
Spending Affordability Briefing

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

November 15, 2018

General Fund: Recent History and Outlook
Fiscal 2018-2020
(\$ in Millions)

	<u>2018</u> <u>Actual</u>	<u>2019</u> <u>Working</u>	<u>2020</u> <u>Baseline</u>
Funds Available			
Ongoing Revenues	\$17,382	\$18,178	\$18,713
Balances and Transfers	377	390	801
Short-term Revenues	0	143	0
Total Funds Available	\$17,759	\$18,711	\$19,514
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$17,338	\$17,748	\$18,711
One-time Spending	25	97	0
One-time Spending/Reductions	-214	-31	0
Pay-as-you-go Capital	10	59	97
Appropriations to Reserve Fund	10	36	538
Total Spending	\$17,169	\$17,909	\$19,346
Cash Balance/Shortfall	\$590	\$801	\$168
Structural			
Balance (Ongoing Revenues Less Operating Costs)	\$44	\$431	\$2
Ratio (Ongoing Revenues/Operating Costs)	100.3%	102.4%	100.0%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$10	\$15	\$444
Transfers to General Fund	0	0	0
Estimated Rainy Day Fund Balance – June 30	\$857	\$882	\$1,370
Total Cash (Rainy Day Fund and General Fund Balance)	\$1,446	\$1,683	\$1,538
Rainy Day Fund Balance In Excess of 5%	-\$12	-\$22	\$436

**Fiscal 2020 General Fund Outlook
Has Improved by More Than \$1 Billion
(\$ in Millions)**

Change in Outlook	\$1,097
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Components of the Change – How It Happened

Revenues Increased	\$1,043
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Fiscal 2018 Closeout	\$343
Fiscal 2019 Ongoing Revenues Revised Upward	327
Fiscal 2020 Ongoing Revenues Revised Upward	412
Transfers from Rainy Day Fund	-39

Expenditure Growth Slowed	\$446
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Favorable Trends in Medicaid Enrollment and Inflation	\$200
Higher Property Tax and Bond Premium Revenues Expected	78
Baseline Aligns Employee Turnover with Recent Experience of About 7%	75
Fund Balance in Employee/Retiree Health Insurance Program	72
Align Developmental Disabilities Spending with Recent Experience	40
Net Other Changes	-19

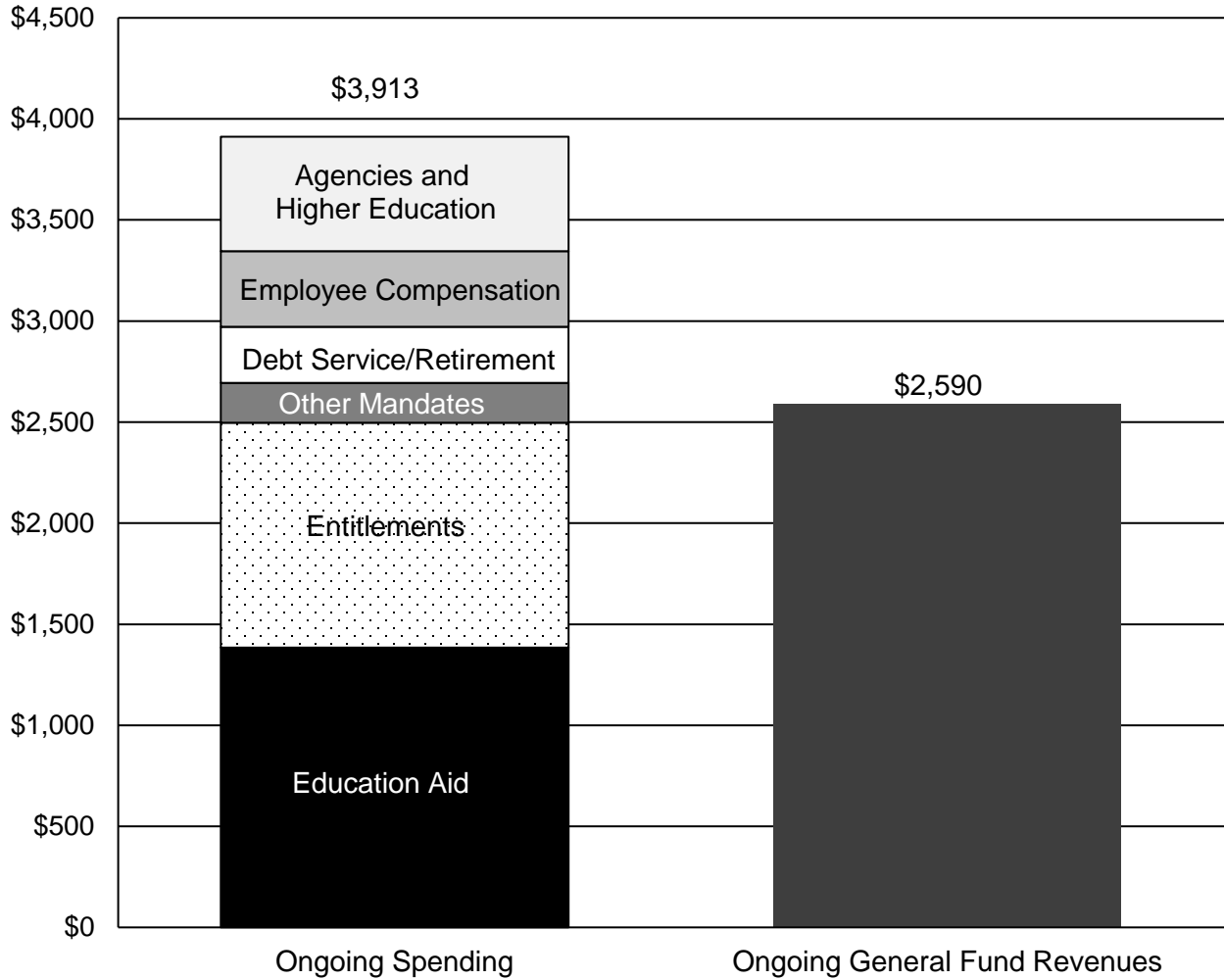
Mandated Appropriation to Rainy Day Fund Increased (Capturing Unappropriated Fiscal 2018 Surplus – "Sweeper")	-\$392
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General Fund Budget Outlook
Fiscal 2019-2024
(\$ in Millions)

	<u>App. 2019</u>	<u>Baseline 2020</u>	<u>Estimate 2021</u>	<u>Estimate 2022</u>	<u>Estimate 2023</u>	<u>Estimate 2024</u>	<u>Average Annual Change 2020-24</u>
<u>Revenues</u>							
Opening Fund Balance	\$590	\$801	\$168	\$0	\$0	\$0	
Transfers	0	0	546	52	47	47	
One-time Revenues	-57	0	0	0	0	0	
Subtotal One-time Revenue	\$532	\$801	\$714	\$52	\$47	\$47	
Ongoing Revenues	\$18,178	\$18,713	\$19,263	\$19,843	\$20,569	\$21,303	3.3%
Total Revenues and Fund Balance	\$18,711	\$19,514	\$19,978	\$19,895	\$20,616	\$21,350	
<u>Spending</u>							
Ongoing Spending	\$17,748	\$18,711	\$19,864	\$20,830	\$21,809	\$22,624	4.9%
PAYGO Capital/Other	\$152	\$97	\$93	\$63	\$49	\$49	
Appropriation to Reserve Fund	9	538	235	114	102	102	
Subtotal One-time Spending	\$162	\$635	\$328	\$177	\$151	\$151	
Total Spending	\$17,909	\$19,346	\$20,192	\$21,008	\$21,960	\$22,775	
Ending Balance	\$801	\$168	-\$215	-\$1,112	-\$1,344	-\$1,425	
Rainy Day Fund Balance	\$882	\$1,370	\$963	\$992	\$1,028	\$1,065	
Balance Over 5% of GF Revenues	0	434	0	0	0	0	
As % of GF Revenues	5.01%	7.33%	5.01%	5.01%	5.01%	5.00%	
Structural Balance	\$431	\$2	-\$600	-\$987	-\$1,240	-\$1,321	

GF: general fund
PAYGO: pay-as-you-go

**Ongoing General Fund Spending Will Grow Faster Than Revenues
Over Next Four Years, Producing a Fiscal 2024
Structural Gap of \$1.3 Billion
Fiscal 2020-2024
(\$ in Millions)**



Revenue Legislation Impacting General Fund Forecast
Fiscal 2018-2024
(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Total General Fund Impact	-\$74.1	-\$130.4	-\$251.2	-\$229.1	-\$233.7	-\$241.7	-\$240.5
<i>Estate Tax</i>							
Unified Credit	-\$67.1	-\$99.7	-\$128.3	-\$135.6	-\$137.6	-\$139.7	-\$141.8
<i>Corporate Filing Fees</i>							
Small Business Retirement Savings Program	\$0.0	\$0.0	-\$37.5	-\$38.3	-\$39.2	-\$40.1	-\$41.0
<i>Personal/Corporate/Sales Taxes</i>							
Interest Rate on Deficiencies and Refunds	-\$5.4	-\$7.6	-\$9.8	-\$11.9	-\$14.1	-\$15.6	-\$16.2
<i>Personal/Corporate Income Taxes: Business Tax Credits</i>							
Film Production	\$0.0	-\$3.0	-\$11.0	-\$14.0	-\$17.0	-\$20.0	-\$20.0
Cybersecurity	0.0	-2.0	-4.0	-4.0	-4.0	-4.0	0.0
Job Creation/One Maryland	0.0	-1.1	-2.8	-5.5	-7.0	-9.2	-9.9
More Jobs for Marylanders	-1.6	-17.0	-57.9	-19.8	-14.8	-13.1	-11.6
Fiscal Note	-0.5	-0.5	-25.1	-4.9	-2.9	-1.2	0.3
Impact of Federal Tax Cuts and Jobs Act	-1.1	-16.6	-32.8	-14.9	-11.9	-11.9	-11.9

Source: Board of Revenue Estimates; Department of Legislative Services

Funds Reserved for Education Enhancements
Fiscal 2020-2024
(\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Ongoing Funding					
Education Trust Fund Revenues*	\$125	\$250	\$375	\$540	\$545
One-time Funding					
Commission on Excellence in Education Fund**	\$200				

* Funds must be used as supplemental funding for K-12 Education and may include school construction.

** Funds must be used to implement final recommendations of Commission. Funds may be spent in a single year or over multiple years.

Potential Uses of Fund Balance

Bolster Reserves

- Leave balance in Rainy Day Fund of 6% to 7% of general fund revenues, better positioning State to respond to an economic downturn and the budget challenges forecast for fiscal 2021 to 2024.

One-time Infrastructure Spending

- Fund taxable debt with cash rather than bonds.
- Use pay-as-you-go to expand capital program in fiscal 2020 or replace general obligation bonds.
- Fund comprehensive study of facilities maintenance/renewal needs and allocate money to Dedicated Purpose Account to address key findings.

Fund One-time Costs Associated with the Recommendations of the Commission on Innovation and Excellence in Education

- Training for State and local school system leadership, senior staff, principals, and teachers.
- Information technology upgrades/enhancements.
- Development of expanded curriculum/syllabi/professional development, *etc.*

Address Unfunded Liabilities

- Other Post Employment Benefits = \$11.4 Billion
- Workers Compensation = \$400 Million
- Allocating small sum will have minimal impact absent a multi-year funding plan.

Maryland Economic Performance Year-over-year Percent Change

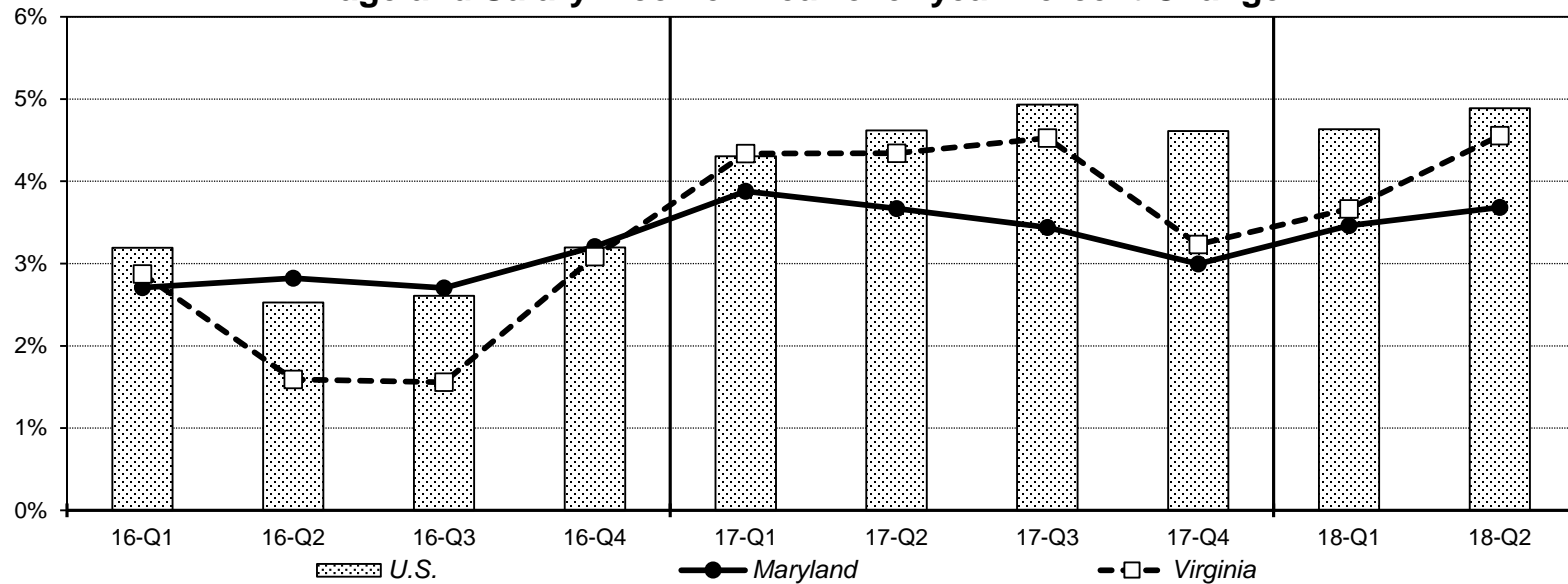
<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Initial</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>UI Claims</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>
Jan-18	0.2%	0.7%	4.1%	-8.8%	-0.7%	0.9%	-1.8%
Feb-18	0.4%	0.8%	4.2%	-19.8%	-2.6%	6.6%	-3.1%
Mar-18	0.6%	0.8%	4.3%	-17.5%	-5.3%	5.4%	-6.3%
Apr-18	0.3%		4.3%	-26.0%	2.2%	3.9%	4.4%
May-18	0.6%		4.3%	-20.9%	-0.4%	4.0%	1.3%
Jun-18	0.9%		4.3%	-20.4%	-5.9%	4.0%	-3.3%
Jul-18	1.1%		4.3%	2.2%	5.2%	-1.4%	7.4%
Aug-18	1.2%		4.2%	-11.9%	1.2%	4.2%	0.7%
Sep-18	1.0%		4.2%	-6.5%	-10.8%	3.6%	-2.8%
<i>Y-T-D</i>	<i>0.7%</i>	<i>0.8%</i>	<i>4.2%</i>	<i>-14.8%</i>	<i>-1.9%</i>	<i>3.4%</i>	<i>-0.4%</i>

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

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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.

