryland estate tax, rising to \$4 million in calendar 2018. For decedents dying on or after January 1, 2019, the Maryland estate tax will exclude the same amount excluded under the federal estate tax, indexed to inflation.
 - While there may be administrative issues that could arise for the Maryland estate tax if the federal estate tax is repealed, the State tax is currently “decoupled” from any federal tax repeal and, therefore, State estate tax revenues would not be directly impacted.

General Fund: Recent History and Outlook
Fiscal 2017-2019
(\$ in Millions)

	2017 Actual	2018 Working	2019 Baseline
Funds Available			
Ongoing Revenues	\$16,664	\$17,139	\$17,639
Balances and Transfers	630	259	303
One-time GAAP Transfer	47	0	0
Short-term Revenues	19	15	0
Total Funds Available	\$17,361	\$17,413	\$17,942
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$16,934	\$17,394	\$17,980
One-time Spending	45	0	0
One-time Spending/Reductions	-94	-112	-61
Pay-as-you-go Capital	62	10	78
Appropriations to Reserve Fund	155	10	196
Total Spending	\$17,102	\$17,302	\$18,193
Cash Balance/Shortfall	\$259	\$111	-\$251
Structural			
Balance (Ongoing Revenues Less Operating Costs)	-\$269	-\$255	-\$340
Ratio (Ongoing Revenues/Operating Costs)	98.4%	98.5%	98.1%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$155	\$10	\$196
Transfers to General Fund	170	0	192
Estimated Rainy Day Fund Balance – June 30	\$833	\$858	\$882
Total Cash (Rainy Day Fund and General Fund Balance)	\$1,091	\$969	\$631
Rainy Day Fund Balance In Excess of 5%	-\$2	\$2	\$1

GAAP: generally accepted accounting principles

Fiscal 2018 Fund Balance Reconciliation
(\$ in Millions)

Estimated Closing Fund Balance (July 2017)	\$91.1
Revenues & Transfers	
Sept 2017 BRE Revisions	-\$52.3
Fiscal 2017 Closeout	90.3
September 2017 BPW Assumptions	1.0
Tax Credit Reimbursements Closeout & Sept BRE	-0.1
<i>Subtotal</i>	38.8
Spending	
Fiscal 2017 Closeout Reversions	72.6
Sept 2017 BPW Withdrawn Appropriation	61.0
Fiscal 2017 Deficiencies	-152.9
<i>Subtotal</i>	-19.3
Estimated Closing Fund Balance (October 2017)	\$110.7

BPW: Board of Public Works

BRE: Board of Revenue Estimates

Outlook for Fiscal 2019 Improves
Comparison of July 2017 Forecast to the October 2017 Forecast
(\$ in Millions)

	Estimated Cash Balance	Estimated Structural Balance
July 2017 Forecast	-\$742	-\$721
October 2017 Forecast	-251	-340
Difference	\$491	\$381
Reasons for Difference:		
Debt Service Premiums & Savings	\$227	\$227
Fiscal 2017 Closeout Revenues and Reversions	163	0
Medicaid Enrollment and Medical Expenditure Trends	154	154
Health Insurance Prescription Drugs and Balance	98	36
Other	19	-5
Sept 2017 BPW Cuts and Revenues	62	42
Rainy Day Fund Transfer due to closeout sweeper	46	
Fiscal 2018 Deficiencies	-153	
BRE Revenue Revisions	-125	-73
Total	\$491	\$381

BPW: Board of Public Works

BRE: Board of Revenue Estimates

**\$217 Million in Potential Fiscal 2018 General Fund Deficiencies are Partially Offset by
Projected Savings in Health Insurance Costs
(\$ in Millions)**

<p>Medicaid: Fiscal 2017 behavioral health costs carried into fiscal 2018 attributed mainly to higher spending on substance use disorder services (\$17.2 million). Fiscal 2018 deficiencies (\$85.4 million) reflect: higher than budgeted medical expenses (\$52.4 million), primarily due to lower estimates of pharmacy rebates; and lower than budgeted special fund attainment (\$32.9 million), primarily due to a shortfall in Cigarette Restitution Fund (CRF) support based on the timing of the 2004 sales year arbitration ruling concerning non-participating manufacturers and lower CRF revenues overall.</p>	\$102.6
<p>Federal Fund and Revenue Underattainment: Maryland State Department of Education (MSDE) lower than budgeted Education Trust Fund revenues in fiscal 2017 (\$5.7 million) and fiscal 2018 (\$35.0 million); and Department of Human Services (DHS) underattainment of federal funds throughout the department based on the most recent actuals (\$4.1 million).</p>	\$44.8
<p>Long-term Liabilities: Developmental Disabilities Administration (DDA) federal fund audit disallowance for residential habilitation services (\$34.2 million); and Department of Labor, Licensing, and Regulation federal fund claims over several years (\$4.6 million).</p>	\$38.8
<p>Operating Expenses: Public Safety and Correctional Services estimated costs of new Pharmacy contract (\$18.0 million); Office of the Public Defender panel attorneys and general operating expenses (\$5.6 million); Department of General Services expenses related to eMaryland marketplace (\$4.5 million); Maryland Department of Health (\$2.3 million) including funding for new psychiatric bed capacity, upgraded staffing at the Office of the Chief Medical Examiner, and maintenance expenses at Crownsville; MSDE Nonpublic Placements (\$1.9 million); and DHS (-\$1.6 million) operating expenses offset by a surplus in the Temporary Disabilities Assistance Program.</p>	\$30.7
<p>Anticipated Fiscal 2018 Savings in Health Insurance Costs: Savings from the new pharmacy contract and the availability of over \$190.0 million in fund balance at the close of fiscal 2017.</p>	-\$64.0
<p>Total Deficiencies</p>	<p>\$152.9</p>

Fiscal 2019 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions.
- Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.
- Major inflation assumptions include natural gas (4.0%), medical care and medicine/drugs at State facilities (3.5%), postage (2.6%), utilities/electricity (2.2%), and food (2.1%).
- Employee compensation costs include:
 - a general salary increase of 1.0% effective July 2018, and funding for employee increments on the regular July-January schedule;
 - employee and retiree health insurance savings as a result of high fiscal 2017 ending fund balances and a new pharmacy contract inflation (-5.7%); and
 - employee retirement costs (0.3%).
- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

Caseload Assumptions

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>% Change FY 2018-2019</u>
Pupil Enrollment*	845,861	852,520	857,885	0.6%
Medicaid	895,389	920,251	938,880	2.0%
Children's Health	144,294	147,180	150,123	2.0%
Expansion under Affordable Care Act	290,718	313,976	329,674	5.0%
Temporary Cash Assistance	50,901	46,699	44,298	-5.1%
Foster Care/Adoption/Guardianship	12,977	12,626	12,316	-2.5%
Adult Prison Population	19,485	19,623	19,851	1.2%

* Data for fiscal 2017, 2018, and 2019 reflect September 2015, September 2016, and September 2017 (est.) full-time equivalent enrollments.

