



# Spending Affordability Committee

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2019 Interim Report

Annapolis, Maryland  
December 2019

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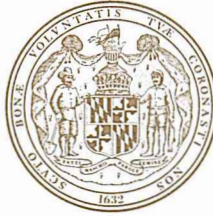
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MARYLAND GENERAL ASSEMBLY  
SPENDING AFFORDABILITY COMMITTEE

December 18, 2019

The Honorable Lawrence J. Hogan, Jr.  
Governor, State of Maryland  
State House  
Annapolis, Maryland 21401

Dear Governor Hogan:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2019 interim. These recommendations were adopted by the committee at its meeting on December 17, 2019. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2021 spending limit, the use of general fund cash balances, reserve fund balances, capital debt limits and the reporting requirements for the Capital Debt Affordability Committee, and State positions.

The Spending Affordability Committee has completed its assigned tasks. As required by law, the recommendations of the committee have been submitted to the Governor and the Legislative Policy Committee.

We are most appreciative of the time and effort expended by each member of the committee. A special note of thanks and appreciation is extended to the members of the Citizens Advisory Committee for their valuable assistance and input.

Sincerely,

A handwritten signature in black ink, appearing to be "CJZ", written over the printed name of Senator Craig J. Zucker.

Senator Craig J. Zucker  
Presiding Chair

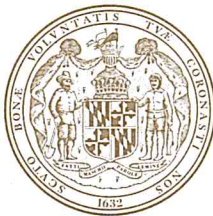
A handwritten signature in black ink, appearing to be "B. Barnes", written over the printed name of Delegate Ben Barnes.

Delegate Ben Barnes  
House Chair

CJZ:BB/JAK/mrm

Enclosure





MARYLAND GENERAL ASSEMBLY  
SPENDING AFFORDABILITY COMMITTEE

December 18, 2019

The Honorable Thomas V. Mike Miller, Jr., Co-chairman  
The Honorable Adrienne Jones, Co-chairman  
Members of the Legislative Policy Committee

Dear Colleagues:

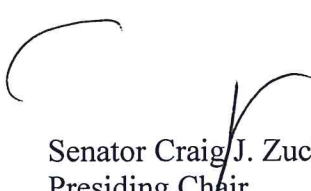
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Sincerely,

  
Senator Craig J. Zucker  
Presiding Chair

  
Delegate Ben Barnes  
House Chair

CJK:BB/JAK/mrm

Enclosure



**Maryland General Assembly  
Spending Affordability Committee  
2019 Interim  
Membership Roster**

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**Senator Craig J. Zucker, Presiding Chair  
Delegate Ben Barnes, House Chair**

**Senators**

Pamela Beidle  
George C. Edwards  
Bill Ferguson  
Melony Griffith  
Guy Guzzone  
J. B. Jennings  
Nancy J. King  
Thomas V. Mike Miller, Jr.  
Douglas J. J. Peters  
Jim Rosapeppe

**Delegates**

Wendell R. Beitzel  
Kathleen M. Dumais  
Adrienne A. Jones  
Anne R. Kaiser  
Nicholaus R. Kipke  
Maggie McIntosh  
Kirill Reznik

**Citizens Advisory Committee**

John L. Bohanan  
Dana M. Jones

**Committee Staff**

Jason A. Kramer





# Contents

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Governor’s Letter of Transmittal .....	iii
Legislative Policy Committee’s Letter of Transmittal.....	v
Membership Roster .....	vii
2019 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee.....	1
Part 1        Economic Outlook .....	9
Part 2        General Fund Revenues .....	13
Part 3        General Fund Budget and Forecast.....	21
Part 4        Fiscal 2021 Baseline Budget Estimate.....	39
Part 5        State Employment and Employee Benefits.....	55
Part 6        Local Government Assistance .....	59
Part 7        Transportation .....	63
Part 8        Capital Program and State Debt Policy .....	67



# **2019 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee**

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The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes the Presiding Officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the Presiding Officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Historically, this has been in the form of a recommended growth limit. More recently, however, efforts to close the structural budget gap have been the focus of the committee's recommendations. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since its inception 36 years ago, the recommendation of the committee has been adhered to by the legislature in all but 1 year.

Often, growth in personal income is used as a proxy for the State's economic performance. The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.7% and 7.6% over the past 30 years. The unprecedented increases under the Bridge to Excellence in Public Schools Act raised spending as a percentage of income during the period of 2004 to 2008. By 2009, the ratio reached 7.5%, the highest level since 1991, in part, due to falling income. Conversely, rising income and reduced State spending caused the ratio to drop to 7.1% in 2010; the rate has fluctuated between 7.1% and 7.5% since.

The committee's statutory responsibility is to consider spending in relation to the State's economy. In its review of the State's economy, the committee considered income and wealth factors in developing a broad understanding of Maryland's economic position. In determining the spending recommendation, the committee has considered economic performance, revenue estimates, and current and future budget requirements.

## **Economy**

Throughout the economic expansion, Maryland has generally underperformed relative to the nation as a whole. Employment growth in Maryland was below the U.S. growth in each year from 2011 to 2018. Since 2010, U.S. employment growth has averaged 1.7% per year but only 1.1% per year in Maryland. Through the first 10 months of 2019, employment in Maryland grew just 0.7% compared to 1.6% nationally. But alternate measures of the labor market suggest that the monthly employment data is likely understating growth in Maryland. In the first half of 2019, data from the Quarterly Census of Employment and Wages shows job growth at 0.8% in Maryland and 1.4% nationally. Wage growth in Maryland has also underperformed relative to the

## *2019 Spending Affordability Committee Report*

U.S. economy. In 2018, Maryland wage and salary income grew 3.7% compared to 5.0% nationally. In the first half of 2019, wages in Maryland were up 3.7% versus 5.2% for the United States as a whole.

In September 2019, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2019. BRE revised the economic outlook largely in line with recent performance. Employment growth for 2019 was unchanged, but wage growth was lowered from 4.0% to 3.2%. In December 2019, BRE raised their estimate of 2019 wage growth income up to 3.7% based on revisions to the data and strong growth in the second quarter. The 2019 estimated personal income growth was increased from 3.5% to 3.8%.

## **Revenues**

Fiscal 2019 general fund revenues were above the estimate by \$217 million, or 1.2%. General fund revenues totaled \$18.2 billion in fiscal 2019, an increase of 4.8% over fiscal 2018. The overattainment was mostly due to the personal income tax and the corporate income tax, both of which were impacted by the federal Tax Cuts and Jobs Act of 2017 that took effect beginning in tax year 2018. The personal and corporate income taxes exceeded estimates by \$207.7 million and \$75.1 million, respectively. The sales tax, however, was below the estimate by \$51.0 million.

In September, BRE increased their estimate for fiscal 2020 general fund revenues by \$129.9 million, or 0.7%. The personal income tax estimate was revised up by \$169.5 million (1.6%). In December, BRE increased the general fund estimate for fiscal 2020 by \$25.8 million, or 0.1%, in light of the revised economic assumptions and the year-to-date performance. The new estimate for fiscal 2020 reflects transferring \$55 million in personal income tax revenue to the local income tax reserve account to address underfunding in the account as of the end of fiscal 2019. BRE raised their general fund revenue estimate for fiscal 2021 by \$114.6 million (0.6%).

## **Budget Requirements**

Taking into consideration the revenue projections by BRE in December 2019, the committee is currently projecting an ending general fund balance of \$528.8 million at the close of fiscal 2020. This projected balance reflects a larger than anticipated fiscal 2020 starting balance driven by higher than anticipated revenue attainment and fiscal 2019 reversions. Revenue overattainment is also anticipated in fiscal 2020. The fiscal 2020 general fund outlook also significantly benefits from the Governor's decision not to spend \$238.0 million in general funds restricted by the legislature for a variety of purposes. Higher revenues and lower spending more than offset anticipated spending shortfalls, requiring fiscal 2020 general fund deficiency appropriations of \$125.0 million.

Significant deficiencies include fiscal 2019 and 2020 shortfalls in Medicaid primarily due to an eligibility system change that has increased enrollment in the parents/caregivers eligibility category as well as a spike in spending for psychiatric rehabilitation services, longstanding liabilities in the Developmental Disabilities Administration (DDA) related to disallowed federal

### *2019 Spending Affordability Committee Report*

fund claims, and anticipated fiscal 2020 salary enhancements that were not included in the fiscal 2020 budget. However, the overall level of projected deficiency needs are tempered by \$120.8 million in additional special fund revenue in lieu of general funds to support Medicaid, primarily from the Rate Stabilization Fund, as well as projected fiscal 2020 general fund surpluses chiefly in DDA based on historical spending patterns, the Department of Public Safety and Correctional Services (DPSCS) through turnover savings, and a miscalculation of the general fund need for the fiscal 2020 3% general salary increase.

The baseline estimate for fiscal 2021 projects general fund growth of 4.8% over the fiscal 2020 legislative appropriation after adjusting for anticipated deficiencies and unreleased funding restricted by the legislature. The fiscal 2021 general fund ending balance is projected to be a shortfall of \$206.1 million.

Major drivers of general fund growth are in local aid and entitlement programs. Aid to local governments grows by \$283.7 million, an increase of 4.0%, of which \$230.8 million is for education and library aid. Entitlement growth adds \$264.6 million, or 6.8%, \$239.7 million of which is in the Medicaid program. Growth in Medicaid is driven by statutory changes to the federal matching rate for the Affordable Care Act expansion and Maryland Children's Health Program populations, provider rate increases including the impact of Chapters 10 and 11 of 2019 that increase the minimum wage and rates for certain providers, and a decline in available special fund revenue.

In terms of State agency spending, the baseline assumes \$388.4 million in general fund growth. Personnel costs, excluding higher education, account for \$135.4 million of this growth. The baseline assumes a 1% general salary increase for fiscal 2021 effective July 1, 2019, regular increment increases, and the annualization of the anticipated January 1, 2020 general salary increase as well as increases in health insurance and retirement costs.

Other significant State agency costs include general fund support (\$85.6 million) for the University System of Maryland (USM), Morgan State University, and St. Mary's College of Maryland to cover growth in operating costs, primarily personnel, not supported by tuition (increasing at an anticipated 2%), fees, and Higher Education Investment Fund revenue; rate increases and placement costs in DDA (\$35.2 million); a substantial mandated increase in Sellinger Aid for private colleges and universities (\$32.0 million); and various major information technology projects (\$28.8 million).

The committee projects that the State will close fiscal 2021 with a balance of \$1,149.5 million in the Revenue Stabilization Account (Rainy Day Fund), which represents 6.0% of general fund revenues. The statutorily mandated appropriation to the Rainy Day Fund for fiscal 2021 will be \$291.4 million.

As noted above, current baseline projections estimate the General Fund to have a cash shortfall of \$206.1 million at the close of fiscal 2021. The structural deficit is somewhat larger at \$419.2 million. As shown in **Exhibit 1**, which provides both the cash and structural balance projections for the General Fund through fiscal 2025, the outlook is forecast to deteriorate beyond fiscal 2021.

**Exhibit 1**  
**General Fund Budget Outlook**  
**Fiscal 2020-2025 Est.**  
**(\$ in Millions)**

	<b>Working Approp. <u>2020</u></b>	<b>Baseline <u>2021</u></b>	<b>Est. <u>2022</u></b>	<b>Est. <u>2023</u></b>	<b>Est. <u>2024</u></b>	<b>Est. <u>2025</u></b>
Cash Balance	\$529	-\$206	-\$1,226	-\$1,458	-\$1,461	-\$1,486
Structural Balance	116	-419	-943	-1,204	-1,209	-1,236

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## Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2020 session:

### 1. Operating Budget Spending Limit and Sustainability

The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. For the past several years, the traditional establishment of a growth limit has been replaced with recommendations to reduce the structural deficit that developed as a result of plummeting revenues, substantial short-term federal assistance, and extensive reliance on one-time budget balancing actions experienced in the first part of the past decade.

Significant efforts have been undertaken since fiscal 2011 to close the structural imbalance. Most recently, improved revenue projections, coupled with slower expenditure growth, have created a short-term favorable fiscal position for the State. However, long-term stresses still exist that create a sizeable imbalance in the out-year forecast for the General Fund. Cash and structural surpluses are forecast for fiscal 2020, but a structural deficit of \$419 million is projected for fiscal 2021 growing to \$1.2 billion by fiscal 2025. Out-year fiscal stress is anticipated despite the expectation that personal income and employment will continue to grow steadily, and entitlement and prison caseloads will hold steady or decline. An imbalance is forecast before accounting for any recommendations from the Commission on Innovation and Excellence in Education.

**As such, the committee recommends that the fiscal 2021 general fund budget maintain structural balance. Achieving structural balance in fiscal 2021 will better position the State to address the long-term budget challenges and respond to any future slowdown in the economy while making new investments in policy priorities such as K-12 education.**

## **2. Fund Balances**

The committee anticipates that fiscal 2021 will result in a closing general fund balance in excess of \$100 million and a Rainy Day Fund balance of \$1,149 million, which is 6.0% of ongoing general fund revenues. However, large structural budget deficits forecast for the near term, the looming potential of an economic slowdown, and expected significant spending increases needed to implement the recommendations of the Commission on Innovation and Excellence in Education warrant a cautious fiscal approach. **To help mitigate these challenges, the committee recommends that the Governor and General Assembly continue to prioritize the preservation of cash reserves at the 2020 session. To achieve this goal, the committee recommends:**

- **a minimum ending fiscal 2021 general fund balance of at least \$100 million;**
- **a Rainy Day Fund balance of at least 6.0% of general fund revenues;**
- **adherence to existing statute phasing in the revenue volatility adjustment at 1% of general fund revenues in fiscal 2021 and 2% in fiscal 2022; and**
- **the allocation of any remaining cash balances to reserves and one-time spending.**

## **3. Capital Budget**

### **A. General Obligation Debt**

In its 2019 report, the Capital Debt Affordability Committee (CDAC) recommended a general obligation (GO) bond authorization level of \$1,095 million for fiscal 2021. The recommendation also provides a 1% annual authorization growth rate through the planning period. The recommendation is consistent with programmed funding levels in the 2019 *Capital Improvement Program* (CIP).

Although the CDAC recommendation is advisory and the committee has differed in its recommendation in recent years, the committee supports the CDAC debt affordability criteria, which limits debt service to 8% of State revenues and debt outstanding to 4% of State personal income. The committee also supports moderating the growth in authorization levels to maintain the debt ratios within the affordability limits.

**The committee recommends the authorization of \$1,095 million in new GO bonds for the 2020 session. In addition, for planning purposes, out-year annual authorizations should continue to be limited to 1% growth. The proposed limit keeps the State within the CDAC debt affordability criteria. The committee further recommends the prudent use of pay-as-you-go general funds, particularly for programs and projects that would require the issuance of more expensive taxable bonds, to supplement the capital program while maintaining a limit on the growth in GO bond authorizations.**

## **B. Higher Education Debt**

USM intends to issue up to \$32 million in academic debt for fiscal 2021. This is \$2 million less than was authorized for fiscal 2020 but is consistent with the amount programmed in the 2019 CIP for fiscal 2021. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers.

**The committee concurs in the recommendation of CDAC that \$32 million in new academic revenue bonds may be authorized in the 2020 session for USM.**

## **4. State Employment**

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates the addition of 108 new positions in the fiscal 2021 budget primarily to implement legislation enacted in the 2019 session. The additional positions would bring the State workforce to 81,350 in fiscal 2021, 1,060 more positions than in fiscal 2007, the year prior to the start of the economic recession. The increase reflects positions created at institutions of higher education, which increased by approximately 4,500 over the time period. In comparison, the State's Executive Branch workforce has declined by 4,172 positions from 53,364 in fiscal 2007 to an anticipated 49,192 in fiscal 2021.

Since the economic recession in fiscal 2008, there has been a steady increase in vacant positions in Executive Branch agencies, despite cost containment actions to abolish vacant positions. This trend continued over the past year with the Executive Branch vacancy rate increasing from 11.2% in October 2018 to 11.8% in October 2019. **Given the substantial number of vacancies, the committee recommends that the Administration repurpose currently vacant positions to accommodate new staffing needs rather than creating new positions.**

The committee is concerned that a significant number of vacancies are within agencies that have been identified as chronically understaffed and either protect public safety or serve vulnerable populations. For example, there were 2,088 vacant positions within DPSCS for a vacancy rate of 20.6%.

**Given the high vacancy rate in DPSCS and other critical classes of positions, the committee again encourages the Governor to act expeditiously to fill positions in understaffed agencies and work to remove hiring barriers for positions with recruitment and retention difficulties.**



*2019 Spending Affordability Committee Report*

**Appendix 1**  
**Prior Recommendations and Legislative Action on the Operating Budget**  
**(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth</u>	<u>Amount</u>
1983	9.00%	\$428.0	5.70	\$269.8
1984	6.15%	326.7	8.38	402.0
1985	8.00%	407.2	7.93	404.6
1986	7.70%	421.5	7.31	402.2
1987	7.28%	430.2	7.27	429.9
1988	8.58%	557.5	8.54	552.9
1989	8.79%	618.9	8.78	618.2
1990	9.00%	691.6	8.98	689.7
1991	5.14%	421.8	5.00	410.0
1992	No recommendation		10.00	823.3
1993	2.50%	216.7	2.48	215.0
1994	5.00%	443.2	5.00	443.2
1995	4.50%	420.1	4.50	420.0
1996	4.25%	415.0	3.82	372.8
1997	4.15%	419.6	4.00	404.6
1998	4.90%	514.9	4.82	506.6
1999	5.90%	648.8	5.82	640.6
2000 <sup>1</sup>	6.90%	803.0	6.87	800.0
2001 <sup>2</sup>	6.95%	885.3	6.94	884.6
2002	3.95%	543.2	3.40	468.1
2003	2.50%	358.2	0.94	134.1
2004	4.37%	635.2	4.33	629.0
2005 <sup>3</sup>	6.70%	1,037.1	6.69	1,036.3
2006 <sup>3</sup>	9.60%	1,604.7	9.57	1,599.0
2007	7.90%	1,450.0	7.51	1,378.4
2008	4.27%	848.7	4.16	826.8
2009 <sup>4</sup>	0.70%	145.7	0.19	39.2
2010 <sup>4</sup>	0.00%	0.0	-	-626.9
2011	Reduce fiscal 2012 structural deficit by 33⅓%		36.90%/46.00% <sup>5</sup>	
2012	Reduce fiscal 2013 structural deficit by 50.0%		50.60%	
2013	Reduce fiscal 2014 structural deficit by \$200.0 million			-211.2
2014	4.00%	937.8	2.76	646.4
	Reduce fiscal 2015 structural deficit by \$125.0 million			-126.1
2015	Reduce fiscal 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1,184.2	4.55	1,111.2
2017	Reduce fiscal 2018 structural deficit by at least 50.0%		90.19%	
2018	Eliminate 100% of the fiscal 2019 structural deficit		100%	
2019	3.75%	1,019.0	3.31	900.7
	Maintain structural balance in fiscal 2020			76.0 <sup>6</sup>

<sup>1</sup>2000 legislative action does not reflect \$266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because it had not previously been available to the State. The 2000 growth rate, including CRF dollars, was 9.16%.

<sup>2</sup>Methodology revised effective with the 2001 session.

