



Spending Affordability Committee

2020 Interim Report

Annapolis, Maryland
December 2020

Contributing Staff

Writers

Hiram L. Burch, Jr.
Patrick S. Frank
Matthew D. Klein
Jason A. Kramer
Steven D. McCulloch
Simon G. Powell
Rebecca J. Ruff
Theresa M. Tuszynski
Tonya D. Zimmerman

Reviewers

Ryan Bishop
Victoria L. Gruber
David C. Romans

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
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Annapolis, Maryland 21401

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MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 16, 2020

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 2020 interim. These recommendations were adopted by the committee at its meeting on December 15, 2020. 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 2022 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.

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 blue ink, appearing to be "MAJ".

Delegate Michael A. Jackson
Presiding Chair

MAJ:CJZ/JAK/mrm

Enclosure

A handwritten signature in blue ink, appearing to be "CJZ".

Senator Craig J. Zucker
Senate Chair



MARYLAND GENERAL ASSEMBLY
SPENDING AFFORDABILITY COMMITTEE

December 16, 2020

The Honorable Bill Ferguson, Co-Chair
The Honorable Adrienne Jones, Co-Chair
Members of the Legislative Policy Committee

Dear Colleagues:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2020 interim. These recommendations were adopted by the committee at its meeting on December 15, 2020. 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.

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Presiding Chair

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Senator Craig J. Zucker
Senate Chair

MAJ:CJZ/JAK/mrm

Enclosure

**Maryland General Assembly
Spending Affordability Committee
2020 Interim
Membership Roster**

**Senator Craig J. Zucker, Senate Chair
Delegate Michael A. Jackson, House Chair**

Senators

Pamela Beidle
George C. Edwards
Bill Ferguson
Melony Griffith
Guy Guzzone
Nancy J. King
Thomas V. Mike Miller, Jr.
Douglas J. J. Peters
Jim Rosapepe
Bryan W. Simonaire

Delegates

Ben Barnes
Wendell R. Beitzel
Adrienne A. Jones
Anne R. Kaiser
Nicholaus R. Kipke
Eric G. Luedtke
Maggie McIntosh
Kirill Reznik
Sheree Sample-Hughes
Alonzo Washington

Citizens Advisory Committee

John L. Bohanan

Committee Staff

Jason A. Kramer

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2020 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

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 37 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 of 2002 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

In July 2019, the U.S. economic expansion that began after the Great Recession became the longest in post-World War II history, exceeding the 120 months of the 1990s expansion. The expansion ended abruptly in February 2020 with the outbreak of the COVID-19 pandemic. In Maryland, the impact of the pandemic-induced recession was similar to the country as a whole. Between February and April, the State saw employment fall by 388,000 jobs, or almost 14%, while the unemployment rate jumped from 3.3% to 10.1%. In the second quarter (April to June), Maryland wage income was 3.8% below 2019, while total personal income was up 7.7% due to federal fiscal support.

2020 Spending Affordability Committee Report

Job losses were most acute in the leisure and hospitality sector, which accounted for around 10% of pre-pandemic employment but experienced almost 36% of the jobs lost between February and April. The sector, which includes restaurants, hotels, recreation, and entertainment venues, is among the lowest paid with an average wage less than 40% of the economy-wide average. Leisure and hospitality employment fell by almost half, or 138,000 jobs, between February and April.

Between April and October, the State added 206,300 jobs, and the unemployment rate fell to 7.8%. Leisure and hospitality employment regained almost two-thirds of the jobs lost in the spring but remains below the February level by about 50,000 jobs. Overall, Maryland employment is still down 182,000 jobs, and the pace of job growth has slowed. Maryland is not projected to reach the February peak employment level until the fourth quarter of 2022.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2020. The State contracts with several private economic forecasting companies that provide estimates nationally and for Maryland. The BRE September economic outlook was based on the forecasts from IHS Markit. In December 2020, BRE raised its estimate of 2020 wage growth from a decline of 0.7% to an increase of 0.5% based on new data for the second quarter that was better than projected in September. The 2020 estimated personal income growth was reduced from 5.7% to 4.9% based on removing the assumption that there would be additional federal fiscal stimulus in calendar 2020.

The short-term economic outlook remains uncertain with the potential for further job losses and business failures. Until vaccines become widely available and the take up rate reaches the level necessary for herd immunity, economic and revenue uncertainty will continue.

Revenues

Fiscal 2020 general fund revenues were below the estimate by \$102 million, or 0.5%. General fund revenues totaled \$18.6 billion in fiscal 2020, an increase of 2.4% over fiscal 2019, while ongoing revenues grew 1.3%. The underattainment was driven primarily by the sales tax, which was under the estimate by \$317 million (6.4%) and fell 3.7% from fiscal 2019. Retail sales, especially at restaurants and bars, were most directly impacted by the pandemic. Sales decreased as a result of State-imposed closures on certain establishments and the general reluctance of consumers to spend time in enclosed spaces. In addition, consumer spending was directed toward essential goods such as groceries, the bulk of which are not subject to the sales tax. Spending also shifted increasingly to online establishments, and while some of the revenue from those sales goes to the general fund, a significant portion is distributed to the Blueprint Fund for education.

In September, BRE reduced its estimate for fiscal 2021 general fund revenues by \$672.6 million, or 3.5%. The personal income tax estimate was revised down by \$252.6 million (2.3%), while the sales tax was revised lower by \$416.2 million, or 8.3%. In December, BRE increased the general fund revenue estimate for fiscal 2021 by \$63.8 million, or 0.3%, in light of the revised economic assumptions and the year-to-date performance. BRE raised its general fund revenue estimate for fiscal 2022 by \$142.6 million (0.7%).

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2020, the committee is currently projecting an ending general fund balance of \$778 million at the close of fiscal 2021. This projected balance represents a remarkable level of resilience in the State's revenue attainment in both fiscal 2020 and 2021 year-to-date despite the significant impact of COVID-19 on some sectors of the State's economy. The projected balance also reflects higher than anticipated fiscal 2020 closeout reversions of \$342.1 million over the estimate, two rounds of Board of Public Works (BPW) reductions to fiscal 2020 and 2021 totaling \$515.6 million, and deficiencies that further reduce fiscal 2021 general fund spending by \$232.3 million.

Significant deficiencies include fiscal 2021 shortfalls in entitlement programs based on higher enrollment due to the economic dislocation caused by COVID-19. Similarly, the temporary closure of casinos toward the end of fiscal 2020 reduced Education Trust Fund revenues in both fiscal 2020 and 2021, requiring general fund backfilling. However, this additional spending is expected to be more than offset by general fund savings, primarily due to an enhanced federal match of 6.2% on eligible Medicaid expenses during the current national health emergency that was initially declared in March 2020 and is anticipated to continue through at least three quarters of fiscal 2021, as well as savings derived from the use of the Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to offset certain general fund expenses.

The baseline estimate for fiscal 2022 projects general fund growth of 14.1% over the fiscal 2021 legislative appropriation after adjusting for anticipated deficiencies and the fiscal 2021 reductions made by BPW. The fiscal 2022 general fund ending balance is projected to be a shortfall of \$632 million.

This significant general fund growth reflects a \$655.5 million increase in appropriations to the Reserve Fund and the assumption that the fiscal 2022 budget will need to backfill for \$913.4 million in one-time federal funding used in fiscal 2021. Outside of these areas, the largest area of general fund growth is in entitlement programs, \$226.4 million, most of which is in the Medicaid program. Growth in Medicaid is driven by enrollment, which is anticipated to be 138,000 higher than the fiscal 2020 actual, 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, although most of this decline is technical relating to the accounting of certain health premium taxes.

Aid to local governments grows by \$211.5 million, of which \$162.5 million is for education and library aid and \$49.1 million for community colleges. Growth in general fund education aid is much lower than expected due to low enrollment and modest inflation. Debt service costs increase by \$103.0 million, primarily because of recent advice from bond counsel limiting the amount of bond premiums that can be applied to debt service from each bond sale.

In terms of State agency spending, again excluding the need to backfill for one-time fiscal 2021 funding, the baseline assumes \$383.1 million in general fund growth. Major growth areas include personnel costs, excluding higher education, which account for \$143.7 million of this growth. The baseline assumes no general salary or increment increases in fiscal 2022 but does assume the annualization of the anticipated January 1, 2021 2.0% general salary increase as well as increases in health insurance and retirement costs. General fund expenditures also rise as the

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State is expected to have greater success in filling vacant positions.

Other significant State agency costs include general fund support (\$95.0 million) for the University System of Maryland (USM), Morgan State University, and St. Mary's College of Maryland to cover growth in base costs, primarily for personnel, that are not supported by tuition and Higher Education Investment Fund revenue; rate increases and placement costs in the Developmental Disabilities Administration (\$40.7 million); a substantial mandated increase in Sellinger aid for private colleges and universities (\$33.0 million); and an increase in funding required under the Justice Reinvestment Act to reflect a reduction in the sentenced prison population (\$17.7 million).

The committee projects that the State will close fiscal 2022 with a balance of \$1,188.5 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 2022 will be \$525.8 million.

As noted above, current baseline projections estimate the General Fund to have a cash shortfall of \$632 million at the close of fiscal 2022. The structural deficit is projected to be \$816 million. As shown in **Exhibit 1**, which provides both the cash and structural balance projections for the General Fund through fiscal 2026, the cash outlook is forecast to deteriorate in fiscal 2023 and 2024 before recovering slightly beginning in fiscal 2025. The structural outlook actually improves over the forecast period. However, it is important to note that revenue uncertainty, as well as the potential for overrides of vetoes from the 2020 session, could impact this outlook.