State Expenditures – General Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018 to FY 2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$259.4	\$259.6	\$221.0	-\$38.6	-14.9%
County/Municipal	\$262.5	\$271.6	\$282.7	\$11.1	4.1%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	5,924.7	5,935.9	6,113.4	177.6	3.0%
Health	49.5	51.1	55.4	4.4	8.5%
<i>Aid to Local Governments</i>	\$6,551.1	\$6,576.3	\$6,777.9	\$201.7	3.1%
Foster Care Payments	\$177.8	\$184.5	\$180.5	-\$4.0	-2.2%
Assistance Payments	64.5	59.6	51.3	-8.3	-13.9%
Medical Assistance	2,995.7	3,151.9	3,460.2	308.3	9.8%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
<i>Entitlements</i>	\$3,320.3	\$3,483.4	\$3,774.5	\$291.1	8.4%
Health	\$1,369.2	\$1,422.9	\$1,503.1	\$80.2	5.6%
Human Resources	406.6	379.9	387.8	7.8	2.1%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	272.4	268.4	276.3	7.9	3.0%
Public Safety/Police	1,522.0	1,496.4	1,570.6	74.2	5.0%
Higher Education	1,422.2	1,439.5	1,511.7	72.2	5.0%
Other Education	417.5	436.9	449.2	12.3	2.8%
Agriculture/Natural Res./Environment	119.8	120.3	126.0	5.7	4.8%
Other Executive Agencies	696.0	677.0	738.0	61.0	9.0%
Judiciary	481.7	490.4	499.5	9.1	1.9%
Legislative	89.2	90.3	91.9	1.6	1.8%
<i>State Agencies</i>	\$6,813.1	\$6,840.5	\$7,174.6	\$334.1	4.9%
Anticipated Deficiencies	\$0.0	\$152.9	\$0.0	-\$152.9	-100.0%
Total Operating	\$16,943.9	\$17,312.7	\$17,948.1	\$635.3	3.7%
Capital ⁽¹⁾	\$62.3	\$9.5	\$78.4	\$68.9	725.3%
<i>Subtotal</i>	\$17,006.2	\$17,322.2	\$18,026.5	\$704.3	4.1%
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
Appropriations	\$17,161.5	\$17,332.2	\$18,222.8	\$890.6	5.1%
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
Grand Total	\$17,131.5	\$17,302.0	\$18,192.8	\$890.8	5.1%

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

Note: The fiscal 2017 working appropriation includes deficiencies and \$125.8 million in targeted reversions. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017 which reduced general fund spending by \$61.0 million.

State Expenditures – State Funds (\$ in Millions)

<u>Category</u>	FY 2017	FY 2018	FY 2019	FY 2017-2018	
	<u>Working</u> <u>Appropriation</u>	<u>Adj. Leg.</u> <u>Appropriation</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$1,489.1	\$1,564.3	\$1,630.8	\$66.6	4.3%
County/Municipal	\$604.9	\$671.1	\$665.9	-\$5.2	-0.8%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	6,399.3	6,458.0	6,621.3	163.3	2.5%
Health	49.5	51.1	55.4	4.4	8.5%
Aid to Local Governments	\$7,368.1	\$7,497.9	\$7,669.0	\$171.1	2.3%
Foster Care Payments	\$180.0	\$188.8	\$184.9	-\$3.9	-2.1%
Assistance Payments	77.8	72.1	63.3	-8.8	-12.2%
Medical Assistance	3,970.4	4,152.2	4,413.0	260.8	6.3%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
Entitlements	\$4,310.5	\$4,500.6	\$4,743.7	\$243.2	5.4%
Health	\$1,887.3	\$1,890.0	\$1,942.9	\$52.9	2.8%
Human Resources	504.7	473.5	479.3	5.8	1.2%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	276.2	271.6	279.7	8.0	3.0%
Public Safety/Police	1,746.7	1,718.0	1,797.1	79.1	4.6%
Higher Education	5,782.8	5,882.5	6,026.4	143.9	2.4%
Other Education	487.5	506.8	519.6	12.8	2.5%
Transportation	1,837.4	1,907.6	1,998.7	91.1	4.8%
Agriculture/Natural Res./Environment	401.6	413.2	423.1	9.9	2.4%
Other Executive Agencies	1,407.2	1,365.0	1,405.3	40.3	3.0%
Judiciary	541.0	556.7	557.0	0.3	0.1%
Legislative	89.2	90.3	91.9	1.6	1.8%
State Agencies	\$14,978.2	\$15,093.8	\$15,541.6	\$447.9	3.0%
Anticipated Deficiencies	\$0.0	\$137.4	\$0.0	-\$137.4	-100.0%
Total Operating	\$28,145.9	\$28,793.9	\$29,585.2	\$791.2	2.7%
Capital ⁽¹⁾	\$1,940.7	\$1,920.2	\$2,124.8	\$204.6	10.7%
– Transportation	1,554.5	1,575.1	1,607.2	32.2	2.0%
– Environment	210.3	187.6	228.1	40.5	21.6%
– Other	175.8	157.5	289.4	131.9	83.7%
Subtotal	\$30,086.5	\$30,714.1	\$31,710.0	\$995.9	3.2%
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
Appropriations	\$30,241.9	\$30,724.1	\$31,906.3	\$1,182.2	3.8%
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
Grand Total	\$30,211.9	\$30,693.9	\$31,876.3	\$1,182.5	3.9%

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

Note: The fiscal 2017 working appropriation reflects deficiencies, \$125.8 million in targeted reversions, and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017 which reduced general and special fund spending by \$62.9 million. Fiscal 2018 also reflects \$37.9 million in additional special fund spending due to funding swaps.