<sup>3</sup>The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

<sup>4</sup>Legislative action calculation includes federal funds under the American Recovery and Reinvestment Act of 2009 used in lieu of ongoing general fund spending.

<sup>5</sup>Spending reduction/total reduction.

<sup>6</sup>Amount reflects difference between the estimated structural deficit of \$64 million in the Governor's allowance and the structural surplus of \$12 million in the legislative appropriation.



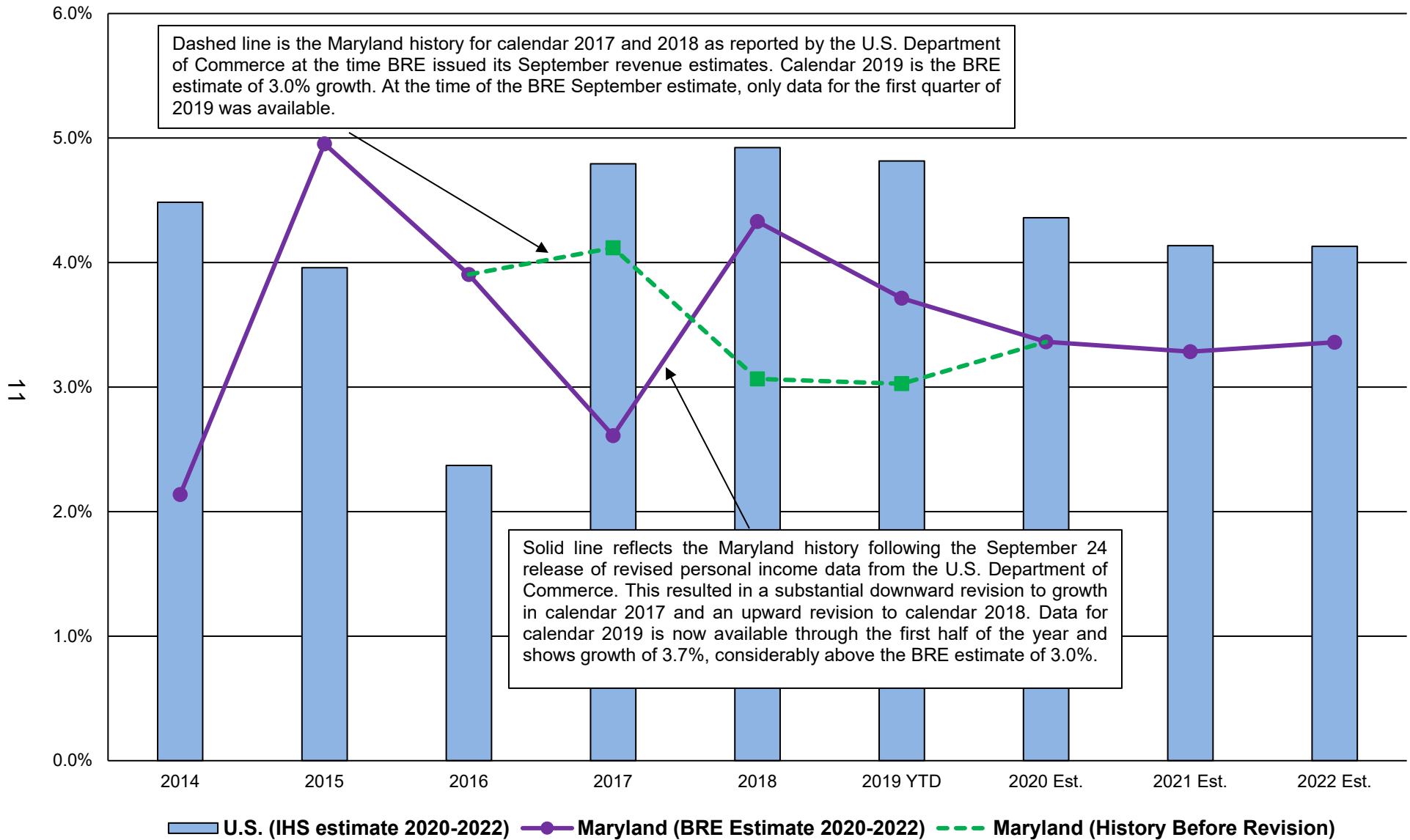
## **Part 1**

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### **Economic Outlook**



## Maryland and U.S. Earnings\* Year-over-Year Percent Change Calendar 2014-2022 Est.



BRE: Board of Revenue Estimates

\* Earnings includes wages and benefits plus proprietors' income.



## **Part 2**

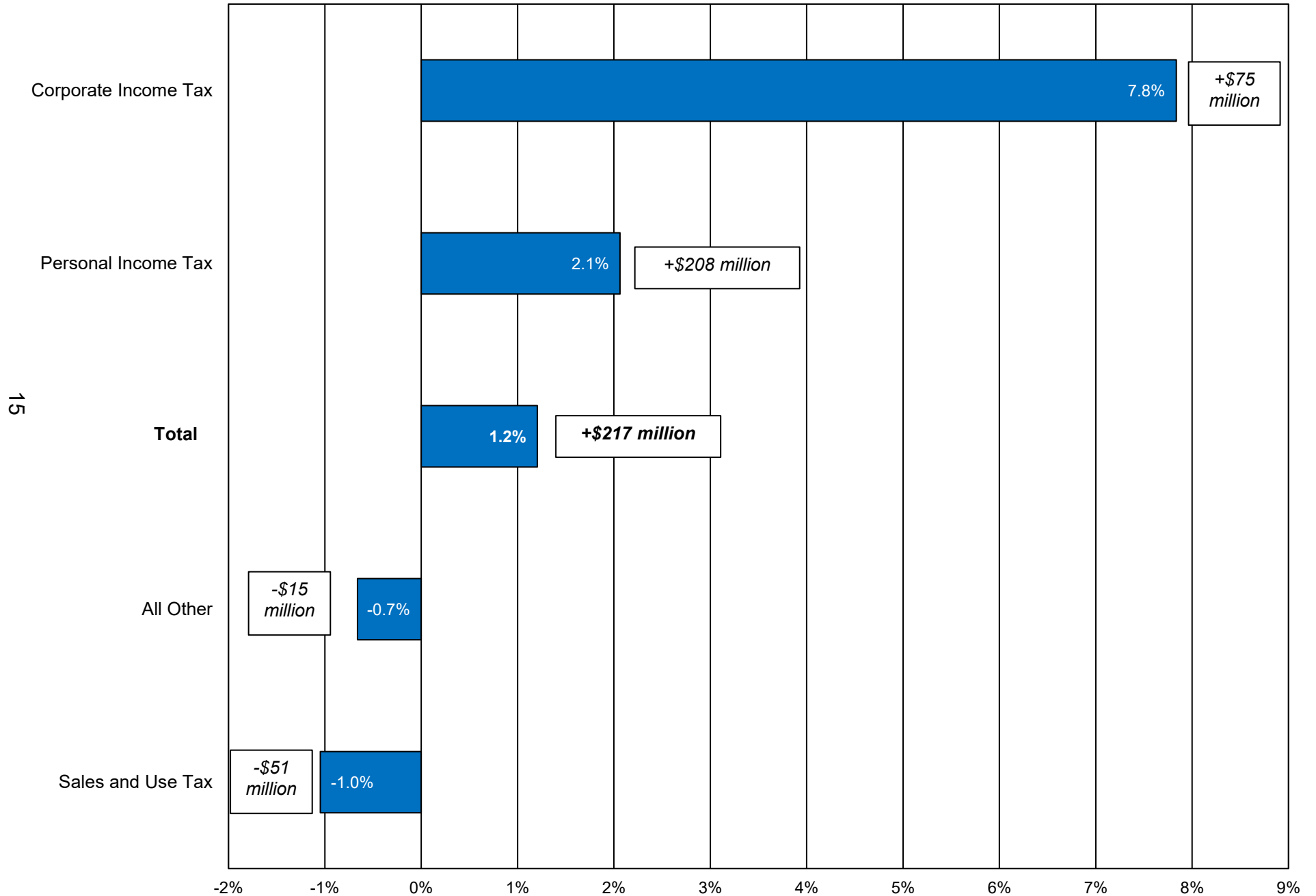
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### **General Fund Revenues**





## Fiscal 2019 General Fund Revenues Difference from Estimate



## Fiscal 2019 General Fund Revenues

(\$ in Millions)

<u>Source</u>	FY 2018	Fiscal 2019				FY 2018-2019 % Change	
	<u>Actual</u>	<u>Estimate</u> <sup>(1)</sup>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$9,507.8	\$10,064.6	\$10,272.4	\$207.7	2.1%	5.9%	8.0%
Sales and Use Tax <sup>(2)</sup>	4,645.8	4,863.1	4,812.1	-51.0	-1.0%	4.7%	3.6%
State Lottery	534.6	544.5	552.4	7.9	1.5%	1.8%	3.3%
Corporate Income Tax	820.4	958.0	1,033.1	75.1	7.8%	16.8%	25.9%
Business Franchise Taxes	245.9	242.6	245.1	2.5	1.0%	-1.4%	-0.4%
Insurance Premiums Tax	386.4	377.5	335.2	-42.3	-11.2%	-2.3%	-13.3%
Estate and Inheritance Taxes	214.4	177.4	180.4	3.1	1.7%	-17.3%	-15.8%
Tobacco Tax	372.7	372.4	356.7	-15.7	-4.2%	-0.1%	-4.3%
Alcohol Beverages Tax	32.0	32.4	32.5	0.1	0.3%	1.2%	1.6%
Other <sup>(3)</sup>	551.1	550.1	579.2	29.1	5.3%	-0.2%	5.1%
<b>Subtotal Ongoing Revenues</b>	<b>\$17,311.1</b>	<b>\$18,182.4</b>	<b>\$18,399.0</b>	<b>\$216.6</b>	<b>1.2%</b>	<b>5.0%</b>	<b>6.3%</b>
Transfer Tax <sup>(4)</sup>	\$46.0	\$0.0	\$0.0	\$0.0	n/a	n/a	n/a
Excellence in Education Fund <sup>(5)</sup>	0.0	-200.0	-200.0	0.0	n/a	n/a	n/a
Extraordinary Revenues <sup>(6)</sup>	15.3	0.0	0.0	0.0	n/a	n/a	n/a
<b>Total Revenues</b>	<b>\$17,372.5</b>	<b>\$17,982.4</b>	<b>\$18,199.0</b>	<b>\$216.6</b>	<b>1.2%</b>	<b>3.5%</b>	<b>4.8%</b>

<sup>(1)</sup> From the Board of Revenue Estimates, March 2019, with adjustments for action at the 2019 legislative session.

<sup>(2)</sup> Fiscal 2019 reflects \$80 million in revenue 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*). This is \$17.1 million more than estimated. Excluding the additional revenue from out-of-state sellers, fiscal 2019 sales tax revenue grew 1.9% over fiscal 2018.

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

<sup>(4)</sup> 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.

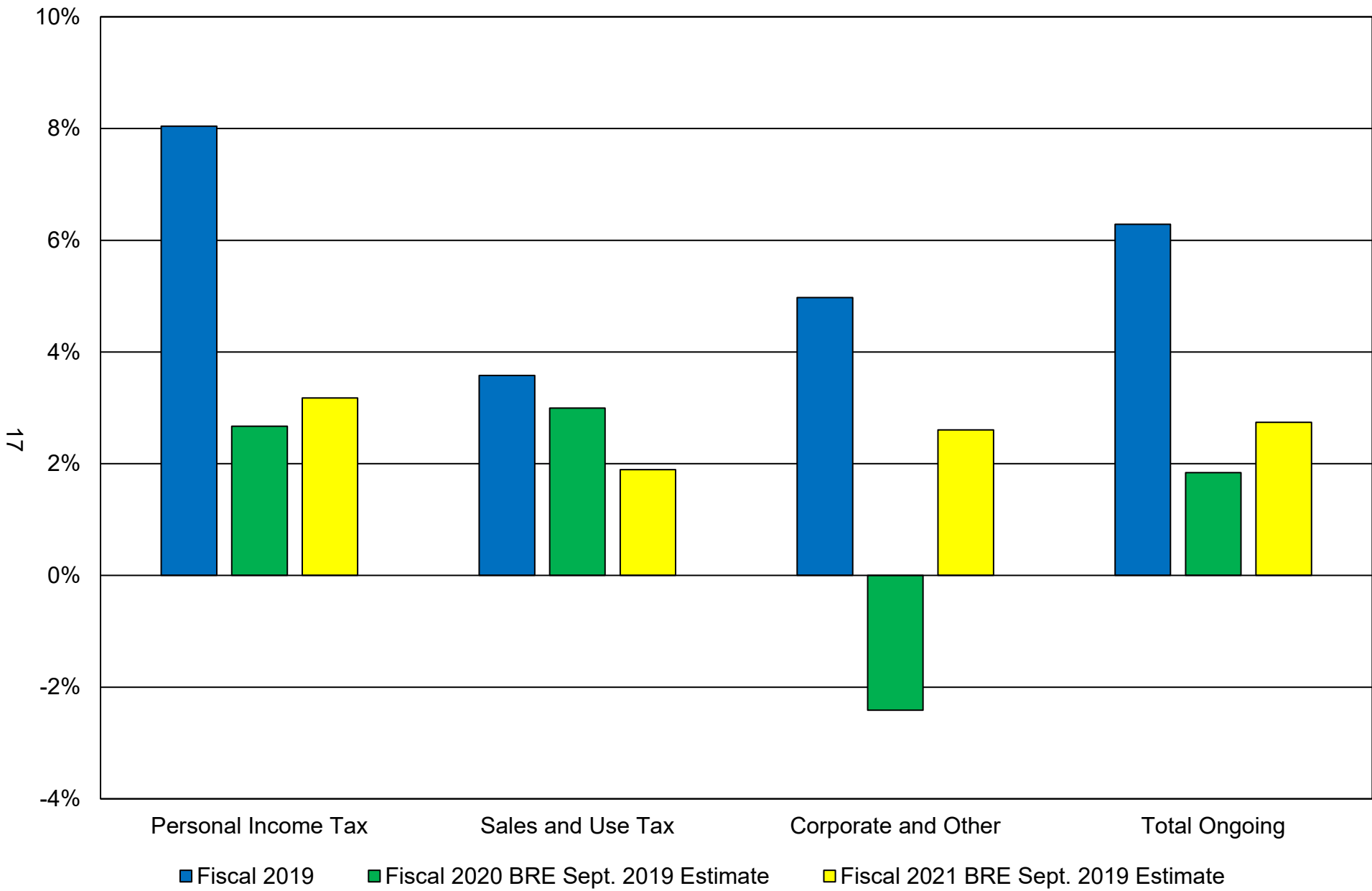
<sup>(5)</sup> The BRFA of 2018 (Chapter 10) distributed \$200 million of personal income tax revenues to the Commission on Innovation and Excellence in Education Fund created by the bill.

<sup>(6)</sup> 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: Comptroller of Maryland; Board of Revenue Estimates

# Maryland General Fund Revenues: Fiscal 2019 to 2021

## Year-over-year Percent Change



BRE: Board of Revenue Estimates

# Maryland General Fund Revenue Forecast

(\$ in Millions)

Source	FY 2019	FY 2020 Estimate			% Change over FY 2019	FY 2021 Estimate			% Change over FY 2020
	Actual	September	December	\$ Difference		September	December	\$ Difference	
Personal Income Tax <sup>(1)</sup>	\$10,272.4	\$10,546.9	\$10,587.3	\$40.4	3.1%	\$10,882.1	\$11,030.1	\$148.0	4.2%
Sales and Use Tax <sup>(2)</sup>	4,812.1	4,956.2	4,951.9	-4.3	2.9%	5,049.9	5,040.6	-9.4	1.8%
State Lottery	552.4	567.1	531.0	-36.2	-3.9%	579.2	565.4	-13.8	6.5%
Corporate Income Tax	1,033.1	992.0	1,011.3	19.2	-2.1%	1,093.6	1,101.3	7.6	8.9%
Business Franchise Taxes <sup>(3)</sup>	245.1	248.1	246.2	-1.9	0.5%	215.8	212.0	-3.8	-13.9%
Insurance Premiums Tax	335.2	348.6	348.6	0.0	4.0%	356.4	356.4	0.0	2.2%
Estate and Inheritance Taxes <sup>(4)</sup>	180.4	167.3	196.9	29.6	9.1%	170.0	176.5	6.5	-10.4%
Alcohol and Tobacco Taxes	389.2	383.8	381.4	-2.4	-2.0%	377.7	374.7	-3.0	-1.8%
Other	579.2	527.5	508.8	-18.7	-12.2%	526.0	509.5	-16.5	0.1%
<b>Subtotal</b>	<b>\$18,399.0</b>	<b>\$18,737.6</b>	<b>\$18,763.4</b>	<b>\$25.8</b>	<b>2.0%</b>	<b>\$19,250.8</b>	<b>\$19,366.5</b>	<b>\$115.8</b>	<b>3.2%</b>
Excellence in Education Fund <sup>(5)</sup>	-200.0	0.0	0.0	0.0	n/a	0.0	0.0	0.0	n/a
<b>Total Revenues</b>	<b>\$18,199.0</b>	<b>\$18,737.6</b>	<b>\$18,763.4</b>	<b>\$25.8</b>	<b>3.1%</b>	<b>\$19,250.8</b>	<b>\$19,366.5</b>	<b>\$115.8</b>	<b>3.2%</b>
Volatility Adjustment <sup>(6)</sup>	\$0.0	-\$42.2	-\$42.2	-\$0.1	n/a	-\$192.5	-\$193.7	-\$1.2	n/a
<b>Available Revenues</b>	<b>\$18,199.0</b>	<b>\$18,695.4</b>	<b>\$18,721.2</b>	<b>\$25.8</b>	<b>2.9%</b>	<b>\$19,058.3</b>	<b>\$19,172.9</b>	<b>\$114.6</b>	<b>2.4%</b>

<sup>(1)</sup> The December estimate for fiscal 2020 reflects a transfer of \$55 million to the Local Income Tax Reserve Account due to underfunding in the account as of the end of fiscal 2019.

<sup>(2)</sup> Fiscal 2019 reflect \$80 million in revenue 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*). The Board of Revenue Estimates (BRE) estimates that revenue will grow to \$120 million in fiscal 2020 and \$125 million in fiscal 2021. In addition, BRE estimates that sales tax collections from marketplace facilitators pursuant to Chapter 735 of 2019 will add \$30 million in fiscal 2020 and \$42 million in fiscal 2021. Chapter 735 requires the first \$100 million in sales tax collections from marketplace facilitators and out-of-state retailers go to the General Fund with the remainder going to The Blueprint for Maryland's Future Fund.

<sup>(3)</sup> Corporate filing fees decline in fiscal 2021 due to the Budget Reconciliation and Financing Act (BRFA) of 2019 (Chapter 16), which directs filing fee revenue over \$63.3 million to the Commission on Innovation and Excellence in Education Fund. The BRFA of 2019 also delayed until fiscal 2022 the implementation of Chapters 323 and 324 of 2016, which exempt 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.

<sup>(4)</sup> Estate tax revenues decline due to Chapter 612 of 2014, which raised the unified credit over a number of years and Chapter 15 of the 2018, which sets the credit at \$5 million beginning in calendar 2019.