Exhibit 1 General Fund Budget Outlook Fiscal 2021-2026 (\$ in Millions)

	2021 Working <u>Approp.</u>	2022 <u>Baseline</u>	2023 <u>Est.</u>	2024 <u>Est.</u>	2025 <u>Est.</u>	2026 <u>Est.</u>
Cash Balance	\$778	-\$632	-\$851	-\$851	-\$709	-\$611
Structural Balance	-649	-816	-566	-581	-450	-339

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2021 session:

1. Operating Budget Spending Limit and Sustainability

Federal funding from the CARES Act has provided the State with a significant amount of general fund savings and resources to support the pandemic response and economic recovery. The potential also exists for additional federal stimulus to be provided in the future. However, as was experienced with the Great Recession, reliance on one-time federal funding to support ongoing expenses has the long-term effect of exacerbating the structural spending gap. The fiscal 2022 baseline estimate projects a structural deficit in excess of \$800 million. **To ensure that any future federal assistance does not harm the structural outlook of the State, the committee recommends that the fiscal 2022 budget limit the structural imbalance to no more than \$700 million and that federal stimulus funding not spent on one-time expenses be included in the structural calculation.**

2. Fund Balances

The committee projects a Rainy Day Fund balance at the beginning of fiscal 2022 of \$886.2 million, which is \$52.4 million less than 5% of estimated general fund revenues. The Governor will be required to include \$525.8 million for the Rainy Day Fund in the fiscal 2022 allowance, based on the unappropriated general fund surplus above \$10.0 million from the fiscal 2020 closeout, bringing the available fund balance to approximately 7.2% of estimated general fund revenues. With a cash shortfall projected for fiscal 2022, the committee recognizes that the State may need to spend a portion of the Rainy Day Fund balance to resolve the budget deficit but also notes that with significant cash shortfalls forecasted in subsequent years that the State must also take actions to better align revenues and spending and preserve some cash reserves for the future. **Therefore, the committee recommends:**

- **achieving a minimum ending fiscal 2022 general fund balance of at least \$100 million;**
- **maintaining a Rainy Day Fund balance of at least 5.0% of general fund revenues, barring any catastrophic reduction in estimated general fund revenues; to the extent that utilization of the Rainy Day Fund is necessary to address a budget shortfall or provide assistance to citizens and businesses adversely impacted by the recession, an aggressive repayment plan is necessary to rapidly restore the Rainy Day Fund to 5% of general fund revenues; and**
- **allocating discretionary federal stimulus funding that becomes available in a way that prioritizes one-time expenses and targets pandemic response and recovery efforts.**

Furthermore, to the extent that additional federal resources become available prior to or during the 2021 session, the committee recommends that the Governor allocate those funds through the budget process to ensure proper transparency and legislative input.

3. Capital Budget

A. General Obligation Debt

In its 2020 report, the Capital Debt Affordability Committee (CDAC) recommended a fiscal 2022 general obligation (GO) bond authorization level of \$1,095 million, the same amount authorized for fiscal 2021. The recommendation is \$10 million less than the amount planned for fiscal 2022 in both the 2019 CDAC and Spending Affordability Committee reports and reduces out-year planned authorizations by \$10 million annually while resuming a 1% annual authorization growth rate in fiscal 2023.

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. However, since the effect of reducing authorizations by \$10 million for each of the next five years has minimal effect on the debt affordability ratios and debt service costs through the planning period, and the General Assembly has adopted a policy of 1% annual increases since fiscal 2016, **the committee recommends the authorization of \$1,105 million in new GO bonds for the 2021 session. In addition, for planning purposes, out-year annual authorizations should continue to be limited to 1% growth, which keeps the State within the CDAC debt affordability criteria. The committee further recommends the use of \$31 million of bond premiums from the most recent GO bond sale 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 \$30 million in academic debt for fiscal 2022. This is \$2 million less than was authorized for fiscal 2021 but is consistent with the amount programmed in the 2020 *Capital Improvement Program* for fiscal 2022. 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 \$30 million in new academic revenue bonds may be authorized in the 2021 session for USM.

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates the net reduction of 493 positions in the fiscal 2022 budget primarily due to position eliminations by higher education and reductions made by BPW in July 2020. The resulting State workforce would be 80,369 in fiscal 2022.

In addition to the position reductions, the Administration has also implemented a hiring freeze on State agencies. The committees are concerned that the combination of position

2020 Spending Affordability Committee Report

reductions and continuing high vacancy levels in State government are impairing agency operations. The hiring freeze will only exacerbate operational challenges for State agencies. **The committee wishes to praise the exemplary efforts of all State employees during difficult times and note that all State positions are critical. The committee is especially concerned about the adequacy of staffing in functions critical to responding to the pandemic, including public health, public safety, unemployment insurance, and direct care nursing positions in State facilities. The committee recommends that the administration prioritize hiring staff at the Maryland Department of Labor to speed the processing of unemployment insurance claims and at the Maryland Department of Health to adequately staff State facilities and provide critical public health services.**

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 ¹	6.90%	803.0	6.87	800.0
2001 ²	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 ³	6.70%	1,037.1	6.69	1,036.3
2006 ³	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 ⁴	0.70%	145.7	0.19	39.2
2010 ⁴	0.00%	0.0	-	-626.9
2011	Reduce fiscal 2012 structural deficit by 33⅓%		36.90%/46.00% ⁵	
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 ⁶
2020	Maintain structural balance in fiscal 2021			160.2

¹2000 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%.

²Methodology revised effective with the 2001 session.

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

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

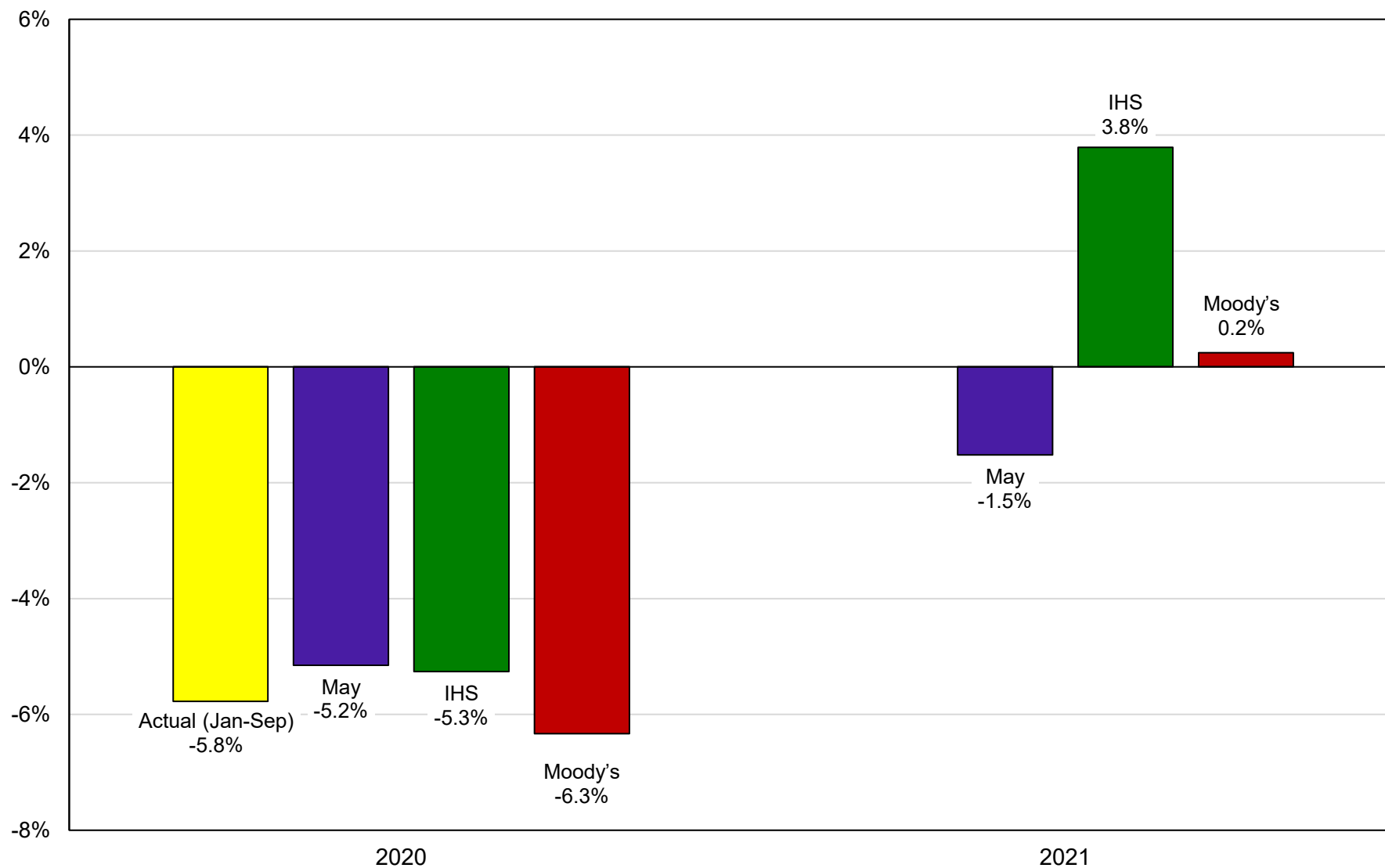
⁵Spending reduction/total reduction.

⁶Amount 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.