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

Summary of Budget Growth Compared to Adjusted Legislative Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Debt Service/Local Aid/Entitlements	\$454.1	57.6%
State Agency Costs	334.1	42.4%
Growth in Operating Budget, Including Anticipated Deficiencies	\$788.2	
Pay-as-you-go (PAYGO)	\$68.9	
Appropriation to Reserve Fund	186.3	
Reversions	0.3	
Total Baseline Increase in State Expenditures	\$1,043.7	
Deficiency Appropriations	-\$152.9	
Total	\$890.8	
Debt Service/Local Aid/Entitlements		
Medical assistance including \$15.1 million resulting from a 3.5% behavioral provider rate increase per Chapters 571 and 572 of 2017		\$308.3
Education aid formulas including \$3.0 million for Chapters 573 and 574 of 2017 – The Heroin and Opioid Education and Community Action Act		160.1
Teachers and librarians retirement payments		15.6
Community college formula plus miscellaneous grants		8.7
Disparity grant formula		8.6
Local health department funding		4.4
Other local aid including Chapter 692 of 2017 – State Forest, State Park, and Wildlife Management Area Revenue Equity Program (\$2.5 million)		2.4
Library aid formulas		1.9
Foster Care payments – declining caseload trends (\$6.5 million) only partially offset by 2% provider rate increase (\$2.5 million)		-4.0
Property Tax Credit programs		-4.9
Assistance payments – declining enrollment trends in Temporary Cash Assistance and TDAP		-8.3
Debt service – available bond premiums reduce the need for general funds to supplement property tax revenues		-38.6
State Agency Costs		
Statewide Personnel Expenses (Excluding Higher Education):		
Turnover adjustment		\$43.0
Merit pay (increments)		41.9
General salary increase (1%)		23.3
Employee retirement		5.4
Health insurance savings		-41.4
Impact of 2017 Legislation		
Chapters 571 and 572 of 2017 – Behavioral health for the uninsured rate increase (3.5%) and Drug Court grants		12.3
Chapter 149 of 2017 More Jobs for Marylanders Act		11.0
Chapter 689 of 2017 Correctional Officers' Retirement System – Membership		3.0
Chapter 659 of 2017 Sexual Assault Victims Resources Act		1.6
Chapter 513 of 2017 Maryland Historic Trust Grant Fund		1.3
Chapter 26 of 2017 Maryland Defense Act		1.0
Chapter 23 of 2017 Prince George's Medical Center Operating Support		-1.0
Other legislation		4.6

Components of General Fund Budget Change (cont.)

Other Major Agency Programmatic and Operating Expenses:

University System of Maryland: General funds required to cover growth in base costs not provided for through tuition and Higher Education Investment Fund revenue	\$58.1
Developmental Disabilities Administration: Mandated 3.5% provider rate increase (\$22.4 million) and fiscal 2019 expansion and annualization of fiscal 2018 expansion (\$13.1 million)	35.5
Behavioral Health Administration: Behavioral health services for the uninsured	18.0
Major Information Technology projects including \$13.2 million for Comptroller's integrated tax system	16.7
Sellingier Formula for Aid to Private Colleges and Universities	8.4
Department of Public Safety and Correctional Services Medical Contract	6.9
Morgan State University	3.5
Maryland Higher Education Commission: Educational Excellence Awards	2.5
DDA: Expansion of the Transitions Program at the Potomac Center	2.1
Subcabinet Fund competitive funding	2.0
Increase in grants per Chapter 689 of 2016 – The College Affordability Act in the 529 plan	2.0
Cybersecurity Tax Credit restoration of funding	2.0
Judiciary: New Catonsville Court personnel and operating costs	1.7
Department of Information Technology: 700 MHz radio equipment and maintenance contracts	1.6
Maryland State Arts Council grant increase	1.6
Department of Budget and Management: Assumed cost of Annual Salary Review increase based on five-year average	1.1
BCCC: Rebuild of formulas and P-Tech funding per Chapter 591 of 2017	1.0
Maryland School for the Deaf formula adjustment	1.0
Archives additional funding required under the Memorandum of Understanding with Judiciary	1.0
General fund support for video lottery terminal operations	-2.3
Other	\$34.9

Anticipated Fiscal 2018 Deficiencies Carried over into Fiscal 2019 \$29.2

Reserve Fund and PAYGO

PAYGO: Repayment of transfer tax funding for Program Open Space per Chapter 10 of 2016	\$37.9
PAYGO: Rebuild of Strategic Demolition and Smart Growth Impact Fund	28.5
PAYGO: Chapter 523 of 2017 National Capital Strategic Economic Development Fund	2.0
PAYGO: Hazardous Substance Cleanup Program increased funding	0.5
Reserve fund rebuild to reflect unassigned fiscal 2017 fund balance per statute	186.3

Total **\$1,043.7**

BCCC: Baltimore City Community College
 TDAP: Temporary Disability Assistance Program

General Fund Growth in Medicaid/Maryland Children’s Health Program Is Expected to be over \$300 Million above the Fiscal 2018 Working Appropriation

<u>Funds</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 WA</u>	<u>Fiscal 2018 DLS Estimate</u>	<u>Fiscal 2019 Baseline</u>	<u>\$ Change 18WA -19</u>	<u>% Change 18WA -19</u>
General	\$3,007.7	\$3,151.9	\$3,237.3	\$3,460.2	308.3	9.8%
Special	963.6	1,000.3	967.3	952.8	-47.5	-4.7%
Federal	6,720.0	6,919.1	6,893.2	7,204.8	285.6	4.1%
Reimbursable	70.5	75.2	70.5	70.5	-4.7	-6.3%
Total	\$10,761.8	\$11,146.5	\$11,168.3	\$11,688.2	\$541.7	4.9%

DLS: Department of Legislative Services
 WA: working appropriation

Note: DLS Fiscal 2018 Estimate attributes anticipated fiscal 2018 deficiency appropriations to the appropriate fiscal year. Data is for major provider payments only.

-
- After adjusting for the September Board of Public Works reductions, the fiscal 2019 baseline assumes overall growth in the Medicaid budget of 4.9%. However, general fund growth is much higher at 9.8%. Even after adjusting for anticipated deficiency appropriations, overall Medicaid growth is expected to be 4.7%, with general fund growth of 6.9%.
 - Major drivers of general fund growth include:
 - Provider rates (\$103 million) including the fiscal 2019 impact of calendar 2018 managed care organization rate increases (3.8%), increased behavioral health rates per Chapters 571 and 572 of 2017 (3.5%), and assumptions of regulated (2.5%) and community provider (ranging from 2.0% to 2.9%) rate increases;
 - Enrollment and utilization (\$59 million). The fiscal 2019 baseline assumes an average monthly enrollment of 1.42 million, compared to year-to-date enrollment of 1.36 million, a 2.4% annual growth rate. Importantly, almost half of the enrollment growth is in the Affordable Care Act (ACA) expansion and the Maryland Children’s Health Program eligibility categories for which the State receives an enhanced match.
 - Fiscal 2018 deficiency medical costs rolled forward into fiscal 2019 (\$52 million).
 - Expectations of lower special fund attainment (\$48 million) primarily due to the mandated reduction in the Medicaid Deficit Assessment and the availability of Cigarette Restitution Fund support.