<sup>(5)</sup> 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.

<sup>(6)</sup> Chapters 4 and 550 of 2017 as amended by the BRFA of 2018 require BRE, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from nonwithholding personal income tax payments relative to the historical average.

Note: Other includes revenues from the courts, hospital patient recoveries, interest earnings, and other miscellaneous revenues.

Source: Board of Revenue Estimates

**Revenues and Impact on the Education Trust Fund**  
**Fiscal 2019-2021**  
**(\$ in Millions)**

	<b>2019</b>			<b>2020 Estimate</b>			<b>2021</b>
	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>March</u> <sup>(1)</sup>	<u>Sept.</u>	<u>Difference</u>	<u>Estimate</u>
<b>Video Lottery Terminals</b>							
Education Trust Fund	\$438.7	\$447.4	\$8.8	\$430.1	\$456.5	\$26.4	\$445.3
Casino Operators	518.0	528.8	10.8	542.2	541.2	-0.9	548.3
Local Impact Grants	59.8	61.1	1.3	60.8	62.4	1.6	63.2
SMWOBA <sup>(2)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	17.1
Purse Dedication	64.5	65.9	1.4	65.6	67.2	1.7	68.1
RFRA	10.6	10.8	0.2	10.7	11.0	0.3	11.1
State Lottery Agency	11.0	11.2	0.2	11.2	11.5	0.3	11.6
<b>Gross Revenues</b>	<b>\$1,102.6</b>	<b>\$1,125.2</b>	<b>\$22.7</b>	<b>\$1,120.6</b>	<b>\$1,149.9</b>	<b>\$29.3</b>	<b>\$1,164.8</b>
	<b>2019</b>			<b>2020 Estimate</b>			<b>2021</b>
	<u>Estimate</u>	<u>Actual</u>	<u>Difference</u>	<u>March</u>	<u>Sept.</u>	<u>Difference</u>	<u>Estimate</u>
<b>Table Games</b>							
Education Trust Fund	\$99.3	\$95.3	-\$4.0	\$98.7	\$94.9	-\$3.8	\$96.5
Casino Operators	529.4	508.2	-21.3	526.4	506.0	-20.4	514.9
Local Impact Grants	33.1	31.8	-1.3	32.9	31.6	-1.3	32.2
<b>Gross Revenues</b>	<b>\$661.8</b>	<b>\$635.2</b>	<b>-\$26.6</b>	<b>\$658.0</b>	<b>\$632.5</b>	<b>-\$25.5</b>	<b>\$643.6</b>
<b>Total Gross Revenues</b>	<b>\$1,764.3</b>	<b>\$1,760.4</b>	<b>-\$3.9</b>	<b>\$1,778.5</b>	<b>\$1,782.4</b>	<b>\$3.9</b>	<b>\$1,808.5</b>
<b>Total Education Trust Fund</b>	<b>\$537.9</b>	<b>\$542.7</b>	<b>\$4.8</b>	<b>\$528.8</b>	<b>\$551.4</b>	<b>\$22.6</b>	<b>\$541.9</b>

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

RFRA: Racetracks Facility Renewal Account

<sup>(1)</sup> The March estimate for fiscal 2020 reflected a reduction in Education Trust Fund (ETF) revenue as a result of an increase in the licensee shares approved by the Maryland Lottery and Gaming Commission in December 2018. The commission increased the licensee share of video lottery terminal (VLT) revenues at the Live!, Horseshoe, and Hollywood casinos effective July 1, 2019. The September estimate reflects the impact of the Budget Reconciliation and Financing Act (BRFA) of 2019 (Chapter 16) which prevented the increase in the licensee share. In the absence of the BRFA action, the September estimate for casinos would have increased by \$14.9 million over March, and the ETF would have increased by \$10.6 million.

<sup>(2)</sup> The BRFA of 2017 (Chapter 23) diverted the distribution that normally goes to the SMWOBA 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.

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



## **Part 3**

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### **General Fund Budget and Forecast**





**General Fund: Recent History and Outlook**  
**Fiscal 2019-2021**  
(\$ in Millions)

	<u>2019</u> <u>Actual</u>	<u>2020</u> <u>Working</u>	<u>2021</u> <u>Baseline</u>
<b>Funds Available</b>			
Ongoing Revenues	\$18,224	\$18,731	\$19,086
Balances and Transfers	391	1,132	856
Short-term Revenues	192	0	0
<b>Total Funds Available</b>	<b>\$18,807</b>	<b>\$19,863</b>	<b>\$19,942</b>
<b>Appropriations, Deficiencies, and Cost Containment</b>			
Net Ongoing Operating Costs and Deficiencies	\$17,758	\$18,641	\$19,527
One-time Spending	49	165	71
Appropriations to Reserve Fund	26	555	591
<b>Total Spending</b>	<b>\$17,833</b>	<b>\$19,360</b>	<b>\$20,188</b>
<b>Cash Balance/(Shortfall)</b>	<b>\$974</b>	<b>\$503</b>	<b>-\$247</b>
<b>Structural</b>			
<b>Balance (Ongoing Revenues Less Ongoing Operating Costs)</b>	<b>\$466</b>	<b>\$91</b>	<b>-\$441</b>
<b>Ratio (Ongoing Revenues/Ongoing Operating Costs)</b>	<b>102.6%</b>	<b>100.5%</b>	<b>97.7%</b>
<b>Reserve Fund Activity</b>			
Appropriations to Rainy Day Fund	\$15	\$444	\$291
Transfers to General Fund	0	158	353
<b>Estimated Rainy Day Fund Balance – June 30</b>	<b>\$876</b>	<b>\$1,183</b>	<b>\$1,143</b>
<b>Total Cash (Rainy Day Fund and General Fund Balance)</b>	<b>\$1,851</b>	<b>\$1,686</b>	<b>\$897</b>
<b>Rainy Day Fund Balance In Excess of 5%</b>	<b>-\$33</b>	<b>\$248</b>	<b>\$191</b>

## General Fund Outlook for Fiscal 2021 Is Much Improved

<b>Fiscal Effects (June 2019) Projected Fiscal 2021 Closing Fund Balance</b>		<b>-\$893</b>
<b>Available Cash Increased</b>		<b>\$679</b>
Fiscal 2019 Closeout	\$256	
Fiscal 2020 Ongoing Revenues Revised Upward	130	
Fiscal 2021 Ongoing Revenues Revised Upward	44	
Savings from Governor Not Releasing Fenced Fiscal 2020 Funds	238	
Net Other	11	
<b>Favorable Spending Trends Forecast for Fiscal 2021</b>		<b>\$541</b>
Savings from Larger Bond Premiums Than Previously Forecast	\$198	
Slower K-12 Education Aid Growth	191	
Medicaid	92	
Miscellaneous	60	
<b>Fiscal 2020 and 2021 Costs Not Anticipated in Prior Forecast</b>		<b>-\$574</b>
Larger Than Expected Fiscal 2019 Fund Balance Swept to Rainy Day Fund	-\$241	
Fund WMATA Mandate with General Funds Not Transportation Trust Fund	-167	
Anticipated Fiscal 2020 Deficiencies	-125	
1% January 1, 2020 Employee Salary Increase Triggered by Fiscal 2019 Revenue Overattainment – Fiscal 2021 Impact	-41	
<b>Baseline (November 2019) Forecast of Fiscal 2021 Closing Balance</b>		<b>-\$247</b>

WMATA: Washington Metropolitan Area Transit Authority

## Fiscal 2021 Budget Outlook Depends on Three Key Policy Decisions

- How much should be retained in Rainy Day Fund? The Spending Affordability Committee recommendation in December 2018 was to retain a balance equal to 6% of general fund revenues. The DLS forecast assumes this policy is retained to help address out-year budget challenges.
- How should the State fund the WMATA mandate moving forward? The Administration prefers using general funds to relieve pressure on the Transportation Trust Fund. The DLS forecast reflects this position.
- Can the State afford to raise employee salaries in fiscal 2021, and if so, by how much? The DLS forecast assumes a 3% salary increase (2% merit and 1% cost-of-living adjustment) effective July 1, 2020.

**Fiscal 2021 General Fund Closing Balance – DLS Forecast** **-\$247**

### **Alternative Policy Decisions That Improve General Fund Outlook**

Reduce Rainy Day Fund Balance from 6% to 5%	\$190
Fund WMATA Mandate from Transportation Trust Fund	167
No Employee Salary Increases – Baseline Assumes 3%	124

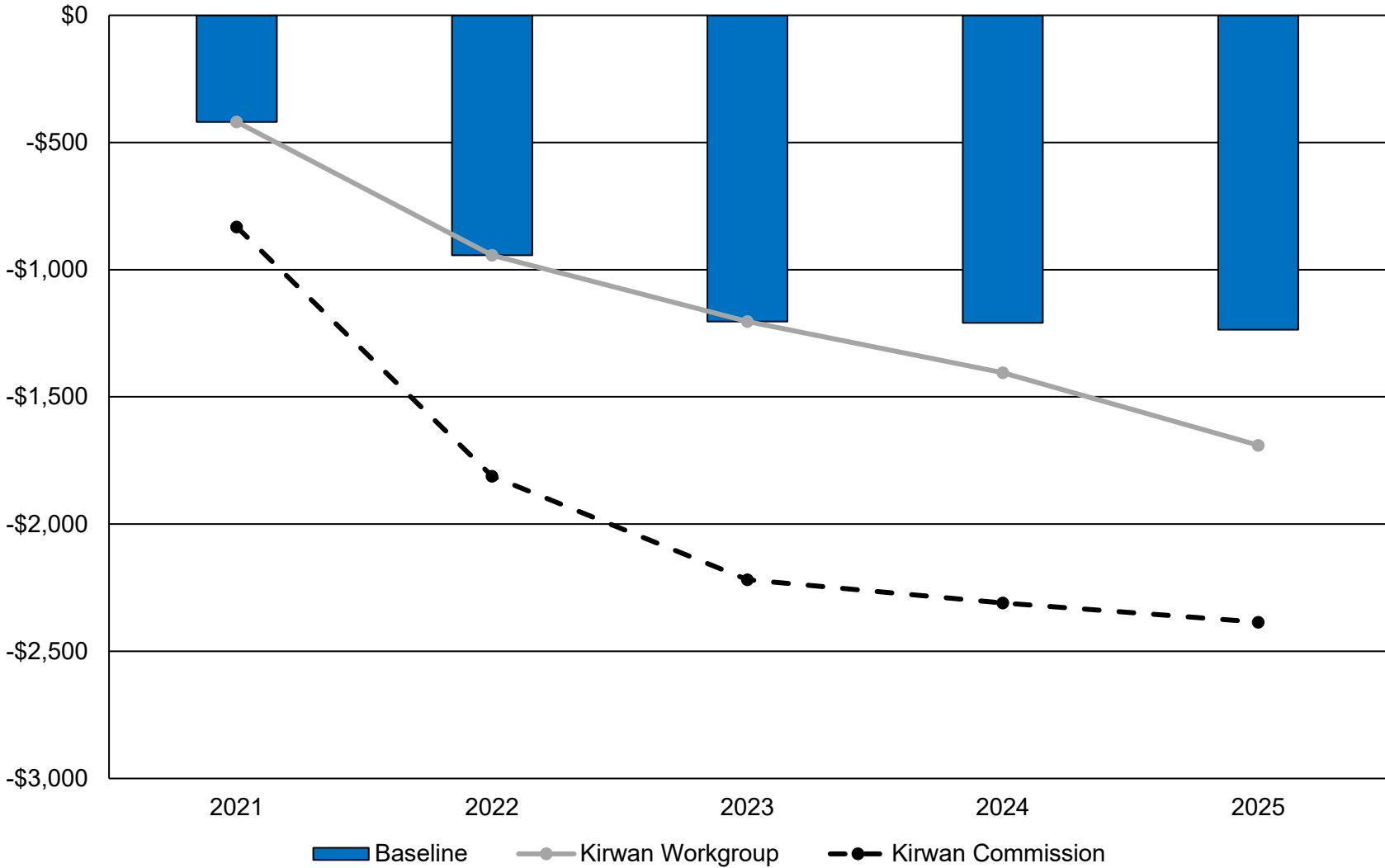
**Fiscal 2021 General Fund Closing Balance with Alternative Assumptions** **\$234**

DLS: Department of Legislative Services

WMATA: Washington Metropolitan Area Transit Authority

General Fund Outlook – Structural Deficit Forecast  
Fiscal 2021-2025

26



Kirwan Commission: The Commission on Innovation and Excellence in Education  
Kirwan Workgroup: The Blueprint for Maryland’s Future Funding Formula Workgroup

**General Fund Budget Outlook**  
**Fiscal 2020-2025**  
(\$ in Millions)

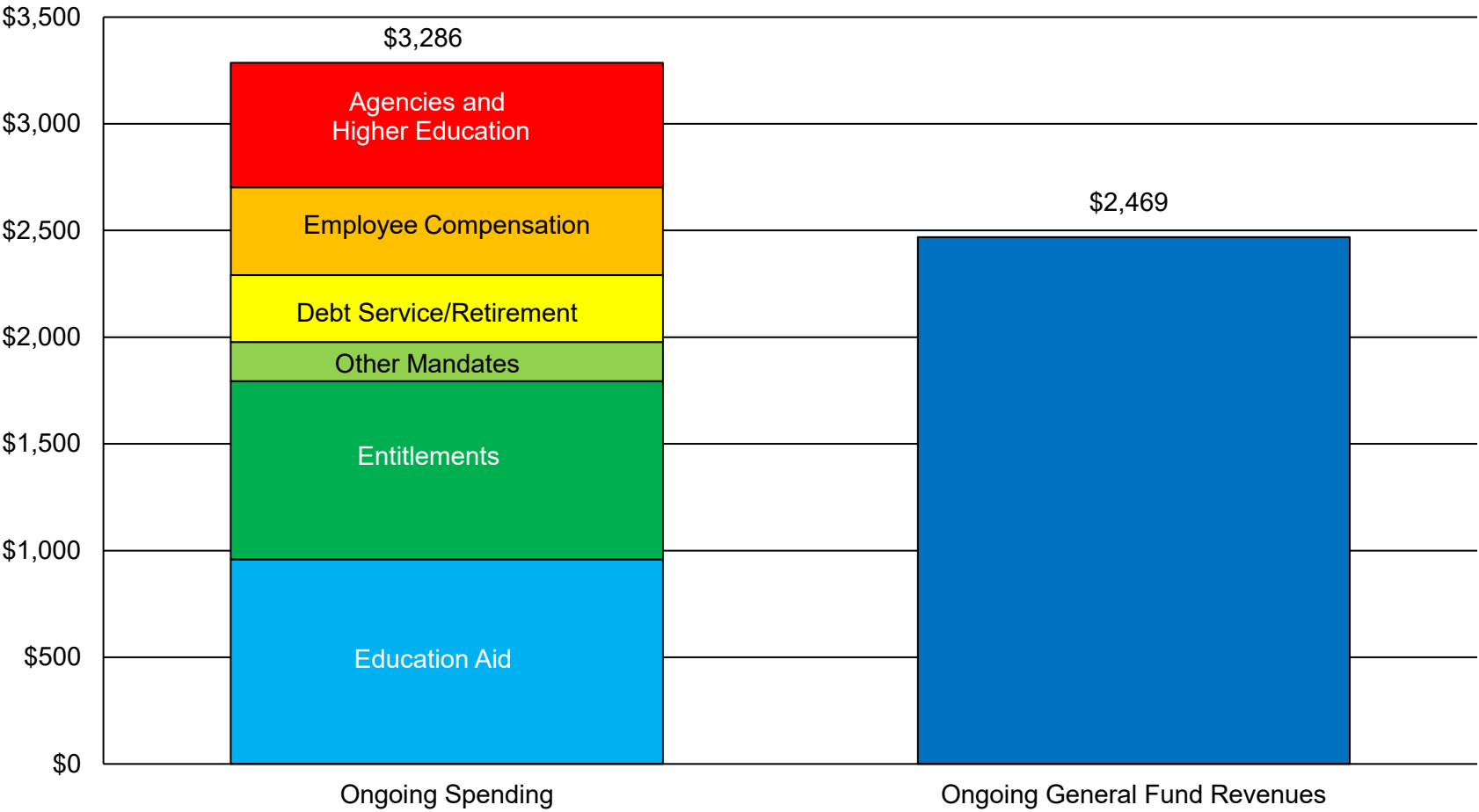
	<u>Work. App.</u> <u>2020</u>	<u>Baseline</u> <u>2021</u>	<u>Estimate</u> <u>2022</u>	<u>Estimate</u> <u>2023</u>	<u>Estimate</u> <u>2024</u>	<u>Estimate</u> <u>2025</u>	<u>Average</u> <u>Annual</u> <u>Change</u> <u>2021-25</u>
<b><u>Revenues</u></b>							
Opening Fund Balance	\$974	\$504	\$0	\$0	\$0	\$0	
Transfers	158	346	39	41	41	43	
<b>Subtotal One-time Revenue</b>	<b>\$1,132</b>	<b>\$850</b>	<b>\$39</b>	<b>\$41</b>	<b>\$41</b>	<b>\$43</b>	
<b>Ongoing Revenues</b>	<b>\$18,757</b>	<b>\$19,201</b>	<b>\$19,731</b>	<b>\$20,273</b>	<b>\$20,978</b>	<b>\$21,670</b>	<b>3.1%</b>
<b>Total Revenues and Fund Balance</b>	<b>\$19,889</b>	<b>\$20,050</b>	<b>\$19,770</b>	<b>\$20,314</b>	<b>\$21,019</b>	<b>\$21,713</b>	<b>2.0%</b>
<b><u>Spending</u></b>							
<b>Ongoing Spending</b>	<b>\$18,641</b>	<b>\$19,620</b>	<b>\$20,674</b>	<b>\$21,477</b>	<b>\$22,186</b>	<b>\$22,905</b>	<b>3.9%</b>
PAYGO Capital/Other	\$165	\$71	\$41	\$26	\$24	\$24	
One-time Reductions	0	0	0	0	0	0	
Appropriation to Reserve Fund	555	591	282	269	269	269	
<b>Subtotal One-time Spending</b>	<b>\$720</b>	<b>\$662</b>	<b>\$323</b>	<b>\$295</b>	<b>\$293</b>	<b>\$293</b>	
<b>Total Spending</b>	<b>\$19,360</b>	<b>\$20,281</b>	<b>\$20,996</b>	<b>\$21,772</b>	<b>\$22,479</b>	<b>\$23,198</b>	<b>3.4%</b>
<b>Ending Balance</b>	<b>\$529</b>	<b>-\$206</b>	<b>-\$1,226</b>	<b>-\$1,458</b>	<b>-\$1,461</b>	<b>-\$1,486</b>	
Rainy Day Fund Balance	\$1,183	\$1,149	\$1,185	\$1,226	\$1,270	\$1,313	
Balance over 5% of GF Revenues	0	191	203	210	217	225	
As % of GF Revenues	6.3%	6.0%	6.0%	6.0%	6.0%	6.0%	
<b>Structural Balance</b>	<b>\$116</b>	<b>-\$419</b>	<b>-\$943</b>	<b>-\$1,204</b>	<b>-\$1,209</b>	<b>-\$1,236</b>	