Wage and Salary Income: Year-over-year Percent Change



Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment		Personal Income*	
	<u>Mar. 2018</u>	<u>Sep. 2018</u>	<u>Mar. 2018</u>	<u>Sep. 2018</u>
2015	1.6%	1.5%	4.5%	5.0%
2016	1.4%	1.2%	3.6%	3.7%
2017	1.1%	1.1%	3.4%	4.1%
2018E	0.8%	0.7%	3.8%	3.6%
2019E	0.5%	0.8%	4.2%	4.2%
2020E	0.6%	0.6%	4.1%	3.9%
2021E	0.4%	0.4%	3.8%	3.7%

Calendar Year	Wage and Salary Income		Average Wage	
	<u>Mar. 2018</u>	<u>Sep. 2018</u>	<u>Mar. 2018</u>	<u>Sep. 2018</u>
2015	4.6%	4.6%	3.0%	3.1%
2016	3.0%	2.9%	1.6%	1.6%
2017	3.4%	3.5%	2.3%	2.4%
2018E	4.0%	3.9%	3.2%	3.2%
2019E	3.8%	4.0%	3.2%	3.2%
2020E	4.0%	3.9%	3.4%	3.3%
2021E	3.3%	3.3%	2.9%	2.9%

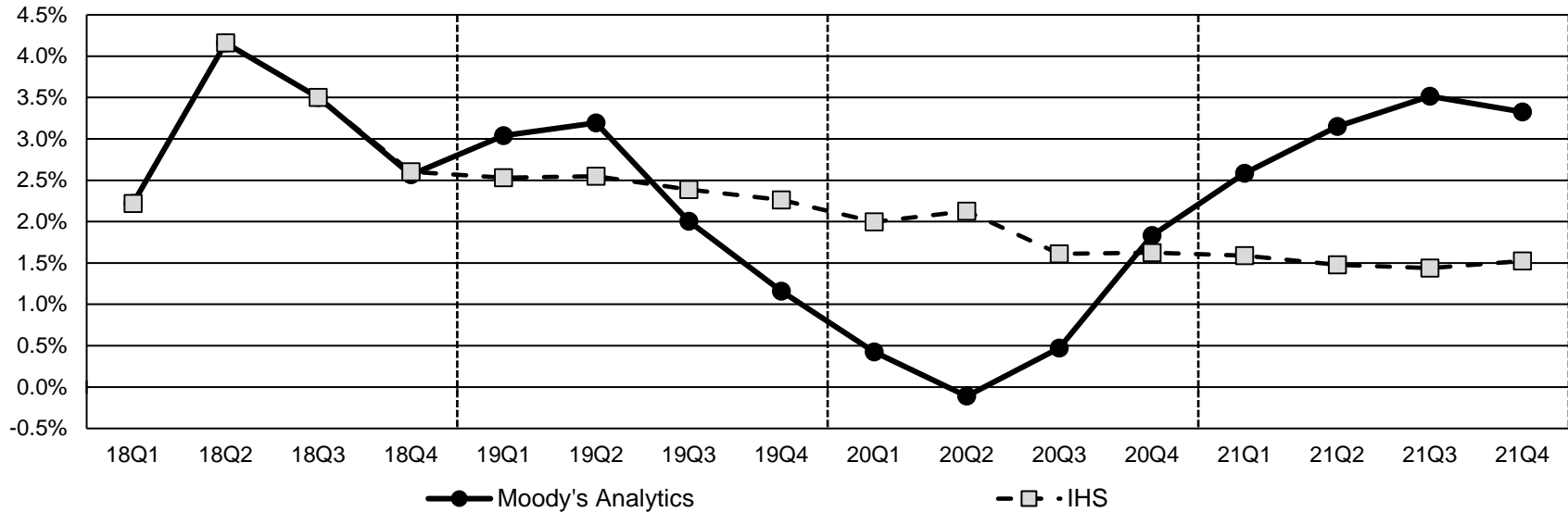
Calendar Year	Dividends, Interest, Rent		Taxable Capital Gains Income*	
	<u>Mar. 2018</u>	<u>Sep. 2018</u>	<u>Mar. 2018</u>	<u>Sep. 2018</u>
2015	4.8%	6.0%	1.4%	1.4%
2016	1.9%	1.7%	-10.0%	-11.3%
2017	2.7%	5.0%	11.0%	23.1%
2018E	3.4%	3.7%	0.0%	12.1%
2019E	4.3%	4.4%	0.0%	4.6%
2020E	3.8%	3.8%	0.0%	-3.5%
2021E	4.1%	3.8%	0.0%	-3.5%

* For personal income, the calendar year 2017 figure is an estimate for March. For capital gains income, the calendar 2016 figure is an estimate for March and calendar 2017 figures are estimates for both March and September.

U.S. Economic Outlook Year-over-year Percent Change

Calendar Year		Real Gross Domestic Product		Employment		Personal Income	
		Moody's Analytics	IHS	Moody's Analytics	IHS	Moody's Analytics	IHS
		<u>Moody's Analytics</u>	<u>IHS</u>	<u>Moody's Analytics</u>	<u>IHS</u>	<u>Moody's Analytics</u>	<u>IHS</u>
2016		1.6%	1.6%	1.8%	1.8%	2.6%	2.6%
2017		2.2%	2.2%	1.6%	1.6%	4.4%	4.4%
2018	E	2.9%	2.9%	1.6%	1.6%	4.6%	4.5%
2019	E	2.9%	2.7%	1.5%	1.5%	4.9%	4.5%
2020	E	0.9%	2.1%	0.3%	1.1%	4.1%	4.9%
2021	E	2.3%	1.6%	-0.1%	0.6%	3.6%	4.4%
2022	E	2.7%	1.5%	0.8%	0.4%	4.2%	4.2%

Inflation Adjusted U.S. Gross Domestic Product Annualized Quarter-over-quarter Percent Change



Fiscal 2018 General Fund Revenues (\$ in Millions)

<u>Source</u>	Fiscal 2017	Fiscal 2018				Fiscal 2017-2018 % Change	
	<u>Actual</u>	<u>Estimate</u> ⁽¹⁾	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$9,019.3	\$9,289.1	\$9,507.8	\$218.7	2.4%	3.0%	5.4%
Sales and Use Tax	4,539.3	4,611.7	4,645.8	34.1	0.7%	1.6%	2.3%
State Lottery	484.3	518.4	534.6	16.2	3.1%	7.0%	10.4%
Corporate Income Tax	795.6	815.1	820.4	5.3	0.7%	2.4%	3.1%
Business Franchise Taxes	228.4	234.1	245.9	11.9	5.1%	2.5%	7.7%
Insurance Premiums Tax	328.7	326.3	386.4	60.1	18.4%	-0.7%	17.6%
Estate and Inheritance Taxes	227.9	216.4	214.4	-2.0	-0.9%	-5.1%	-6.0%
Tobacco Tax	387.0	381.6	372.7	-8.8	-2.3%	-1.4%	-3.7%
Alcohol Beverages Tax	32.5	31.9	32.0	0.2	0.6%	-1.9%	-1.4%
Other ⁽²⁾	545.4	547.9	551.1	3.1	0.6%	0.5%	1.0%
Subtotal	\$16,588.5	\$16,972.3	\$17,311.1	\$338.8	2.0%	2.3%	4.4%
Transfer Tax ⁽³⁾	\$62.8	\$46.0	\$46.0	\$0.0	0.0%	-26.7%	-26.7%
GAAP transfer ⁽⁴⁾	47.4	0.0	0.0	0.0	n/a	n/a	n/a
Extraordinary Revenues ⁽⁵⁾	0.0	14.8	15.3	0.5	n/a	n/a	n/a
Total Revenues	\$16,698.7	\$17,033.2	\$17,372.5	\$339.3	2.0%	2.0%	4.0%

GAAP: generally accepted accounting principles

⁽¹⁾ From the Board of Revenue Estimates, March 2018, with adjustments for actions at the 2018 legislative session.

⁽²⁾ Includes revenues from the courts, interest earnings, hospital patient recoveries, and other miscellaneous revenues.

⁽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. Chapter 10 of the 2016 session reduced the distribution in fiscal 2018 by \$40.0 million.

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

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

Source: Maryland Office of the Comptroller; Board of Revenue Estimates

Maryland General Fund Revenue Forecast
Fiscal 2018-2020
(\$ in Millions)

Source	2018	2019 Estimate				% Change	2020	% Change
	Actual	March	September	\$ Difference	% Difference	over 2018	Estimate	Over 2020
Personal Income Tax	\$9,507.8	\$10,071.8	\$10,249.6	\$177.8	1.8%	7.8%	\$10,594.6	3.4%
Sales and Use Tax ⁽¹⁾	4,645.8	4,750.9	4,863.1	112.2	2.4%	4.7%	5,026.4	3.4%
State Lottery	534.6	526.7	528.6	1.9	0.4%	-1.1%	539.3	2.0%
Corporate Income Tax	820.4	925.2	937.0	11.7	1.3%	14.2%	943.4	0.7%
Business Franchise Taxes ⁽²⁾	245.9	234.7	245.5	10.8	4.6%	-0.2%	212.7	-13.4%
Insurance Premiums Tax	386.4	350.0	377.5	27.5	7.8%	-2.3%	396.9	5.1%
Estate and Inheritance Taxes ⁽³⁾	214.4	186.3	184.0	-2.3	-1.2%	-14.2%	167.2	-9.1%
Alcohol and Tobacco Taxes	404.8	410.3	406.7	-3.6	-0.9%	0.5%	395.5	-2.8%
Other	551.1	507.1	502.7	-4.4	-0.9%	-8.8%	502.0	-0.1%
Subtotal	\$17,311.1	\$17,963.0	\$18,294.6	\$331.6	1.8%	5.7%	\$18,777.9	2.6%
Transfer Tax ⁽⁴⁾	\$46.0	\$0.0	\$0.0	\$0.0	n/a	-100.0%	\$0.0	n/a
Casino Revenues ⁽⁵⁾	15.3	0.0	0.0	0.0	n/a	-100.0%	0.0	n/a
Excellence in Education Fund ⁽⁶⁾	0.0	-200.0	-200.0	0.0	n/a	n/a	0.0	n/a
Total Revenues	\$17,372.5	\$17,763.0	\$18,094.6	\$331.6	1.9%	4.2%	\$18,777.9	3.8%
Volatility Adjustment ⁽⁷⁾	\$0.0	\$0.0	\$0.0	0.0	n/a	n/a	-\$93.9	n/a
Available Revenues	\$17,372.5	\$17,763.0	\$18,094.6	\$331.6	1.9%	4.2%	\$18,684.0	3.3%

⁽¹⁾ Fiscal 2019 and 2020 reflect revenues of \$62.9 million and \$99.1 million, respectively, from out-of-state retailers following the Supreme Court decision allowing states to require those sellers to collect and remit the sales tax (*South Dakota vs. Wayfair*).

⁽²⁾ Corporate filing fees decline in fiscal 2020 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.

⁽³⁾ Estate tax revenues decline due to Chapter 612 of 2014, which raised the unified credit over a number of years, and Chapter 15 of 2018, which sets the credit at \$5 million beginning in calendar 2019.

⁽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.

⁽⁶⁾ The BRFA of 2018 (Chapter 10) distributed \$200 million of personal income tax revenues to the Commission on Innovation and Excellence in Education Fund created by the bill.

⁽⁷⁾ Chapters 4 and 550 of 2017 as amended by the BRFA of 2018 requires the Board of Revenue Estimates, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from non-withholding personal income tax payments relative to the historical average.

Note: The estimate from March 2018 has been adjusted for actions taken at the 2018 legislative session. Other includes revenues from the courts, hospital patient recoveries, interest earnings and other miscellaneous revenues.

Source: Board of Revenue Estimates

Gaming Program
Revenues and Impact on the Education Trust Fund
Fiscal 2018-2020
(\$ in Millions)

	<u>Estimate</u>	<u>2018 Actual</u>	<u>Difference</u>	<u>2019 Estimate March</u>	<u>2019 Estimate Sept.</u>	<u>Difference</u>	<u>2020 Estimate</u>
Video Lottery Terminals							
Education Trust Fund	\$388.3	\$401.8	\$13.5	\$412.1	\$431.5	\$19.5	\$438.6
Casino Operators	475.6	491.0	15.4	487.4	510.3	22.9	518.6
Local Impact Grants	54.9	56.8	1.9	56.2	58.9	2.7	59.8
SMWOBA ⁽¹⁾	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purse Dedication	59.1	61.2	2.1	60.5	63.5	2.9	64.5
RTFRA	9.7	10.0	0.3	9.9	10.4	0.5	10.5
State Lottery Agency	10.1	10.5	0.3	10.4	10.9	0.5	11.0
General Fund	14.8	15.3	0.5	0.0	0.0	0.0	0.0
Gross Revenues	\$1,012.6	\$1,046.7	\$34.1	\$1,036.5	\$1,085.4	\$48.9	\$1,103.0
	<u>Estimate</u>	<u>2018 Actual</u>	<u>Difference</u>	<u>2019 Estimate March</u>	<u>2019 Estimate Sept.</u>	<u>Difference</u>	<u>2020 Estimate</u>
Table Games							
Education Trust Fund	\$93.4	\$94.8	\$1.5	\$95.8	\$96.1	\$0.3	\$97.6
Casino Operators	498.1	505.8	7.8	510.7	512.5	1.8	520.3
Local Impact Grants	31.1	31.6	0.5	31.9	32.0	0.1	32.5
Gross Revenues	\$622.6	\$632.3	\$9.7	\$638.4	\$640.6	\$2.3	\$650.4
Total Gross Revenues	\$1,635.2	\$1,679.0	\$43.8	\$1,674.8	\$1,726.0	\$51.2	\$1,753.4
Total Education Trust Fund	\$481.7	\$496.7	\$15.0	\$507.8	\$527.6	\$19.8	\$536.1

SMWOBA: Small, Minority, and Women-Owned Businesses Account

RTFRA: Race Track Facility Renewal Account

⁽¹⁾ The Budget Reconciliation and Financing Act of 2017 (Chapter 23) diverted the distribution that normally goes to the SMWOBA to the General Fund in fiscal 2018 and to the Education Trust Fund in fiscal 2019 and 2020. The distribution is 0.75% of gross video lottery terminal revenues at the Rocky Gap facility and 1.5% at all other casinos.