- The increasing State's budget responsibility for the ACA expansion population after rate and enrollment changes (\$26.0 million). In fiscal 2019, the State is responsible for 6.5% of total estimated expenditures of \$2.9 billion, up from 5.5% in fiscal 2018.
- The fiscal 2019 baseline assumes that the Children's Health Insurance Program will be reauthorized by Congress and will maintain both the current matching and eligibility requirements (specifically the enhanced federal match that is scheduled to continue through federal fiscal 2019). Absent this reauthorization, Maryland is required to maintain coverage for the 145,000 children currently enrolled in the program through federal fiscal 2019 at the regular Medicaid matching rate. Depending on when available funding is exhausted (around the third quarter of fiscal 2018), this would result in additional deficiency requirements in fiscal 2018 plus an additional \$104 million general fund need in fiscal 2019.
- Although efforts at the federal level to change the current funding requirements for Medicaid (both through block grants as well as changes to the support for the ACA expansion population) have thus far been unsuccessful, those efforts may yet re-surface. The largest short-term threat to the State budget would involve any change in funding to the ACA expansion population. For example, compared to current law, under the Graham-Cassidy proposal, it was estimated that Maryland would lose \$13.5 billion in federal funds between federal fiscal 2020 and 2026 related just to the ACA expansion population. Block grant proposals for most of the traditional Medicaid population could also have had an impact toward the end of the forecast period, particularly for the elderly and disabled adults.

Employee and Retiree Health Insurance Account
Fiscal 2017 Legislative Appropriation vs. Actual
(\$ in Millions)

	<u>2017 Leg.</u> <u>Approp.</u>	<u>2017</u> <u>Actual</u>	<u>Diff. FY17</u> <u>Leg.-Actual</u>
Beginning Balance	\$78.4	\$156.3	\$77.9
Expenditures			
DBM Personnel Administrative Cost	\$17.5	\$11.4	-\$6.1
Payments of Claims			
Medical	\$967.1	\$979.6	\$12.5
Rx	588.9	561.8	-27.1
Dental	49.7	48.7	-1.0
Payments to Providers	\$1,605.7	\$1,590.1	-\$15.6
Receipts			
State Agencies	\$1,264.9	\$1,305.0	\$40.1
Employee Contributions	193.5	187.7	-5.8
Retiree Contributions	94.2	97.3	3.1
Rx Rebates, Recoveries, and Other	104.0	150.0	46.0
Total Receipts	\$1,656.6	\$1,740.1	\$83.5
Ending Balance	\$111.8	\$294.9	\$183.1
Incurred But Not Received	-\$105.5	-\$103.0	\$2.5
Reserve for Future Provider Payments	\$6.3	\$191.9	\$185.6

- Fiscal 2017 closed with a fund balance of \$191.9 million after incurred but not received costs, which is \$185.6 million greater than what was originally budgeted.
- The beginning balance from fiscal 2016 was higher due to an additional pay period bolstering contributions and greater than anticipated prescription drug rebate revenue.
- Fiscal 2017 receipts into the fund came in \$83.5 million greater than what was originally budgeted due to increased State agencies' contributions and higher than expected prescription drug rebate revenue. State agencies' contributions exceeded expectations in part because the budget assumed the State would pay 80% of premiums even though many employees and retirees enroll in the Exclusive Provider Organizations plans toward which the State pays 85% of the premium.
- Claims came in \$15.6 million under what was appropriated, primarily due to slower than projected growth in prescription drug claims.

DBM: Department of Budget and Management

Rx: Prescription Drug

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

Employee and Retiree Health Insurance Account
Fiscal 2017-2019
(\$ in Millions)

	<u>2017</u> <u>Actual</u>	<u>2018</u> <u>Working</u>	<u>2019</u> <u>Baseline</u>
Beginning Balance	\$156.3	\$294.9	\$263.3
Expenditures			
Administrative Cost	\$11.4	\$7.8	\$7.5
Payments of Claims			
Medical	\$979.6	\$1,023.0	\$1,072.9
Rx	561.8	547.8	524.1
Dental	48.7	48.7	48.7
Payments to Providers	\$1,590.1	\$1,619.5	\$1,645.8
Percent Growth in Payments	4.4%	1.6%	1.6%
Receipts			
State Agencies	\$1,305.0	\$1,188.6	\$1,138.8
Employee Contributions	187.7	171.0	163.8
Retiree Contributions	97.3	88.6	84.9
Rx Rebates, Recoveries, and Other	150.0	147.4	142.9
Total Receipts	\$1,740.1	\$1,595.6	\$1,530.5
Percent Growth in Receipts	6.5%	-8.3%	-4.1%
Ending Balance	\$294.9	\$263.3	\$140.4
Incurred But Not Received	-\$103.0	-\$103.0	-\$103.0
Reserve for Future Provider Payments	\$191.9	\$160.3	\$37.4

- Fiscal 2018 starts with a beginning balance of \$294.9 million due to lower costs and higher receipts in fiscal 2017.
- Projected prescription drug costs in fiscal 2018 and 2019 decrease as a result of savings from a new pharmacy benefit manager (PBM) contract beginning January 1, 2018. The new PBM is expected to reduce costs in calendar 2018 by about 10% through better prices and enhanced rebates. Very modest growth is projected in calendar 2019 due to the implementation of a new drug formulary.
- Contributions decrease in fiscal 2018 and 2019 due to the assumption of two payroll holidays in each year to reduce the fund balance.

Rx: Prescription Drug

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

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

	<u>FY 2019 State Aid Amount</u>	<u>Percent of Total</u>
Public Schools	\$6,546.2	85.0%
County/Municipal	694.4	9.0%
Community Colleges	326.4	4.2%
Libraries	81.2	1.1%
Local Health	55.4	0.7%
Total	\$7,703.6	100.0%

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

	<u>FY 2019 Aid Change</u>	<u>Percent Change</u>
Public Schools	\$160.9	2.5%
County/Municipal	4.6	0.7%
Community Colleges	8.7	2.7%
Libraries	2.4	3.1%
Local Health	4.4	8.5%
Total	\$180.9	2.4%