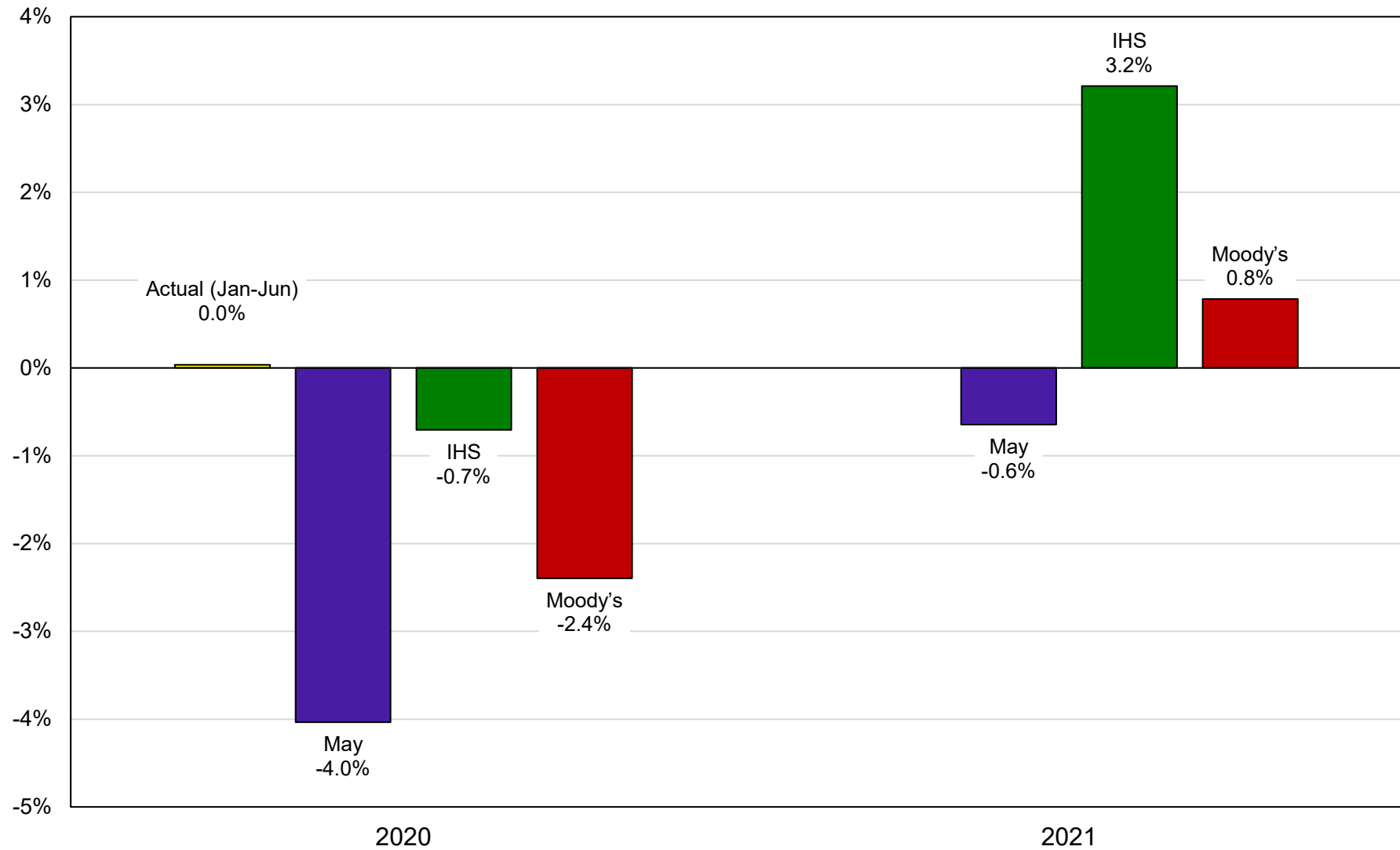
Part 1

Economic Outlook

Maryland Employment: Year-over-year Percent Change Calendar 2020-2021



Maryland Earnings: Year-over-year Percent Change Calendar 2020-2021



Note: Earnings includes the following components of personal income: wages; supplements to wages; proprietors income; and the residence adjustment.

Part 2

General Fund Revenues

Maryland General Fund Revenues – Fiscal 2020
(\$ in Millions)

	Official Estimate <u>March 2020</u>	Preliminary Estimate <u>May 2020</u>	<u>Actual</u>	Actual Over		Percent Change <u>vs. FY 2019</u>
				<u>March</u>	<u>May</u>	
Personal Income Tax	\$10,587	\$10,340	\$10,699	\$112	\$359	4.2%
Corporate Income Tax	1,011	883	1,052	41	169	1.8%
Sales and Use Tax	4,952	4,446	4,635	-317	189	-3.7%
State Lottery	531	510	549	18	39	-0.7%
Other	1,697	1,672	1,700	3	28	-1.7%
Ongoing General Funds	\$18,779	\$17,852	\$18,634	-\$144	\$782	1.3%
Total General Funds	\$18,736	\$17,812	\$18,634	-\$102	\$823	2.4%
Selected Special Funds						
Sales Tax – Blueprint Fund	\$160	\$156	\$231	\$71	\$76	n/a
Casinos – ETF	552	386	397	-155	11	-26.9%

ETF: Education Trust Fund

Source: Board of Revenue Estimates

State and Local Income Tax Withholding Collections: January-September (\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>\$ Change</u>	<u>% Change</u>
Government	\$2,723	\$3,116	\$393	14.4%
From UI Benefits	5	220	215	4287.1%
Government Excluding UI	\$2,718	\$2,895	\$177	6.5%
Private Sector – Increasing Industries	\$6,846	\$7,144	\$298	4.4%
Finance and Insurance	937	1,014	76	8.2%
Retail Trade	466	495	29	6.3%
Professional/Business Services	2,051	2,138	87	4.2%
Manufacturing	464	481	16	3.5%
Health Care and Social Assistance	1,071	1,104	33	3.1%
Construction	533	540	7	1.3%
Other	1,856	1,912	56	3.0%
Private Sector – Decreasing Industries	\$1,216	\$1,148	-\$69	-5.6%
Accommodation and Food Service	221	183	-38	-17.4%
Arts, Entertainment, and Recreation	79	68	-11	-13.6%
Personal/Repair Services and Nonprofits	245	239	-6	-2.4%
Other	672	658	-14	-2.0%
Private Sector – Total	\$8,062	\$8,292	\$230	2.8%
Total Withholding	\$10,785	\$11,407	\$622	5.8%
Total Excluding UI benefits	\$10,780	\$11,187	\$407	3.8%
<i>Adjusted for Local Rate Increases*</i>	<i>\$10,780</i>	<i>\$11,094</i>	<i>\$314</i>	<i>2.9%</i>

UI: Unemployment Insurance

* Seven counties increased their local income tax rate between 2019 and 2020: Anne Arundel, Baltimore County, Dorchester, Kent, St. Mary's, Washington and Worcester.

Source: Bureau of Revenue Estimates; Comptroller of Maryland

Maryland General Fund Revenues – Fiscal 2021

(\$ in Millions)

	<i>Fiscal Year through September</i>				Full Year Estimated Growth Rate
	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>\$ Diff</u>	<u>% Diff.</u>	
Personal Income Tax	\$1,992	\$2,024	\$32	1.6%	0.8%
Corporate Income Tax	242	225	-17	-7.1%	4.1%
Sales and Use Tax ⁽¹⁾	837	858	21	2.6%	-0.2%
State Lottery	126	149	23	17.9%	4.3%
Other	358	321	-37	-10.3%	-3.9%
Total General Funds	\$3,556	\$3,578	\$22	0.6%	0.4%
Sales and Use Tax					
Remote Sellers and MPF ⁽²⁾	21	83	62	301.1%	
Exc. Remote Sellers and MPF	816	776	-41	-5.0%	
Selected Special Funds					
Casinos – Education Trust Fund	138	130	-8	-5.9%	30.0%

MPF: marketplace facilitators

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

⁽²⁾ Revenue from MPF as defined in Chapter 735 of 2019 and remote sellers who are required to collect the sales tax under regulations adopted after the Supreme Court's *Wayfair vs. South Dakota* decision are shared between the General Fund and the Blueprint Fund. The General Fund receives the first \$100 million each fiscal year with the rest distributed to the Blueprint Fund.

Maryland General Fund Revenues – Fiscal 2021
(\$ in Millions)

	Official Estimate <u>March 2020</u>	Preliminary Estimate <u>May 2020</u>	Official Estimate <u>Sep. 2020</u>	September <u>March</u>	Over <u>May</u>	Percent Change <u>vs. FY 2020</u>
Personal Income Tax	\$11,037	\$9,852	\$10,784	-\$253	\$933	0.8%
Corporate Income Tax	1,097	1,017	1,095	-2	78	4.1%
Sales and Use Tax	5,041	4,392	4,624	-416	233	-0.2%
State Lottery	565	525	572	7	47	4.3%
Other	1,642	1,536	1,634	-8	98	-3.9%
Total General Funds	\$19,382	\$17,322	\$18,710	-\$673	\$1,388	0.4%
Selected Special Funds						
Blueprint Fund:						
Sales Tax	\$224	\$211	\$364	\$140	\$153	57.3%
Corporate Filing Fees	39	39	33	-6	-6	n/a
Casinos – ETF	542	366	516	-26	150	30.0%

ETF: Education Trust Fund

Revised December 15, 2020

**Adjustments to Baseline General Fund Forecast
Fiscal 2021-2022
(\$ in Millions)**

	<u>2021</u>	<u>2022</u>
General Fund Cash Balance (11/20)	\$547	-\$856
Revenue Revisions – Board of Revenue Estimates	64	143
Medicaid Revisions Including Another Quarter of Enhanced Federal Match	181	-17
K-12 Enrollment and Wealth Update		-110
SLEOLA Salary Increases Restored Due to Revised Bargaining Agreement	-14	-14
Rainy Day Fund – Larger Amount Required to Maintain Balance at 6%		-9
Additional Fiscal 2021 Surplus Available in Fiscal 2022		231
December Forecast (12/15/20)	\$778	-\$632

SLEOLA: State Law Enforcement Officers Labor Alliance

Maryland General Fund Revenues
\$ in Millions

Revised December 15, 2020

	Fiscal 2021			Percent	Fiscal 2022			Percent
	<u>Sep 2020</u>	<u>Dec 2020</u>	<u>Difference</u>	<u>vs. FY 2020</u>	<u>Sep 2020</u>	<u>Dec 2020</u>	<u>Difference</u>	<u>vs. FY 2021</u>
Personal Income Tax	\$10,784	\$10,850	\$66	1.4%	\$11,200	\$11,316	\$115	4.3%
Corporate Income Tax	1,095	1,065	-30	1.3%	1,139	1,190	50	11.7%
Sales and Use Tax	4,624	4,700	76	1.4%	4,938	4,934	-4	5.0%
State Lottery	572	607	35	10.7%	584	595	10	-2.0%
Other**	1,634	1,551	-83	-8.8%	1,815	1,854	38	19.5%
Volatility Adjustment	0	0	0	n.a.	-12	-80	-68	n.a.
Total General Funds*	\$18,710	\$18,774	\$64	0.7%	\$19,666	\$19,808	\$143	5.5%
 Blueprint Fund								
Sales Tax	\$364	\$447	\$83	93.1%	\$364	\$447	\$83	0.0%
Corporate Filing Fees**	0	50	50	n.a.	0	0	0	n.a.