Potential Fiscal 2019 General Fund Deficiencies Are Mostly Offset by Projected Underspending in Medicaid, Public Safety, and Juvenile Services (\$ in Millions)

<p>Fiscal 2018 Deficiencies: Medicaid, lower than budgeted special fund attainment (\$42.0 million), higher substance use disorder treatment costs (\$3.0 million), and higher enrollment in the Maryland Children's Health Program (MCHP) (\$0.2 million); State Department of Assessments and Taxation (SDAT) funding for various tax credits (\$7.5 million); Office of the Public Defender operating costs (\$1.3 million); and Department of Information Technology (DoIT) operating costs and security contracts (\$1.1 million).</p>	\$55.1
<p>Long-term Liabilities: Developmental Disabilities Administration federal fund audit disallowance (\$34.2 million) and refunds of improperly collected fiscal 2014 contribution to care payments (\$1.2 million).</p>	35.4
<p>Fiscal 2019 Salary Enhancements: April 1, 2019 \$500 one-time bonus (\$25.3 million) and 0.5% general salary increase (\$5.1 million).</p>	30.3
<p>Mandates and Entitlements: Medicaid, primarily higher costs for substance use disorder treatment (\$15.7 million), and enrollment growth in MCHP (\$1.2 million); SDAT Homeowners Tax Credit estimated funding need (\$6.7 million); and Department of Human Services foster care costs based on revised caseload, placement mix, and the implementation of Chapters 815 and 816 of 2018, which reduce recipient contribution to care requirements (\$5.2 million).</p>	28.8
<p>Operating Expenses: DoIT operating costs and security contracts (\$1.1 million) and Stadium Authority operating subsidy for the Baltimore City Convention Center (\$0.5 million).</p>	1.6
<p>Fiscal 2019 Overfunding: Public Safety and Correctional Services turnover savings (\$72.3 million) partially offset by increased overtime costs (\$26.0 million); Medicaid favorable enrollment trends and higher use of managed care (\$63.0 million); and Department of Juvenile Services favorable trends in per diem placements (\$6.4 million).</p>	-115.7
<p>Total Deficiencies</p>	\$35.5

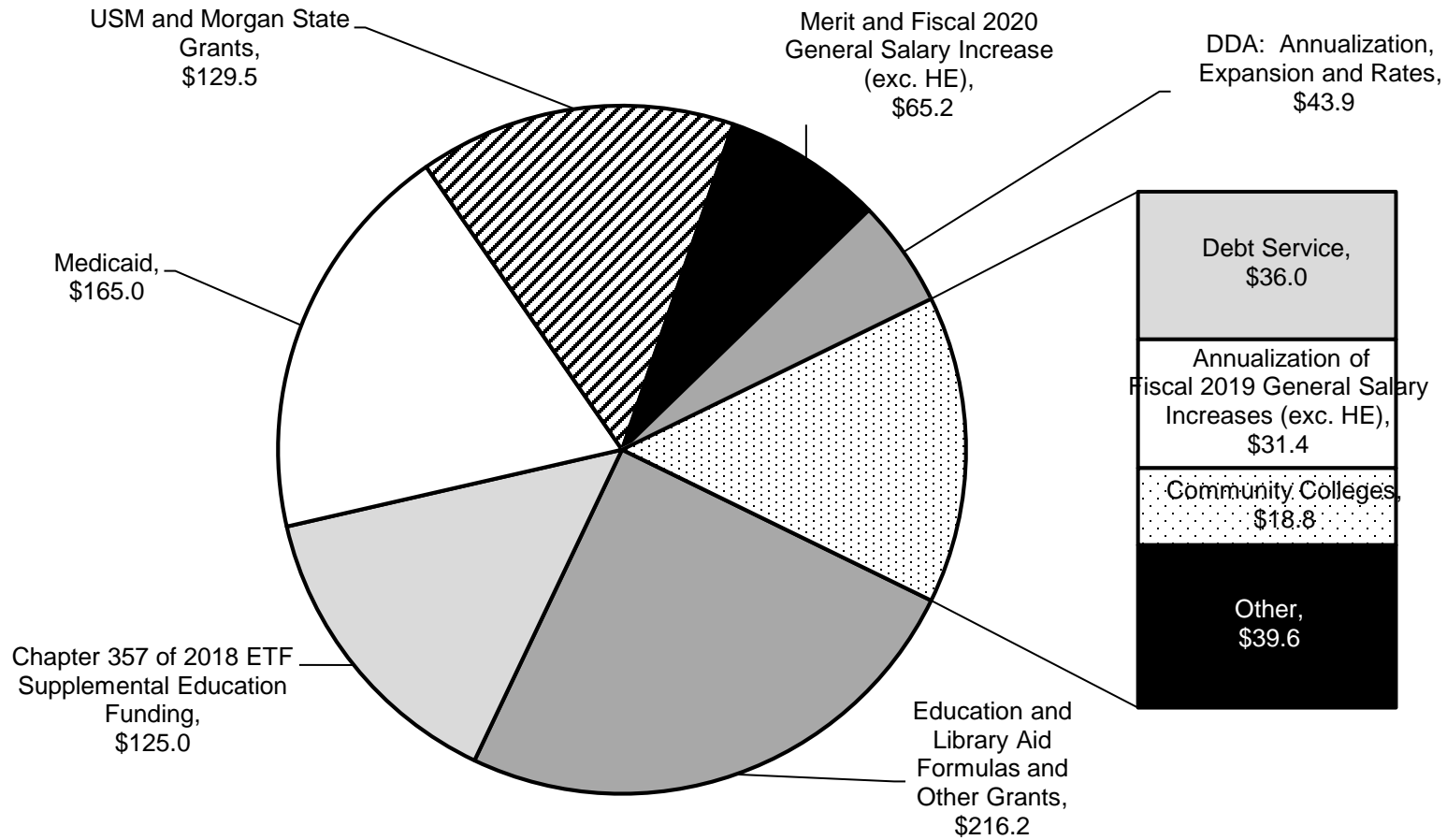
State Expenditures – General Funds
Fiscal 2018-2020
(\$ in Millions)

<u>Category</u>	2018	2019	2020	2019-2020	
	<u>Working</u> <u>Appropriation</u>	<u>Adj. Leg.</u> <u>Appropriation</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$259.6	\$286.0	\$322.0	\$36.0	12.6%
County/Municipal	\$282.7	\$287.7	\$293.5	\$5.8	2.0%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	5,970.4	6,114.0	6,455.1	341.2	5.6%
Health	51.1	51.4	52.8	1.4	2.8%
Aid to Local Governments	\$6,621.8	\$6,775.4	\$7,142.6	\$367.2	5.4%
Foster Care Payments	\$184.5	\$188.1	\$196.6	\$8.5	4.5%
Assistance Payments	59.6	45.4	44.8	-0.5	-1.2%
Medical Assistance	3,198.1	3,400.1	3,565.1	165.0	4.9%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	\$3,531.7	\$3,724.2	\$3,898.6	\$174.4	4.7%
Health	\$1,426.5	\$1,478.3	\$1,543.2	\$64.9	4.4%
Human Services	369.4	372.3	388.8	16.6	4.4%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	265.2	264.2	271.2	7.0	2.6%
Public Safety/Police	1,475.6	1,514.5	1,569.2	54.7	3.6%
Higher Education	1,432.6	1,481.9	1,597.7	115.8	7.8%
Other Education	424.8	442.4	479.5	37.1	8.4%
Agriculture/Natural Res./Environment	119.9	125.1	131.2	6.1	4.9%
Other Executive Agencies	668.4	757.5	760.5	3.1	0.4%
Judiciary	485.8	508.5	529.5	21.0	4.1%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	\$6,776.1	\$7,054.5	\$7,383.1	\$328.6	4.7%
Anticipated Deficiencies	\$0.0	\$35.5	\$0.0	-\$35.5	-100.0%
Total Operating	\$17,189.4	\$17,875.6	\$18,746.2	\$870.6	4.9%
Capital ⁽¹⁾	\$9.5	\$59.5	\$97.0	\$37.5	63.1%
Subtotal	\$17,198.9	\$17,935.1	\$18,843.2	\$908.1	5.1%
Reserve Funds	\$10.0	\$9.3	\$537.7	\$528.4	5,653.7%
Appropriations	\$17,208.9	\$17,944.5	\$19,380.9	\$1,436.5	8.0%
Reversions	-\$78.0	-\$35.0	-\$35.0	\$0.0	0.0%
Grand Total	\$17,130.9	\$17,909.5	\$19,345.9	\$1,436.5	8.0%

⁽¹⁾ Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes \$52.0 million in targeted reversions, \$35.0 million in anticipated reversions, \$116.3 million in deficiencies and legislative reductions to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects \$35.0 million in anticipated reversions and estimated deficiencies of \$35.5 million. In fiscal 2019, the legislature reduced the budget by \$69.9 million but provided authorization for those funds to be used for a variety of purposes. Spending the \$69.9 million is at the discretion of the Governor.

General Fund Operating Expenditures Growth
Fiscal 2019 Adjusted Legislative Appropriation to Fiscal 2020 Baseline
(\$ in Millions)



DDA: Developmental Disabilities Administration
 ETF: Education Trust Fund
 HE: Higher Education
 USM: University System of Maryland

Major Baseline Position Changes

<u>Department/Service Area</u>	<u>Fiscal 2019 Working</u>	<u>Fiscal 2020 Baseline</u>	<u>Fiscal 2019-2020 Change</u>
Health	6,278	6,294	17
Legal (Excluding Judiciary)	1,476	1,485	9
Natural Resources	1,340	1,349	8
Retirement	210	184	-26
Other Executive	40,032	40,048	17
Executive Subtotal	49,336	49,360	24
Higher Education*	26,770	26,770	0
Judiciary	4,029	4,051	22
Legislature	751	751	0
Total	80,886	80,932	46

*Fiscal 2019 working appropriation has been adjusted to include a net increase of 477 positions in higher education institutions using flex authority.

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

New Positions

- **Judiciary:** 22 positions, including 4 circuit court judges, 3 District Court judges (including 2 for the new Catonsville District Court), and 15 associated staff.
- **Health:** 17 positions to implement the Maryland Nursing Home Resident Protection Act (Chapter 454 of 2018) and various legislation.
- **Legal:** 9 positions, including 8 in the Office of the Attorney General to implement the Financial Consumer Protection Act (Chapters 731 and 732 of 2018) and other legislation and 1 in the Public Service Commission (Chapter 51 of 2018).
- **Natural Resources:** 8 positions to implement the State Lakes Protection and Restoration Fund (Chapter 698 of 2018), the Coast Smart siting criteria (Chapters 628 and 629 of 2018), and to reflect changes in staffing needs for construction projects.
- **Other Changes:** 17 positions in various departments as a result of legislation, workload changes, and new facilities.

Abolished Positions

- **State Retirement Agency:** 26 positions due to the Investment Division becoming nonbudgeted (Chapter 728 of 2018).

**Analysis of Vacancies and Turnover Rate
Executive Branch, Excluding Higher Education
Fiscal 2019 Legislative Appropriation Compared to October 2018 Vacancies**

<u>Department/Service Area</u>	<u>Positions</u>	<u>Budgeted Turnover Rate</u>	<u>Vacancies to Meet Turnover</u>	<u>October Vacancies</u>	<u>Vacancies Above (or Below) Turnover</u>	<u>October Vacancy Rate</u>
Largest Six State Agencies						
Public Safety and Correctional Services	10,454	9.6%	1,001	2,253	1,252	21.6%
Human Services	6,120	7.1%	433	558	125	9.1%
Health	6,278	7.6%	477	713	237	11.4%
Police and Fire Marshal	2,449	6.9%	168	308	140	12.6%
Juvenile Services	1,987	7.0%	139	208	70	10.5%
Transportation	9,058	4.5%	411	608	197	6.7%
Subtotal	36,346	7.2%	2,628	4,649	2,021	12.8%
Other Executive						
Legal (Excluding Judiciary) Executive and Administrative Control	1,476	6.1%	90	127	37	8.6%
Financial and Revenue Administration	1,573	4.3%	68	179	110	11.3%
Budget and Management and DoIT	2,097	5.0%	104	224	120	10.7%
Retirement	567	3.7%	21	71	50	12.5%
General Services	210	6.7%	14	21	7	10.0%
Natural Resources	581	4.8%	28	71	42	12.1%
Agriculture	1,340	5.6%	75	112	37	8.3%
Labor, Licensing, and Regulation	352	5.0%	18	36	18	10.1%
MSDE and Other Education	1,446	3.6%	53	194	141	13.4%
Housing and Community Development	1,930	5.7%	110	161	51	8.3%
Commerce	333	6.0%	20	11	-9	3.3%
Environment	192	5.5%	10	16	6	8.3%
	893	6.5%	58	89	31	10.0%
Subtotal	12,990	5.2%	670	1,310	641	10.1%
Executive Branch Subtotal	49,336	6.6%	3,298	5,959	2,661	11.2%

DoIT: Department of Information

MSDE: Maryland State Department of Education

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>Fiscal 2020</u> <u>State Aid Amount</u>	<u>Percent</u> <u>of Total</u>
Public Schools	\$6,908.2	85.5%
County/Municipal	690.2	8.5%
Community Colleges	341.2	4.2%
Libraries	83.6	1.0%
Local Health	52.8	0.7%
Total	\$8,076.0	100.0%

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

	<u>Fiscal 2020</u> <u>Aid Change</u>	<u>Percent</u> <u>Change</u>
Public Schools	\$371.7	5.7%
County/Municipal	27.7	4.2%
Community Colleges	18.8	5.8%
Libraries	2.7	3.3%
Local Health	1.4	2.8%
Total	\$422.3	5.5%