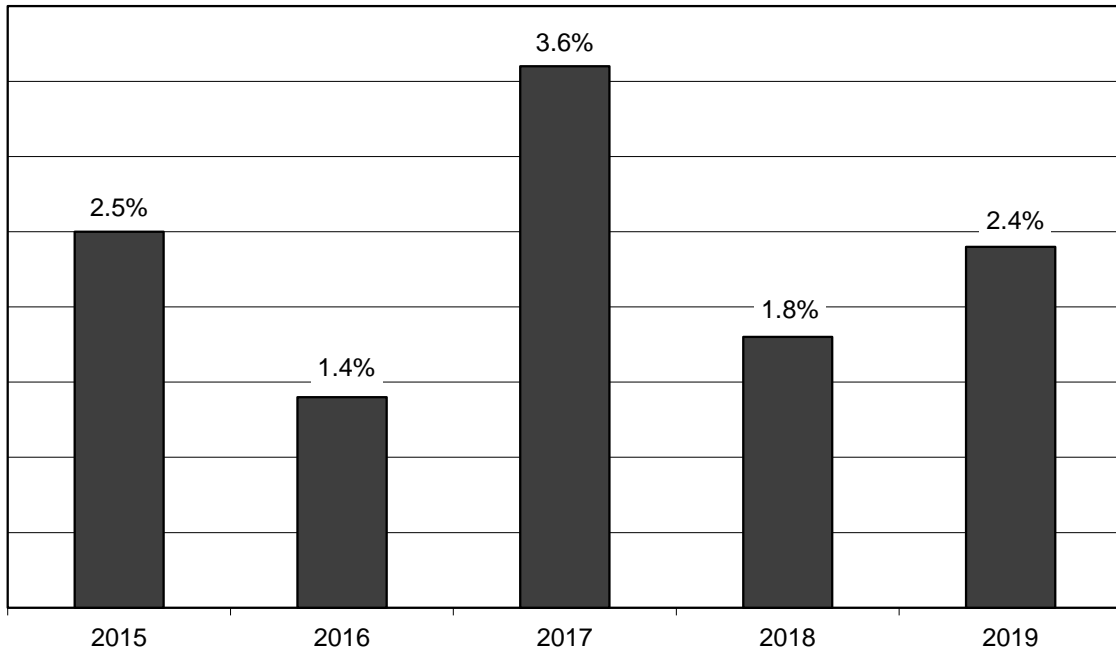
State Aid by Major Programs
Fiscal 2017-2019
State Funds
(\$ in Millions)

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2018-2019</u> <u>\$ Change</u>	<u>FY 2018-2019</u> <u>% Change</u>
Public Schools					
Foundation Program	\$2,962.0	\$3,005.3	\$3,045.6	\$40.3	1.3%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	136.9	139.1	141.0	1.9	1.4%
NTI Education Grants	39.7	49.2	62.2	13.0	26.4%
TIF Education Grants	0.0	0.4	0.5	0.1	13.6%
Declining Enrollment Grants	0.0	17.2	12.9	-4.4	-25.4%
Foundation – Special Grants	19.4	0.0	0.0	0.0	
Compensatory Aid	1,309.1	1,305.5	1,349.7	44.2	3.4%
Student Transportation	270.8	276.3	281.3	4.9	1.8%
Special Education – Formula Aid	279.6	284.9	288.8	3.9	1.4%
Special Education – Nonpublic Placements	121.6	123.6	126.1	2.5	2.0%
Limited English Proficiency Grants	227.0	248.7	267.5	18.8	7.6%
Guaranteed Tax Base	54.5	50.3	49.1	-1.2	-2.3%
Aging Schools Program	0.0	6.1	6.1	0.0	0.0%
Head Start/Pre-kindergarten	6.1	20.7	29.8	9.1	44.0%
Other Education Programs	64.1	76.9	89.5	12.6	16.4%
Subtotal Direct Aid	\$5,537.5	\$5,650.9	\$5,796.7	\$145.8	2.6%
Retirement Payments	\$787.0	\$734.5	\$749.6	\$15.1	2.1%
Total Public School Aid	\$6,324.5	\$6,385.3	\$6,546.2	\$160.9	2.5%
Libraries					
Library Aid Formula	\$36.4	\$40.7	\$42.0	\$1.3	3.1%
State Library Network	17.0	17.7	18.4	0.7	3.8%
Subtotal Direct Aid	\$53.4	\$58.4	\$60.3	\$1.9	3.3%
Retirement Payments	\$20.9	\$20.3	\$20.8	\$0.5	2.4%
Total Library Aid	\$74.3	\$78.7	\$81.2	\$2.4	3.1%
Community Colleges					
Community College Formula	\$234.4	\$235.2	\$243.9	\$8.8	3.7%
Other Programs	33.5	37.9	36.3	-1.7	-4.4%
Subtotal Direct Aid	\$267.9	\$273.1	\$280.2	\$7.1	2.6%
Retirement Payments	\$46.5	\$44.6	\$46.2	\$1.6	3.5%
Total Community College Aid	\$314.3	\$317.7	\$326.4	\$8.7	2.7%
Local Health Grants					
	\$49.5	\$51.1	\$55.4	\$4.4	8.5%
County/Municipal Aid					
Transportation	\$209.6	\$219.9	\$185.8	-\$34.1	-15.5%
Public Safety	127.2	131.6	132.8	1.2	0.9%
Program Open Space	27.2	40.7	65.1	24.4	59.9%
Disparity Grant	132.8	138.8	147.4	8.6	6.2%
Gaming Impact Grants	65.0	87.0	88.2	1.1	1.3%
Neighborhood Revitalization Grants	21.5	25.6	28.5	2.9	11.2%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	17.5	18.5	18.9	0.5	2.5%
Total County/Municipal Aid	\$628.6	\$689.8	\$694.4	\$4.6	0.7%
Total State Aid	\$7,391.1	\$7,522.7	\$7,703.6	\$180.9	2.4%

NTI: net taxable income

TIF: Tax Increment Financing

Annual Change in State Aid to Local Governments Fiscal 2015-2019



General Fund Budget Outlook
Fiscal 2018-2023
(\$ in Millions)