GF: General Fund

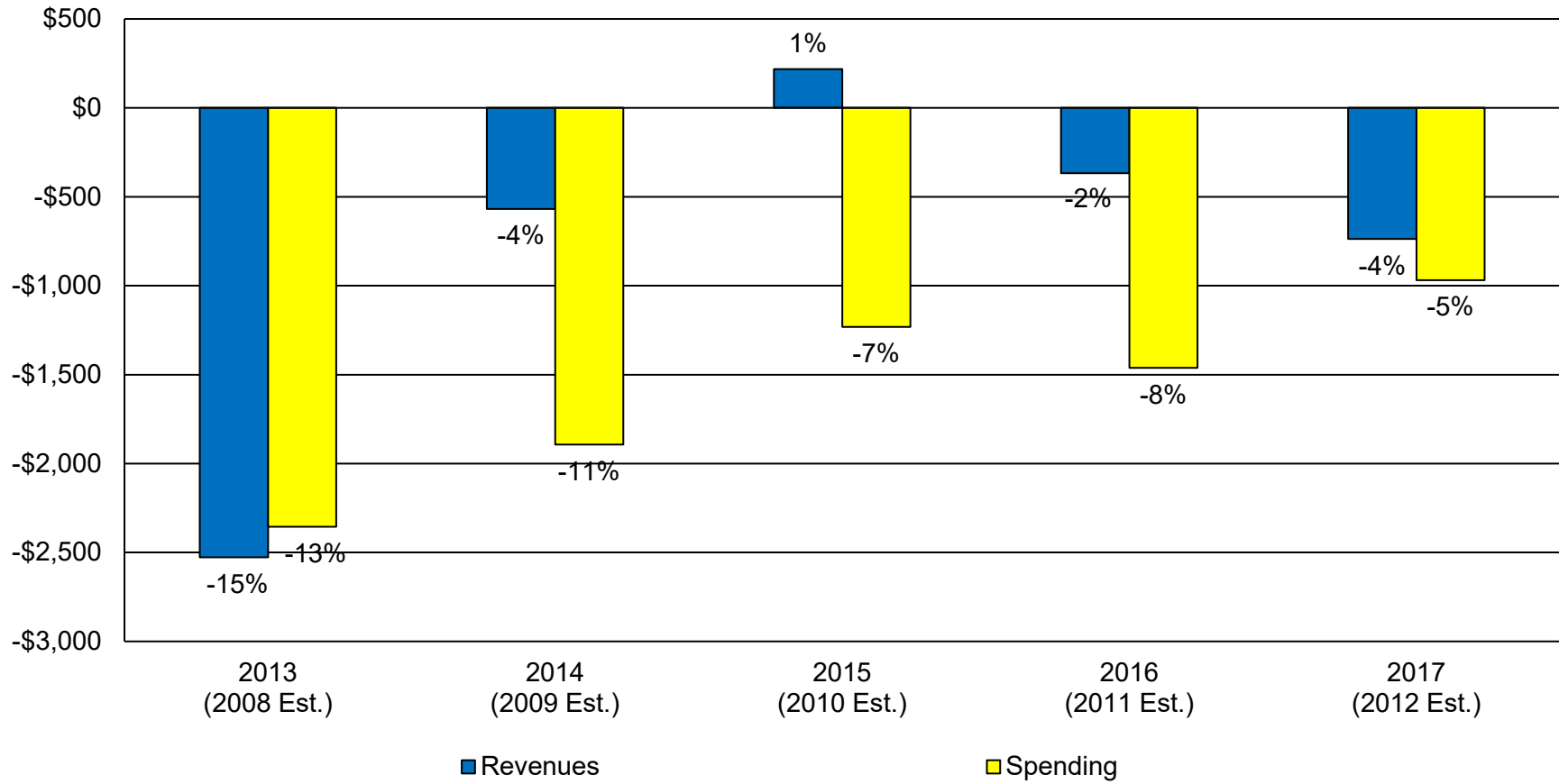
PAYGO: pay-as-you-go

Ongoing General Fund Spending Will Grow Faster Than Revenues Over Next Four Years,  
Producing a Fiscal 2025 Structural Gap of \$1.2 Billion

Fiscal 2021-2025  
(\$ in Millions)

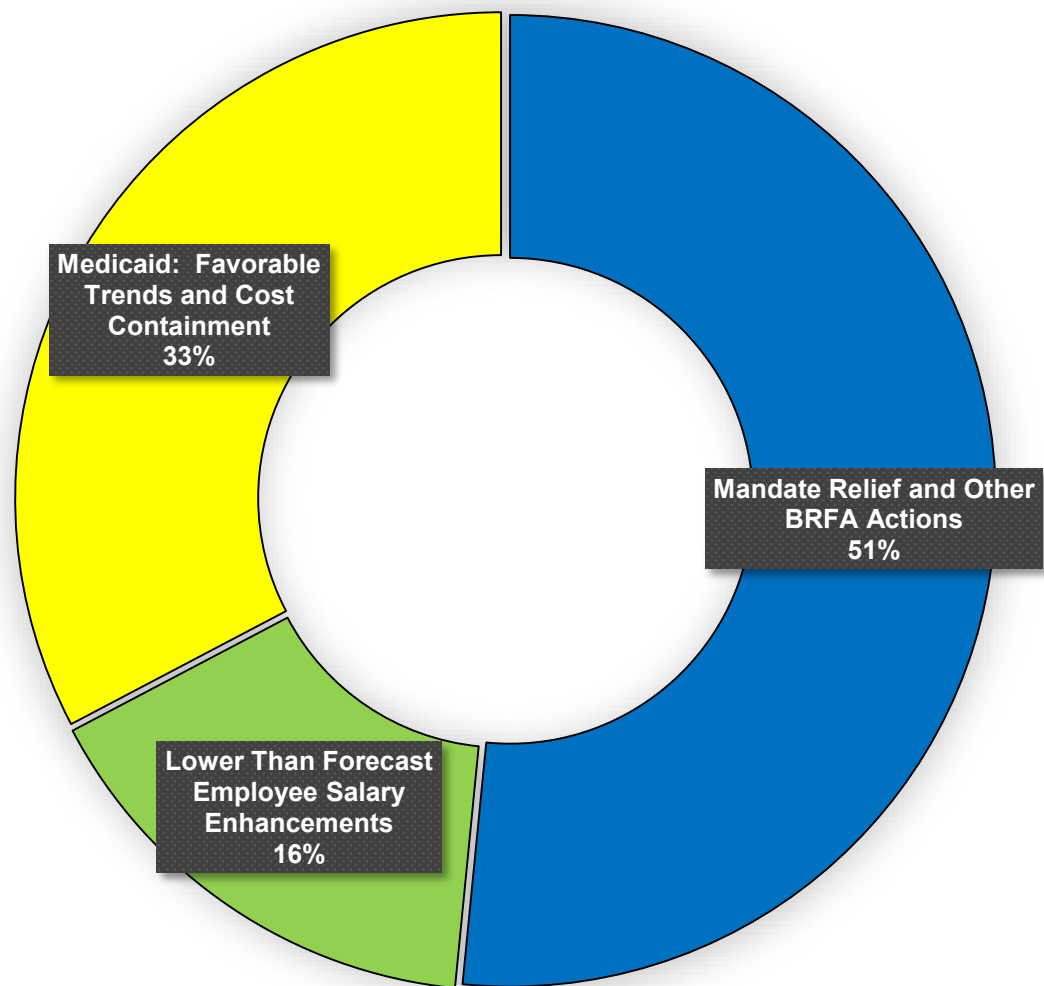


**Actual Revenues and Spending Compared to  
DLS Forecast Prepared Five Years Prior  
(e.g. Fiscal 2017 Actual vs. June 2012 Estimate for Fiscal 2017)  
Fiscal 2013-2017  
(\$ in Millions)**



DLS: Department of Legislative Services

## Why Was Actual Fiscal 2013 through 2017 Spending \$8 Billion Lower Than Forecast by DLS Five Years Earlier?



BRFA: Budget Reconciliation and Financing Act  
DLS: Department of Legislative Services



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

<b>Starting Balance</b>	<b>\$589.6</b>
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**Revenues**

BRE Estimated Revenue July 2019	\$18,199.0
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<b>Total</b>	<b>\$18,199.0</b>
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**Transfers**

Budgeted Tax Credits	\$18.6
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<b>Total</b>	<b>\$18.6</b>
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<b>Funds Available</b>	<b>\$18,807.3</b>
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**Spending**

Fiscal 2019 Legislative Appropriation	\$17,860.0
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Deficiencies	52.1
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Targeted Reversions/Closeout	-44.0
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Estimated Agency Reversions	-35.0
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<b>Net Expenditures</b>	<b>\$17,833.1</b>
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<b>Ending Balance</b>	<b>\$974.2</b>
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BRE: Board of Revenue Estimates

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

<b>Starting Balance</b>		<b>\$974.2</b>
<b>Revenues</b>		
BRE Estimated Revenue September 2019	\$18,695.4	
<b>Total</b>		<b>\$18,695.4</b>
<b>Transfers</b>		
Rainy Day Fund	\$158.0	
Budgeted Tax Credits	35.7	
<b>Total</b>		<b>\$193.7</b>
<b>Funds Available</b>		<b>\$19,863.4</b>
<b>Spending</b>		
Fiscal 2020 Allowance	\$19,418.8	
Anticipated deficiencies	124.5	
Assumed reversion of unreleased fence-offs	-148.0	
Estimated Agency Reversions	-35.0	
<b>Net Expenditures</b>		<b>\$19,360.3</b>
<b>Ending Balance</b>		<b>\$503.0</b>

BRE: Board of Revenue Estimates

**Status of the General Fund**  
**Fiscal 2021**  
**(\$ in Millions)**

<b>Starting Balance</b>		<b>\$503.0</b>
<b>Revenues</b>		
BRE Estimated Revenue September 2019	\$19,058.3	
Legislation/Other		
<b>Total</b>		<b>\$19,058.3</b>
<b>Transfers</b>		
Rainy Day Fund	352.9	
Budgeted Tax Credits	27.7	
<b>Total</b>		<b>\$380.6</b>
<b>Funds Available</b>		<b>\$19,941.9</b>
<b>Spending</b>		
Fiscal 2021 Allowance	\$20,223.4	
Estimated Agency Reversions	-35.0	
<b>Net Expenditures</b>		<b>\$20,188.4</b>
<b>Ending Balance</b>		<b>-\$246.6</b>

BRE: Board of Revenue Estimates

## Fiscal 2020 Restricted Funds Not Released by the Administration

<u>Funds Earmarked for Legislative Priorities</u>	<u>General Funds</u>	<u>Special Funds</u>
GOCCP: Baltimore Regional Information Center	\$3,647,141	
GOCCP: Anti-Violence Program Grants	100,000	
Comptroller: Grant to Cash Campaign of Maryland	200,000	
Comptroller: Private Letter Ruling Process	255,946	
MDOT: Transit Fares for Youth in Summer Employment		\$168,000
MDOT: Study of Regional Transportation Authorities		45,000
MDOT: Southern Maryland Rapid Transit Project		2,500,000
MDOT: Fort Smallwood Road*		1,750,000
MDOT: Sail Baltimore		300,000
MDOT: Frederick Avenue and Wendly Road*		600,000
MDH: Tuberculosis Grants	100,000	
MDH: Bed Registry System	100,000	
MDH: Grants to Nonprofit for Chronic Pain Management	750,000	
MDH: Tele-education for Childhood Mental Health Disorders	1,800,000	
Medicaid: Prescription Drug Affordability Board	750,000	
Medicaid: Expand Medicaid Access to Hepatitis C Treatment	1,300,000	
Medicaid: Revise Managed Care Organization Rates	1,000,000	
DHS: Grant to Support Transition to Two Generation Model	950,000	
MDL: Baltimore City YouthWorks	1,000,000	
MDL: Anne Arundel YouthWorks	500,000	
MDL: Prince George's Workforce Development Board	500,000	
MDL: Adult High School Programs in Opportunity Zones	300,000	
MDL: Hagerstown Community College	200,000	
DPSCS: Salary Increase for Correctional Officers (Above Governor's Plan)	7,000,000	
DPSCS: Staffing Study	500,000	
MSDE: P-TECH Consultant Study	100,000	
MHEC: Modifications to Maryland College Aid System	125,000	
MHEC: Reaccredit Physician's Assistant Program at UMES	1,000,000	
MHEC: Attorney Fees for Violation of Sexual Assault Policies	250,000	
MHEC: Eastern Shore Center for Innovation Entrepreneurship and Economic Development	307,750	
MHEC: TeamBuilder's Academy at Prince George's Community College	250,000	
MHEC: Youth for Success Youth Conflict Management	50,000	
MHEC: Nurse Practitioner Program at FSU	261,500	
DHCD: East Baltimore Development, Inc.	2,500,000	
DHCD: Baltimore Rock Opera Society	175,000	

**Funds Earmarked for Legislative Priorities****General Funds   Special Funds**

Commerce: Grant to Visit Baltimore	500,000	
Commerce: Minority Outreach for Business Programs	300,000	
Commerce: University of Maryland – WellMobile	200,000	
Commerce: Prince George's Community College Operating	250,000	
TEDCO: Baltimore and Prince George's State's Attorney's	250,000	
TEDCO: Baltimore Police Dept. Technology Improvements	7,000,000	
TEDCO: Baltimore Symphony Orchestra	1,600,000	
TEDCO: Implement Ending Youth Homelessness Act	500,000	
TEDCO: North Bay Overnight Program	430,000	
TEDCO: Irvington Place and Harlem Gardens Security Grants	150,000	
TEDCO: Rape Kit Testing Grant Fund	3,500,000	
TEDCO: Pretrial Services Grant Fund	750,000	
TEDCO: Crest Regional Higher Education Center	50,000	
MDE: Remediation of 1600 Harford Avenue Property	200,000	
Reserve Fund: Public School Construction	127,000,000	
Reserve Fund: DHCD Pay-as-you-go Programs	25,000,000	
Sunny Day Fund: Maryland Academy of Sciences Operating	335,000	
Sunny Day Fund: MSU Task Force on Reconciliation and Equity	25,000	
Sunny Day Fund: Grant to Lighthouse Homeless Shelter	100,000	
DNR (POS Repayment): Engineering and Construction	190,888	
DNR (POS Repayment): Park Service Operations	3,999,576	
DNR (POS Repayment): Rural Legacy	6,893,048	
DNR (POS Repayment): POS Local Share	8,535,752	
DNR (POS Repayment): Natural Resources Development Fund – Unspecified Projects	3,625,036	
DNR (POS Repayment): Natural Resources Development Fund – Historic St. Mary's Commission	1,000,000	
DNR (POS Repayment): Natural Resources Development Fund – Jefferson Patterson Park	3,875,000	
DNR (POS Repayment): Critical Maintenance Program	9,286,358	
MDA (POS Repayment): Agricultural Land Preservation Program	6,455,292	
POCA: Board of Trustees of Arts Education in Maryland Schools Alliance		150,000
POCA: Board of Directors of Arts Every Day		50,000
POCA: 901 Arts		50,000
POCA: Montgomery County for BlackRock Center for the Arts		150,000
POCA: Annapolis Community Foundation for a Statue of Queen Anne		50,000
POCA: Chesapeake Shakespeare Company		50,000
<b>Total Funds</b>	<b>\$237,973,287</b>	<b>\$5,863,000</b>

\* A recent Attorney General's opinion has determined that the Governor may not continue to withhold these funds.

Commerce: Department of Commerce  
DHCD: Department of Housing and Community Development  
DHS: Department of Human Services  
DNR: Department of Natural Resources  
DPSCS: Department of Public Safety and Correctional Services  
FSU: Frostburg State University  
GOCCP: Governor's Office of Crime Control and Prevention  
MDA: Maryland Department of Agriculture  
MDE: Maryland Department of the Environment  
MDH: Maryland Department of Health  
MDL: Maryland Department of Labor  
MDOT: Maryland Department of Transportation  
MHEC: Maryland Higher Education Commission  
MSDE: Maryland State Department of Education  
MSU: Morgan State University  
POCA: Preservation of Cultural Arts  
POS: Program Open Space  
P-TECH: Pathways in Technology Early College High  
TEDCO: Maryland Technology Development Corporation  
UMES: University of Maryland Eastern Shore

## Budget Outlook for Fiscal 2021 to 2025 Improves If Key Policy Assumptions Are Altered

### Fiscal 2021-2025

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<b>Closing Cash Balance – DLS Baseline</b>	<b>-\$247</b>	<b>-\$1,173</b>	<b>-\$1,423</b>	<b>-\$1,453</b>	<b>-\$1,495</b>
<b><u>Alternative Policy Decisions That Improve Closing Balance</u></b>					
Reduce Rainy Day Fund Balance from 6% to 5%	\$190				
Fund WMATA Mandate from Transportation Trust Fund	167	\$167	\$167	\$167	\$167
Fund Employee Salary Increase Every Other Year (Fiscal 2022 and 2024)	124	128	257	265	398
<b>Potential Revised Closing Cash Balance</b>	<b>\$234</b>	<b>-\$878</b>	<b>-\$999</b>	<b>-\$1,021</b>	<b>-\$930</b>

DLS: Department of Legislative Services  
WMATA: Washington Metropolitan Area Transit Authority





## **Part 4**

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### **Fiscal 2021 Baseline Budget Estimate**



# Fiscal 2021 Baseline Budget Forecast Assumptions

## Baseline Budget Concepts

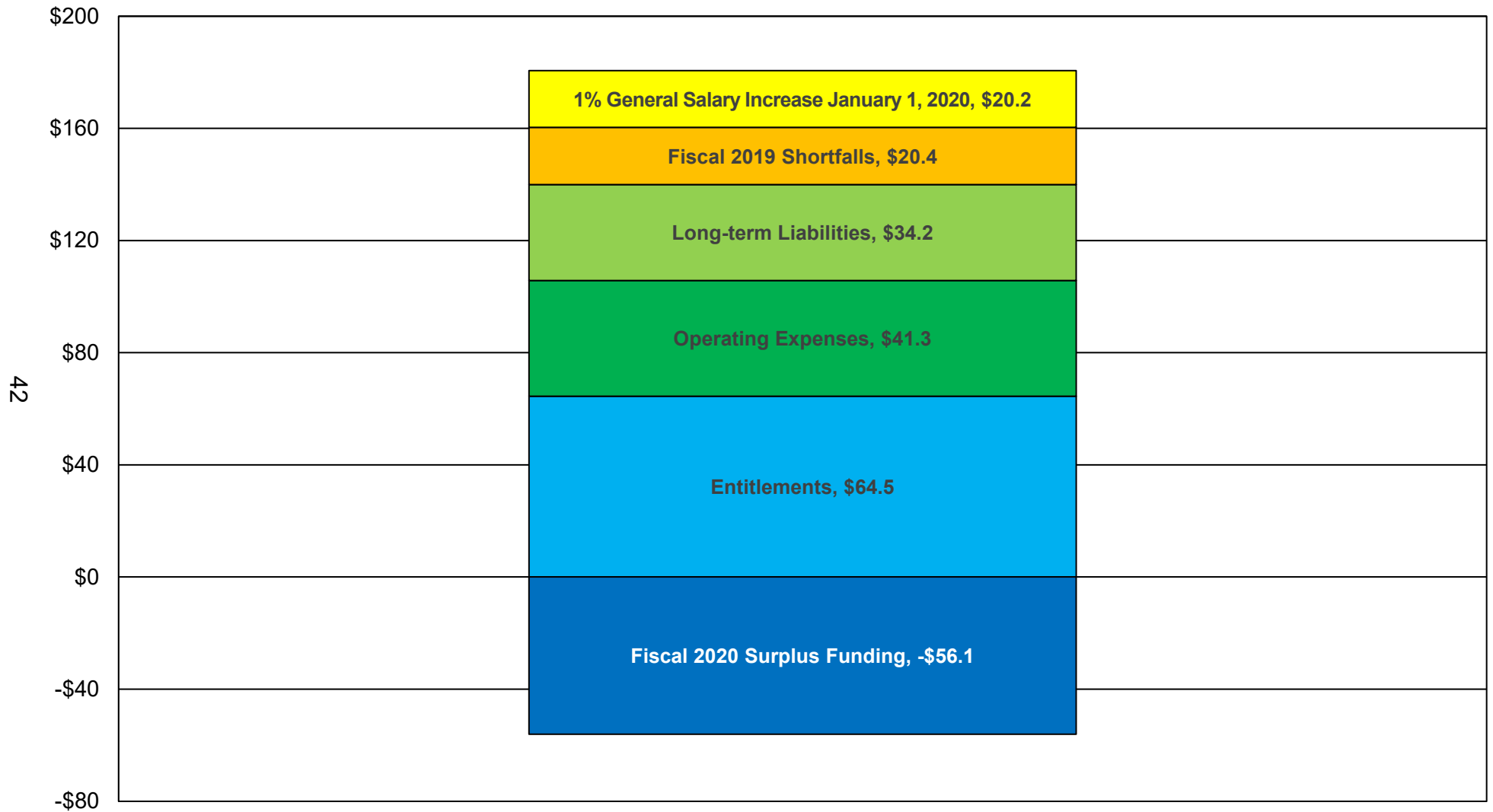
- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions. Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session 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 (4.6%), medical care and medicine/drugs at State facilities (0.0% to 3.9% depending on program), utilities/electricity (2.4%), food (2.4%), gas and oil (2.3%), and postage (2.1%).
- Employee compensation costs include:
  - annualization of fiscal 2020 salary increase (January 1, 2020 1.0% general salary increase based on revenue overattainment);
  - a general salary increase of 1.0% effective July 1, 2020 and funding for employee increments on the regular July-January schedule;
  - employee and retiree health insurance costs (7.6%); and
  - employee retirement costs (vary but driven by increase in employee retirement plan, 1.1%).
- The higher education grant is calculated primarily on growth in mandatory costs, including employee compensation and benefits, and assuming a 2.0% tuition increase.