* The Budget Reconciliation and Financing Act (BFRA) of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, general fund revenue growth in fiscal 2022 would be about 4.6% over fiscal 2021.

** The BRFA of 2019 (Chapter 16) limits the General Fund to the first \$66.3 million of corporate filing fees in fiscal 2021 with the remainder distributed to the Blueprint Fund. The September estimate inadvertently included all fiscal 2021 corporate filing fee revenue in the General Fund, failing to reflect the estimated \$33 million distribution to the Blueprint Fund.

Source: Board of Revenue Estimates

Maryland General Fund Revenues – Fiscal 2022

(\$ in Millions)

	Official Estimate <u>March 2020</u>	Preliminary Estimate <u>May 2020</u>	Official Estimate <u>Sep. 2020</u>	September Over <u>March</u>	Over <u>May</u>	Percent Change <u>vs. FY 2021</u>
Personal Income Tax	\$11,430	\$9,930	\$11,200	-\$229	\$1,270	3.9%
Corporate Income Tax	1,196	953	1,139	-57	187	4.0%
Sales and Use Tax	5,150	4,444	4,938	-212	494	6.8%
State Lottery	579	522	584	5	62	2.2%
Other	1,846	1,709	1,815	-30	107	11.1%
Volatility Adjustment	-80	0	-12	68	-12	n/a
Total General Funds*	\$20,120	\$17,558	\$19,666	-\$455	\$2,108	5.1%
Selected Special Funds						
Sales Tax – Blueprint Fund	\$250	\$236	\$364	\$114	\$127	0.0%
Casinos – ETF	\$548	\$494	\$543	-\$5	\$50	5.4%

ETF: Education Trust Fund

* The Budget Reconciliation and Financing Act of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, general fund revenue growth in fiscal 2022 would be about 4.1% over fiscal 2021.

Source: Board of Revenue Estimates

Maryland General Fund Revenues – September Estimates (\$ in Millions)

	Fiscal 2021			September over March	
	<u>March 2020</u>	<u>Official</u>	<u>Alternate</u>	<u>Official</u>	<u>Alternate</u>
Personal Income Tax	\$11,037	\$10,784	\$10,332	-\$253	-\$705
Corporate Income Tax	1,097	1,095	1,047	-2	-50
Sales and Use Tax	5,041	4,624	4,407	-416	-634
Total General Funds	\$19,382	\$18,710	\$17,992	-\$673	-\$1,390

	Fiscal 2022			September over March	
	<u>March 2020</u>	<u>Official</u>	<u>Alternate</u>	<u>Official</u>	<u>Alternate</u>
Personal Income Tax	\$11,430	\$11,200	\$10,499	-\$229	-\$930
Corporate Income Tax	1,196	1,139	1,175	-57	-21
Sales and Use Tax	5,150	4,938	4,703	-212	-447
Total General Funds	\$20,120	\$19,666	\$18,697	-\$455	-\$1,424

Note: The official September Board of Revenue Estimates estimate relied on U.S. and Maryland economic forecasts from IHS Markit. The alternate estimate used the forecasts from Moody's Analytics. For the alternate forecast, only the income taxes and the sales tax were re-estimated.

Source: Board of Revenue Estimates

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

Starting Balance		\$974.2
Revenues		
BRE Estimated Revenue March 2020	\$18,721.2	
Legislation/Other Adjustments	15.2	
Fiscal 2020 Closeout	-105.1	
Total		\$18,631.2
Transfers		
Rainy Day Fund	\$158.0	
Budgeted Tax Credits	27.6	
Total		\$185.6
Funds Available		\$19,791.0
Spending		
Fiscal 2020 Allowance	\$19,418.8	
Deficiencies	239.4	
May 2020 Board of Public Works Reductions	-120.7	
Legislative Reductions to Fiscal 2020	-6.4	
Fiscal 2020 Closeout/Agency Reversions	-443.6	
Net Expenditures		\$19,087.5
Ending Balance		\$703.5

BRE: Board of Revenue Estimates

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

Starting Balance		\$703.5
Revenues		
BRE Estimated Revenue September 2020	\$18,709.8	
Legislation/Other		
Total		\$18,709.8
Transfers		
Rainy Day Fund	54.0	
Transfers from Other Funds	54.7	
Budgeted Tax Credits	26	
Total		\$135.0
Funds Available		\$19,548.2
Spending		
Fiscal 2021 Legislative Appropriation	\$19,663.2	
July 2020 Board of Public Works Reductions	-\$394.9	
DLS Estimated Deficiencies	-\$232.3	
Estimated Agency Reversions	-35.0	
Net Expenditures		\$19,001.0
Ending Balance		\$547.2

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

Status of the General Fund
Fiscal 2022
(\$ in Millions)

Starting Balance		\$547.2
Revenues		
BRE Estimated Revenue September 2020	\$19,665.7	
Total		\$19,665.7
Transfers		
Rainy Day Fund Draw Down to 6%	240.3	
Budgeted Tax Credits	46.4	
Total		\$286.7
Funds Available		\$20,499.6
Spending		
Fiscal 2022 Allowance	\$21,390.1	
Estimated Agency Reversions	-35.0	
Net Expenditures		\$21,355.1
Ending Balance		-\$855.5

BRE: Board of Revenue Estimates

Part 3

General Fund Budget and Forecast

General Fund: Recent History and Outlook**Fiscal 2020-2022****(\$ in Millions)**

	<u>2020</u> <u>Actual</u>	<u>2021</u> <u>Working</u>	<u>2022</u> <u>Baseline</u>
Funds Available			
Ongoing Revenues	\$18,659	\$18,809	\$19,855
Balances, Transfers, and One-time	1,132	803	1,010
Total Funds Available	\$19,791	\$19,612	\$20,864
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$18,967	\$19,458	\$20,671
Appropriations to Reserve Fund	563	114	769
One-time Spending Net of Targeted Reversions	-\$443	-738	56
Total Spending	\$19,088	\$18,834	\$21,496
Cash Balance/(Shortfall)	\$703	\$778	-\$632
Structural			
Balance (Ongoing Revenues Less Ongoing Operating Costs)	-\$308	-\$649	-\$817
Ratio (Ongoing Revenues/Ongoing Operating Costs)	98.4%	96.7%	96.0%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$444	\$7	\$526
Transfers to General Fund	-158	-54	-232
Governor's Economic Recovery Initiative	0	-250	0
Estimated Rainy Day Fund Balance – June 30	\$1,177	\$886	\$1,188
Total Cash (Rainy Day Fund and General Fund Balance)	\$1,881	\$1,664	\$557
Rainy Day Fund Balance in Excess of 5%	\$246	-\$52	\$199

Note: For purposes of the fiscal 2022 baseline, Rainy Day Fund activity is calculated using the Board of Revenue Estimates December 2020 revenue estimate. Using the official estimate from December 2019 would place the fiscal 2021 fund balance \$52.4 million below 5% of estimated general fund revenues.