State Aid by Major Programs
State Funds
Fiscal 2018-2020
(\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>Baseline</u> <u>2020</u>	<u>\$ Change</u> <u>2019-2020</u>	<u>% Change</u> <u>2019-2020</u>
Public Schools					
Foundation Program	\$3,005.3	\$3,056.2	\$3,154.9	\$98.7	3.2%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	139.1	141.6	146.3	4.7	3.3%
NTI Education Grants	49.2	62.5	62.7	0.2	0.3%
TIF Education Grants	0.4	0.5	0.7	0.1	24.8%
Declining Enrollment Grants	17.2	18.7	10.6	-8.1	-43.3%
Foundation – Special Grants	0.0	13.0	0.0	-13.0	-100.0%
ETF Supplemental Grants ¹	0.0	0.0	125.0	125.0	
Compensatory Aid	1,305.5	1,308.3	1,375.5	67.2	5.1%
Student Transportation	276.3	282.6	302.8	20.2	7.2%
Special Education – Formula Aid	284.9	290.8	300.0	9.2	3.2%
Special Education – Nonpublic Placements	123.6	123.5	126.0	2.5	2.0%
Limited English Proficiency Grants	248.7	288.0	315.7	27.7	9.6%
Guaranteed Tax Base	50.3	48.2	47.0	-1.2	-2.5%
Head Start/Pre-kindergarten	20.7	29.5	53.5	24.0	81.5%
Other Education Programs	65.1	93.6	92.2	-1.4	-1.5%
Subtotal Direct Aid	\$5,633.0	\$5,803.6	\$6,159.5	\$355.9	6.1%
Retirement Payments	\$734.5	\$732.9	\$748.7	\$15.8	2.2%
Total Public School Aid	\$6,367.5	\$6,536.5	\$6,908.2	\$371.7	5.7%
Libraries					
Library Aid Formula	\$40.7	\$41.9	\$43.2	\$1.3	3.1%
State Library Network	17.7	18.4	19.1	0.7	3.9%
Subtotal Direct Aid	\$58.4	\$60.3	\$62.3	\$2.0	3.3%
Retirement Payments	\$20.3	\$20.6	\$21.3	\$0.7	3.3%
Total Library Aid	\$78.7	\$81.0	\$83.6	\$2.7	3.3%
Community Colleges					
Community College Formula	\$235.2	\$240.4	\$258.6	\$18.1	7.5%
Other Programs	37.9	37.9	36.9	-1.0	-2.6%
Subtotal Direct Aid	\$273.1	\$278.3	\$295.4	\$17.1	6.2%
Retirement Payments	\$44.6	\$44.1	\$45.7	\$1.7	3.8%
Total Community College Aid	\$317.7	\$322.4	\$341.2	\$18.8	5.8%
Local Health Grants	\$51.1	\$51.4	\$52.8	\$1.4	2.8%
County/Municipal Aid					
Transportation	\$219.9	\$242.1	\$256.1	\$14.0	5.8%
Public Safety	131.6	132.7	133.3	0.6	0.5%
Disparity Grant	138.8	140.8	147.8	7.0	5.0%
Gaming Impact Grants	85.9	87.2	92.3	5.1	5.8%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	29.5	32.0	32.9	0.9	2.8%
Total County/Municipal Aid	\$633.4	\$662.5	\$690.2	\$27.7	4.2%
Total State Aid	\$7,448.4	\$7,653.7	\$8,076.0	\$422.3	5.5%

¹ Funding can be used for public school operations and public school construction purposes.

ETF: Education Trust Fund
NTI: Net Taxable Income
TIF: Tax Increment Financing

State Debt Policy – Affordability Ratios

- The Capital Debt Affordability Committee (CDAC) reviews State debt policy each year and issues a recommendation for the following legislative session by October 1.
 - CDAC’s policy is that State tax-supported debt outstanding should not exceed 4.0% of Maryland personal income.
 - State tax-supported debt service payments should not exceed 8.0% of State revenues.
- Prior to 2015, CDAC policy was to allow 3% increases in general obligation (GO) bonds authorizations in the out-years. Current policies are more restrictive.
 - The current CDAC policy, which began in 2015, is to limit GO bond authorizations to \$995 million and maintain this limit in the out-years.
 - Current Spending Affordability Committee (SAC) policy is to limit out-year increases to 1%. This is less than the projected increase in State property tax and general fund revenues. If SAC adheres to this policy, fiscal 2020 authorizations are limited to \$1,085 million.

State Affordability Ratios Fiscal 2020-2024

<u>Year</u>	<u>Debt Outstanding to Personal Income</u>		<u>Debt Service to Revenues</u>	
	<u>CDAC</u>	<u>SAC</u>	<u>CDAC</u>	<u>SAC</u>
2020	3.45%	3.46%	7.38%	7.44%
2021	3.39%	3.40%	7.33%	7.49%
2022	3.32%	3.33%	7.44%	7.62%
2023	3.21%	3.22%	7.56%	7.75%
2024	3.13%	3.16%	7.32%	7.53%

CDAC: Capital Debt Affordability Committee

SAC: Spending Affordability Committee

Source: Bureau of Revenue Estimates; Department of Legislative Services

State Debt Policy – Affordability Risks

- Affordability risks include changes to interest rates, issuances, the definition of debt, personal income, and revenues.
 - Most of these factors pose a negligible or marginal risk.
 - However, two consecutive years of declining revenues could result in a breach in the debt service to revenue ratio. If revenues decline more than 2.7% over two years, debt service costs exceed 8% of revenues.
 - The recessions of 2001 and 2007-2009 resulted in revenue declines of 3% and 4%, respectively, over the first two years.
 - A mild or short recession does not necessarily result in a breach in revenues.
-

Revenues Required to Maintain Debt Service Affordability Ratios Above 8% Comparing October 2018 to the Two Most Recent Recessions (\$ in Millions)

	October 2018: Base Year <u>Fiscal 2019</u>	2007-2009 Recession: Base Year <u>Fiscal 2008</u>	2001 Recession: Base Year <u>Fiscal 2001</u>
Base Year: State Supported Debt Total Revenues ¹	\$23,628	\$16,735	\$11,707
Minimum Affordable Revenues in Fiscal 2021 and Actual Revenues Two Years Later (Fiscal 2010 and 2003)	22,997	16,061	11,353
Total Change in Revenues	-\$631	-\$674	-\$354
Percent Change	-2.7%	-4.0%	-3.0%

¹ Revenues supporting State debt include general funds, State property taxes, Transportation Trust Fund revenues, Bay Restitution Funds, federal transportation funds, and certain Stadium Authority revenues, Education Trust Fund revenues, and transfer taxes.

Source: Department of Legislative Services, October 2018

State Debt Policy – Share of Debt by Type of Debt

- Under current State debt policies, each type of debt has its own policies.
 - The Capital Debt Affordability Committee’s policy is to strictly limit general obligation (GO) bond authorizations to \$995 million.
 - The transportation debt program is fully leveraged so that its net revenues are 2.5 times debt service, which is management’s coverage limit.¹
 - The other State debt is being reduced as authorizations expire or non-State debt is issued instead.
 - From fiscal 2019 to 2024, the amount of nontransportation debt outstanding (GO, Bay, and leases) declines by \$283 million, while the amount of transportation debt outstanding (transportation bonds and Grant Anticipation Revenue Vehicles) increases by \$844 million.
-

State Debt Outstanding Fiscal 2019 and 2024 (\$ in Millions)

<u>Type of Debt</u>	<u>2019</u>	<u>2024</u>	<u>Percent Change</u>	<u>Current Policy</u>
GO Bonds	\$9,962	\$9,837	-1.3%	The Capital Debt Affordability Committee limits debt to \$995 million indefinitely
Transportation Bonds	3,343	4,236	26.7%	Maximum leverage so that coverage ratios are at their limit
GARVEEs	49	0	-100.0%	Legislation limited issuances to only support Intercounty Connector project
Bay Restoration Bonds	253	219	-13.4%	Issuances determined by bay restoration revenues available for debt service and project size
Capital Leases	181	109	-39.8%	Issue as needed
Stadium Authority Bonds	65	13	-80.0%	Issue less State debt and instead issue debt supported by lottery proceeds
Total	\$13,853	\$14,414	4.0%	

GARVEE: Grant Anticipation Revenue Vehicles

GO: general obligation

¹ The covenant is that coverage will not fall below 2.0. It is a longstanding Maryland Department of Transportation policy to keep it at 2.5 to avoid a breach of covenant if revenues underperform or spending exceeds projections.

State Debt Policy – Debt Service Costs

- The forecast projects increasing interest rates, reduced bond sale premiums, and a constant State property tax rate of \$0.112 per \$100 of assessable base.
 - As premiums decline general fund debt service appropriations are expected to increase to \$500 million, ending this unusual period of high premiums and low general fund appropriations.
 - Out-year general fund appropriations plateau at 2.5% of general fund revenues and 36% of debt service costs, which is consistent with historical averages.
-

Annuity Bond Fund Forecast Fiscal 2019-2024 (\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Special Fund Revenues						
State Property Tax Receipts	\$835	\$850	\$867	\$884	\$902	\$920
Bond Sale Premiums ¹	72	70	31	0	0	0
Other Revenues	2	2	2	2	2	2
ABF Fund Balance Transferred from Prior Year	158	74	4	1	1	1
Subtotal Special Fund Revenues	\$1,068	\$996	\$905	\$888	\$905	\$924
General Funds	\$286	\$322	\$433	\$498	\$517	\$530
Transfer Tax Special Funds	7	7	7	7	7	7
Federal Funds	11	11	10	9	8	7
Total Revenues	\$1,372	\$1,336	\$1,355	\$1,402	\$1,438	\$1,468
Debt Service Expenditures	\$1,298	\$1,332	\$1,354	\$1,401	\$1,437	\$1,466
ABF End-of-year Fund Balance	\$74	\$4	\$1	\$1	\$1	\$1

ABF: Annuity Bond Fund

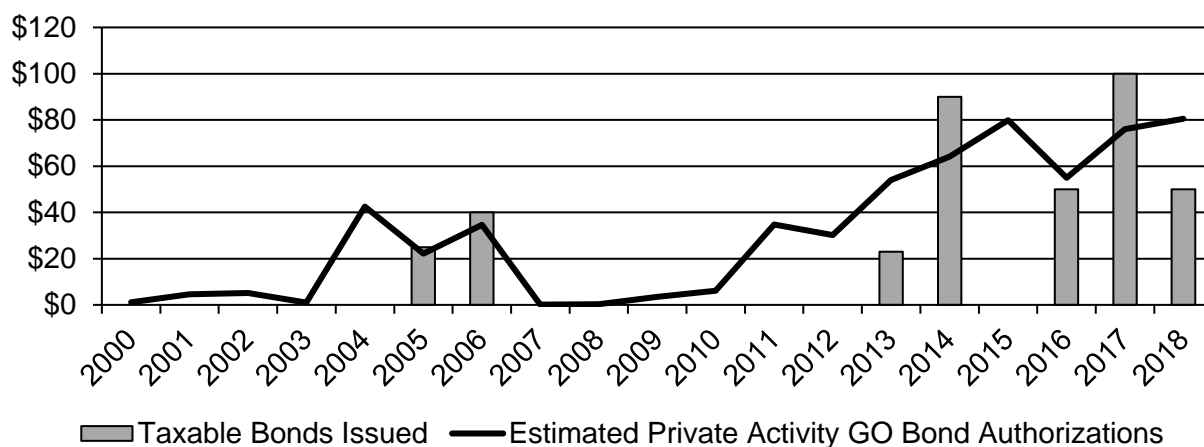
¹ Fiscal 2019 premiums total \$127 million, with \$55 million supporting capital projects.

Source: Department of Legislative Services, October 2018

State Debt Policy – Keeping Debt Service Costs Down

- Fiscal 2018 ended with a \$590 million general fund balance. The Bureau of Revenue Estimates added \$325 million to fiscal 2019 and \$377 million² to fiscal 2020 revenues. General funds are available to support the capital program and keep debt service costs down.
- The cost of issuing \$100 million in general obligation bonds, assuming a 5% coupon rate, is \$148.4 million, which is \$10.6 million in annual debt service costs.
- Taxable bonds are more expensive. The Department of Budget and Management fiscal 2019 *Capital Improvement Plan* assumes \$66 million in taxable, private activity bonds in fiscal 2020.
- **To reduce debt service costs, the Department of Legislative Services (DLS) recommends that the State use fund balances to support capital needs and minimize reliance on GO bonds.**
- **DLS also recommends that the State fund private loan projects and programs that do not qualify for tax-exempt bonds with cash in fiscal 2020.**

**Private Activity Authorizations and Taxable Bond Issuances
Fiscal 2000-2018
(\$ in Millions)**



GO: general obligation

Source: Department of Budget and Management's *Capital Improvement Program*; Financial Advisor's *Report on Bond Sales*

² Revenues are reduced by \$94 million to reflect volatility reduction required by Chapters 4 and 550 of 2017.

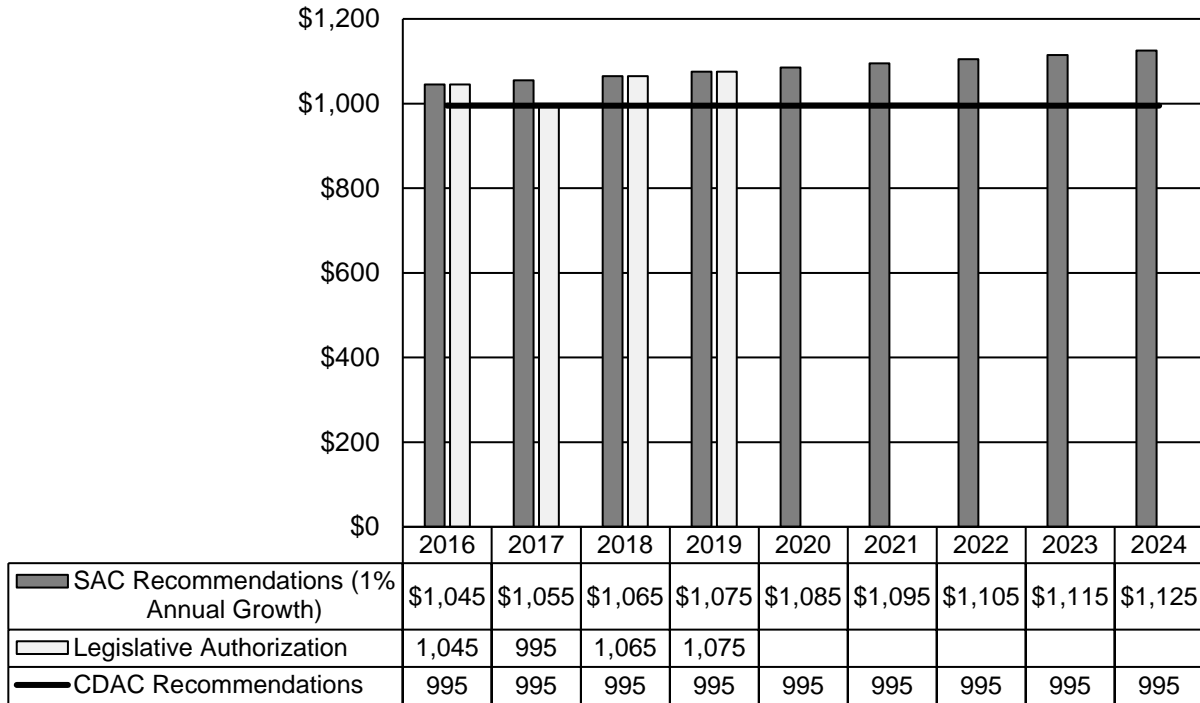
Capital Program

GO Bond Fund Outlook

- **Capital Debt Affordability Committee (CDAC) Recommends Annual \$995 Million General Obligation (GO) Bond Authorization Level:** The October 2018 CDAC recommendation would keep new GO bond authorizations at \$995 million annually through the planning period and continues the policy of scaled back annual authorizations. The 2017 Spending Affordability Committee (SAC) recommendation established a limit on new GO bond authorizations that increased by 1% on a year-over-year basis. This moderate growth rate limits increases in GO bond authorizations to less than the projected State property tax revenue increases.
 - The SAC recommendation would provide \$90 million more than the CDAC recommendation in fiscal 2020 and \$550 million more over the five-year planning period.
 - The higher SAC authorization level could be used to fund legislative commitments and help offset some of the impact of construction inflation.