## Caseload Assumptions

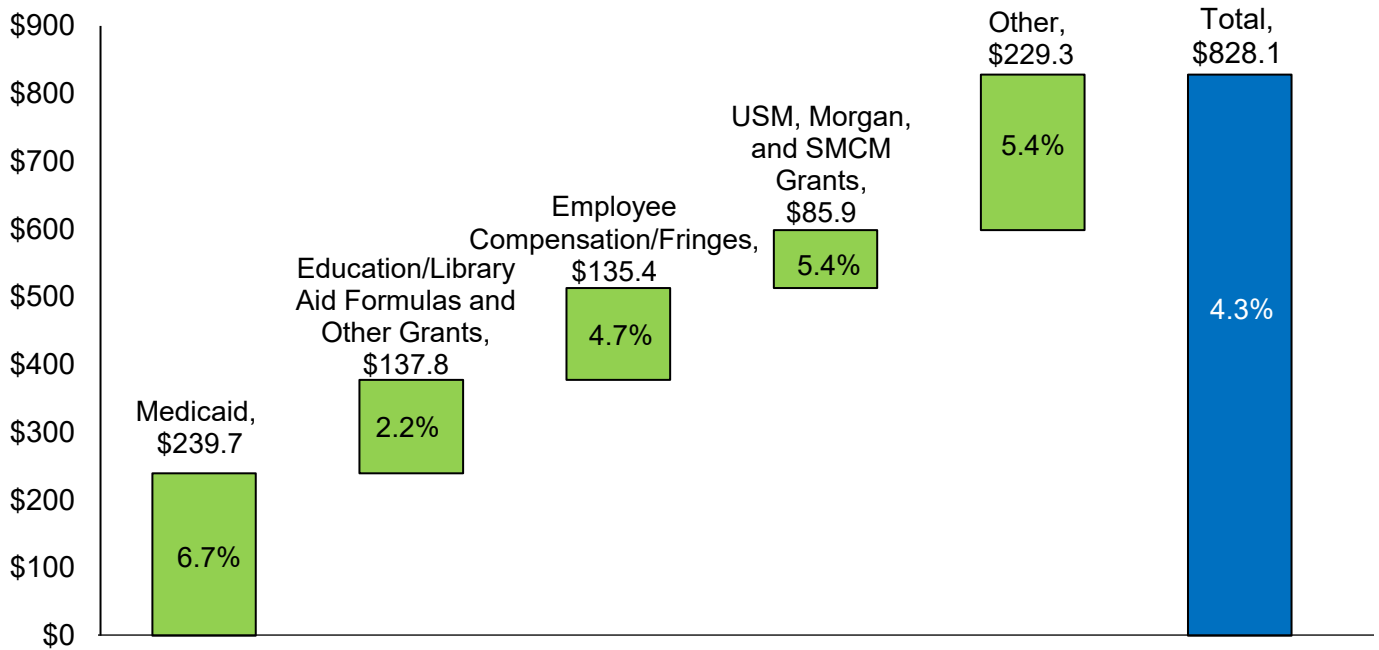
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>% Change FY 2020-2021</u>
Pupil Enrollment*	860,806	863,071	868,939	0.7%
Medicaid	908,338	936,924	939,875	0.3%
Children's Health	154,321	146,605	145,139	-1.0%
Expansion under Affordable Care Act	309,238	314,207	319,234	1.6%
Temporary Cash Assistance	42,661	40,528	40,123	-1.0%
Foster Care/Adoption/Guardianship	12,535	12,427	12,328	-0.8%
Adult Prison Population	21,142	20,558	20,039	-2.5%

\* Data for fiscal 2019, 2020, and 2021 reflect September 2017, September 2018, and September 2019 (est.) full-time equivalent enrollments.

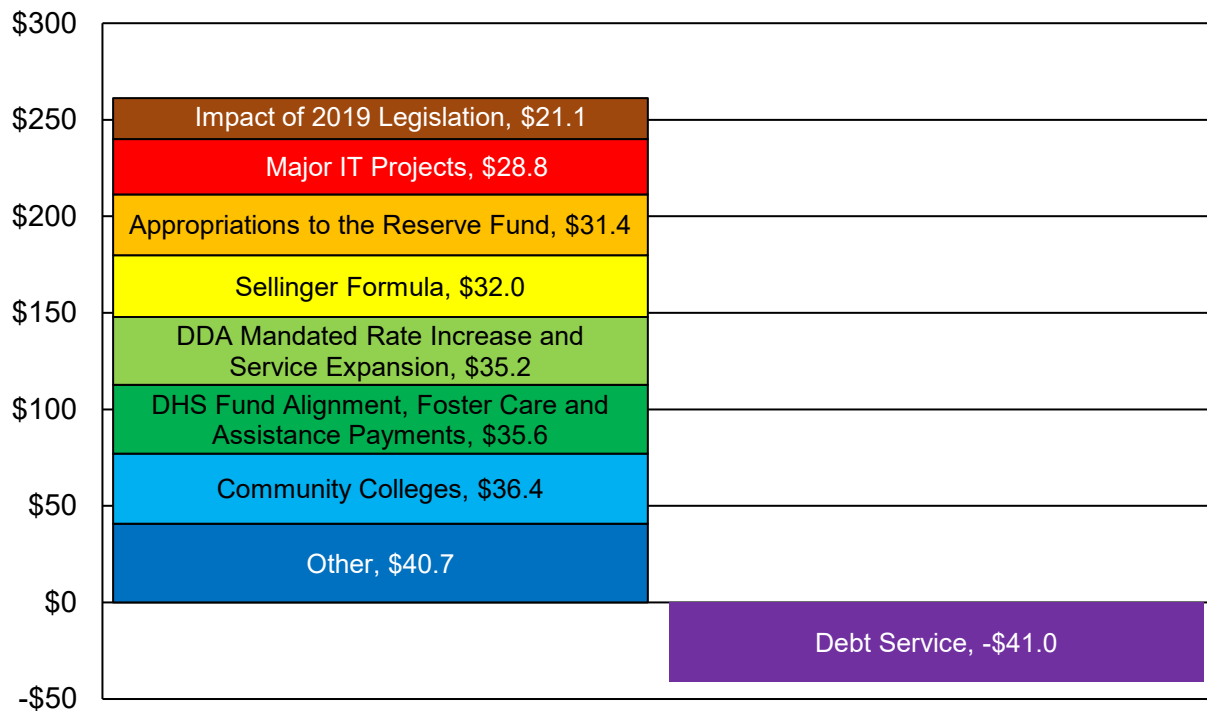
**Potential General Fund Deficiencies Total \$125 Million –  
\$181 Million in Potential Deficiencies Are Partially Offset by  
Projected Underspensing of \$56 Million in Various Programs  
(\$ in Millions)**



**Fiscal 2021 Baseline Budget Estimates \$828.1 Million Growth Over the  
Fiscal 2020 Adjusted Legislative Appropriation  
(\$ in Millions/% Growth)**



**Other Spending Adds \$229.3 Million in General Funds After  
Adjusting for Debt Service**



DDA: Developmental Disabilities Administration  
DHS: Department of Human Services  
IT: information technology

SMCM: St. Mary's College of Maryland  
USM: University System of Maryland

# State Expenditures – General Funds

## Fiscal 2019-2021

(\$ in Millions)

<u>Category</u>	<u>2019 Working Appropriation</u>	<u>2020 Adj. Leg. Appropriation <sup>(1)</sup></u>	<u>2021 Baseline</u>	<u>2020-2021 \$ Change</u>	<u>% Change</u>
Debt Service	\$286.0	\$287.0	\$246.0	-\$41.0	-14.3%
County/Municipal	\$288.9	\$300.8	\$316.1	\$15.3	5.1%
Community Colleges	322.4	331.0	367.4	36.4	11.0%
Education/Libraries	6,059.1	6,409.4	6,640.3	230.8	3.6%
Health	52.7	55.4	56.6	1.2	2.2%
<b>Aid to Local Governments</b>	<b>\$6,723.0</b>	<b>\$7,096.7</b>	<b>\$7,380.4</b>	<b>\$283.7</b>	<b>4.0%</b>
Foster Care Payments	\$188.2	\$194.7	\$209.0	\$14.3	7.4%
Assistance Payments	45.4	43.9	49.2	5.3	12.1%
Medical Assistance	3,389.9	3,575.4	3,815.1	239.7	6.7%
Property Tax Credits	101.2	97.2	102.4	5.2	5.4%
<b>Entitlements</b>	<b>\$3,724.6</b>	<b>\$3,911.2</b>	<b>\$4,175.8</b>	<b>\$264.6</b>	<b>6.8%</b>
Health	\$1,492.0	\$1,583.2	\$1,621.0	\$37.9	2.4%
Human Services	372.3	370.5	399.3	28.9	7.8%
Juvenile Services	263.7	264.7	279.2	14.6	5.5%
Public Safety/Police	1,521.5	1,576.8	1,665.8	89.1	5.6%
Higher Education	1,481.8	1,599.4	1,685.3	85.9	5.4%
Other Education	461.2	494.5	535.4	40.8	8.3%
Agriculture/Natural Res./Environment	127.1	147.6	157.0	9.4	6.4%
Other Executive Agencies	800.3	800.5	857.6	57.1	7.1%
Judiciary	508.5	534.6	556.8	22.2	4.2%
Legislative	91.3	97.5	100.0	2.6	2.6%
<b>State Agencies</b>	<b>\$7,119.6</b>	<b>\$7,469.2</b>	<b>\$7,857.5</b>	<b>\$388.4</b>	<b>5.2%</b>
<b>Total Operating</b>	<b>\$17,853.2</b>	<b>\$18,764.1</b>	<b>\$19,659.8</b>	<b>\$895.7</b>	<b>4.8%</b>
Capital <sup>(2)</sup>	\$59.5	\$77.0	\$71.0	-\$6.0	-7.7%
<b>Subtotal</b>	<b>\$17,912.7</b>	<b>\$18,841.0</b>	<b>\$19,730.8</b>	<b>\$889.8</b>	<b>4.7%</b>
Reserve Funds	\$9.3	\$554.3	\$585.7	\$31.4	5.7%
<b>Appropriations</b>	<b>\$17,922.1</b>	<b>\$19,395.3</b>	<b>\$20,316.4</b>	<b>\$921.1</b>	<b>4.7%</b>
Reversions	-\$35.0	-\$35.0	-\$35.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$17,887.1</b>	<b>\$19,360.3</b>	<b>\$20,281.4</b>	<b>\$921.1</b>	<b>4.8%</b>

<sup>(1)</sup> The General Assembly reduced the fiscal 2020 budget by \$194.1 million but provided authorization for those funds to be used for a variety of purposes. However, spending the funds was at the discretion of the Governor. The fiscal 2020 adjusted legislative appropriation includes reductions of \$148.0 million, reflecting funds that will revert at the end of the year that the Governor has decided not to spend.

<sup>(2)</sup> Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2020 adjusted legislative appropriation reflects anticipated deficiencies of \$124.5 million.

# State Expenditures – State Funds

## Fiscal 2019-2021

### (\$ in Millions)

<u>Category</u>	<u>2019 Working Appropriation</u>	<u>2020 Adj. Leg. Appropriation</u> <sup>(1)</sup>	<u>2021 Baseline</u>	<u>2020 to 2021 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,623.8	\$1,675.8	\$1,744.7	\$68.9	4.1%
County/Municipal	\$663.7	\$698.9	\$739.8	\$40.9	5.9%
Community Colleges	322.4	331.0	367.4	36.4	11.0%
Education/Libraries	6,615.5	7,085.5	7,284.0	198.5	2.8%
Health	52.7	55.4	56.6	1.2	2.2%
<b>Aid to Local Governments</b>	<b>\$7,654.3</b>	<b>\$8,170.8</b>	<b>\$8,447.9</b>	<b>\$277.0</b>	<b>3.4%</b>
Foster Care Payments	\$192.5	\$198.0	\$212.3	\$14.3	7.2%
Assistance Payments	55.5	49.4	55.0	5.7	11.5%
Medical Assistance	4,322.0	4,571.1	4,758.7	187.6	4.1%
Property Tax Credits	101.2	97.2	102.4	5.2	5.4%
<b>Entitlements</b>	<b>\$4,671.1</b>	<b>\$4,915.6</b>	<b>\$5,128.5</b>	<b>\$212.9</b>	<b>4.3%</b>
Health	\$1,921.7	\$2,027.4	\$2,128.6	\$101.3	5.0%
Human Services	454.8	449.8	487.5	37.7	8.4%
Juvenile Services	267.3	267.7	282.6	14.8	5.5%
Public Safety/Police	1,739.1	1,806.0	1,944.9	138.9	7.7%
Higher Education	6,215.4	6,456.3	6,748.9	292.6	4.5%
Other Education	533.3	567.3	606.1	38.9	6.9%
Transportation	1,974.9	2,049.4	2,192.2	142.9	7.0%
Agriculture/Natural Res./Environment	430.5	445.8	468.0	22.2	5.0%
Other Executive Agencies	1,550.3	1,541.2	1,626.8	85.7	5.6%
Judiciary	570.6	600.0	627.1	27.2	4.5%
Legislative	91.3	97.5	100.0	2.6	2.6%
<b>State Agencies</b>	<b>\$15,749.2</b>	<b>\$16,308.2</b>	<b>\$17,212.7</b>	<b>\$904.5</b>	<b>5.5%</b>
<b>Total Operating</b>	<b>\$29,698.4</b>	<b>\$31,070.5</b>	<b>\$32,533.8</b>	<b>\$1,463.3</b>	<b>4.7%</b>
Capital <sup>(1)</sup>	\$2,049.9	\$1,932.0	\$1,628.7	-\$303.4	-15.7%
Transportation	1,514.2	1,427.1	1,090.1	-337.1	-23.6%
Environment	220.8	178.3	220.4	42.1	23.6%
Other	314.9	326.6	318.2	-8.4	-2.6%
<b>Subtotal</b>	<b>\$31,748.3</b>	<b>\$33,002.5</b>	<b>\$34,162.4</b>	<b>\$1,159.9</b>	<b>3.5%</b>
Reserve Funds	\$9.3	\$554.3	\$585.7	\$31.4	5.7%
<b>Appropriations</b>	<b>\$31,757.7</b>	<b>\$33,556.8</b>	<b>\$34,748.1</b>	<b>\$1,191.3</b>	<b>3.5%</b>
Reversions	-\$35.0	-\$35.0	-\$35.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$31,722.7</b>	<b>\$33,521.8</b>	<b>\$34,713.1</b>	<b>\$1,191.3</b>	<b>3.6%</b>

<sup>(1)</sup> The fiscal 2020 adjusted legislative appropriation includes reductions of \$153.3 million, reflecting funds that will be reverted or canceled at the end of the year that the Governor has decided not to spend.