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2019-2023</u>
	<u>Work. App.</u>	<u>Baseline</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>	<u>Average Annual Change</u>
Revenues							
Opening Fund Balance	\$259	\$111	\$0	\$0	\$0	\$0	
Transfer	0	191	38	36	35	36	
One-time Revenues/Legislation	15	0	0	0	0	0	
Subtotal One-time Revenue	\$274	\$302	\$38	\$36	\$35	\$36	
Ongoing Revenues	\$17,139	\$17,639	\$18,256	\$18,923	\$19,620	\$20,316	
Revenue Adjustments – Legislation	0	0	0	0	0	0	
Subtotal Ongoing Revenue	\$17,139	\$17,639	\$18,256	\$18,923	\$19,620	\$20,316	3.6%
Total Revenues & Fund Balance	\$17,413	\$17,941	\$18,294	\$18,959	\$19,655	\$20,352	3.2%
Ongoing Spending							
Operating Spending	\$17,882	\$18,487	\$19,518	\$20,433	\$21,295	\$22,169	
Education Trust Fund ¹	-487	-508	-515	-508	-515	-523	
Subtotal Ongoing Spending	\$17,394	\$17,980	\$19,003	\$19,925	\$20,780	\$21,646	4.7%
One-time Spending							
PAYGO Capital	\$10	\$78	\$50	\$50	\$31	\$31	
Legislation/One-time Adjustments/Swaps	-112	-61	0	0	0	0	
Appropriation to Reserve Fund	10	196	50	83	83	83	
Subtotal One-time Spending	-\$92	\$213	\$100	\$133	\$114	\$114	
Total Spending	\$17,302	\$18,193	\$19,103	\$20,058	\$20,893	\$21,760	4.6%
Ending Balance	\$111	-\$252	-\$809	-\$1,100	-\$1,238	-\$1,408	
Rainy Day Fund Balance	\$858	\$882	\$913	\$946	\$981	\$1,015	
Balance over 5% of GF Revenues	1	0	0	0	0	-0.4	
As % of GF Revenues	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	-\$255	-\$340	-\$747	-\$1,003	-\$1,159	-\$1,330	

GF: General Fund
PAYGO: pay-as-you-go

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

General Fund Spending Growth by Component
(\$ in Millions)

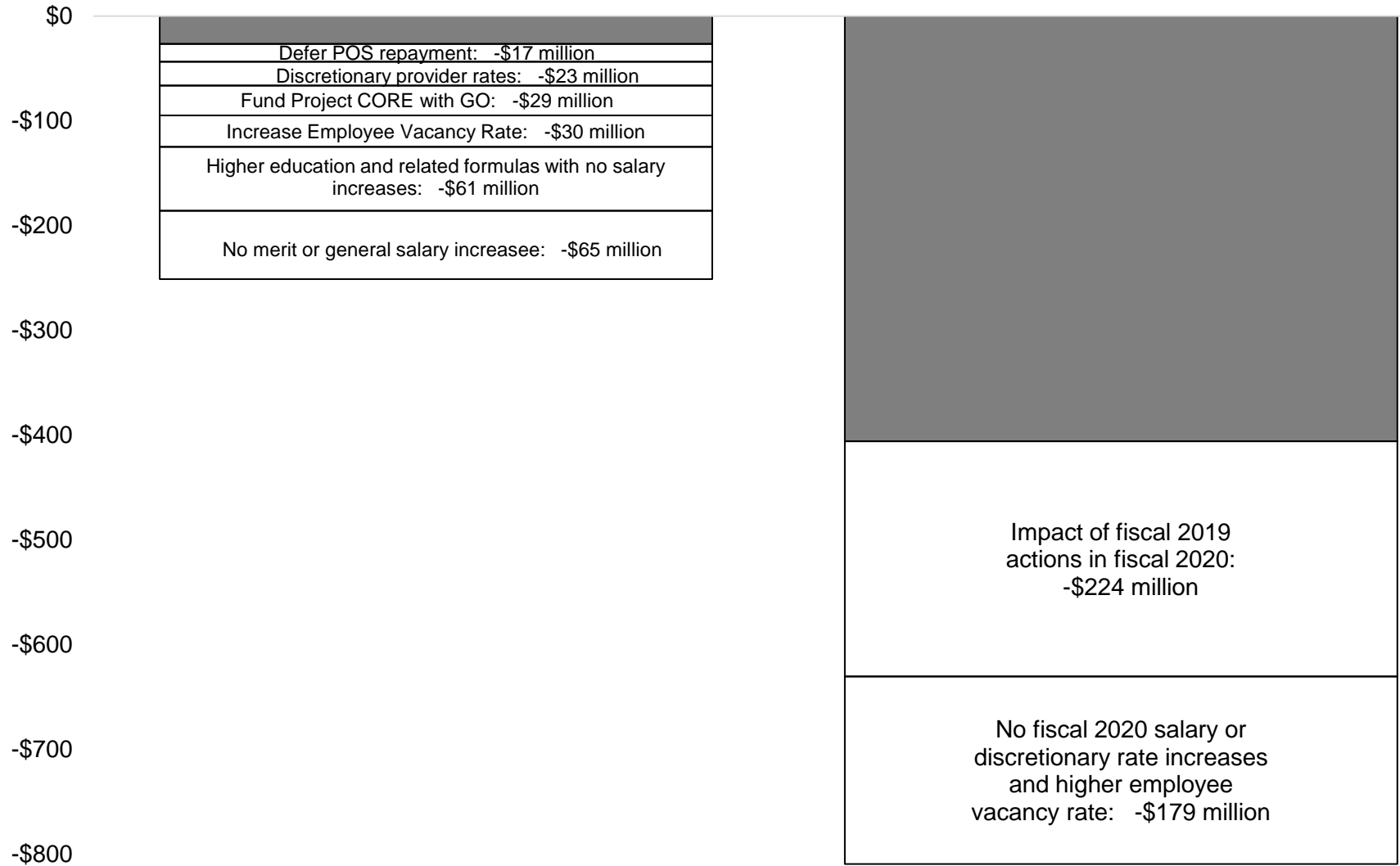
	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2023</u> <u>Est.</u>	<u>\$ Growth</u>	<u>Avg. Annual</u> <u>% Change</u>
Mandates (Local Aid, Sellinger, Legislation)	\$6,939	\$8,074	\$1,135	3.9%
Employee Salary, COLA, Merits, Health Benefits	2,546	2,942	395	3.7%
Debt Service	221	537	316	24.9%
Employee Retirement	438	542	104	5.5%
Agencies and Higher Education	3,422	3,734	312	2.2%
Developmental Disabilities Administration	639	773	134	4.9%
Entitlements	3,775	5,044	1,270	7.5%
Ongoing Spending	\$17,980	\$21,646	\$3,666	4.7%
Ongoing Revenues	17,639	20,316	2,677	3.6%
Structural Gap	-\$340	-\$1,330	-\$989	40.6%

<u>Mandates</u>	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2023</u> <u>Est.</u>	<u>\$ Growth</u>	<u>Avg. Annual</u> <u>% Change</u>
Aid to Education	\$6,032	\$6,936	\$904	3.6%
Community Colleges	326	475	149	9.8%
Aid to Local Health Departments	55	76	21	8.4%
Sellinger Formula for Independent Colleges	57	101	44	15.2%
Other	467	485	18	1.0%
Total Mandates	\$6,939	\$8,074	\$1,135	3.9%