Capital Program (cont.)

2015-2018 CDAC and 2015-2017 SAC Recommended GO Bond Authorization Levels Fiscal 2016-2024 (\$ in Millions)



CDAC: Capital Debt Affordability Committee
 GO: general obligation
 SAC: Spending Affordability Committee

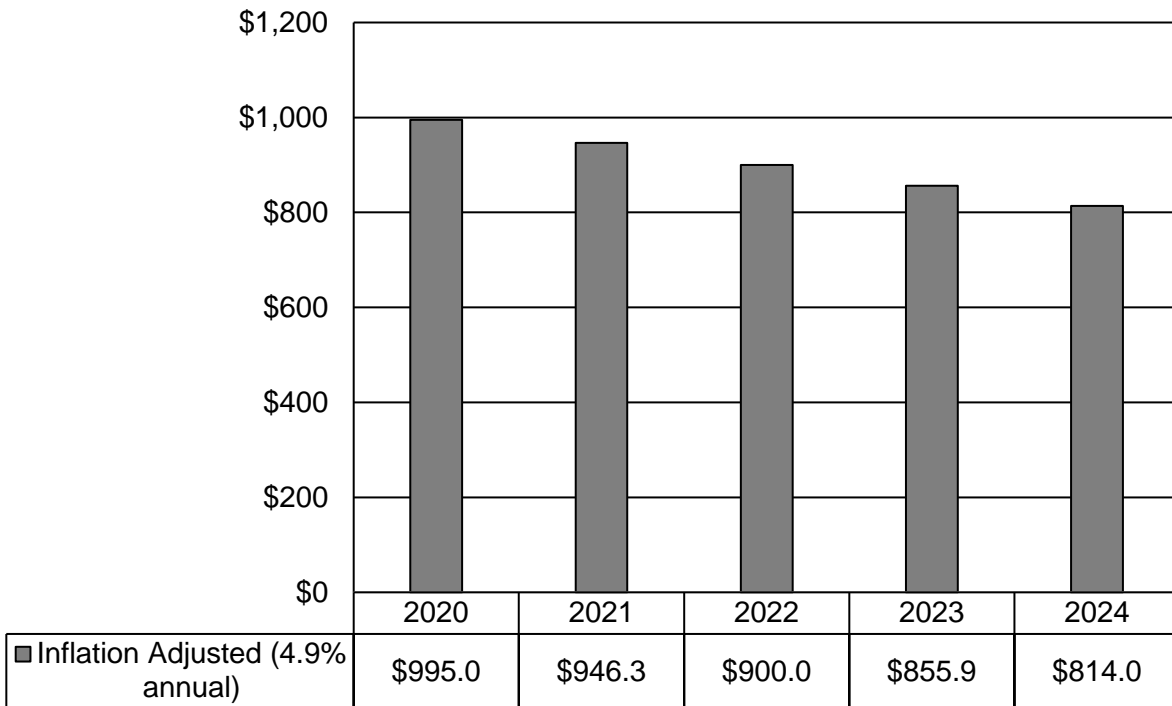
Note: The fiscal 2016 capital program was supplemented with the use of \$48 million in bond premiums, increasing the amount of new new bond proceeds made available to the capital program to \$1,043 million, and the fiscal 2019 capital program was supplemented with \$68 million in bond premiums, increasing the amount of net new bond proceeds made available to the capital program to \$1,143 million. The fiscal 2017 capital program was supplemented with \$122 million in general funds of which \$42.9 million fenced off in the State Reserve Fund was never appropriated, and \$16.8 million was reduced by actions of the Board of Public Works.

Source: 2015 through 2018 Capital Debt Affordability Committee report; 2016 and 2017 Spending Affordability Committee report.

Capital Program (cont.)

- Impact of Construction Inflation on Bond Authorization Levels:** The CDAC’s 2018 recommendation, which is consistent with the levels programmed in the Governor’s 2018 *Capital Improvement Program* (CIP), does not include an annual inflation adjustment. Although the 2017 SAC recommendation provides for a 1% annual growth in GO bond authorizations, it is still well below the growth in the regional measure of construction inflation, which has averaged 4.9% from January 2016 through August 2018. Until the more recent policy to hold new annual GO bond authorizations at \$995 million, CDAC policy was to include a 3% annual increase to account for construction inflation and population growth.
-

**CDAC Proposed New GO Bond Authorization Levels
Inflation Adjusted
Fiscal 2020-2024
(\$ in Millions)**



CDAC: Capital Debt Affordability Committee
GO: general obligation

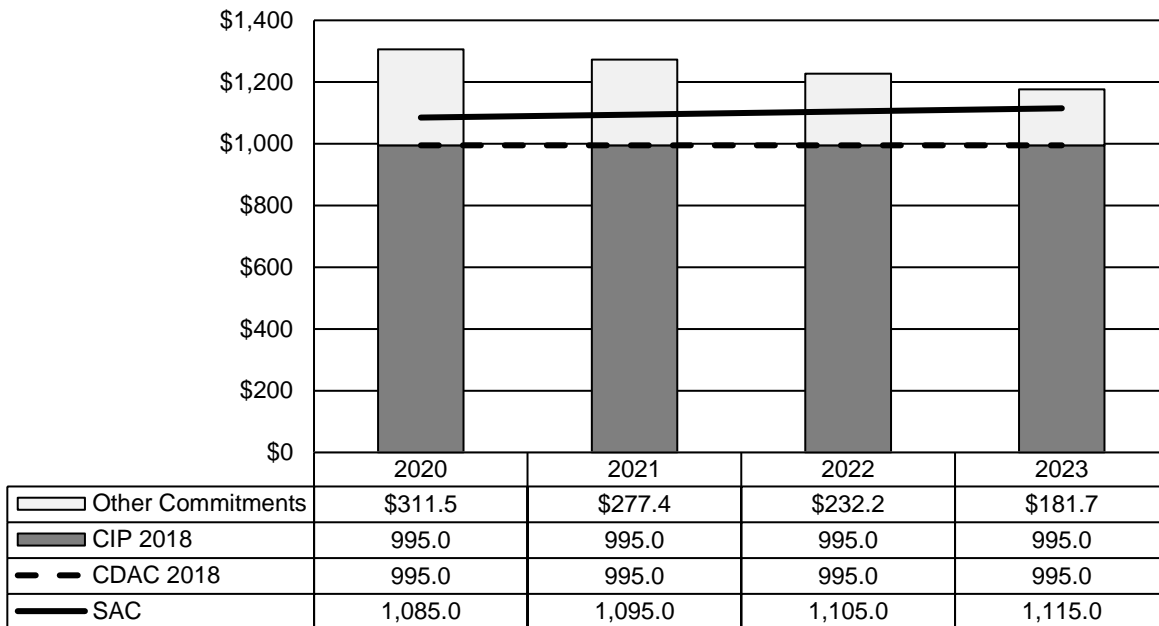
Source: Bureau of Labor Statistics Producer Price Index for Materials and Components of Construction

Capital Program (cont.)

GO Bond Authorization Levels Are Insufficient to Meet Commitments

Capital commitments exceed the levels of GO bonds currently programmed in the 2018 CIP and recommended by CDAC by \$312 million for fiscal 2020 and by \$1 billion through fiscal 2023. The higher SAC recommended levels and some prudent use of general fund pay-as-you-go (PAYGO) would allow the State to meet more of its commitments.

GO Bond Commitments Made in 2018 Exceed Programmed Authorization Levels Fiscal 2020-2023 (\$ in Millions)



CDAC: Capital Debt Affordability
 CIP: *Capital Improvement Program*
 GO: general obligation
 SAC: Spending Affordability Committee

Note: Recent SAC policy established a limit on new GO bond authorizations that increase by 1% on a year-over-year basis. This moderate growth rate limits increases to below projected State property tax revenue increases, which reduces the ratio of debt service to revenues in the out-years.

Source: 2018 *Capital Improvement Program*; Department of Legislative Services

Capital Program (cont.)

Commitments Made in 2018 Session Exceed Programmed General Obligation Bond Authorization Levels Fiscal 2020-2023 (\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Projects Accelerated/Enhanced/Deferred	\$23.000	\$43.500	\$43.000	\$19.000
Projects Preauthorized	27.665			
Expressions of Intent – Community College Facilities Grant Program and Rental Housing Program	25.000			
Expression of Intent – Fund Public School Construction Program at \$400 Million Annually (Chapter 14 of 2018)	80.000	80.000	80.000	80.000
Legislative Local Initiatives	15.000	15.000	15.000	15.000
Subtotal	\$170.665	\$138.500	\$138.000	\$114.000
Potential Bond Replacement for General Fund Pay-as-you-go	140.861	138.861	94.180	67.680
Total	\$311.526	\$277.361	\$232.180	\$181.680

Note: Estimated out-year funding impacts for accelerated projects and deferred projects reflect one-year deferral and funding in useable phases such that no gaps exists in the timing of funding and project delivery.

Source: 2018 *Capital Improvement Program*; Department of Legislative Services

Capital Program (cont.)

- Increased Demand for General Fund Support for the Capital Program:** The fiscal 2020 baseline budget assumes the use of \$140.9 million in general funds compared to the \$65.5 million appropriated in the fiscal 2019 budget and \$53.9 million programmed in the CIP for fiscal 2020. The Department of Legislative Services general fund forecast for the period covering fiscal 2020 through 2023 assumes \$439.6 million of general fund PAYGO compared to just \$177.6 million programmed in the CIP.

General Fund PAYGO CIP Compared to Forecast Fiscal 2020-2023 (\$ in Millions)

	<u>2020 CIP</u>	<u>2020 Forecast</u>	<u>2020-2023 CIP</u>	<u>2020-2023 Forecast</u>
Mandates				
DNR – Transfer Tax Repayment (Chapter 10 of 2016 as amended by Chapter 10 of 2018) – Dedicated Purpose Account	\$43.861	\$43.861	\$137.582	\$137.582
Healthy School Facilities Fund (Chapter 561 of 2018)		30.000		60.000
School Safety Enhancement (Chapter 14 of 2018)		10.000		40.000
DHCD Baltimore Regional Neighborhood Initiative (Chapter 29 of 2016)		9.000		27.000
DHCD SEED Community Development Anchor Institution Fund (Chapter 31 of 2016)		5.000		15.000
Aid to Community Colleges – Facilities Renewal Program (Chapters 687 and 688 of 2018)		3.000		15.000
Subtotal Mandates	\$43.861	\$100.861	\$137.582	\$294.582
Other				
DHCD – CORE (Chapters 639 and 640 of 2018)		\$30.000		\$105.000
Maryland Heritage Structure Rehabilitation Tax Credit	\$9.000	9.000	\$36.000	36.000
Environment – Hazardous Substance Clean-up Program	1.000	1.000	4.000	4.000
Subtotal Other	\$10.000	\$40.000	\$40.000	\$145.000
Total General Fund PAYGO Capital	\$53.861	\$140.861	\$177.582	\$439.582

CIP: *Capital Improvement Program*

DNR: Department of Natural Resources

CORE: Creating Opportunities for Renewal and Enterprise PAYGO: pay-as-you-go

DHCD: Department of Housing and Community Development

Capital Program (cont.)

- Programs and Projects That Require the Issuance of Taxable Bonds Should Be Considered for General Fund PAYGO:** In periods of economic difficulty, the State has moved programs traditionally funded with general fund PAYGO to the GO bond funded portion of the capital program. While this allows general funds to be used for other budget priorities, it has resulted in the issuances of taxable bonds that cost more than tax-exempt bonds. As the State returns to a more stable general fund outlook, the programs that require the issuance of taxable bonds should be funded with general fund PAYGO. Based on current CIP programmed funding levels, \$65.9 million could be moved out of the GO bond portion of the capital budget that would free up capacity for other capital priorities.

Private Activity Authorizations Fiscal 2020-2023 (\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Total</u>
Private Business Use					
State Agency					
Maryland Public Television	\$8.198	\$0.000	\$0.000	\$0.000	\$8.298
University System of Maryland	0.039	0.000	0.000	0.000	0.039
Subtotal	\$8.237	\$0.000	\$0.000	\$0.000	\$8.337
Private Loans					
State Agency					
Department of Housing and Community Development	\$48.100	\$63.600	\$63.600	\$63.600	\$238.900
Maryland Department of the Environment	9.430	9.430	9.430	9.430	37.720
Maryland Department of Planning	0.150	0.150	0.150	0.150	0.600
Subtotal	\$57.680	\$73.180	\$73.180	\$73.180	\$277.220
Total	\$65.917	\$73.180	\$73.180	\$73.180	\$285.557

Source: Department of Budget and Management, *Capital Improvement Program*, January 2018

Transportation Trust Fund Forecast

Transportation Trust Fund Forecast Comparison Fiscal 2018-2023 v. Fiscal 2019-2024 Six-year Totals (\$ in Millions)

	<u>MDOT Final 2018-2023</u>	<u>MDOT Draft 2019-2024</u>	<u>Final/ Draft Variance</u>	<u>DLS 2019-2024</u>	<u>MDOT/DLS Variance</u>
Revenues					
Taxes and Fees					
Motor Vehicle Fuel Taxes	\$7,096	\$7,338	\$242	\$7,256	-\$82
Titling Taxes	5,407	5,520	113	5,478	-42
Sales Tax – Rental Vehicles	201	205	4	205	0
Corporate Income Tax	1,047	1,093	46	1,093	0
Registration Fees	2,403	2,439	36	2,439	0
Miscellaneous Motor Vehicle Fees	1,850	1,837	-13	1,837	0
Subtotal – Taxes and Fees	\$18,004	\$18,431	\$428	\$18,307	-\$124
Other Revenues					
Operating Revenues	\$2,929	\$2,969	\$40	\$2,969	\$0
Federal Operating Assistance	588	588	0	588	0
Bond Proceeds/Premiums	2,898	3,020	122	2,976	-44
Other	469	425	-44	439	14
Change in Fund Balance	13	-15	-28	-8	7
Subtotal – Other Revenues	\$6,897	\$6,987	\$90	\$6,964	-\$23
Total Revenues	\$24,901	\$25,418	\$518	\$25,271	-\$147
Expenditures					
Debt Service	\$2,387	\$2,600	\$213	\$2,575	-\$25
Operating Budget	12,922	13,439	517	13,486	47
P3 Availability Payments	150	304	154	304	0
Deductions to Other Agencies	427	437	10	437	0
Local Aid (HUR/Grants)	1,139	1,479	340	1,463	-16
State Capital Program	7,875	7,159	-716	7,006	-154
Total Expenditures	\$24,901	\$25,418	\$518	\$25,271	-\$147

DLS: Department of Legislative Services
HUR: Highway User Revenues

MDOT: Maryland Department of Transportation
P3: public-private partnership

Transportation Trust Fund Forecast (cont.)