<sup>(2)</sup> Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

## State Expenditures – All Funds

### Fiscal 2019-2021

(\$ in Millions)

<u>Category</u>	<u>2019 Working Appropriation</u>	<u>2020 Adj. Leg. Appropriation</u> <sup>(1)</sup>	<u>2021 Baseline</u>	<u>2020 to 2021 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,636.6	\$1,687.4	\$1,755.0	\$67.6	4.0%
County/Municipal	\$737.7	\$773.0	\$813.9	\$40.9	5.3%
Community Colleges	322.4	331.0	367.4	36.4	11.0%
Education/Libraries	7,577.4	8,070.1	8,254.4	184.3	2.3%
Health	52.7	55.4	56.6	1.2	2.2%
<b>Aid to Local Governments</b>	<b>\$8,690.2</b>	<b>\$9,229.5</b>	<b>\$9,492.3</b>	<b>\$262.8</b>	<b>2.8%</b>
Foster Care Payments	\$261.3	\$275.5	\$280.0	\$4.5	1.6%
Assistance Payments	1,158.0	1,097.1	1,056.8	-40.3	-3.7%
Medical Assistance	11,391.2	11,418.6	11,913.4	494.7	4.3%
Property Tax Credits	101.2	97.2	102.4	5.2	5.4%
<b>Entitlements</b>	<b>\$12,911.6</b>	<b>\$12,888.4</b>	<b>\$13,352.6</b>	<b>\$464.2</b>	<b>3.6%</b>
Health	\$3,028.2	\$3,156.8	\$3,290.6	\$133.8	4.2%
Human Services	1,006.9	1,043.9	1,020.5	-23.4	-2.2%
Juvenile Services	272.6	272.3	287.4	15.1	5.5%
Public Safety/Police	1,774.0	1,844.4	1,984.6	140.2	7.6%
Higher Education	6,215.4	6,456.3	6,748.9	292.6	4.5%
Other Education	816.1	875.2	929.8	54.5	6.2%
Transportation	2,073.3	2,157.9	2,302.5	144.6	6.7%
Agriculture/Natural Res./Environment	500.1	514.0	538.7	24.7	4.8%
Other Executive Agencies	2,145.6	2,160.7	2,224.7	64.1	3.0%
Judiciary	571.7	600.2	627.4	27.2	4.5%
Legislative	91.3	97.5	100.0	2.6	2.6%
<b>State Agencies</b>	<b>\$18,495.0</b>	<b>\$19,179.1</b>	<b>\$20,054.9</b>	<b>\$875.8</b>	<b>4.6%</b>
<b>Total Operating</b>	<b>\$41,733.5</b>	<b>\$42,984.4</b>	<b>\$44,654.8</b>	<b>\$1,670.4</b>	<b>3.9%</b>
Capital <sup>(1)</sup>	\$3,103.3	\$3,193.3	\$2,853.6	-\$339.8	-10.6%
Transportation	2,497.8	2,571.8	2,240.1	-331.7	-12.9%
Environment	264.1	231.1	273.5	42.4	18.4%
Other	341.4	390.4	339.9	-50.5	-12.9%
<b>Subtotal</b>	<b>\$44,836.9</b>	<b>\$46,177.7</b>	<b>\$47,508.4</b>	<b>\$1,330.6</b>	<b>2.9%</b>
Reserve Funds	\$9.3	\$554.3	\$585.7	\$31.4	5.7%
<b>Appropriations</b>	<b>\$44,846.2</b>	<b>\$46,732.0</b>	<b>\$48,094.1</b>	<b>\$1,362.0</b>	<b>2.9%</b>
Reversions	-\$35.0	-\$35.0	-\$35.0	\$0.0	0.0%
<b>Grand Total</b>	<b>\$44,811.2</b>	<b>\$46,697.0</b>	<b>\$48,059.1</b>	<b>\$1,362.0</b>	<b>2.9%</b>

<sup>(1)</sup> The fiscal 2020 adjusted legislative appropriation includes reductions of \$153.3 million, reflecting funds that will be reverted or canceled at the end of the year that the Governor has decided not to spend.

<sup>(2)</sup> Includes the Heritage Structure Rehabilitation Tax Credit Reserve Fund.

Note: The fiscal 2019 working appropriation includes \$90.4 million in deficiencies. The fiscal 2020 adjusted legislative appropriation reflects \$37.7 million in additional special fund spending due to funding swaps and \$279.6 million in anticipated deficiencies.



**\$351 Million in Potential Fiscal 2020 Deficiencies Are Partially Offset by  
Projected Underspending of \$72 Million in Various Programs  
(\$ in Millions)**

	<u>GF</u>	<u>SF</u>	<u>FF</u>	<u>Total</u>
<b>Salary Enhancements:</b> 1% general salary increase effective January 1, 2020, triggered by fiscal 2019 revenue overattainment (\$20.2 million in GF, \$8.3 million in SF, and \$3.9 million in FF).	\$20.2	\$8.3	\$3.9	<b>\$32.4</b>
<b>Fiscal 2019 Deficiencies:</b> Medicaid (\$15.4 million in GF and \$13.6 million in FF); Office of the Public Defender (OPD) operating costs (\$3.6 million in GF); and Department of State Police (DSP) various operating costs (\$1.4 million in GF).	20.4	0.0	13.6	<b>34.0</b>
<b>Long-term Liabilities:</b> Developmental Disabilities Administration (DDA) federal fund audit disallowance for residential habilitation services (\$34.2 million in GF).	34.2	0.0	0.0	<b>34.2</b>
<b>Operating Expenses:</b> Department of Human Services (DHS) federal energy funds and federal fund availability (\$1.4 million in GF, \$2.7 million in SF, and \$16.8 million in FF); Department of Public Safety and Correctional Services (DPSCS) overtime and inmate medical contracts (\$14.4 million in GF); Department of Aging federal grant and other federal fund availability (\$4.1 million in FF); OPD (\$3.6 million in GF); Maryland Higher Education Commission for 529 match program (\$3.6 million in GF); DSP lower speed camera special fund revenue, audit finding, BCCPI/BRIC and MSPAC for Baltimore City (\$12.2 million in GF and -\$4.8 million in SF); Department of Natural Resources operating expenses (\$2.0 million GF); Behavioral Health substance use disorder residential funding (\$1.8 million in GF); Board of Public Works erroneous conviction compensation (\$1.7 million in GF); and other (\$0.6 million in GF).	41.3	-2.1	20.8	<b>60.0</b>
<b>Entitlements:</b> Medicaid (\$57.7 million in GF, \$121.7 million in SF, \$1.8 million in FF); and DHS foster care and assistance programs based on placement mix, caseloads and fund availability (\$6.8 million in GF, -\$0.9 million in SF, and \$5.4 million in FF).	64.5	120.8	5.4	<b>190.7</b>
<b>Fiscal 2020 Overfunding:</b> DDA based on actual spending trends (\$15.0 million in GF, \$0.1 million in SF, and \$13.6 million in FF); DPSCS turnover savings (\$26.1 million in GF); Department of Budget and Management calculation of fiscal 2020 general salary increase (\$12.5 million in GF, \$1.3 million in SF, and \$0.5 million in FF); and Maryland State Department of Education Tax Increment Financing overfunding (\$2.5 million in GF).	-56.1	-1.4	-14.2	<b>-71.7</b>
<b>Total Deficiencies</b>	<b>\$124.5</b>	<b>\$125.6</b>	<b>\$29.5</b>	<b>\$279.6</b>

BCCPI: Baltimore City Crime Prevention Initiative  
BRIC: Baltimore Regional Information Center  
FF: federal fund

GF: general fund  
MSPAC: Maryland State Police Aviation Command  
SF: special fund

# Components of General Fund Budget Change

(\$ in Millions)

## Summary of Fiscal 2020-2021 Budget Growth Compared to Adjusted Fiscal 20202 Legislative Appropriation

	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$414.3	51.6%
State Agency Costs	388.4	48.4%
<b>Growth in Operating Budget, Including Anticipated Deficiencies</b>	<b>\$802.7</b>	
Pay-as-you-go (PAYGO)	-\$6.0	
Appropriation to Reserve Fund	31.4	
Reversions	0.0	
<b>Total Baseline Increase in State Expenditures</b>	<b>\$828.1</b>	
Deficiency Appropriations		
<b>Total</b>	<b>\$828.1</b>	

### Ongoing Requirements/Entitlements

Medical assistance including Chapters 10/11 of 2019 mandating 4% rate increases for certain providers (\$55.9 million)	\$239.7
Education and Library aid formulas and other grants including ongoing impact of Chapter 357 of 2018 that authorized the Constitutional Amendment establishing gaming revenues as supplemental education funding (\$125.0 million)	137.8
Community college formula plus miscellaneous grants	36.4
Foster Care and Assistance payments based on caseload mix, rate increases, and fund realignment based on most recent actuals	19.6
Other entitlements and local aid including Chapter 25 of 2019 Community Safety and Strengthening Act (\$4.5 million) and Chapter 508 of 2019 Rape Kit Testing Fund (\$3.0 million)	17.4
Disparity grant formula	4.4
Debt service	-41.0

### State Agency Costs

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

Merit pay (increments)	\$41.4
Health insurance (7.6%)	34.1
General salary increase (1.0%)	23.0
Annualization of January 1, 2020 1.0% general salary increases	20.2
Employee retirement (driven by 1.1% increase in employee retirement plan)	16.7

#### Impact of 2019 Legislation Not Accounted for Elsewhere

Chapter 532 of 2019 Opioid Use Disorder Examinations and Treatment in Correctional Facilities	\$4.3
Chapter 211 of 2019 Opportunity Zone Incentives – Workforce Housing Project Tax Credit	4.0
Chapters 733/734 of 2019 Family Planning Program	3.2
Chapter 757 of 2019 Clean Energy Jobs	2.3

Chapter 249 of 2019 Local Housing Grant Program for Homeless Veterans and Survivors of Domestic Violence	2.0
Chapter 557 of 2019 Water Outlets in School Buildings Lead Testing	2.0
Chapter 749 of 2019 New District and Circuit Court Judgeships	1.8
Chapter 743 of 2019 Grant to Baltimore Symphony Orchestra	1.6

**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	\$75.2
Developmental Disabilities Administration: Chapters 10/11 of 2019 plus realignment of funds based on most recent actuals	35.2
Major Information Technology Development Projects	28.8
Selling Formula for Aid to Private Colleges and Universities	32.0
Human Services: Align general funds with most recent actuals	15.9
Morgan State University: Growth in State operating grant support	8.8
Sunny Day Fund: Marriott grant	5.0
Public Safety: Inmate medical contracts	4.8
Information Technology: 700MHz system maintenance and radio replacement	3.0
St. Mary's College of Maryland: Operating grant	1.9
Maryland Higher Education Commission: Educational Excellence Awards	1.7
Behavioral Health Administration: Behavioral health services for the uninsured including impact of Chapters 10/11 of 2019	1.6
Maryland State Arts Council grant increase	1.5
Various agencies: Increases to account for fiscal 2020 withheld funds unaccounted for in other changes	1.5
Elections: Anticipated election expenses	1.0
Public Safety: One-time critical maintenance funding	-3.0
Planning: One-time census-related grants and activities	-6.3
Other	23.4

**Reserve Fund and PAYGO**

PAYGO: Chapter 652 of 2019 Comprehensive Flood Management	\$3.0
PAYGO: Re-basing the SEED Community Development Anchor Institution Fund	2.5
PAYGO: Other	0.9
PAYGO: Re-basing the Baltimore Regional Neighborhood Initiative	-2.8
PAYGO: Nonpublic Aging Schools	-3.5
PAYGO: Various housing programs including Project CORE, Neighborhood Business Works and rental housing	-6.0
Reserve Fund: Net increase in appropriation including \$167.0 million grant to the Washington Metropolitan Area Transit Authority, \$43 million transfer to Program Open Space, \$33.3 million local income tax reserve repayment, and \$25 million each for the pension and Other Post Employment Benefits liability sweepers	31.4

**Total** **\$828.1**

## Total Expenditure and Enrollment Growth in Medicaid Remains Modest, but the Need for General Funds Remains Relatively Strong

### Medical Care Programs Expenditures Fiscal 2019-2021 (\$ Millions)

<b>Funds</b>	<b>2019</b>	<b>Leg. App. 2020</b>	<b>DLS Estimate 2020</b>	<b>Baseline 2021</b>	<b>\$ Change 2020 DLS Est.-2021</b>	<b>% Change 2020 DLS Est.-2021</b>
General	\$3,360.8	\$3,505.4	\$3,560.0	\$3,815.1	255.1	7.2%
Special	956.9	873.9	995.7	943.5	-52.1	-5.2%
Federal	6,634.8	7,082.5	7,049.3	7,154.7	105.4	1.5%
<b>Total</b>	<b>\$10,952.6</b>	<b>\$11,461.8</b>	<b>\$11,605.0</b>	<b>\$11,913.4</b>	<b>\$308.4</b>	<b>2.7%</b>

DLS: Department of Legislative Services

Note: Fiscal 2020 DLS estimate reflects a planned general fund reduction of \$3.1 million based on the Governor's decision not to release certain withheld funds, general fund deficiency appropriations for expenses in fiscal 2020, special funds available through Chapter 16 of 2019 to backfill general fund reductions made during the 2019 session, and estimates of other special fund availability not included in the fiscal 2020 legislative appropriation. Data is for major provider payments only and includes Medicaid-funded behavioral health services.

- General fund deficiencies for Medicaid are estimated at \$73.1 million, of which \$57.7 million are for fiscal 2020 expenses. This number would be significantly higher but for the availability of \$121.8 million in unanticipated special funds to support the Medicaid program, primarily from the Rate Stabilization Fund.
- The key drivers of higher than projected expenditures in fiscal 2020 include additional spending on parent/caretakers because of markedly increased enrollment due to a February 2019 change made to the Medicaid eligibility system to automatically grant Transitional Medicaid Assistance (TMA) coverage for certain low-income individuals who lose eligibility for various reasons including an increase in earned income or hours of employment; the impact of the calendar 2020 managed care organization (MCO) rate increase which, as is normal, was not included in the fiscal 2020 budget; and an unexpected increase in psychiatric rehabilitation program spending in the behavioral health budget.

In fiscal 2021, after adjusting for the various deficiencies and special fund availability anticipated in fiscal 2020 noted above, fiscal 2021 baseline growth is \$308.4 million (2.7%) with general fund growth of \$255.1 million (7.2%). Major drivers of general fund growth are as follows:

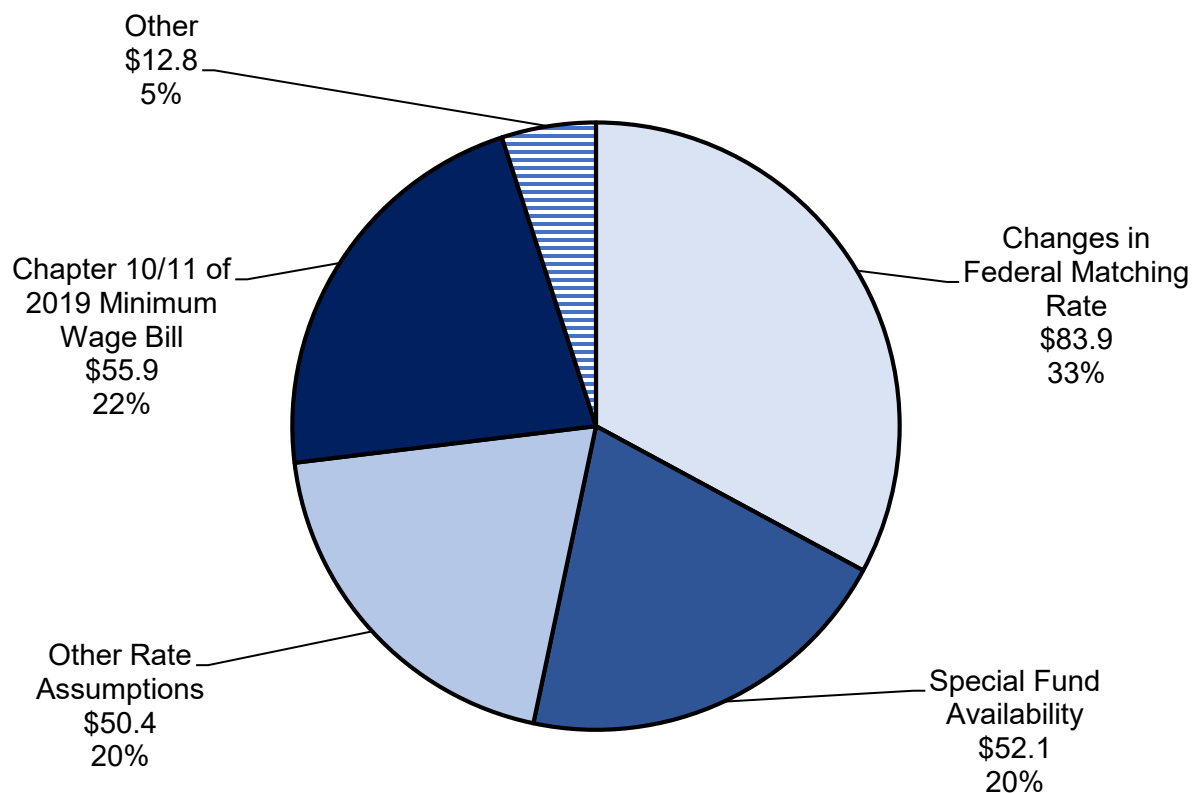
- The baseline assumes rate increases of 4.0% for behavioral health services and other Medicaid providers rates mandated by Chapters 10 and 11 of 2019, 2% for regulated services, and the impact of the calendar 2019 MCO rate increase (5.2% overall or 1.4% when adjusted for the impact of including HIV/AIDS drugs into rates).

- The federal matching rate for the Affordable Care Act (ACA) expansion population falls from 91.5% to 90.0% in fiscal 2021, resulting in an increase of \$54.2 million in general funds. The federal matching rate for the Maryland Children's Health Program falls from 79.4% to 67.9% in fiscal 2021, resulting in an increase of \$29.7 million in general funds.
- Special fund availability declines, primarily as a result of the loss of the one-time surplus in Rate Stabilization Funds and funds authorized in Chapter 16 of 2019 plus a planned \$25 million drop in the Medicaid deficit assessment.
- Enrollment growth is expected to be only 1.9% in fiscal 2020 over fiscal 2019, driven by the TMA change. Growth is estimated to slow to 0.5% in fiscal 2021 with total enrollment of just over 1.4 million.
- It should be noted that the baseline assumes that the insurer fee levied under the ACA will not be imposed in calendar 2020, although no action has yet been taken by the U.S. Congress to prevent the imposition. If the fee is imposed, the Medicaid budget will grow by an estimated \$29.5 million in general funds in fiscal 2020 and \$59 million in general funds in fiscal 2021.

### Medicaid – Why General Funds Grow

Fiscal 2020-2021

(\$ in Millions)



## State Reserve Fund Activity

Fiscal 2020 and 2021

(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>
<b>Estimated Balances June 30, 2019</b>	<b>\$876.5</b>	<b>\$0.0</b>	<b>\$2.5</b>
Fiscal 2020 Appropriations	\$443.8	\$215.9	\$0.5
Transfer to General Fund	-158.0	-105.9	0.0
Restrict for Legislative Initiatives	0.0	0.0	0.0
DHCD BusinessWorks Loan Repayment	0.0	0.0	0.9
Transfer to Program Open Space	0.0	0.0	0.0
Grant to WMATA	0.0	-110.0	0.0
Interest Earnings	20.9	0.0	0.0
<b>Estimated Balances June 30, 2020</b>	<b>\$1,183.2</b>	<b>\$0.0</b>	<b>\$3.9</b>
Fiscal 2021 Appropriations	\$291.4	\$294.2	\$0.0
Transfer to General Fund	-352.9	0.0	0.0
Pension Sweeper	0.0	-25.0	0.0
OPEB Liability Sweeper	0.0	-25.0	0.0
Local Income Tax Reserve Repayment	0.0	-33.3	0.0
Transfer to Program Open Space	0.0	-43.9	0.0
Grant to WMATA	0.0	-167.0	0.0
Interest Earnings	21.7	0.0	0.0
<b>Estimated Balances June 30, 2021</b>	<b>\$1,143.5</b>	<b>\$0.0</b>	<b>\$3.9</b>
<b>Percent of Revenues in Reserve</b>	<b>6.0%</b>		

DHCD: Department of Housing and Community Development

OPEB: Other Post Employment Benefits

WMATA: Washington Metropolitan Area Transit Authority

**The Blueprint for Maryland's Future  
Spending in the Department of Legislative Services  
Baseline Forecast  
Fiscal 2020-2022**

	<u><b>2020</b></u>	<u><b>2021</b></u>	<u><b>2022</b></u>
Teacher Salary Incentive Grants	\$75.0	\$75.0	\$75.0
Special Education	65.5	65.5	65.5
Concentration of Poverty School Grants	54.5	58.7	58.7
The Blueprint for Maryland's Future Fund		58.0	90.0
Full-day Prekindergarten for Four-year-olds	31.7	52.9	52.9
Transitional Supplemental Instruction	23.0	23.0	23.0
Declining Enrollment Grants		10.1	
Teacher Collaborative Grants	2.5	2.5	2.5
Mental Health Coordinators	2.0	2.0	2.0
Other	0.8	0.5	0.5
<b>Subtotal</b>	<b>\$255.0</b>	<b>\$348.2</b>	<b>\$370.0</b>
Inspector General	\$0.7	\$0.8	\$0.8
<b>Total</b>	<b>\$255.7</b>	<b>\$349.0</b>	<b>\$370.8</b>

**Funding Sources for The Blueprint for Maryland's Future  
Fiscal 2020-2022**

	<u><b>2020</b></u>	<u><b>2021</b></u>	<u><b>2022</b></u>
Education Trust Fund (ETF) Lock Box	\$100.8	\$225.8	\$350.8
The Blueprint for Maryland's Future Fund	134.5	65.5	
Corporate Filing Fees		36.0	
General Funds*	4.6	5.7	4.0
Additional ETF	15.8	16.0	16.2
	<b>\$255.7</b>	<b>\$349.0</b>	<b>\$371.0</b>

**Other Dedicated Funds: Not Allocated in Baseline Forecast**

Marketplace Facilitators/Out-of-state Vendors	\$40.0	\$60.0	\$66.7
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\*Includes \$4 million of annual savings from dollars previously dedicated to Teacher Induction, Retention, and Advancement Pilot Program that were not needed for that purpose.