Legislation Included in Veto Override Scenario

Fiscal 2021-2026

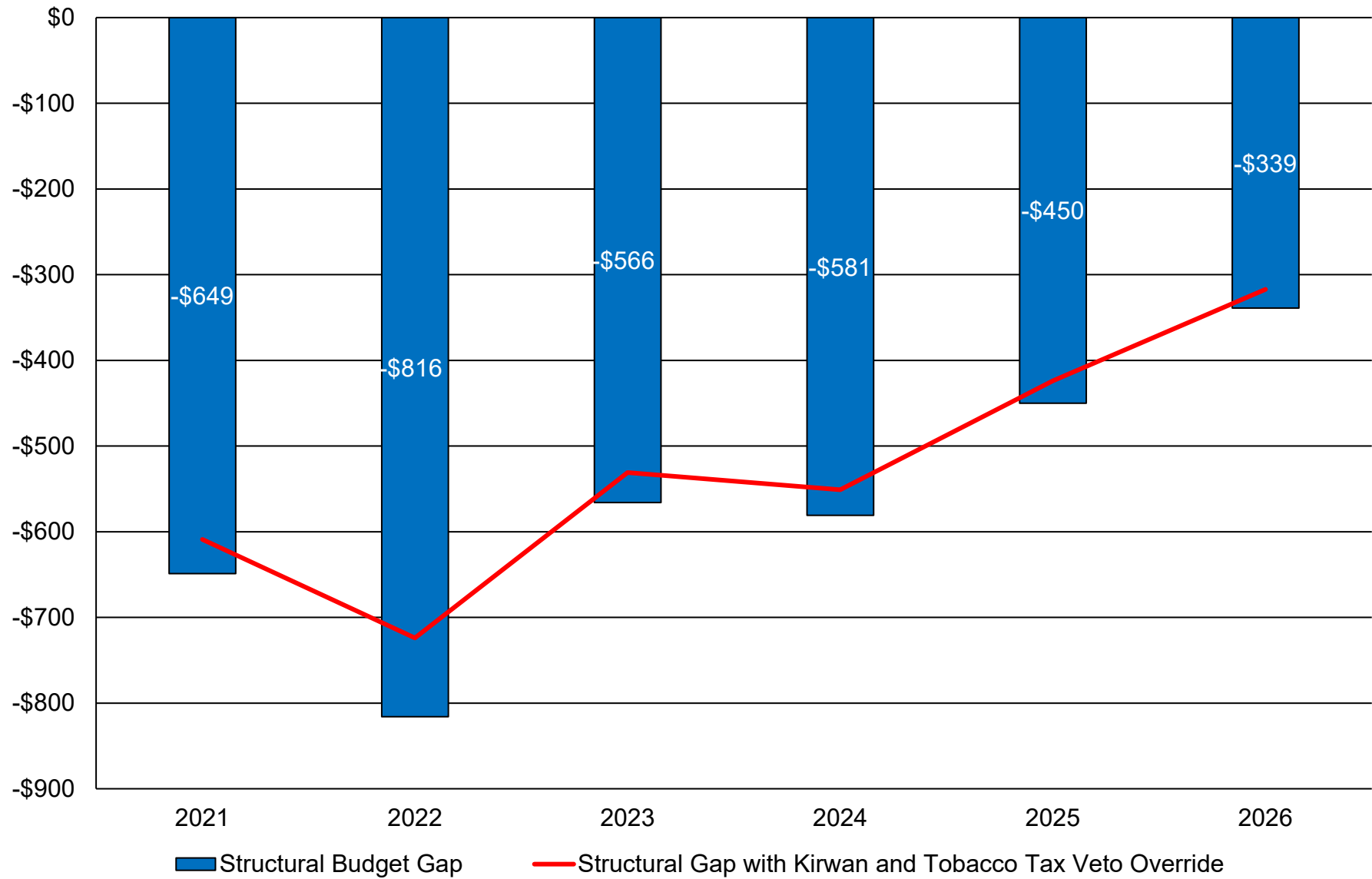
(\$ in Millions)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>
General Fund Revenues						
HB 732 Tobacco Tax	\$40.0	\$92.2	\$88.1	\$84.2	\$80.5	\$76.0
HB 1 Built to Learn Act		0.0	-4.8	-5.9	-5.9	-5.9
Total	\$40.0	\$92.2	\$83.3	\$78.3	\$74.6	\$70.1
General Fund Expenditures						
HB 1300 Blueprint for Maryland's Future			\$0.0	\$0.0	\$0.0	\$165.0
HB 1260 HBCU – Funding			58.5	58.5	58.5	58.5
HB 1 Built to Learn Act			40.0	40.0	40.0	40.0
HB 732 Tobacco Tax			8.3	8.3	8.3	8.3
Total	\$0.0	\$0.0	\$106.7	\$106.8	\$106.8	\$271.8
Special Fund Revenues						
HB 932 Sales Tax on Digital Downloads	\$40.0	\$95.5	\$105.1	\$113.0	\$118.6	\$123.4
Total	\$40.0	\$95.5	\$105.1	\$113.0	\$118.6	\$123.4

HBCU: historically black colleges and universities

Structural Budget Outlook
Fiscal 2021-2026
(\$ in Millions)

Revised December 15, 2020



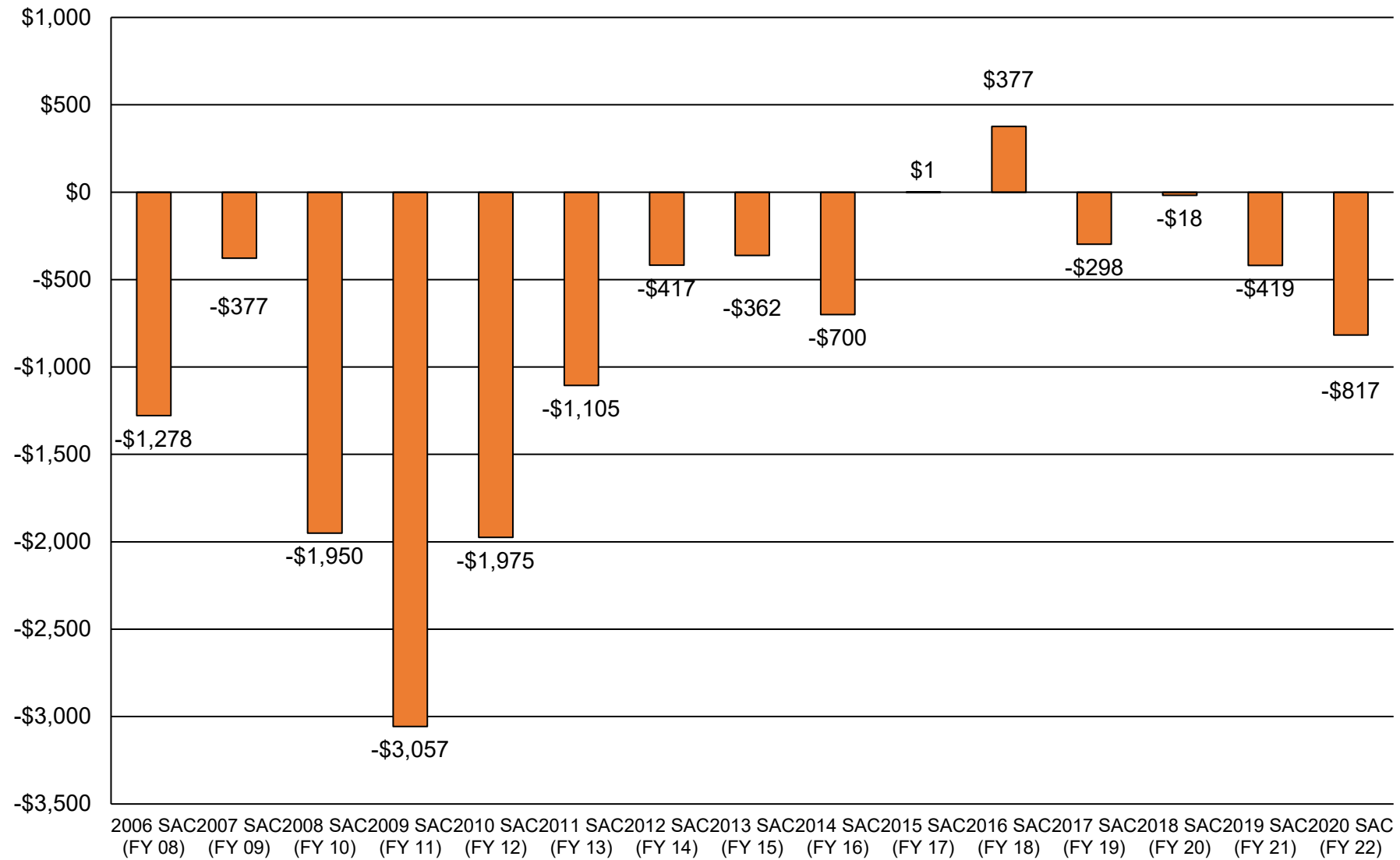
Revised December 15, 2020

Structural Budget Outlook for Upcoming Allowance

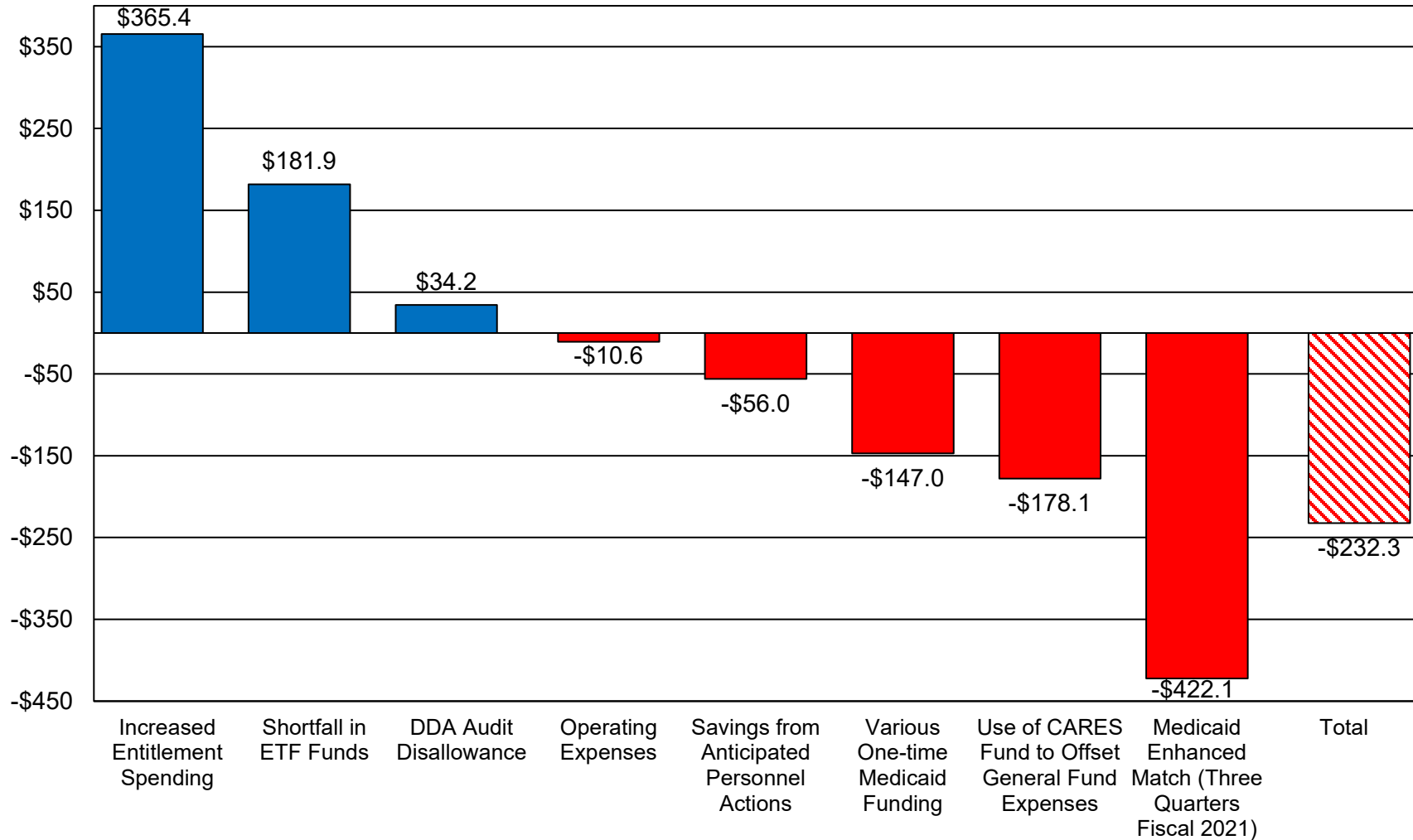
December SAC Meetings

2006-2020 (FY 2008 to FY 2022)