Observations

- Revenues and spending in the Maryland Department of Transportation (MDOT) draft fiscal 2019-2024 Transportation Trust Fund (TTF) forecast are \$518 million higher than in the fiscal 2018-2023 TTF forecast. Tax and fee revenue increases \$428 million, and other revenue sources add an additional \$90 million compared with MDOT's previous forecast. On the expenditure side, higher projected debt service, operating expenses, and the ramp up of Availability Payments to the Purple Line concessionaire combine to increase spending by \$884 million. This more than offsets the revenue increase and results in a reduction to the State-funded capital program of \$716 million compared to the previous forecast.
- Chapters 330 and 331 of 2018 converted transportation aid to local governments from a share of revenues (Highway User Revenues) to mandated capital grants and also increased local aid to an amount equivalent to 13.5% of revenues credited to the Gasoline and Motor Vehicle Revenue Account (previously 9.6%). This increase sends an additional \$340 million to local governments.
- The Department of Legislative Services' (DLS) fiscal 2019-2024 TTF forecast varies only slightly from the MDOT draft forecast.
 - Tax and fee revenue in the DLS forecast is \$124 million less than MDOT assumes in its draft forecast, primarily due to a slower rate of growth in motor fuel sales.
 - The DLS fiscal 2020 baseline estimate for operations is \$47 million higher than the MDOT forecast due largely to higher pension contributions and estimated salary increases for union employees that will be set through collective bargaining or binding arbitration.
 - The DLS forecast assumes a reduction in bond issuances of \$44 million, in fiscal 2020 only, in order to maintain minimum debt service coverage ratios. The impact of lower revenues, higher operating expenses, and lower bond issuances results in an estimated State capital program that is \$154 million less over six years than that in the MDOT draft forecast.

Draft Consolidated Transportation Program

- Programmed spending in the draft fiscal 2019-2024 *Capital Transportation Program* (CTP) is \$1.2 billion (8.3%) higher than in the fiscal 2018-2023 CTP. The State program (which excludes mandated local grants) is \$72.2 million lower in the draft CTP compared to the prior year program.
 - MDOT has requested \$793 million in general funds to support the new mandated grant to the Washington Metropolitan Area Transit Authority (WMATA). To the extent that general funds are not provided, MDOT will have to reduce programmed spending to make room in the CTP for the WMATA grant.
-

Comparison of Capital Transportation Program Spending Fiscal 2018-2024 (\$ in Millions)

	<u>2018-2023</u>	<u>Draft 2019-2024</u>	<u>Change</u>	<u>% Change</u>
Special Funds	\$7,949	\$7,227.4	-\$721.6	-9.1%
Federal Funds	5,707.5	5,660.7	-46.8	-0.8%
Other Funds ¹	1,158.9	1,062.1	-96.8	-8.4%
Undetermined ²	0	793.0	793.0	—
Subtotal State Program	\$14,815.4	\$14,743.2	-\$72.2	-0.5%
Mandated Local Grants	0	1,301.7	1,301.7	—
Total CTP	\$14,815.4	\$16,044.9	\$1,229.5	8.3%

CTP: *Consolidated Transportation Program*

¹ Includes funds from customer and passenger facility charges and certain types of federal aid that do not pass through the Transportation Trust Fund.

² The Maryland Department of Transportation (MDOT) has requested general funds for the new capital grant to the Washington Metropolitan Area Transit Authority (\$167 million annually). To the extent that general funds are not provided, MDOT will need to make reductions to the capital program presented in the draft CTP.

Source: Maryland Department of Transportation, 2018-2023 final *Consolidated Transportation Program*, 2019-2024 draft *Consolidated Transportation Program*

Draft Consolidated Transportation Program (cont.)

Comparison of Six-year Capital Spending by Mode Fiscal 2018-2024 (\$ in Millions)

	<u>2018-2023 CTP</u>	<u>Draft 2019-2024 CTP</u>	<u>Change</u>	<u>% Change</u>
Secretary's Office	\$281.0	\$235.0	-\$46.0	-16.4%
WMATA	1,534.8	2,574.9	1,040.1	67.8%
State Highway	8,119.8	7,231.1	-887.7	-10.9%
Port	800.6	799.3	-1.3	-0.2%
Motor Vehicle	125.3	138.7	13.4	10.7%
Mass Transit	3,381.8	3,230.2	-151.6	-4.5%
Airport	572.1	533.0	-39.1	-6.8%
State Aid	0	1,301.7	1,301.7	--
Total	\$14,815.4	\$16,044.9	\$1,229.5	8.3%

CTP: Consolidated Transportation Program

WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation, 2018-2023 final Consolidated Transportation Program, 2019-2024 draft Consolidated Transportation Program

- The \$1.0 billion increase for WMATA comprises the new capital grant (\$835 million), debt service on series 2017 and 2018 bonds (\$107.3 million), and mandated increases to the base capital grant (\$101.6 million).
- The \$887.7 million reduction in State Highway is nearly evenly split between funding for major projects and funding for safety, congestion relief, and community enhancement projects.
- Mass transit funding decreases by \$151.6 million, but this reflects declining spending on the Purple Line light rail project for which construction is scheduled to be complete in fiscal 2023. If Purple Line spending is excluded, mass transit spending increases by \$168 million largely due to increased funding for system preservation and for Metro and light rail safety improvements.

**Appendix 1
 Status of the General Fund
 Fiscal 2019
 (\$ in Millions)**

Starting Balance		\$589.6
Revenues		
BRE Estimated Revenue September 2018	\$18,094.6	
Total		\$18,094.6
Transfers		
Budgeted Tax Credits	\$26.5	
Total		\$26.5
Funds Available		\$18,710.7
Spending		
Fiscal 2019 Legislative Appropriation	\$17,908.9	
DLS Estimated Deficiencies	35.5	
Estimated Agency Reversions	-35.0	
Net Expenditures		\$17,909.5
Ending Balance		\$801.2

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

Appendix 2
Fiscal 2019 Fund Balance Reconciliation
(\$ in Millions)

Estimated Closing Fund Balance (July 2018)	\$105.8
Revenues and Transfers	
September 2018 BRE Revisions	\$325.2
Fiscal 2018 Closeout	343.4
Medicare Part D Injunction	6.4
Tax Credit Reimbursements and September Estimate	1.3
<i>Subtotal</i>	\$676.4
Spending	
Fiscal 2018 Closeout Reversions	\$54.6
DLS Estimated 2019 Deficiencies	-35.5
<i>Subtotal</i>	\$19.0
Estimated Closing Fund Balance (November 2018)	\$801.2

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

**Appendix 3
Status of the General Fund
Fiscal 2020
(\$ in Millions)**

Starting Balance			\$801.2
Revenues			
	BRE Estimated Revenue September 2018	\$18,684.0	
Total			\$18,684.0
Transfers			
	Budgeted Tax Credits	\$28.9	
Total			\$28.9
Funds Available			\$19,514.2
Spending			
	Fiscal 2020 DLS Baseline Estimate	\$19,380.9	
	Estimated Agency Reversions	-35.0	
Net Expenditures			\$19,345.9
Ending Balance			\$168.3

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

Appendix 4
State Reserve Fund Activity
Fiscal 2019 and 2020
(\$ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/18	\$856.8	\$0.0	\$4.8
Fiscal 2019 Appropriations	\$47.8	\$71.0	\$0.0
Funds Restricted for Legislative Initiatives	-44.5	0.0	0.0
Contingent Reduction	0.0	-65.0	0.0
Ellicott City Flood Relief	0.0	0.0	-2.5
Transfer to Program Open Space	0.0	-6.0	0.0
Interest Earnings	22.1	0.0	0.0
Estimated Balances 6/30/19	\$882.3	\$0.0	\$2.3
Fiscal 2020 Appropriations	\$443.8	\$50.0	\$0.0
Transfer Funds to State Pensions	0.0	-50.0	0.0
Interest Earnings	43.6	0.0	0.0
Estimated Balances 6/30/20	\$1,369.8	\$0.0	\$2.3
Percent of Revenues in Reserve	7.3%		

Appendix 5
Fiscal 2019 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>			<u>% Difference</u>	<u>Full-year Estimated Growth Rate</u>
	<u>FY 2018</u>	<u>FY 2019</u>	<u>\$ Difference</u>		
Personal Income Tax	\$2,401.8	\$2,545.5	\$143.6	6.0%	7.8%
Sales and Use Tax ⁽¹⁾	1,163.0	1,196.0	33.0	2.8%	4.7%
State Lottery	170.2	174.9	4.7	2.8%	-1.1%
Corporate Income Tax	204.2	248.6	44.4	21.7%	14.2%
Business Franchise Taxes	53.1	49.3	-3.7	-7.1%	-0.2%
Insurance Premiums Tax	69.7	115.9	46.1	66.2%	-2.3%
Estate and Inheritance Taxes	65.3	49.8	-15.5	-23.8%	-14.2%
Alcohol and Tobacco Taxes	115.8	118.5	2.7	2.4%	0.5%
Other ⁽²⁾	150.9	26.4	-124.5	-82.5%	-8.8%
Total Revenues	\$4,394.0	\$4,524.9	\$130.8	3.0%	5.7%

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

(2) Includes revenues from the courts, interest on investments, miscellaneous revenues, and hospital patient recovery revenues from Medicare, insurance, and sponsors. Fiscal 2018 includes \$5.0 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 (BRFA) of 2017 (Chapter 23). Fiscal 2018 also includes \$46.0 million in transfer tax revenue. Fiscal 2019 reflects a transfer of \$40 million from general fund personal income tax collections to the Commission on Innovation and Excellence in Education Fund as required by the BRFA of 2018 (Chapter 10).

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

Appendix 6 Fiscal 2020 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 (4.3%), medical care and medicine/drugs at State facilities (3.7%), utilities/electricity (3.2%), postage (2.4%) food (2.2%), and gas and oil (-7.4%).
- Employee compensation costs include:
 - annualization of fiscal 2019 salary increases (January 1, 2019 2.0% general salary increase and April 1, 2019 0.5% general salary increase);
 - a general salary increase of 1.0% effective July 2019 and funding for employee increments on the regular July-January schedule;
 - employee and retiree health insurance costs increase slightly based on available fund balance and savings under the recent pharmacy contract (1.1%); and
 - employee retirement costs increase slightly due to higher than projected membership in the reformed plan, average returns being close to expectations, and lower than projected salary growth (0.9%).
- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

Caseload Assumptions

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>% Change FY 2019-2020</u>
Pupil Enrollment*	852,520	860,806	866,977	0.7%
Medicaid	914,577	923,296	933,752	1.1%
Children's Health	147,837	156,708	161,410	3.0%
Expansion Under Affordable Care Act	309,504	312,302	318,548	2.0%
Temporary Cash Assistance	46,651	43,619	42,965	-1.5%
Foster Care/Adoption/Guardianship	12,726	12,600	12,455	-1.2%
Adult Prison Population	21,440	21,111	20,561	-2.6%

* Data for fiscal 2018, 2019, and 2020 reflect September 2016, September 2017, and September 2018 full-time equivalent enrollments.

Appendix 7
State Expenditures – Special and Higher Education Funds*
Fiscal 2018-2020
(\$ in Millions)

<u>Category</u>	2018	2019	2020	2019 to 2020	
	<u>Working Appropriation</u>	<u>Adj. Leg. Appropriation</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$1,304.6	\$1,337.8	\$1,356.3	\$18.5	1.4%
County/Municipal	\$358.8	\$374.8	\$396.7	\$21.9	5.8%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	475.8	503.5	536.7	33.2	6.6%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	\$834.6	\$878.3	\$933.5	\$55.1	6.3%
Foster Care Payments	\$4.3	\$4.3	\$4.3	-\$0.1	-1.4%
Assistance Payments	12.5	10.1	5.8	-4.3	-42.9%
Medical Assistance	991.4	950.0	897.5	-52.5	-5.5%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$1,008.2	\$964.4	\$907.5	-\$56.9	-5.9%
Health	\$472.6	\$429.5	\$431.1	\$1.6	0.4%
Human Services	83.4	82.6	75.8	-6.8	-8.2%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	3.2	3.6	3.6	-0.1	-1.7%
Public Safety/Police	221.7	218.1	230.7	12.6	5.8%
Higher Education	4,512.4	4,608.3	4,717.5	109.2	2.4%
Other Education	70.7	70.7	81.4	10.7	15.2%
Transportation	1,905.1	1,952.2	2,065.2	113.0	5.8%
Agriculture/Natural Res./Environment	293.3	293.8	304.0	10.2	3.5%
Other Executive Agencies	693.9	721.5	734.5	13.0	1.8%
Judiciary	66.0	62.1	61.7	-0.4	-0.6%
Legislative	0.0	0.0	0.0	0.0	n/a
State Agencies	\$8,322.2	\$8,442.4	\$8,705.6	\$263.2	3.1%
Anticipated Deficiencies	\$0.0	\$12.2	\$0.0	-\$12.2	-100.0%
Total Operating	\$11,469.7	\$11,635.1	\$11,902.9	\$267.7	2.3%
Capital	\$1,857.3	\$1,966.5	\$1,843.4	-\$123.0	-6.3%
Transportation	1,481.0	1,496.7	1,355.4	-141.3	-9.4%
Environment	187.1	220.3	182.7	-37.5	-17.0%
Other	189.3	249.5	305.3	55.8	22.4%
Grand Total	\$13,327.0	\$13,601.6	\$13,746.3	\$144.7	1.1%

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

Note: The fiscal 2018 working appropriation reflects \$9.4 million in additional special fund spending due to funding swaps, deficiencies of \$56.0 million, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects \$12.2 million in estimated deficiencies and \$16.1 million in additional special fund spending due to funding swaps. In fiscal 2019, the legislature reduced the budget by \$2.2 million but provided authorization for those funds to be used for a variety of purposes. Spending the \$2.2 million is at the discretion of the Governor.