## **Part 5**

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### **State Employment and Employee Benefits**



## Major Baseline Position Changes Fiscal 2020-2021

<u>Department/Service Area</u>	<u>Leg. Approp. 2020</u>	<u>Baseline 2021</u>	<u>Change 2020-2021</u>
<b>Executive</b>			
Environment	893	916	23
Department of General Services	608	624	16
Department of Public Safety and Correctional Services	10,152	10,168	16
State Police	2,445	2,458	13
Agriculture	354	362	8
Health	6,415	6,422	7
Labor	1,415	1,407	-8
Governor's Office of Crime Control and Prevention	144	132	-12
Other Executive	26,685	26,703	18
<b>Executive Subtotal</b>	<b>49,111</b>	<b>49,192</b>	<b>81</b>
Higher Education	26,829	27,327	498
Judiciary	4,048	4,075	27
Legislature	756	756	0
<b>Total</b>	<b>80,745</b>	<b>81,350</b>	<b>605</b>

### Higher Education

- **USM:** 441 flex positions; 255 are State-supported, 71.5 of which are contractual conversions; 186 are non-State supported, 70.5 of which are contractual conversions.
- **Morgan State:** 57 new State-supported positions; 47 are contractual conversions, and 10 are new positions for its Cybersecurity Program

### Legislation

The fiscal 2021 baseline includes 104.7 new positions across the State in order to implement legislation passed in the 2019 session, including:

- **Judiciary:** 27 new positions related to new judgeships required by Chapter 749 of 2019.
- **Environment:** 23.5 new positions for various legislation, the largest portion of which is 15 for the Maryland Healthy Children Act (Chapter 341 of 2019)
- **DPSCS:** 15 new positions, including 14 at the Baltimore Pretrial Complex to implement the Opioid Use Disorder Treatment Pilot Program (Chapter 532 of 2019).

**Analysis of Vacancies and Turnover Rate**  
**Executive Branch, Excluding Higher Education**  
**Fiscal 2020 Legislative Appropriation Compared to October 2019 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>
<b>Largest Six State Agencies</b>						
Public Safety and Correctional Services	10,152	12.2%	1,239	2,088	849	20.6%
Human Services	6,120	7.1%	434	577	143	9.4%
Health	6,415	8.8%	563	785	222	12.2%
Police and Fire Marshal	2,445	6.4%	156	246	90	10.1%
Juvenile Services	1,987	7.2%	144	208	64	10.5%
Transportation	9,060	4.8%	435	594	159	6.6%
<b>Subtotal</b>	<b>36,346</b>	<b>7.2%</b>	<b>2,971</b>	<b>4,498</b>	<b>1,527</b>	<b>12.4%</b>
<b>Other Executive</b>						
Legal (Excluding Judiciary)	1,485	6.2%	92	114	22	7.7%
Executive and Administrative Control	1,608	4.6%	75	182	107	11.3%
Financial and Revenue Administration	2,097	5.7%	120	196	76	9.4%
Budget and Management and DoIT	543	5.4%	29	78	49	14.4%
Retirement	189	6.8%	13	20	7	10.6%
General Services	608	5.9%	36	63	27	10.3%
Natural Resources	1,348	5.5%	74	120	46	8.9%
Agriculture	354	6.8%	24	33	9	9.3%
Labor	1,415	6.2%	87	174	86	12.3%
MSDE and Other Education	1,991	6.0%	120	189	69	9.5%
Housing and Community Development	331	5.6%	19	22	4	6.7%
Commerce	188	5.4%	10	23	13	12.2%
Environment	893	6.5%	58	100	42	11.2%
<b>Subtotal</b>	<b>13,051</b>	<b>5.8%</b>	<b>756</b>	<b>1,313</b>	<b>557</b>	<b>10.1%</b>
<b>Executive Branch Subtotal</b>	<b>49,336</b>	<b>7.4%</b>	<b>3,298</b>	<b>5,959</b>	<b>2,661</b>	<b>11.2%</b>

DoIT: Department of Information Technology  
MSDE: Maryland State Department of Education

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

## **Part 6**

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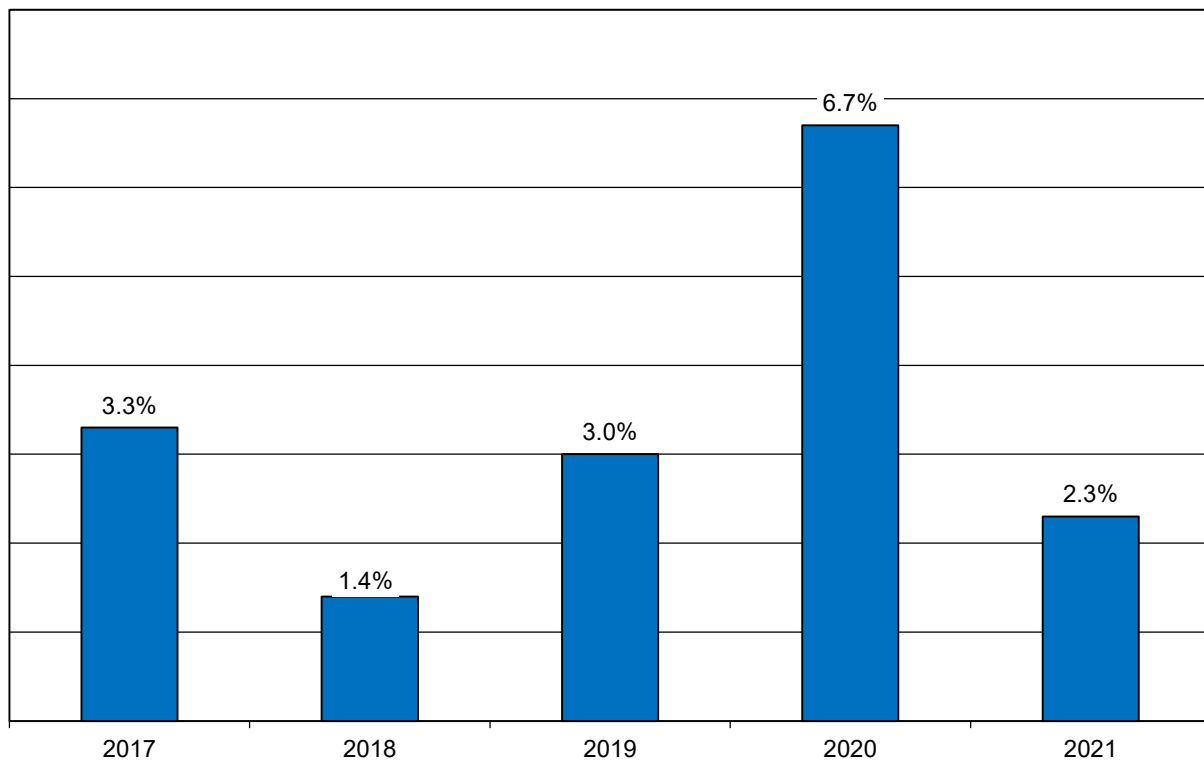
### **Local Government Assistance**



### State Aid to Local Governments (\$ in Millions)

	<u>FY 2021 State Aid Amount</u>	<u>Percent of Total</u>	<u>FY 2021 Aid Change</u>	<u>Percent Change</u>
Public Schools	\$7,106.4	85.1%	\$104.9	1.5%
Libraries	84.6	1.0%	0.7	0.8%
Community Colleges	367.4	4.4%	36.4	11.0%
Local Health Departments	56.6	0.7%	1.2	2.2%
Counties/Municipalities	739.8	8.9%	40.9	5.9%
<b>Total</b>	<b>\$8,354.9</b>	<b>100.0%</b>	<b>\$184.0</b>	<b>2.3%</b>

### Annual Change in State Aid to Local Governments Fiscal 2017-2021



**State Aid by Major Programs**  
**Fiscal 2019-2021**  
**State Funds**  
(\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Difference</u>	<u>Percent Difference</u>
<b>Public Schools</b>					
Foundation Program	\$3,056.2	\$3,140.4	\$3,198.8	\$58.4	1.9%
Geographic Cost Index	141.6	145.5	148.2	2.7	1.9%
NTI Education Grant	62.5	65.3	58.8	-6.5	-9.9%
Declining Enrollment Grant	18.7	18.9	10.1	-8.8	-46.3%
Foundation – Special Grants	13.0	11.9	0.0	-11.9	-100.0%
Kirwan Blueprint Funding	0.0	251.6	335.1	83.5	33.2%
Compensatory Aid	1,308.3	1,330.4	1,349.8	19.3	1.5%
Student Transportation	282.6	303.0	308.1	5.1	1.7%
Special Education – Formula Aid	290.8	303.3	308.1	4.9	1.6%
Special Education – Nonpublic	123.5	121.5	118.9	-2.6	-2.1%
Limited English Proficiency Grants	288.0	311.1	323.4	12.3	3.9%
Guaranteed Tax Base	48.2	43.7	44.1	0.4	0.9%
Head Start/Prekindergarten	29.5	50.8	29.6	-21.1	-41.6%
Other Education Programs	138.8	136.2	137.8	1.6	1.2%
<b>Subtotal Direct Aid</b>	<b>\$5,801.6</b>	<b>\$6,233.6</b>	<b>\$6,370.8</b>	<b>\$137.2</b>	<b>2.2%</b>
Retirement Payments	\$732.9	\$767.9	\$735.6	-\$32.3	-4.2%
<b>Total Public School Aid</b>	<b>\$6,534.5</b>	<b>\$7,001.5</b>	<b>\$7,106.4</b>	<b>\$104.9</b>	<b>1.5%</b>
<b>Libraries</b>					
Library Aid Formula	\$41.9	\$43.2	\$44.1	\$0.9	2.0%
State Library Network	18.4	19.1	19.5	0.4	2.3%
<b>Subtotal Direct Aid</b>	<b>\$60.3</b>	<b>\$62.3</b>	<b>\$63.6</b>	<b>\$1.3</b>	<b>2.1%</b>
Retirement Payments	\$20.6	\$21.7	\$21.0	-\$0.7	-3.1%
<b>Total Library Aid</b>	<b>\$81.0</b>	<b>\$84.0</b>	<b>\$84.6</b>	<b>\$0.7</b>	<b>0.8%</b>
<b>Community Colleges</b>					
Community College Formula	\$240.4	\$249.7	\$285.8	\$36.0	14.4%
Other Programs	37.9	35.6	36.6	0.9	2.6%
<b>Subtotal Direct Aid</b>	<b>\$278.3</b>	<b>\$285.4</b>	<b>\$322.3</b>	<b>\$37.0</b>	<b>13.0%</b>
Retirement Payments	\$44.1	\$45.6	\$45.1	-\$0.6	-1.3%
<b>Total Community College Aid</b>	<b>\$322.4</b>	<b>\$331.0</b>	<b>\$367.4</b>	<b>\$36.4</b>	<b>11.0%</b>
<b>Local Health Grants</b>	<b>\$52.7</b>	<b>\$55.4</b>	<b>\$56.6</b>	<b>\$1.2</b>	<b>2.2%</b>
<b>County/Municipal Aid</b>					
Transportation	\$242.1	\$259.4	\$267.9	\$8.5	3.3%
Public Safety	133.9	139.8	164.1	24.3	17.4%
Disparity Grant	140.8	146.2	150.6	4.4	3.0%
Gaming Impact Grants	92.9	93.7	95.4	1.7	1.8%
Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	32.0	32.2	34.2	2.0	6.2%
<b>Total County/Municipal Aid</b>	<b>\$669.4</b>	<b>\$698.9</b>	<b>\$739.8</b>	<b>\$40.9</b>	<b>5.9%</b>
<b>Total State Aid</b>	<b>\$7,659.9</b>	<b>\$8,170.8</b>	<b>\$8,354.9</b>	<b>\$184.0</b>	<b>2.3%</b>

NTI: net taxable income

Source: Department of Legislative Services



## **Part 7**

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### **Transportation**

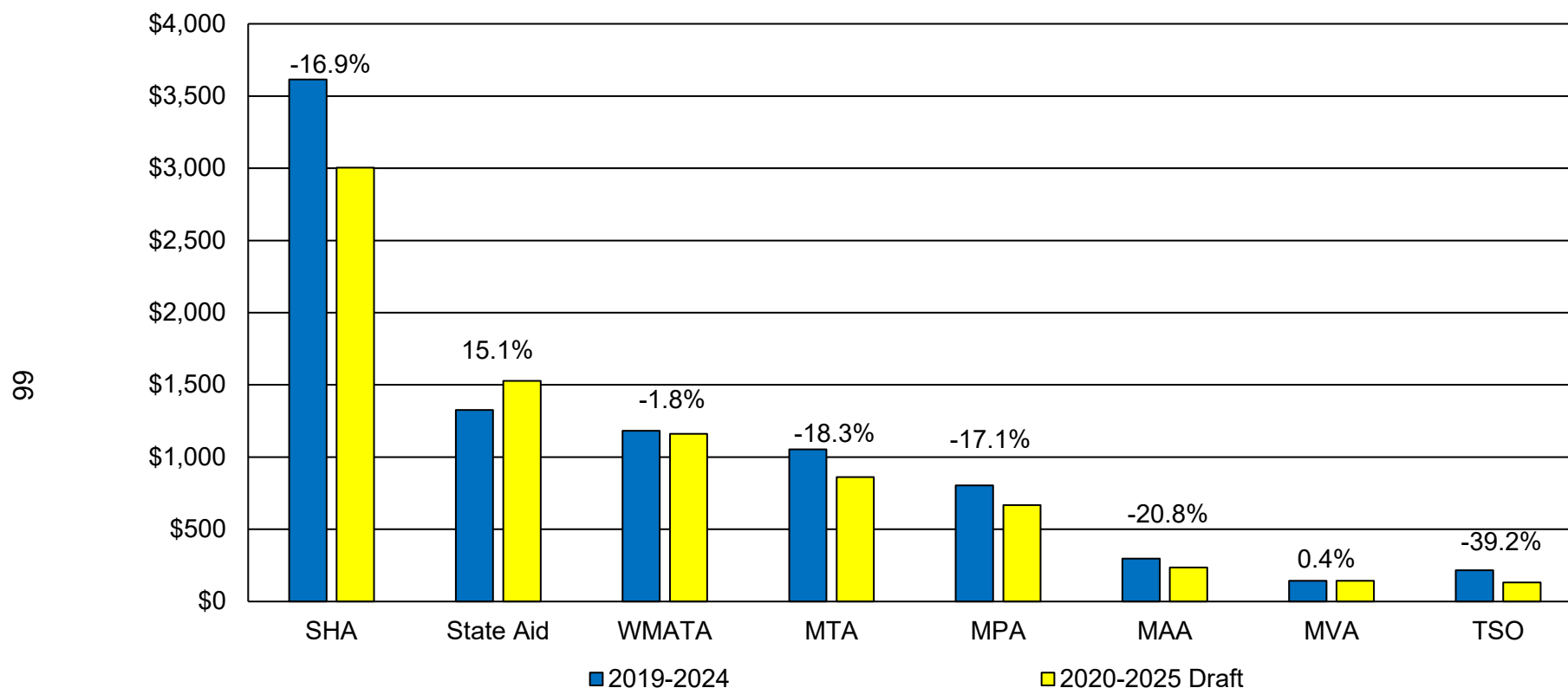


**Transportation Trust Fund Forecast Comparison**  
**Fiscal 2019-2024 v. Fiscal 2020-2025 Six-year Totals**  
(\$ in Millions)

	<b><u>MDOT Final</u></b> <b><u>2019-2024</u></b>	<b><u>MDOT Draft</u></b> <b><u>2020-2025</u></b>	<b><u>Final/</u></b> <b><u>Draft</u></b> <b><u>Variance</u></b>	<b><u>DLS</u></b> <b><u>2020-2025</u></b>	<b><u>MDOT/DLS</u></b> <b><u>Variance</u></b>
<b>Revenues</b>					
<b>Taxes and Fees</b>					
Motor Vehicle Fuel Taxes	\$7,350	\$7,541	\$191	\$7,377	-\$164
Titling Taxes	5,655	5,792	137	5,874	82
Sales Tax – Rental Vehicles	204	208	4	208	0
Corporate Income Tax	1,208	1,265	57	1,265	0
Registration Fees	2,439	2,488	49	2,488	0
Miscellaneous Motor Vehicle Fees	1,825	1,827	2	1,827	0
<b>Subtotal – Taxes and Fees</b>	<b>\$18,681</b>	<b>\$19,121</b>	<b>\$441</b>	<b>\$19,040</b>	<b>-\$82</b>
<b>Other Revenues</b>					
Operating Revenues	\$3,031	\$3,122	\$91	\$3,122	\$0
Federal Operating Assistance	626	633	7	633	0
Bond Proceeds/Premiums	2,920	2,155	-765	1,947	-208
Other	472	395	-77	395	0
Change in Fund Balance	-33	69	102	144	75
<b>Subtotal – Other Revenues</b>	<b>\$7,016</b>	<b>\$6,374</b>	<b>-\$642</b>	<b>\$6,241</b>	<b>-\$133</b>
<b>Total Revenues</b>	<b>\$25,697</b>	<b>\$25,495</b>	<b>-\$201</b>	<b>\$25,281</b>	<b>-\$215</b>
<b>Expenditures</b>					
Debt Service	\$2,589	\$2,670	\$81	\$2,641	-\$29
Operating Budget	13,568	14,218	650	14,620	403
P3 Availability Payments	304	424	120	424	0
Deductions to Other Agencies	441	449	8	449	0
Highway User Revenues and Local Grants	1,507	1,527	20	1,528	2
State Capital Program	7,289	6,208	-1,081	5,618	-590
<b>Total Expenditures</b>	<b>\$25,697</b>	<b>\$25,495</b>	<b>-\$201</b>	<b>\$25,281</b>	<b>-\$215</b>

DLS: Department of Legislative Services  
MDOT: Maryland Department of Transportation  
P3: public-private partnership

**Consolidated Transportation Programs – Special Funds by Mode**  
**Fiscal 2019-2024 v. Fiscal 2020-2025 Draft**  
**Six-year Funding and Percent Change between Programs**  
**(\$ in Millions)**



MAA: Maryland Aviation Administration  
 MPA: Maryland Port Administration  
 MTA: Maryland Transit Administration  
 MVA: Motor Vehicle Administration

SHA: State Highway Administration  
 TSO: The Secretary's Office  
 WMATA: Washington Metropolitan Area Transit Authority

Note: Does not include general funds programmed to support the dedicated capital grant to WMATA.