\$ in Millions



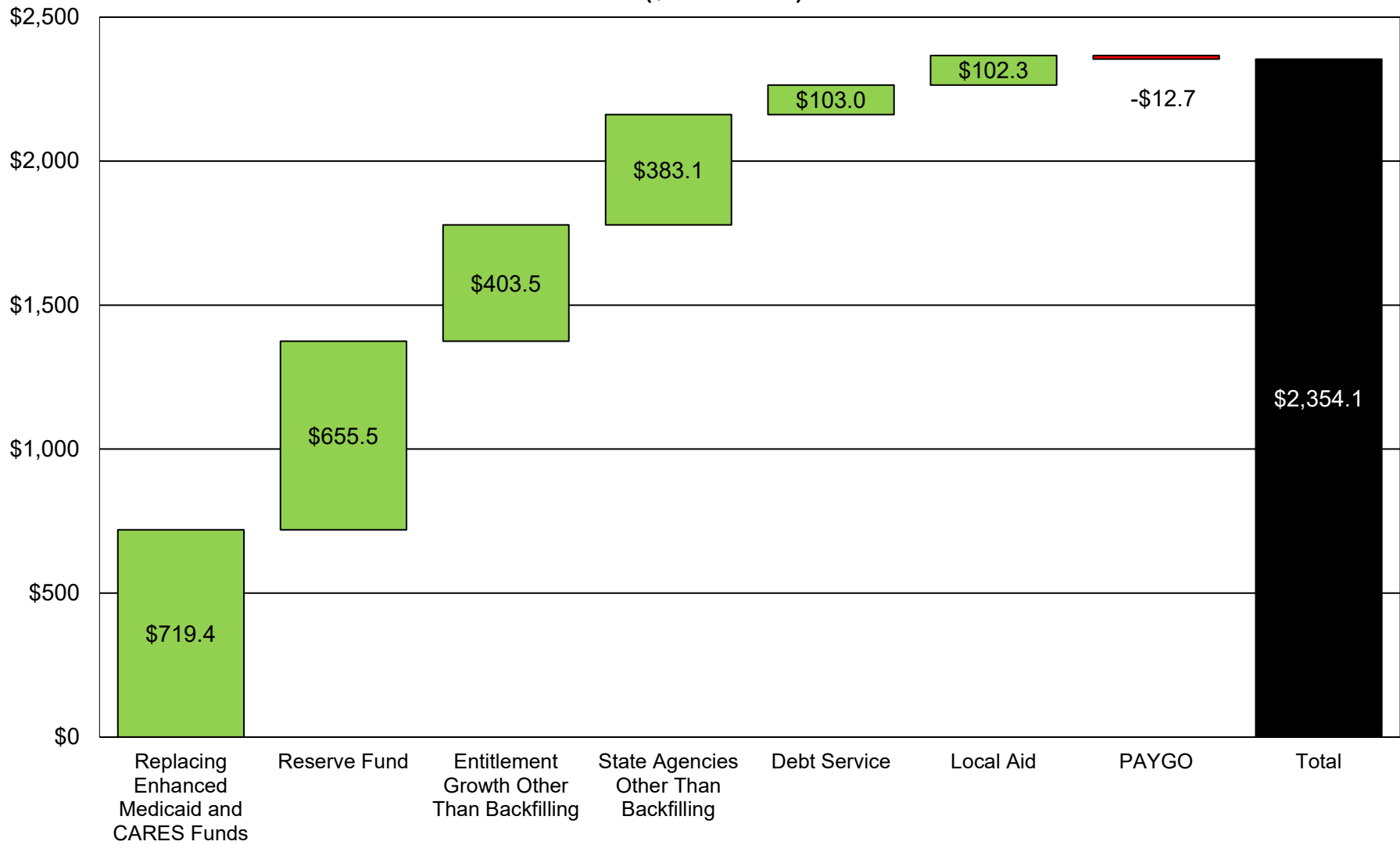
Fiscal 2021 Deficiencies Reduce General Fund Spending by \$232 Million As Temporary Federal Aid Offsets Rising Entitlement Costs and Backfilling of Education Trust Fund Shortfall



CARES: Coronavirus Aid, Relief, and Economic Security
ETF: Education Trust Fund

DDA: Developmental Disabilities Administration

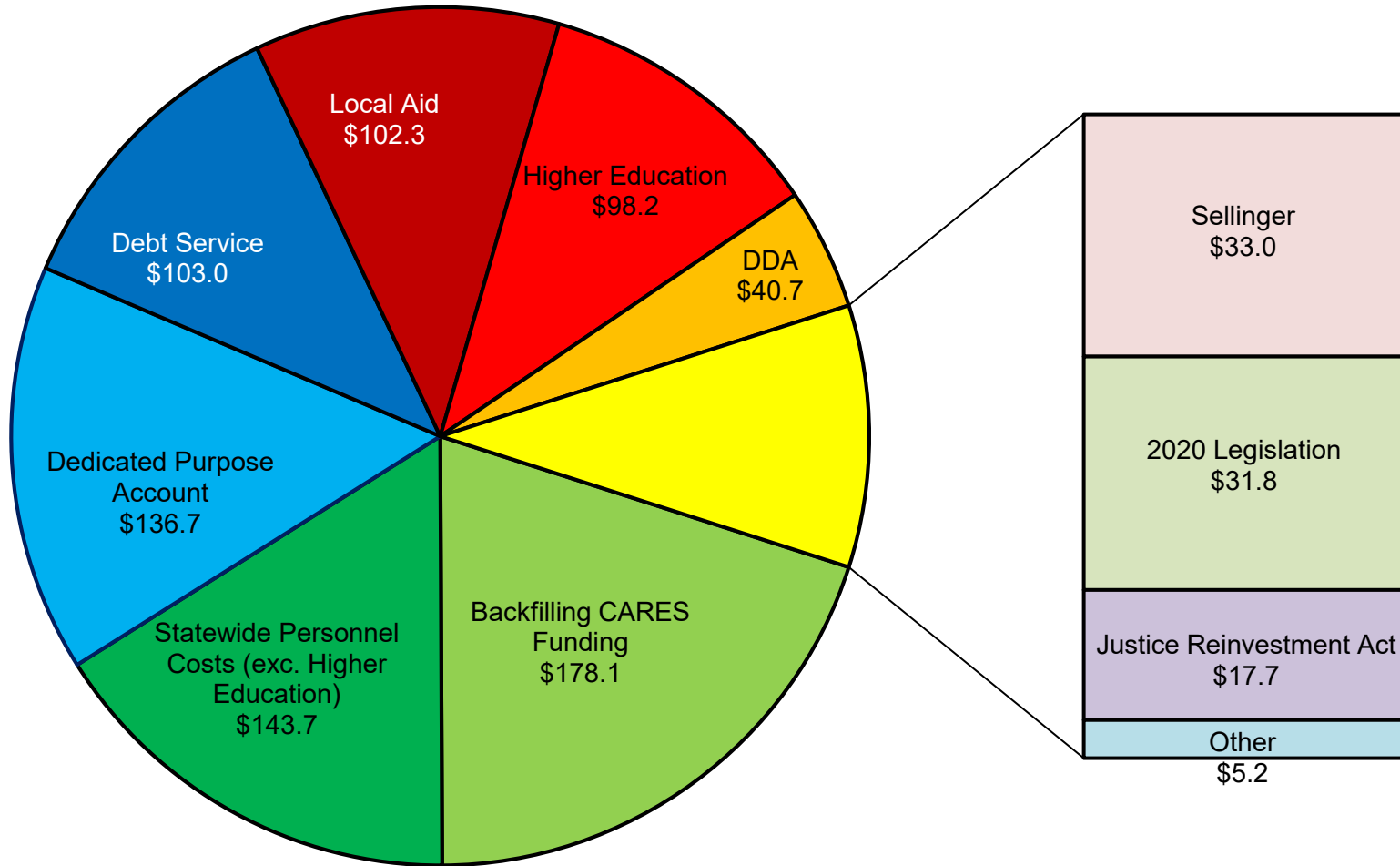
Key Drivers of General Fund Budget Growth **Adjusted Fiscal 2021 to 2022 Baseline** (\$ in Millions)



CARES: Coronavirus Aid, Relief, and Economic Security

PAYGO: pay-as-you-go

**Major General Fund Changes Excluding Entitlements and Appropriation
To the Rainy Day Fund
(\$ in Millions)**



CARES: Coronavirus Aid, Relief, and Economic Security
DDA: Developmental Disabilities Administration

Part 4

Fiscal 2022 Baseline Budget Estimate

Baseline Leaves Billions of Blueprint Fund and Education Trust Fund Revenues Unspent

- Baseline funds a \$500 million appropriation to the Blueprint Fund and assumes funds will be spent on K-12 education in fiscal 2022.
- Baseline assumes that a \$156 million Education Trust Fund (ETF) shortfall from fiscal 2020 is funded with general funds in fiscal 2021.
- Most ETF lockbox revenues and Blueprint funds are not included in out-years of baseline forecast as no education enhancements are required by current law.
- As a result, unspent special fund balances dedicated to education grow from \$952 million at end of fiscal 2022 to \$4.8 billion by end of fiscal 2026.