Appendix 8
State Expenditures – State Funds
Fiscal 2018-2020
(\$ in Millions)

Category	2018	2019	2020	2019 to 2020	
	Working	Adj. Leg.		Baseline	\$ Change
	Appropriation	Appropriation			
Debt Service	\$1,564.3	\$1,623.8	\$1,678.3	\$54.5	3.4%
County/Municipal	\$641.5	\$662.5	\$690.2	\$27.7	4.2%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	6,446.2	6,617.5	6,991.9	374.4	5.7%
Health	51.1	51.4	52.8	1.4	2.8%
Aid to Local Governments	\$7,456.4	\$7,653.7	\$8,076.0	\$422.3	5.5%
Foster Care Payments	\$188.8	\$192.5	\$200.9	\$8.4	4.4%
Assistance Payments	72.1	55.5	50.6	-4.9	-8.8%
Medical Assistance	4,189.5	4,350.1	4,462.6	112.5	2.6%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	\$4,540.0	\$4,688.6	\$4,806.1	\$117.5	2.5%
Health	\$1,899.1	\$1,907.8	\$1,974.3	\$66.4	3.5%
Human Services	452.8	454.8	464.6	9.8	2.2%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	268.4	267.8	274.8	6.9	2.6%
Public Safety/Police	1,697.2	1,732.6	1,800.0	67.3	3.9%
Higher Education	5,945.0	6,090.2	6,315.2	225.0	3.7%
Other Education	495.5	513.1	560.9	47.8	9.3%
Transportation	1,905.1	1,952.2	2,065.2	113.0	5.8%
Agriculture/Natural Res./Environment	413.2	418.9	435.3	16.3	3.9%
Other Executive Agencies	1,362.3	1,479.0	1,495.1	16.1	1.1%
Judiciary	551.8	570.6	591.2	20.6	3.6%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	\$15,098.4	\$15,496.9	\$16,088.6	\$591.8	3.8%
Anticipated Deficiencies	\$0.0	\$47.7	0.0	-\$47.7	-100.0%
Total Operating	\$28,659.1	\$29,510.8	\$30,649.1	\$1,138.3	3.9%
Capital ⁽¹⁾	\$1,866.8	\$2,025.9	\$1,940.4	-\$85.5	-4.2%
Transportation	1,481.0	1,496.7	1,355.4	-141.3	-9.4%
Environment	187.6	220.8	183.7	-37.0	-16.8%
Other	198.3	308.4	401.3	92.8	30.1%
Subtotal	\$30,525.9	\$31,536.7	\$32,589.5	\$1,052.8	3.3%
Reserve Funds	\$10.0	\$9.3	\$537.7	\$528.4	5653.7%
Appropriations	\$30,535.9	\$31,546.0	\$33,127.2	\$1,581.2	5.0%
Reversions	-\$78.0	-\$35.0	-35.0	\$0.0	0.0%
Grand Total	\$30,457.9	\$31,511.0	\$33,092.2	\$1,581.2	5.0%

⁽¹⁾ Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes \$52.0 million in targeted reversions, \$35.0 million in anticipated reversions, \$9.4 million in additional special fund spending due to funding swaps, \$60.2 million in deficiencies, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects \$35.0 million in anticipated reversions, \$47.7 million in estimated deficiencies, and \$16.1 million in additional special fund spending due to funding swaps. In fiscal 2019 the legislature reduced the budget by \$72.1 million but provided authorization for those funds to be used for a variety of purposes. Spending the \$72.1 million is at the discretion of the Governor.

Appendix 9
State Expenditures – Federal Funds
Fiscal 2018-2020
(\$ in Millions)

<u>Category</u>	2018	2019	2020	2019 to 2020	
	<u>Working</u> <u>Appropriation</u>	<u>Adj. Leg.</u> <u>Appropriation</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$11.5	\$12.8	\$10.9	-\$1.9	-14.7%
County/Municipal	\$80.6	\$74.1	\$74.1	\$0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	985.1	961.9	946.9	-15.0	-1.6%
Health	4.5	0.0	0.0	0.0	n/a
Aid to Local Governments	\$1,070.1	\$1,036.0	\$1,021.0	-\$15.0	-1.4%
Foster Care Payments	\$73.8	\$68.8	\$64.3	-\$4.4	-6.5%
Assistance Payments	1,196.4	1,102.6	1,040.5	-62.1	-5.6%
Medical Assistance	7,003.9	7,059.3	6,937.2	-122.1	-1.7%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$8,274.2	\$8,230.7	\$8,042.0	-\$188.6	-2.3%
Health	\$996.2	\$1,076.1	\$1,102.3	\$26.2	2.4%
Human Services	553.0	552.1	539.0	-13.1	-2.4%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.8	5.4	4.7	-0.7	-12.9%
Public Safety/Police	40.3	36.6	40.2	3.6	9.8%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	270.9	264.7	283.7	18.9	7.2%
Transportation	97.4	98.4	99.6	1.2	1.2%
Agriculture/Natural Res./Environment	67.0	68.1	70.3	2.1	3.1%
Other Executive Agencies	622.5	586.0	590.2	4.3	0.7%
Judiciary	1.1	0.2	0.2	0.0	1.4%
State Agencies	\$2,653.2	\$2,687.6	\$2,730.2	\$42.5	1.6%
Anticipated Deficiencies	\$0.0	-\$160.8	\$0.0	\$160.8	-100.0%
Total Operating	\$12,009.0	\$11,806.3	\$11,804.1	-\$2.3	0.0%
Capital	\$1,115.1	\$1,132.9	\$1,137.5	\$4.6	0.4%
Transportation	1,005.9	1,063.1	1,029.6	-33.5	-3.2%
Environment	42.6	43.3	52.9	9.6	22.1%
Other	66.6	26.5	55.1	28.5	107.4%
Grand Total	\$13,124.1	\$12,939.3	\$12,941.6	\$2.3	0.0%

Note: The fiscal 2018 working appropriation includes \$85.7 million in deficiencies and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects -\$160.8 million in estimated deficiencies and \$18.0 million in additional federal fund spending tied to additional general fund spending in Medicaid and Juvenile Services. The additional general fund spending is at the discretion of the Governor.

Appendix 10
State Expenditures – All Funds
Fiscal 2018-2020
(\$ in Millions)

<u>Category</u>	2018	2019	2020	2019 to 2020	
	<u>Working Appropriation</u>	<u>Adj. Leg. Appropriation</u>	<u>Baseline</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$1,575.8	\$1,636.6	\$1,689.2	\$52.6	3.2%
County/Municipal	\$722.0	\$736.6	\$764.3	\$27.7	3.8%
Community Colleges	317.7	322.4	341.2	18.8	5.8%
Education/Libraries	7,431.3	7,579.4	7,938.8	359.4	4.7%
Health	55.6	51.4	52.8	1.4	2.8%
Aid to Local Governments	\$8,526.5	\$8,689.7	\$9,097.0	\$407.3	4.7%
Foster Care Payments	\$262.6	\$261.2	\$265.2	\$4.0	1.5%
Assistance Payments	1,268.5	1,158.0	1,091.1	-67.0	-5.8%
Medical Assistance	11,193.4	11,409.4	11,399.8	-9.6	-0.1%
Property Tax Credits	89.6	90.6	92.0	1.4	1.6%
Entitlements	\$12,814.1	\$12,919.3	\$12,848.1	-\$71.2	-0.6%
Health	\$2,895.3	\$2,984.0	\$3,076.6	\$92.6	3.1%
Human Services	1,005.8	1,006.9	1,003.6	-3.3	-0.3%
Children's Cabinet Interagency Fund	18.5	18.5	18.5	0.0	0.0%
Juvenile Services	273.2	273.2	279.5	6.2	2.3%
Public Safety/Police	1,737.6	1,769.2	1,840.1	70.9	4.0%
Higher Education	5,945.0	6,090.2	6,315.2	225.0	3.7%
Other Education	766.4	777.8	844.6	66.7	8.6%
Transportation	2,002.5	2,050.6	2,164.8	114.2	5.6%
Agriculture/Natural Res./Environment	480.2	487.1	505.6	18.5	3.8%
Other Executive Agencies	1,984.8	2,064.9	2,085.3	20.3	1.0%
Judiciary	552.9	570.7	591.4	20.6	3.6%
Legislative	89.3	91.3	93.7	2.4	2.7%
State Agencies	\$17,751.5	\$18,184.5	\$18,818.8	\$634.3	3.5%
Anticipated Deficiencies	\$0.0	-\$113.1	\$0.0	\$113.1	-100.0%
Total Operating	\$40,668.0	\$41,317.1	\$42,453.2	\$1,136.1	2.7%
Capital ⁽¹⁾	\$2,982.0	\$3,158.9	\$3,077.9	-\$81.0	-2.6%
Transportation	2,486.9	2,559.8	2,385.0	-174.8	-6.8%
Environment	230.2	264.1	236.6	-27.5	-10.4%
Other	264.9	335.0	456.3	121.3	36.2%
Subtotal	\$43,650.0	\$44,476.0	\$45,531.1	\$1,055.1	2.4%
Reserve Funds	\$10.0	\$9.3	\$537.7	\$528.4	5653.7%
Appropriations	\$43,660.0	\$44,485.3	\$46,068.8	\$1,583.5	3.6%
Reversions	-\$78.0	-\$35.0	-\$35.0	\$0.0	0.0%
Grand Total	\$43,582.0	\$44,450.3	\$46,033.8	\$1,583.5	3.6%

⁽¹⁾ Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2018 working appropriation includes \$52.0 million in targeted reversions, \$35.0 million in anticipated reversions, \$9.4 million in additional special fund spending due to funding swaps, \$145.9 million in deficiencies, and legislative cuts to the deficiencies. The fiscal 2019 adjusted legislative appropriation reflects \$35.0 million in anticipated reversions, -\$113.1 million in estimated deficiencies, and \$16.1 million in additional special fund spending due to funding swaps. In fiscal 2019, the legislature reduced the budget by \$72.1 million but provided authorization for those funds to be used for a variety of purposes. Spending the \$72.1 million (plus matching federal funds of \$18.0 million) is at the discretion of the Governor.

Appendix 11
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>
Ongoing Requirements/Entitlements	\$577.5	63.7%
State Agency Costs	328.6	36.3%
Growth in Operating Budget, Including Anticipated Deficiencies	\$906.1	
Pay-as-you-go (PAYGO)	\$37.5	
Appropriation to Reserve Fund	528.4	
Reversions	0.0	
Total Baseline Increase in State Expenditures	\$1,472.0	
Deficiency Appropriations	-\$35.5	
Total	\$1,436.5	

Ongoing Requirements/Entitlements

Education and Library aid formulas and other grants including Chapter 357 of 2018 that authorized the Constitutional Amendment establishing gaming revenues as supplemental education funding (\$125.0 million), Chapter 361 of 2018 requiring level funding for preschool expansion (\$15.0 million), Chapter 556 of 2018 Head Start (\$1.2 million), and Chapter 560 of 2018 State Free Feeding Program (\$1.1 million)	\$341.2
Medical assistance including mandated 3.5% behavioral provider rate increase (\$10.0 million) and Chapter 621 of 2018 Pilot Adult Dental Program (\$2.5 million)	165.0
Debt service	36.0
Community college formula plus miscellaneous grants	18.8
Foster Care payments including need to offset lower cost of care contributions as a result of Chapters 815 and 816 of 2018 (\$1.9 million), lower federal funds due to the end of the Title IV-E waiver, and caseload changes	8.5
Disparity grant formula	7.0
Local health department funding	1.4
Other entitlements and local aid	-0.4

State Agency Costs

Statewide Personnel Expenses (Excluding Higher Education):

Merit pay (increments)	\$42.1
Annualization of January 1, 2019 1.0% and April 0.5% general salary increases	31.4
General salary increase (1.0%)	23.1
Employee retirement (0.9%)	17.2
Health insurance (1.1%)	7.5

Impact of 2018 Legislation

Chapter 554 of 2018 Maryland Community College Promise Scholarships	\$15.0
Chapter 148 of 2018 Public Safety and Violence Prevention Act	7.0
Chapter 18 of 2018 2020 Census Grant Program	5.0
Chapter 147 of 2018 Baltimore City Safe Streets Initiative	3.6
Chapters 209 and 210 of 2018 Crisis Response Grant Program	3.0
Chapters 566 and 567 of 2018 Cyber Warrior Diversity Program	2.5
Chapter 590 of 2018 Medical Research Funding	2.5
Chapter 578 of 2018 Cybersecurity Incentive Tax Credits	2.0
Chapter 698 of 2018 State Lakes Protection and Restoration Fund	1.2
Chapter 558 and 559 of 2018 Thrive by Three Fund	1.1
Chapters 731 and 732 of 2018 Financial Consumer Protection Act	1.0
Chapter 597 of 2018 Leadership with Honor Scholarship Program	1.0
Chapter 358 of 2018 Computer Science Curriculum and Professional Development	1.0
Chapter 786 of 2018 Veteran Employment and Transition Success Program	0.5
Chapter 595 of 2018 Film Production Activity Tax Credit	-5.0

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	\$125.0
Developmental Disabilities Administration: Fiscal 2020 expansion (\$20.7 million), 2% provider rate increase (\$13.2 million), and annualization of fiscal 2019 expansion (\$9.9 million)	43.9
Major Information Technology Development Projects	7.4
Sellinger Formula for Aid to Private Colleges and Universities	5.3
Morgan State University: Growth in State operating grant support	4.6
Behavioral Health Administration: Behavioral health services for the uninsured including mandated 3.5% provider rate increase	4.2
Maryland Higher Education Commission: Educational Excellence Awards	2.5
Judiciary: New judges and associated personnel (\$1.2 million), and operating costs at Catonsville Courthouse (\$0.9 million)	2.2
Maryland State Arts Council grant increase	1.7
Juvenile Services: Provider rate increases (2%)	1.2
School Construction: Removal of one-time school facility assessment	-4.9
Public Safety: Savings derived from increased turnover that more than offset higher overtime	-6.2
Juvenile Services: Savings from favorable trends in per diem placements	-6.4
Commerce: Lower than anticipated demand for the More Jobs for Marylanders Tax Credit	-9.0
Removal of one-time Amazon Sunny Day fund support	-10.0
University of Maryland Capital Region Medical Center: Scheduled reduction in mandated operating support	-12.0
Public Safety: Savings from inmate medical contract	-12.9
Other	-6.1