## **Part 8**

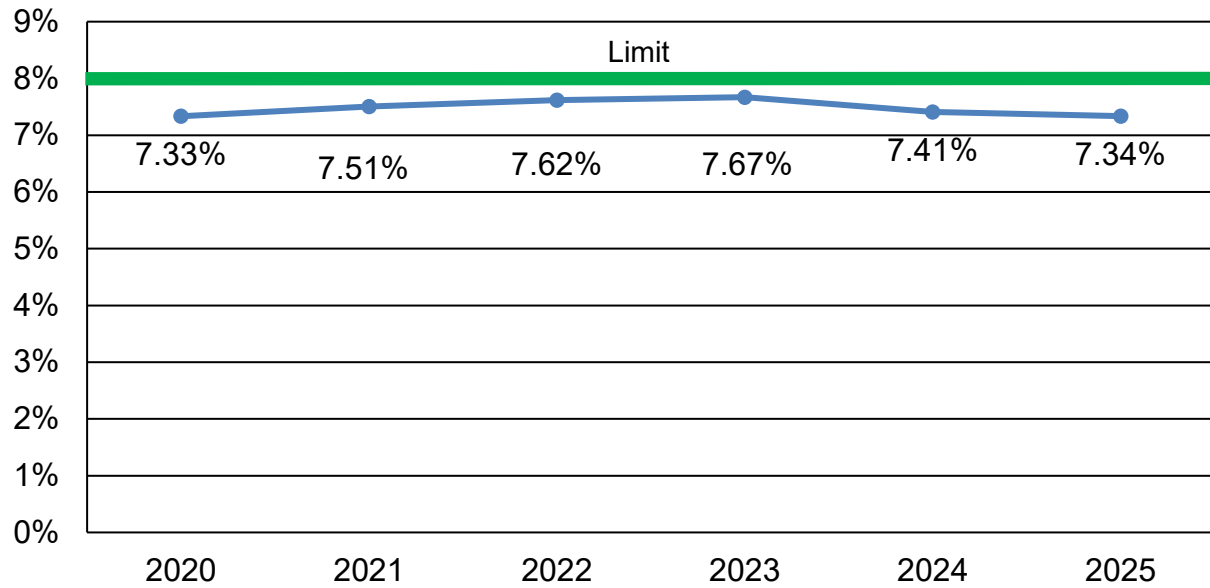
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### **Capital Program and State Debt Policy**

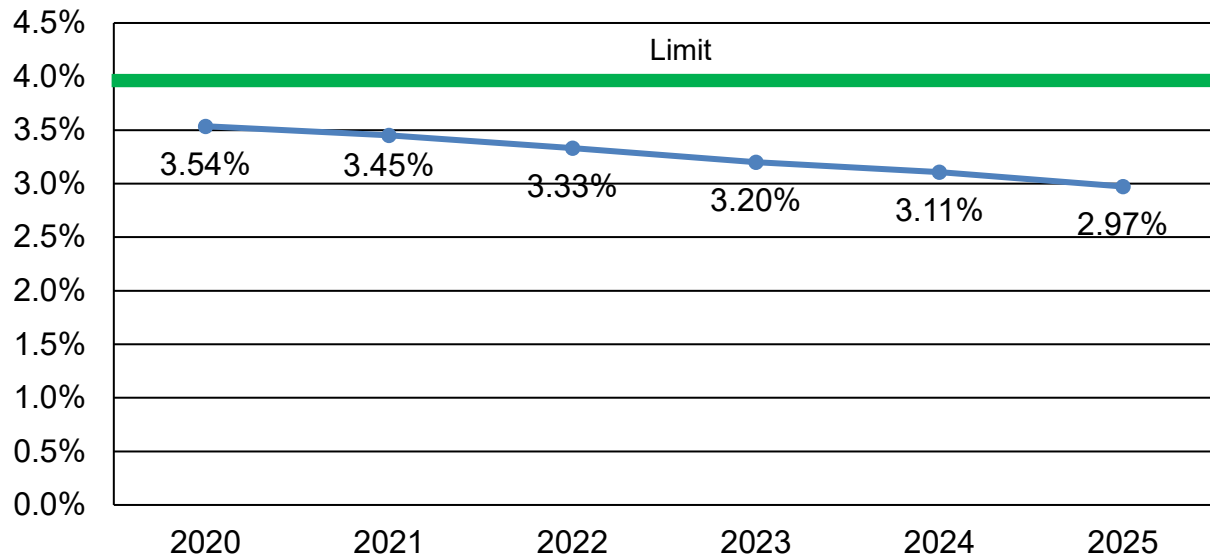


# State Debt Policy – Affordability Ratios

**State Debt Service to State Revenues**  
**Fiscal 2020-2025**



**State Debt Outstanding to State Personal Income**  
**Fiscal 2020-2025**



Source: Bureau of Revenue Estimates; Department of Legislative Services

## 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 from \$246 million in fiscal 2021 to \$518 million in fiscal 2025, ending the previous period of high premiums and low general fund appropriations.
- Out-year general fund appropriations plateau at approximately 2.4% of general fund revenues and 35% of debt service costs, which is consistent with historical averages.

### Annuity Bond Fund Forecast Fiscal 2020-2025 (\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
<b>Special Fund Revenues</b>						
State Property Tax Receipts	\$862	\$884	\$900	\$918	\$936	\$955
Bond Sale Premiums <sup>1</sup>	157	89	21	0	0	0
Other Revenues	2	2	2	2	2	2
ABF Fund Balance Transferred from Prior Year	121	124	20	10	1	1
<b>Subtotal Special Fund Revenues</b>	<b>\$1,142</b>	<b>\$1,099</b>	<b>\$943</b>	<b>\$930</b>	<b>\$940</b>	<b>\$958</b>
General Funds	\$287	\$246	\$440	\$482	\$506	\$518
Transfer Tax Special Funds <sup>2</sup>	7	7	7	7	7	7
Federal Funds <sup>3</sup>	11	10	9	8	7	5
<b>Total Revenues</b>	<b>\$1,447</b>	<b>\$1,362</b>	<b>\$1,399</b>	<b>\$1,428</b>	<b>\$1,460</b>	<b>\$1,488</b>
 <b>Debt Service Expenditures</b>	 <b>\$1,323</b>	 <b>\$1,342</b>	 <b>\$1,389</b>	 <b>\$1,427</b>	 <b>\$1,459</b>	 <b>\$1,487</b>
 <b>ABF End-of-year Fund Balance</b>	 <b>\$124</b>	 <b>\$20</b>	 <b>\$10</b>	 <b>\$1</b>	 <b>\$1</b>	 <b>\$1</b>

ABF: Annuity Bond Fund

<sup>1</sup> Estimated bond sale premiums total \$57.6 million in March 2020, \$50.9 million in summer 2020, \$37.8 million in March 2021, and \$21 million in summer 2021.

<sup>2</sup> This supports \$70.0 million of general obligation bonds issued in 2010 for Program Open Space.

<sup>3</sup> This includes federal interest subsidies for Build America Bonds, Qualified Zone Academy Bonds, Qualified School Construction Bonds, and Qualified Energy Conservation Bonds.

Source: Department of Legislative Services, October 2019



# Capital Program

## Commitments Exceed Fully Allocated Authorization Levels

- The *Capital Improvement Program* (CIP) fully allocates the Capital Debt Affordability Committee recommended general obligation (GO) bond authorization level through the planning period. However, additional commitments made by the General Assembly and the potential use of GO bonds to fund general fund mandates in the capital program exceed programmed funding levels by as much as \$308 million for fiscal 2021.

## Commitments in Excess of Programmed GO Bond Authorization Levels Fiscal 2021-2024 (\$ in Millions)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<b>CDAC Recommended GO Bond Authorization Levels Fully Programmed in 2019 CIP</b>	<b>\$1,095.000</b>	<b>\$1,105.000</b>	<b>\$1,115.000</b>	<b>\$1,125.000</b>
<b>Additional Commitments</b>				
Projects Accelerated/Enhanced/Deferred	\$23.600	\$15.500	-\$17.400	-\$3.100
Mandates	12.000	12.000	12.000	12.000
Projects Preauthorized	65.7	-0.616	0.000	0.000
Expressions of Intent – Fund Public School Construction at \$400 million annually (Chapter 14 of 2018) and Fund UMMS Cancer Treatment and Organ Transplant Center at \$175 million (Chapter 14 of 2019)	92.500	92.500	92.500	92.500
Legislative – Local Initiatives	15.000	15.000	15.000	15.000
<b>Subtotal</b>	<b>\$208.800</b>	<b>\$134.384</b>	<b>\$102.100</b>	<b>\$116.400</b>
Potential Bond Replacement for General Fund PAYGO (mandates and POS Repayments)	\$99.170	\$58.500	\$37.300	\$33.200
<b>Total</b>	<b>\$307.970</b>	<b>\$192.884</b>	<b>\$139.400</b>	<b>\$149.600</b>

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

PAYGO: pay-as-you-go  
POS: Program Open Space  
UMMS: University of Maryland Medical System

Note: Estimated out-year funding impacts for accelerated projects assumes that items will be funded in useable phases such that no gaps exist in estimated project delivery timelines. Estimates for deferred projects reflect one-year deferral and funding in useable phases such that no gaps exist in the timing of funding and project delivery.

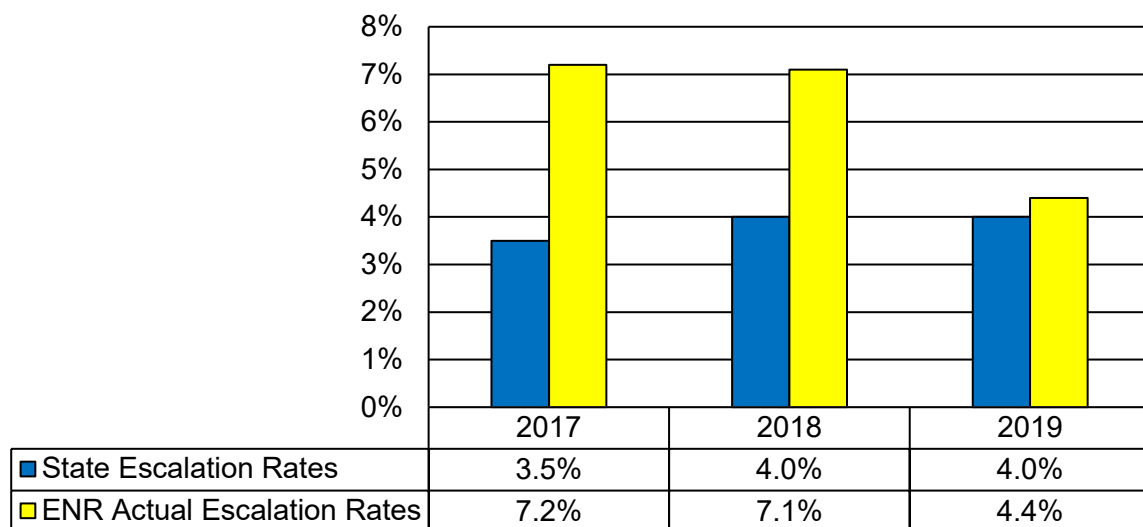
Source: 2019 *Capital Improvement Program*; Department of Legislative Services

## Impact of Construction Inflation

- **Actual Escalation Rates Exceed Budgeted Levels:** Recent measures of year-over-year construction escalation have exceeded levels used by the Department of Budget and Management (DBM). DBM is considering increasing the calendar 2020 escalation rate from the planned 4% rate to 9% to more accurately reflect project costs.
- **State-owned Projects:** This adjustment could add as much as \$30 million in costs annually for projects currently programmed in the CIP.
- **Grant and Loan Programs:** The impact on grant and loan programs, including the Public School Construction Program, means that less can be done with the level of funds currently programmed in the CIP.

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### State Escalation Projections and Actual Building Cost Index Escalation Calculations from Engineering News Record Calendar 2017-2019



ENR: Engineering News Record

Note: Calendar 2019 ENR escalation rate as of June 2019 (July through September rates are preliminary).

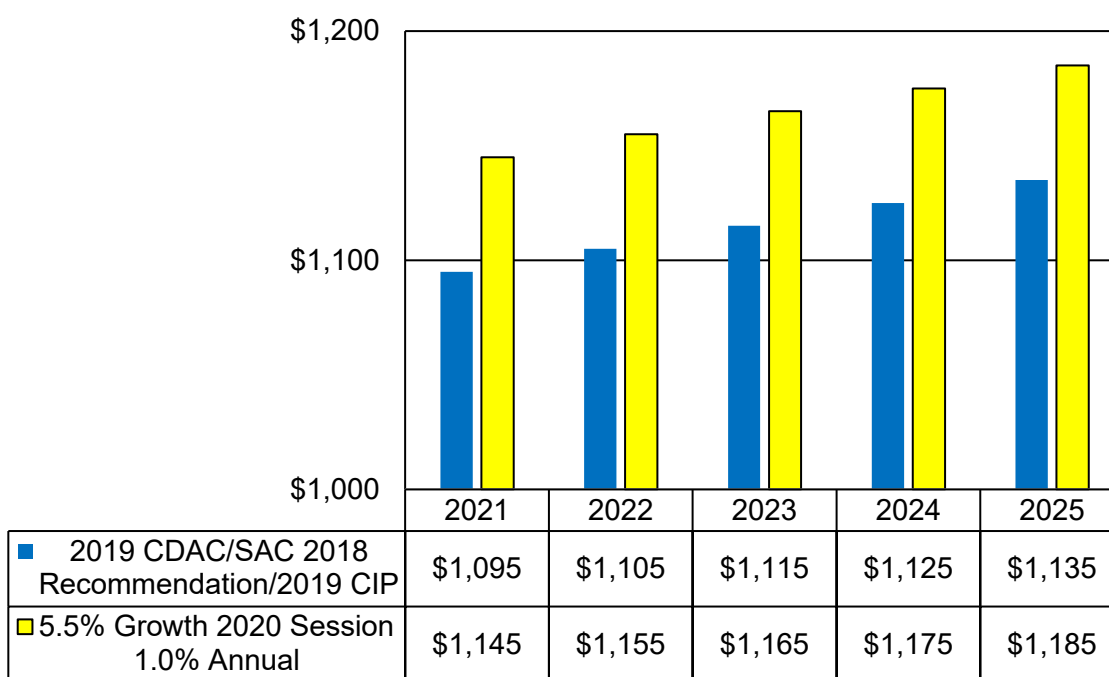
Source: Engineering News-Record Building and Construction Cost Indexes – City Cost Index Baltimore City

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- **Impact of Construction Inflation on Bond Authorization Levels:** GO bond authorization levels are programmed to increase 1% annually. However, year-over-year construction inflation has increased at an average annual rate of 6.5% since the beginning of calendar 2017, and while the growth in construction inflation is showing signs of leveling off in the past three months, the funding levels as programmed are not keeping pace with rising construction costs.
- The committee may wish to consider rebasing authorization levels beginning in fiscal 2021 to account for the high level of construction inflation in 2017 and 2019 and to grow authorizations in subsequent years by 1% annually off of the new base.

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### Construction Inflation and GO Bond Authorization Levels Fiscal 2021-2025 (\$ in Millions)



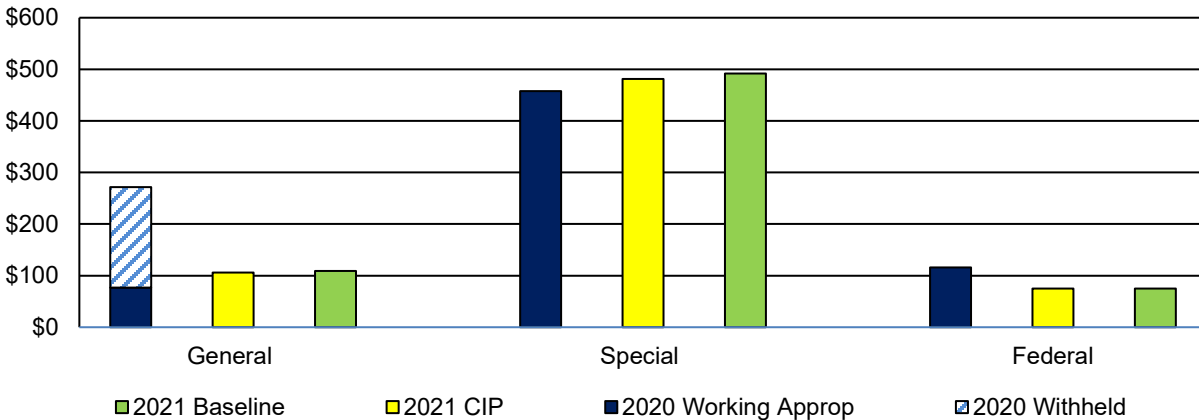
CDAC: Capital Debt Affordability Committee  
 CIP: *Capital Improvement Program*  
 GO: general obligation  
 SAC: Spending Affordability Committee

Source: Engineering News Record Building Cost Index

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## Capital Program – Pay-as-you-go Outlook

### Capital PAYGO Program Fiscal 2020-2021 (\$ in Millions)



CIP: *Capital Improvement Program*

PAYGO: *pay-as-you-go*

Note: Fiscal 2020 general fund working appropriation is adjusted to reflect \$194.5 million of withheld PAYGO funds. Fiscal 2021 general fund PAYGO data includes \$38.2 million transfer tax repayment budgeted in the Reserve Fund.

- General Funds:** The fiscal 2021 baseline of \$109.2 million is \$33.2 million more than the fiscal 2020 working appropriations after accounting for \$194.5 million of withheld fiscal 2020 appropriations. Most of what is included in the baseline are mandates. Page 23 illustrates the pay-as-you-go (PAYGO) general fund forecast through fiscal 2025 as compared to what is programmed in the 2019 *Capital Improvement Program* (CIP).
- Special Funds:** The 2021 baseline is \$39.6 million more than the fiscal 2020 working appropriation. Greater use of the Maryland Water Quality Revolving Loan Fund (the baseline assumes \$111.6 million compared to \$80 million fiscal 2020 legislative appropriation) and increased amounts of special funds attributable to the transfer tax repayment mandated for fiscal 2021 are offset by the removal of \$22 million of mortgage foreclosure and loan servicing settlement funds budgeted in several Department of Housing and Community Development programs in fiscal 2020.
- Federal Funds:** The reduction in federal PAYGO funds is consistent with the 2019 CIP which does not include funds for Department of Military and Department of Veterans Affairs projects.

DHCD: Department of Housing and Community Development  
DNR: Department of Natural Resources  
MDE: Maryland Department of the Environment  
PAYGO: pay-as-you-go