	(\$ in Millions)				
	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Blueprint Fund Balance at Start of Year	\$588	\$952	\$1,863	\$2,805	\$3,779
New Blueprint/ETF Lock Box Revenues – Unallocated in Baseline	364	911	942	974	1,008
Blueprint/ETF Fund Balance at End of Fiscal Year	\$952	\$1,863	\$2,805	\$3,779	\$4,786

**Veto Overrides of HB 1300 and HB 932: Blueprint Implementation and the Built to Learn Act
Can Be Funded Almost Entirely with the
Blueprint Fund and the Education Trust Fund through Fiscal 2026**

- Override of HB 1300 (Kirwan) will also result in HB 1 – Built to Learn Act becoming law.
- Override of HB 932 (sales tax on digital goods) will dedicate additional revenue to the Blueprint Fund.

(\$ in Millions)

	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>
Impact of Veto Overrides on Dedicated Education Funds					
HB 1 – Built to Learn Act		-\$60	-\$125	-\$125	-\$125
HB 1300 – Blueprint Implementation		-978	-1,215	-1,339	-1,580
HB 932 – Sales Tax on Digital Goods (Blueprint Fund)	\$136	105	113	119	123
	136	-933	-1,227	-1,345	-1,582
Blueprint/ETF Fund Balance at End of Fiscal Year	\$1,088	\$1,066	\$780	\$409	-\$165
Impact of Veto Overrides on General Fund					
HB 1		-\$45	-\$46	-\$46	-\$46
HB 1300					-165
General Fund Impact		-\$45	-\$46	-\$46	-\$211

State Expenditures – General Funds

(\$ in Millions)

<u>Category</u>	<u>Working Appropriation FY 2020</u>	<u>FY 2021 Adjusted Appropriation</u>	<u>FY 2022 Baseline</u>	<u>FY 2021 to FY 2022</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$287.0	\$131.0	\$234.0	\$103.0	78.6%
County/Municipal	\$309.4	\$315.2	\$312.7	-\$2.5	-0.8%
Community Colleges	330.7	330.8	379.9	49.1	14.8%
Education/Libraries	6,405.1	6,806.4	6,859.7	53.3	0.8%
Health	59.1	60.0	62.5	2.5	4.1%
Aid to Local Governments	\$7,104.3	\$7,512.5	\$7,614.8	\$102.3	1.4%
Foster Care Payments	\$202.3	\$216.5	\$227.3	\$10.8	5.0%
Assistance Payments	43.3	61.0	102.6	41.6	68.2%
Medical Assistance	3,623.7	3,556.7	4,451.0	894.3	25.1%
Property Tax Credits	96.2	96.3	94.4	-1.9	-2.0%
Entitlements	\$3,965.5	\$3,930.6	\$4,875.4	\$944.8	24.0%
Health	\$1,583.6	\$1,639.5	\$1,721.7	\$82.3	5.0%
Human Services	368.9	364.5	372.2	7.7	2.1%
Juvenile Services	264.1	246.6	257.6	11.0	4.4%
Public Safety/Police	1,577.6	1,377.2	1,648.8	271.5	19.7%
Higher Education	1,577.8	1,498.3	1,596.5	98.2	6.6%
Other Education	483.4	479.4	532.8	53.4	11.1%
Agriculture/Natural Res./Environmer	148.1	125.1	149.3	24.2	19.4%
Other Executive Agencies	852.6	893.1	890.8	-2.3	-0.3%
Judiciary	536.8	552.9	566.2	13.3	2.4%
Legislative	97.4	103.1	105.0	1.9	1.8%
State Agencies	\$7,490.3	\$7,279.8	\$7,840.9	\$561.2	7.7%
Total Operating	\$18,847.2	\$18,853.8	\$20,565.1	\$1,711.3	9.1%
Capital ⁽¹⁾	\$54.3	\$68.2	\$55.5	-\$12.7	-18.6%
Subtotal	\$18,901.5	\$18,922.0	\$20,620.6	\$1,698.6	9.0%
Reserve Funds	\$563.2	\$114.0	\$769.5	\$655.5	575.0%
Appropriations	\$19,464.6	\$19,036.0	\$21,390.1	\$2,354.1	12.4%
Reversions	-\$377.1	-\$35.0	-\$35.0	\$0.0	0.0%
Grand Total	\$19,087.5	\$19,001.0	\$21,355.1	\$2,354.1	12.4%

⁽¹⁾ Includes the Historic Revitalization Tax Credit Reserve Fund.

Note: The fiscal 2020 working appropriation reflects \$72.9 million in targeted reversions, \$120.7 million in reductions approved by the Board of Public Works in May 2020, and \$342.1 million in additional agency reversions recognized during the close-out process. The fiscal 2021 adjusted appropriation includes estimated negative deficiencies of -\$232.3 million along with \$394.9 million in reductions approved by the Board of Public Works in July 2020.

State Expenditures – Special and Higher Education Funds*

(\$ in Millions)

<u>Category</u>	<u>FY 2020 Working Appropriation</u>	<u>FY 2021 Adjusted Appropriation</u>	<u>FY 2022 Baseline</u>	<u>FY 2021 to FY 2022 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,388.8	\$1,618.9	\$1,592.7	-\$26.2	-1.6%
County/Municipal	\$403.5	\$450.5	\$423.5	-\$27.0	-6.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	682.1	650.0	543.8	-106.2	-16.3%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	\$1,085.6	\$1,100.5	\$967.3	-\$133.2	-12.1%
Foster Care Payments	\$4.3	\$3.0	\$3.0	\$0.0	0.0%
Assistance Payments	5.4	10.7	10.7	0.0	0.0%
Medical Assistance	992.6	952.2	746.3	-205.9	-21.6%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$1,002.3	\$965.8	\$760.0	-\$205.9	-21.3%
Health	\$444.4	\$422.5	\$429.4	\$6.8	1.6%
Human Services	76.6	77.0	83.5	6.5	8.5%
Juvenile Services	3.0	3.3	3.4	0.1	4.3%
Public Safety/Police	234.9	239.0	257.6	18.6	7.8%
Higher Education	4,868.2	4,870.6	5,000.2	129.6	2.7%
Other Education	72.9	79.2	76.9	-2.3	-2.9%
Transportation	2,044.9	2,157.4	2,113.0	-44.3	-2.1%
Agriculture/Natural Res./Environmer	303.8	297.7	293.6	-4.2	-1.4%
Other Executive Agencies	749.5	775.6	760.9	-14.7	-1.9%
Judiciary	66.5	78.3	71.9	-6.4	-8.2%
Legislative	0.0	0.0	0.0	0.0	n/a
State Agencies	\$8,864.7	\$9,000.6	\$9,090.4	\$89.8	1.0%
Total Operating	\$12,341.5	\$12,685.8	\$12,410.3	-\$275.5	-2.2%
Capital	\$1,997.3	\$1,629.3	\$1,064.0	-\$565.4	-34.7%
Transportation	1,567.6	1,197.3	520.0	-677.3	-56.6%
Environment	177.7	216.4	259.8	43.4	20.1%
Other	252.0	215.6	284.2	68.6	31.8%
Grand Total	\$14,338.8	\$14,315.2	\$13,474.3	-\$840.9	-5.9%

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

Note: The fiscal 2020 working appropriation includes \$0.5 million in targeted reversions, and excludes \$43.5 million that double counts general fund spending. The fiscal 2021 adjusted appropriation excludes \$40 million that double counts general fund spending and includes \$10.3 million in additional special fund spending due to funding swaps. It also includes estimated negative deficiencies of -\$177.9 million and reflects \$11.3 million in reductions approved by the Board of Public Works in July 2020, net of \$4.7 million in additional special fund spending that replaces general fund reductions. The fiscal 2022 baseline exclude \$10 million that double counts special fund spending.

State Expenditures – Federal Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2020 Working Appropriation</u>	<u>FY 2021 Adjusted Appropriation</u>	<u>FY 2022 Baseline</u>	<u>FY 2021 to FY 2022 \$ Change</u>	<u>% Change</u>
Debt Service	\$11.5	\$11.0	\$9.5	-\$1.5	-13.6%
County/Municipal	\$74.1	\$76.2	\$74.7	-\$1.5	-2.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	984.7	969.7	954.8	-14.8	-1.5%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	\$1,058.7	\$1,045.9	\$1,029.5	-\$16.3	-1.6%
Foster Care Payments	\$74.6	\$83.4	\$65.7	-\$17.7	-21.2%
Assistance Payments	1,045.2	1,944.5	1,209.4	-735.1	-37.8%
Medical Assistance	7,058.2	7,597.5	8,058.7	461.2	6.1%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$8,178.0	\$9,625.4	\$9,333.8	-\$291.6	-3.0%
Health	\$1,136.2	\$1,599.8	\$1,756.1	\$156.3	9.8%
Human Services	609.8	627.4	558.7	-68.7	-10.9%
Juvenile Services	4.6	6.9	4.5	-2.4	-35.0%
Public Safety/Police	41.7	181.4	35.3	-146.0	-80.5%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	307.5	322.7	338.4	15.8	4.9%
Transportation	108.1	122.3	107.6	-14.7	-12.1%
Agriculture/Natural Res./Environmen	68.2	94.4	72.9	-21.4	-22.7%
Other Executive Agencies	621.9	626.4	661.3	34.9	5.6%
Judiciary	1.0	0.3	0.3	0.0	0.4%
State Agencies	\$2,898.9	\$3,581.6	\$3,535.2	-\$46.3	-1.3%
Total Operating	\$12,147.1	\$14,263.9	\$13,908.0	-\$355.8	-2.5%
Capital	\$1,237.2	\$1,241.6	\$1,129.8	-\$111.8	-9.0%
Transportation	1,120.6	1,159.9	1,046.0	-113.9	-9.8%
Environment	52.9	53.1	53.2	0.0	0.0%
Other	63.8	28.5	30.7	2.2	7.6%
Grand Total	\$13,384.4	\$15,505.4	\$15,037.8	-\$467.6	-3.0%

Note: The fiscal 2021 adjusted appropriation includes estimated deficiencies of \$1.7 billion and \$11.6 million in reductions approved by the Board of Public Works in July 2020 net of \$4.3 million in additional federal fund spending that replaces general fund reductions.