Reserve Fund and PAYGO

PAYGO: Chapter 561 of 2018 Healthy School Facility Fund	\$30.0
PAYGO: Chapters 639 and 640 of 2018 Continuing the Creating Opportunities for Renewal and Enterprise Partnership Fund	30.0
PAYGO: Re-basing the Baltimore Regional Neighborhood Initiative and SEED Community Development Anchor Institution Fund	5.0
PAYGO: Chapters 687 and 688 of 2018 Community Colleges Facility Renewal Grant Program	3.0
PAYGO: Other changes	-1.5
PAYGO: University of Maryland Capital Region Medical Center	-29.0
Reserve fund: Unassigned fiscal 2018 fund balance per statute including \$50 million for the pension sweeper	485.5
Reserve fund: Required fiscal 2020 Program Open Space Repayment	42.9
Total	\$1,436.5

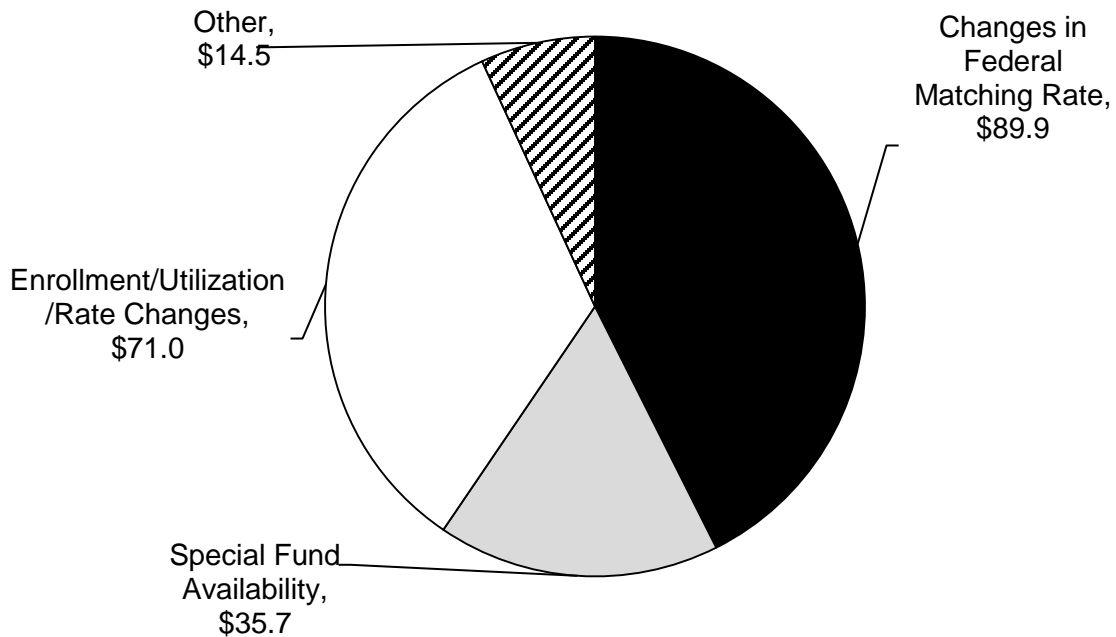
Appendix 12
General Fund Growth in Medicaid Is Driven by Changes in the Federal Matching Rate and Available Special Funds

Medicaid – Baseline Estimates
Fiscal 2018-2020
(\$ Millions)

	<u>2018</u>	<u>2019 Estimate</u>	<u>2020 Baseline</u>	<u>2019-2020 \$ Change</u>	<u>2019-2020 % Change</u>
General Funds	\$3,239.2	\$3,354.0	\$3,565.1	\$211.0	6.3%
Special Funds	918.9	933.2	897.5	-35.7	-3.8%
Federal Funds	6,661.2	6,867.3	6,937.2	69.9	1.0%
Reimb. Funds	69.4	69.4	69.4	0.0	0.0%
Total	\$10,888.7	\$11,224.0	\$11,469.2	\$245.2	2.2%

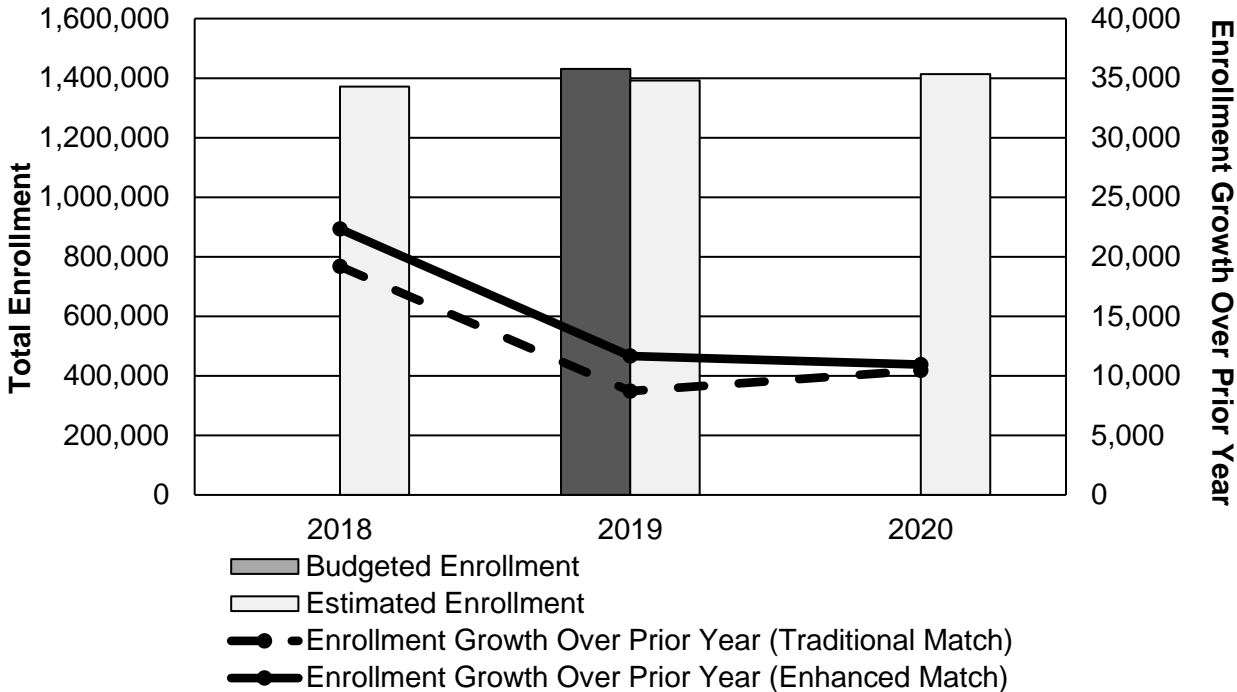
Note: Fiscal 2018 and 2019 numbers include estimated deficiency appropriations.

Medicaid – Why General Funds Grow
Fiscal 2019-2020
(\$ in Millions)



- The federal matching rate for the Affordable Care Act expansion population falls from 93.5% to 91.5% in fiscal 2020, resulting in an increase of \$60.1 million in general funds. The federal matching rate for the Maryland Children’s Health Program falls from 88.0% to 79.4% in fiscal 2020, resulting in an increase of \$29.8 million in general funds.
- Special fund availability declines, primarily as a result of the planned \$40 million drop in the Medicaid deficit assessment.
- The fiscal 2020 baseline assumes mandated rate increases of 3.5% for behavioral health services, 3% for discretionary provider rates, and 2% for regulated services and includes the impact of the mid-year calendar 2018 Managed Care Organization (MCO) rate increase (2%) and the calendar 2019 MCO rate increase (-1.7%).
- Enrollment growth is expected to be only 1.8% in fiscal 2019 over fiscal 2018, slowing to 1.5% in fiscal 2020 with total enrollment just over 1.4 million. Most of the enrollment growth is in eligibility groups with an enhanced match.

**Medicaid Enrollment
Fiscal 2018-2020**



Appendix 13
Employee and Retiree Health Insurance Account
Fiscal 2018 Projection Compared to Actual
(\$ in Millions)

	<u>2018 Projection</u>	<u>2018 Actual</u>	<u>Difference</u>
Beginning Balance	\$276.9	\$277.1	\$0.2
Expenditures			
DBM Personnel Administrative Cost	\$7.5	\$7.5	\$0.0
Payments of Claims			
Medical	\$1,025.4	\$992.0	-\$33.4
Prescription Drug*	472.3	453.4	-18.9
Dental	52.0	50.6	-1.4
Contractual	12.9	10.7	-2.2
Payments to Providers	\$1,570.1	\$1,514.2	-\$55.9
Receipts			
State Agencies**	\$1,104.3	\$1,108.1	\$3.8
Employee Contributions**	174.7	175.3	0.6
Retiree Contributions	90.1	93.0	2.9
EGWP Rebates and Other Revenue	57.8	89.7	31.9
Total Receipts	\$1,426.9	\$1,466.1	\$39.2
Ending Balance	\$133.7	\$228.9	\$95.2
Incurred but Not Received	-\$103.0	-\$103.0	\$0.0
Reserve for Future Provider Payments	\$31.2	\$125.9	\$94.7

DBM: Department of Budget and Management
EGWP: Employer Group Waiver Plans

*Prescription drug costs net of rebates.

**State agency and employee contributions include contractual contributions.

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

Appendix 14
Employee and Retiree Health Insurance Account
Fiscal 2018-2020
(\$ in Millions)

	<u>2018</u> <u>Actual</u>	<u>2019</u> <u>Working</u>	<u>2020</u> <u>Baseline</u>
Beginning Balance	\$277.1	\$228.9	\$204.8
Expenditures			
DBM Personnel Administrative Cost	\$7.5	\$7.8	\$7.9
Payments of Claims			
Medical	\$992.0	\$1,036.0	\$1,123.1
Prescription Drug*	453.4	451.9	379.0
Dental	50.6	50.6	53.5
Contractual	10.7	11.3	11.3
New Positions			8.2
Payments to Providers	\$1,514.2	\$1,557.6	\$1,583.1
Percent Growth in Payments	0.1%	2.9%	1.6%
Receipts			
State Agencies**	\$1,108.1	\$1,172.6	\$1,158.4
Employee Contributions**	175.3	191.2	196.2
Retiree Contributions	93.0	101.4	94.3
EGWP Rebates	75.0	53.5	28.4
Other Revenue and Adjustments	14.7	14.7	14.7
Total Receipts	\$1,466.0	\$1,533.4	\$1,492.1
Percent Growth in Receipts	-10.2%	4.6%	-2.7%
Ending Balance	\$228.9	\$204.8	\$113.8
Incurred but Not Received	-\$103.0	-\$103.0	-\$103.0
Reserve for Future Provider Payments	\$125.9	\$101.8	\$10.8

DBM: Department of Budget and Management
EGWP: Employer Group Waiver Plan

*Prescription drug costs includes rebate revenues.

**State agency and employee contributions include contractual contributions.

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

Appendix 15 Medicare Part D Transition

Projected Savings to the State Transition of Medicare-eligible Retirees to Medicare Part D Fiscal 2020-2021

	<u>2020</u> <u>Savings</u>	<u>2021</u> <u>Savings</u>
Medicare-eligible Rx Claims Savings	\$104.5	\$223.6
Loss of EGWP Revenue	-38.9	-83.2
Loss of Medicare-eligible Retiree Premiums	-9.5	-20.3
Loss of Federal Payment to General Fund	-6.4	-12.8
State Cost Savings	\$49.7	\$107.3
General Fund Cost Savings	\$27.3	\$59.2

EGWP: Employer Group Waiver Plan
Rx: prescription drug

*Prescription drug claims net of rebates.

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

- Transition of Medicare-eligible retirees to Medicare Part D will result in an annual cost savings of \$59.2 million in fiscal 2021. Savings will grow in the out-years due to the elimination of prescription drug claims costs.
- **Other Post Employment Benefits (OPEB) liability of the State decreased from \$16.1 billion to \$9.7 billion in July 1, 2011, as a result of the 2011 Pension Reform. The decrease was primarily due to the elimination of State-provided post-Medicare prescription drug coverage. As of July 1, 2017, the State’s OPEB liability was \$11.4 billion.**
- In September 2018, a lawsuit was filed in Baltimore City Circuit Court to challenge the planned transition beginning in January 2019.

“If the plaintiffs are successful, the result would significantly increase Maryland’s OPEB liability and cast doubt on the degree of legal flexibility wielded by states to change retiree health benefits, a credit negative.” – Moody’s Investors
- In October 2018, a federal judge granted a temporary restraining order and preliminary injunction, delaying the transition to Medicare Part D until a decision came on the lawsuit.

Appendix 16
Regular Full-time Equivalent Positions Changes
Fiscal 2017 Actual to Fiscal 2020 Baseline

<u>Department/Service Area</u>	<u>2017 Actual</u>	<u>2018 Working</u>	<u>2019 Working*</u>	<u>2020 Baseline</u>	<u>2019-2020 Change</u>
Largest Six State Agencies					
Public Safety and Correctional Services	10,954	10,554	10,454	10,445	-9
Health	6,187	6,207	6,278	6,294	17
Human Services	6,224	6,220	6,120	6,122	2
Police and Fire Marshal	2,436	2,436	2,449	2,435	-14
Juvenile Services	1,998	1,987	1,987	1,987	0
Transportation	9,108	9,058	9,058	9,058	0
Subtotal	36,907	36,462	36,346	36,341	-5
Other Executive					
Legal (Excluding Judiciary)	1,475	1,474	1,476	1,485	9
Executive and Administrative Control	1,563	1,560	1,573	1,569	-4
Financial and Revenue Administration	2,102	2,099	2,097	2,097	0
Budget and Management and DoIT	581	567	567	568	1
Retirement	210	210	210	184	-26
General Services	581	581	581	582	1
Natural Resources	1,315	1,333	1,340	1,349	8
Agriculture	356	355	352	354	2
Labor, Licensing, and Regulation	1,512	1,471	1,446	1,449	3
MSDE and Other Education	1,940	1,940	1,930	1,964	34
Housing and Community Development	324	333	333	330	-3
Commerce	193	193	192	193	1
Environment	894	893	893	896	3
Subtotal	13,045	13,008	12,990	13,019	29
Executive Branch Subtotal	49,951	49,469	49,336	49,360	24
Higher Education	25,914	26,296	26,770	26,770	0
Judiciary	3,951	3,989	4,029	4,051	22
Legislature	749	749	751	751	0
Total	80,565	80,503	80,886	80,932	46

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

*Fiscal 2019 has been adjusted to include positions created and abolished in higher education institutions using flex authority.

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

Appendix 17
Annual Change in State Aid to Local Governments
Fiscal 2015-2020