COLA: cost-of-living-adjustment

Discretionary Actions to Reduce Cash Shortfall in Fiscal 2019 to \$27 million

Discretionary Actions to Reduce Cash Shortfall in Fiscal 2020 to \$406 million



29

CORE: Comprehensive Orientation, Rehabilitation, and Empowerment
 GO: general obligation
 POS: Program Open Space

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

Starting Balance		\$258.5
Revenues		
BRE Estimated Revenue September 2017	\$17,070.7	
Program Open Space	46.0	
BPW Assumptions September 2017	1.0	
Total		\$17,117.6
Transfers		
Budgeted Tax Credits	\$21.8	
Small, Minority, and Women-Owned Businesses	15.0	
Total		\$36.8
Funds Available		\$17,412.9
Spending		
Fiscal 2018 Legislative Appropriation	\$17,240.3	
BPW Reductions September 2017	-61.0	
DLS Estimated Deficiencies	152.9	
Estimated Agency Reversions	-30.0	
Net Expenditures		\$17,302.2
Ending Balance		\$110.7

BPW: Board of Public Works
BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

Status of the General Fund
Fiscal 2019
(\$ in Millions)

Starting Balance		\$110.7
Revenues		
BRE Estimated Revenue September 2017	\$17,613.9	
Total		\$17,613.9
Transfers		
Budgeted Tax Credits	\$25.2	
Rainy Day Fund	192.0	
Total		\$217.2
Funds Available		\$17,941.8
Spending		
Fiscal 2019 DLS Baseline Estimate	\$18,222.8	
Estimated Agency Reversions	-30.0	
Net Expenditures		\$18,192.8
Ending Balance		-\$251.0

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

State Expenditures – Special and Higher Education Funds*

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018 to FY 2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,229.7	\$1,304.6	\$1,409.8	\$105.2	8.1%
County/Municipal	\$342.4	\$399.5	\$383.2	-\$16.3	-4.1%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	474.6	522.1	507.9	-14.3	-2.7%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	\$817.0	\$921.6	\$891.0	-\$30.6	-3.3%
Foster Care Payments	\$2.2	\$4.3	\$4.5	\$0.1	2.7%
Assistance Payments	13.3	12.5	12.0	-0.5	-4.2%
Medical Assistance	974.7	1,000.3	952.8	-47.5	-4.8%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$990.2	\$1,017.1	\$969.2	-\$47.9	-4.7%
Health	\$518.1	\$467.1	\$439.8	-\$27.3	-5.8%
Human Resources	98.1	93.5	91.5	-2.0	-2.1%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	3.9	3.2	3.3	0.1	2.7%
Public Safety/Police	224.8	221.6	226.6	5.0	2.2%
Higher Education	4,360.6	4,443.0	4,514.7	71.7	1.6%
Other Education	70.0	69.9	70.4	0.5	0.7%
Transportation	1,837.4	1,907.6	1,998.7	91.1	4.8%
Agriculture/Natural Res./Environment	281.8	292.9	297.0	4.1	1.4%
Other Executive Agencies	711.2	688.0	667.3	-20.7	-3.0%
Judiciary	59.3	66.3	57.5	-8.8	-13.2%
Legislative	0.0	0.0	0.0	0.0	n/a
State Agencies	\$8,165.1	\$8,253.3	\$8,367.0	\$113.7	1.4%
Anticipated Deficiencies	\$0.0	-\$15.5	\$0.0	\$15.5	-100.0%
Total Operating	\$11,202.0	\$11,481.2	\$11,637.1	\$155.9	1.4%
Capital	\$1,878.4	\$1,910.7	\$2,046.4	\$135.7	7.1%
– Transportation	1,554.5	1,575.1	1,607.2	32.2	2.0%
– Environment	210.1	187.1	227.1	40.0	21.4%
– Other	113.8	148.5	212.0	63.5	42.8%
Grand Total	\$13,080.4	\$13,391.9	\$13,683.5	\$291.6	2.2%

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

Note: The fiscal 2017 working appropriation reflects deficiencies and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which reduced special fund spending by \$2.0 million. It also reflects \$37.9 million in additional special fund spending due to funding swaps.

State Expenditures – Federal Funds

(\$ in Millions)

<u>Category</u>	FY 2017	FY 2018	FY 2019	FY 2018 to FY 2019	
	<u>Working</u>	<u>Adj. Leg.</u>		<u>Baseline</u>	<u>\$ Change</u>
	<u>Appropriation</u>	<u>Appropriation</u>			
Debt Service	\$11.5	\$11.5	\$11.5	\$0.0	-0.1%
County/Municipal	\$87.5	\$72.4	\$72.4	\$0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	936.8	993.3	993.3	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
Aid to Local Governments	\$1,028.7	\$1,070.1	\$1,070.1	\$0.0	0.0%
Foster Care Payments	\$82.3	\$73.8	\$72.7	-\$1.1	-1.5%
Assistance Payments	1,255.6	1,196.4	1,095.0	-101.4	-8.5%
Medical Assistance	6,866.6	6,919.1	7,204.8	285.6	4.1%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$8,204.4	\$8,189.3	\$8,372.5	\$183.2	2.2%
Health	\$975.7	\$990.5	\$1,010.0	\$19.5	2.0%
Human Resources	481.9	557.0	553.9	-3.1	-0.5%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.8	4.8	5.0	0.1	2.9%
Public Safety/Police	43.0	37.3	38.4	1.1	2.8%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	254.2	275.0	278.9	3.8	1.4%
Transportation	98.7	97.5	98.8	1.3	1.3%
Agriculture/Natural Res./Environment	69.1	66.1	67.2	1.1	1.7%
Other Executive Agencies	614.4	622.5	620.2	-2.3	-0.4%
Judiciary	1.1	0.1	0.1	0.0	0.7%
State Agencies	\$2,543.0	\$2,650.8	\$2,672.4	\$21.7	0.8%
Anticipated Deficiencies	\$0.0	-\$25.5	\$0.0	\$25.5	-100.0%
Total Operating	\$11,787.7	\$11,896.2	\$12,126.6	\$230.4	1.9%
Capital	\$1,089.5	\$1,055.5	\$1,088.2	\$32.7	3.1%
– Transportation	1,016.3	949.5	1,010.5	61.0	6.4%
– Environment	44.3	42.6	41.7	-1.0	-2.2%
– Other	28.9	63.4	36.0	-27.4	-43.2%
Grand Total	\$12,877.1	\$12,951.7	\$13,214.8	\$263.1	2.0%

Note: The fiscal 2017 working appropriation includes \$817.5 million in deficiencies. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which increased federal fund spending by \$0.1 million to backfill general fund reductions of the same amount.

State Expenditures – All Funds (\$ in Millions)

<u>Category</u>	FY 2017	FY 2018	FY 2019	FY 2018-2019	
	<u>Working</u>	<u>Adj. Leg.</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$1,500.6	\$1,575.8	\$1,642.4	\$66.6	4.2%
County/Municipal	\$692.3	\$743.5	\$738.2	-\$5.2	-0.7%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	7,336.1	7,451.3	7,614.6	163.3	2.2%
Health	54.0	55.6	59.9	4.4	7.8%
Aid to Local Governments	\$8,396.8	\$8,568.0	\$8,739.1	\$171.1	2.0%
Foster Care Payments	\$262.3	\$262.6	\$257.7	-\$5.0	-1.9%
Assistance Payments	1,333.4	1,268.5	1,158.3	-110.2	-8.7%
Medical Assistance	10,836.9	11,071.3	11,617.7	546.4	4.9%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
Entitlements	\$12,514.9	\$12,689.9	\$13,116.2	\$426.3	3.4%
Health	\$2,863.0	\$2,880.5	\$2,952.9	\$72.4	2.5%
Human Resources	986.6	1,030.5	1,033.2	2.8	0.3%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	281.1	276.5	284.6	8.2	3.0%
Public Safety/Police	1,789.7	1,755.3	1,835.5	80.2	4.6%
Higher Education	5,782.8	5,882.5	6,026.4	143.9	2.4%
Other Education	741.7	781.8	798.5	16.6	2.1%
Transportation	1,936.1	2,005.1	2,097.5	92.4	4.6%
Agriculture/Natural Res./Environment	470.7	479.3	490.3	11.0	2.3%
Other Executive Agencies	2,021.6	1,987.5	2,025.5	38.1	1.9%
Judiciary	542.1	556.7	557.0	0.3	0.1%
Legislative	89.2	90.3	91.9	1.6	1.8%
State Agencies	\$17,521.2	\$17,744.5	\$18,214.0	\$469.5	2.6%
Anticipated Deficiencies	\$0.0	\$111.9	\$0.0	-\$111.9	-100.0%
Total Operating	\$39,933.5	\$40,690.1	\$41,711.7	\$1,021.6	2.5%
Capital ⁽¹⁾	\$3,030.1	\$2,975.7	\$3,213.0	\$237.3	8.0%
– Transportation	2,570.8	2,524.6	2,617.8	93.2	3.7%
– Environment	254.6	230.2	269.8	39.6	17.2%
– Other	204.7	220.9	325.4	104.5	47.3%
Subtotal	\$42,963.7	\$43,665.8	\$44,924.7	\$1,258.9	2.9%
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
Appropriations	\$43,119.0	\$43,675.8	\$45,121.1	\$1,445.3	3.3%
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
Grand Total	\$43,089.0	\$43,645.6	\$45,091.1	\$1,445.5	3.3%

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

Note: The fiscal 2017 working appropriation reflects deficiencies, \$125.8 million in targeted reversions, and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which reduced spending by \$62.9 million. Fiscal 2018 also reflects \$38 million in additional special and federal fund spending due to funding swaps.

State Reserve Fund Activity
Fiscal 2018 and 2019
(\$ in Millions)

	Rainy Day <u>Fund</u>	Dedicated <u>Purpose Acct.</u>	Catastrophic <u>Event Acct.</u>
Estimated Balances 6/30/17	\$832.5	\$0.0	\$7.1
Fiscal 2018 Appropriations	10.0	0.0	0.0
Interest & Other Net Revenue	15.5	0.0	0.0
Estimated Balances 6/30/18	\$858.0	\$0.0	\$7.1
Fiscal 2019 Appropriations	196.3	0.0	0.0
Transfer to the General Fund	-192.0	0.0	0.0
Interest Earnings	19.3	0.0	0.0
Estimated Balances 6/30/19	\$881.6	\$0.0	\$7.1
Percent of Revenues in Reser	5.0%		

**Potential Fiscal 2018 Deficiencies – All Funds
(\$ in Millions)**

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
<p>Medicaid: Fiscal 2017 behavioral health costs carried into fiscal 2018 attributed mainly to higher spending on substance use disorder services (\$17.2 million general fund (GF)). Fiscal 2018 deficiencies (\$85.4 million GF) reflect: higher than budgeted medical expenses (\$52.4 million), primarily due to lower estimates of pharmacy rebates; and lower than budgeted special fund attainment (\$32.9 million), primarily due to a shortfall in Cigarette Restitution Fund (CRF) support based on the timing of the 2004 sales year arbitration ruling concerning nonparticipating manufacturers and lower CRF revenues overall.</p>	\$102.6	\$0.0	\$0.0	\$102.6
<p>Federal Fund and Revenue Underattainment: Maryland State Department of Education (MSDE) lower than budgeted Education Trust Fund revenues in fiscal 2017 (\$5.7 million GF) and fiscal 2018 (\$35.0 million GF); and Department of Human Services (DHS) underattainment of federal funds throughout the department based on the most recent actuals (\$4.1 million GF, \$0.4 million special funds (SF), and -\$4.5 million federal funds</p>	\$44.8	\$0.4	-\$4.5	\$40.8
<p>Long-term Liabilities: Developmental Disabilities Administration federal fund audit disallowance for residential habilitation services (\$34.2 million GF); and Department of Labor, Licensing, and Regulation federal fund claims over several years (\$4.6 million GF).</p>	\$38.8	\$0.0	\$0.0	\$38.8
<p>Operating Expenses: Public Safety and Correctional Services estimated costs of new Pharmacy contract (\$18.0 million GF); Office of the Public Defender panel attorneys and general operating expenses (\$5.6 million GF); State Lottery contract expenses related to online gambling (\$5.0 million SF), Department of General Services expenses related to eMaryland marketplace (\$4.5 million GF); Maryland Department of Health (\$2.3 million GF, \$0.1 million SF) including funding for new psychiatric bed capacity, upgraded staffing at the Office of the Chief Medical Examiner, and maintenance expenses at Crownsville; MSDE Nonpublic Placements (\$1.9 million); DHS (-\$1.6 million GF, \$0.3 million FF) operating expenses offset by a surplus in the Temporary Disabilities Assistance Program; and other (\$0.4 million SF) .</p>	\$30.7	\$5.5	\$0.3	\$36.6
<p>Anticipated Fiscal 2018 Savings in Health Insurance Costs: Savings from the new pharmacy contract and the availability of over \$190.0 million in fund balance at the close of fiscal 2017 (-\$64.0 million GF, \$21.4 million SF, and \$21.4 million FF).</p>	-\$64.0	-\$21.4	-\$21.4	-\$106.8
Total Deficiencies	\$152.9	-\$15.5	-\$25.5	\$111.9

36