State Expenditures – State Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2020 Working Appropriation</u>	<u>FY 2021 Adjusted Appropriation</u>	<u>FY 2022 Baseline</u>	<u>FY 2021 to FY 2022 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,675.8	\$1,749.9	\$1,826.7	\$76.8	4.4%
County/Municipal	\$712.9	\$765.7	\$736.2	-\$29.5	-3.9%
Community Colleges	330.7	330.8	379.9	49.1	14.8%
Education/Libraries	7,087.2	7,456.5	7,403.5	-52.9	-0.7%
Health	59.1	60.0	62.5	2.5	4.1%
Aid to Local Governments	\$8,189.9	\$8,613.0	\$8,582.1	-\$30.9	-0.4%
Foster Care Payments	\$206.6	\$219.5	230.3	\$10.8	4.9%
Assistance Payments	48.7	71.7	113.3	41.6	58.0%
Medical Assistance	4,616.3	4,508.9	5,197.4	688.4	15.3%
Property Tax Credits	96.2	96.3	94.4	-1.9	-2.0%
Entitlements	\$4,967.8	\$4,896.4	\$5,635.3	\$738.9	15.1%
Health	\$2,028.0	\$2,062.0	\$2,151.1	\$89.1	4.3%
Human Services	445.5	441.5	455.7	14.2	3.2%
Juvenile Services	267.2	249.9	261.0	11.1	4.4%
Public Safety/Police	1,812.5	1,616.2	1,906.4	290.1	18.0%
Higher Education	6,446.0	6,368.9	6,596.7	227.8	3.6%
Other Education	556.3	558.6	609.7	51.1	9.2%
Transportation	2,044.9	2,157.4	2,113.0	-44.3	-2.1%
Agriculture/Natural Res./Environmen	451.9	422.8	442.9	20.1	4.7%
Other Executive Agencies	1,602.1	1,668.7	1,651.7	-17.0	-1.0%
Judiciary	603.3	631.2	638.1	6.9	1.1%
Legislative	97.4	103.1	105.0	1.9	1.8%
State Agencies	\$16,355.1	\$16,280.3	\$16,931.3	\$651.0	4.0%
Total Operating	\$31,188.6	\$31,539.7	\$32,975.5	\$1,435.8	4.6%
Capital (1)	\$2,051.6	\$1,697.5	\$1,119.5	-\$578.0	-34.1%
Transportation	1,567.6	1,197.3	520.0	-677.3	-56.6%
Environment	178.3	216.6	262.8	46.2	21.3%
Other	305.8	283.6	336.7	53.1	18.7%
Subtotal	\$33,240.3	\$33,237.2	\$34,094.9	\$857.8	2.6%
Reserve Funds	\$563.2	\$114.0	\$769.5	\$655.5	575.0%
Appropriations	\$33,803.4	\$33,351.2	\$34,864.4	\$1,513.2	4.5%
Reversions	-\$377.1	-\$35.0	-\$35.0	\$0.0	0.0%
Grand Total	\$33,426.3	\$33,316.2	\$34,829.4	\$1,513.2	4.5%

(1) Includes the Historic Revitalization Tax Credit Reserve Fund.

Note: The fiscal 2020 working appropriation includes \$73.4 million in targeted reversions and excludes \$43.5 million of special funds that double count general fund spending. Fiscal 2020 also reflects \$120.7 million in reductions approved by the Board of Public Works in May 2020 and \$342.1 million in additional agency reversions recognized during the close-out process. The fiscal 2021 adjusted appropriation excludes \$40 million of special funds that double count general fund spending and includes \$10.3 million in additional special fund spending due to funding swaps. It also reflects estimated negative deficiencies of -\$410.2 million and \$406.2 million in reductions approved by the Board of Public Works in July 2020, net of \$4.7 million in additional special fund spending that replaces general fund reductions. The fiscal 2022 baseline exclude \$10 million of special funds that double counts special fund spending.

State Expenditures – All Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2020 Working Appropriation</u>	<u>FY 2021 Adjusted Appropriation</u>	<u>FY 2022 Baseline</u>	<u>FY 2021 to FY 2022 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,687.4	\$1,760.9	\$1,836.2	\$75.3	4.3%
County/Municipal	\$787.0	\$841.9	\$810.9	-\$31.0	-3.7%
Community Colleges	330.7	330.8	379.9	49.1	14.8%
Education/Libraries	8,071.9	8,426.1	8,358.4	-67.8	-0.8%
Health	59.1	60.0	62.5	2.5	4.1%
Aid to Local Governments	\$9,248.6	\$9,658.9	\$9,611.7	-\$47.2	-0.5%
Foster Care Payments	\$281.2	\$302.9	\$295.9	-\$6.9	-2.3%
Assistance Payments	1,093.9	2,016.1	1,322.6	-693.5	-34.4%
Medical Assistance	11,674.6	12,106.5	13,256.0	1,149.6	9.5%
Property Tax Credits	96.2	96.3	94.4	-1.9	-2.0%
Entitlements	\$13,145.8	\$14,521.8	\$14,969.1	\$447.2	3.1%
Health	\$3,164.1	\$3,661.8	\$3,907.3	\$245.4	6.7%
Human Services	1,055.3	1,068.9	1,014.5	-54.5	-5.1%
Juvenile Services	271.7	256.8	265.5	8.7	3.4%
Public Safety/Police	1,854.2	1,797.6	1,941.7	144.1	8.0%
Higher Education	6,446.0	6,368.9	6,596.7	227.8	3.6%
Other Education	863.8	881.2	948.1	66.9	7.6%
Transportation	2,153.0	2,279.7	2,220.6	-59.1	-2.6%
Agriculture/Natural Res./Environmen	520.2	517.2	515.8	-1.4	-0.3%
Other Executive Agencies	2,224.0	2,295.1	2,313.0	17.9	0.8%
Judiciary	604.3	631.5	638.4	6.9	1.1%
Legislative	97.4	103.1	105.0	1.9	1.8%
State Agencies	\$19,253.9	\$19,861.9	\$20,466.6	\$604.7	3.0%
Total Operating	\$43,335.8	\$45,803.6	\$46,883.5	\$1,079.9	2.4%
Capital (1)	\$3,288.9	\$2,939.0	\$2,249.3	-\$689.8	-23.5%
Transportation	2,688.2	2,357.2	1,566.0	-791.3	-33.6%
Environment	264.1	269.7	316.0	46.2	17.1%
Other	336.6	312.1	367.3	55.3	17.7%
Subtotal	\$46,624.6	\$48,742.6	\$49,132.8	\$390.2	0.8%
Reserve Funds	\$563.2	\$114.0	\$769.5	\$655.5	575.0%
Appropriations	\$47,187.8	\$48,856.6	\$49,902.2	\$1,045.6	2.1%
Reversions	-\$377.1	-\$35.0	-\$35.0	\$0.0	0.0%
Grand Total	\$46,810.7	\$48,821.6	\$49,867.2	\$1,045.6	2.1%

(1) Includes the Historic Revitalization Tax Credit Reserve Fund.

Note: The fiscal 2020 working appropriation includes \$73.4 million in targeted reversions and excludes \$43.5 million of special funds that double count general fund spending. Fiscal 2020 also reflects \$120.7 million in reductions approved by the Board of Public Works in May 2020 and \$342.1 million in additional agency reversions recognized during the close-out process. The fiscal 2021 adjusted appropriation excludes \$40 million of special funds that double count general fund spending and includes \$10.3 million in additional special fund spending due to funding swaps. It also reflects estimated deficiencies of \$1.3 billion and \$417.8 million in reductions approved by the Board of Public Works in July 2020 net of \$9.0 million in additional special and federal fund spending that replaces general fund reductions. The fiscal 2022 baseline exclude \$10 million of special funds that double counts special fund spending.

Fiscal 2022 Baseline Assumptions and Challenges

- Traditional baseline assumptions concerning current laws, policies, and practices; federal mandates; and recently adopted legislation continue to apply. However, some of the federal policies are time-limited during the ongoing public health emergency and have no certain end date. The baseline makes assumptions about the end of these policies, but any different outcomes could have potentially significant funding implications.
- The baseline assumes that a significant amount of one-time federal funding will be available to support what would otherwise be general fund spending for ongoing expenses in the fiscal 2021 budget. For example, \$217.3 million in CARES funding (for various law enforcement salaries, public assistance, and foster care), and \$502.1 million in enhanced federal Medicaid support. The lack of this federal funding in fiscal 2022 is a key reason explaining the significant general fund growth between the adjusted fiscal 2021 appropriation and the fiscal 2022 baseline.
- When forecasting certain caseloads and enrollment, in general, the baseline aligns with the assumptions in the Board of Revenue Estimates economic forecast that envisages widespread availability and uptake of a COVID-19 vaccine by fall 2021.
 - This assumption is reflected in demand for entitlement programs, which is expected to stay strong. Medicaid caseloads, for example, have grown significantly and are projected to add 125,000 individuals in fiscal 2021. Temporary Cash Assistance caseloads are almost double what is provided for in the fiscal 2021 budget.
 - Conversely, based on preliminary estimates, enrollment in public schools is expected to decline by just over 33,000 in fall 2020, falling below fiscal 2017 levels.
 - Similarly, higher education funding reflects lower enrollment trends. For example, University System of Maryland (USM) enrollment, while expected to be higher in fall 2021 than fall 2020, is still assumed to be below that of fall 2019. In calculating the State grant to USM, a 2% tuition increase is assumed for in-state students, but 0% for out-of-state students who may be more difficult to attract given the uncertainty about the teaching and living environment.

Key Caseload Assumptions

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>% Change 2021-2022</u>
Pupil Enrollment*	863,071	874,268	841,087	-3.8%
Medicaid	1,398,594	1,522,063	1,526,994	0.3%
Temporary Cash Assistance	46,767	65,661	61,721	-6.0%
Foster Care/Adoption/Guardianship	11,864	12,054	11,871	-1.5%
Adult Prison Population	20,420	18,500	18,000	-2.7%

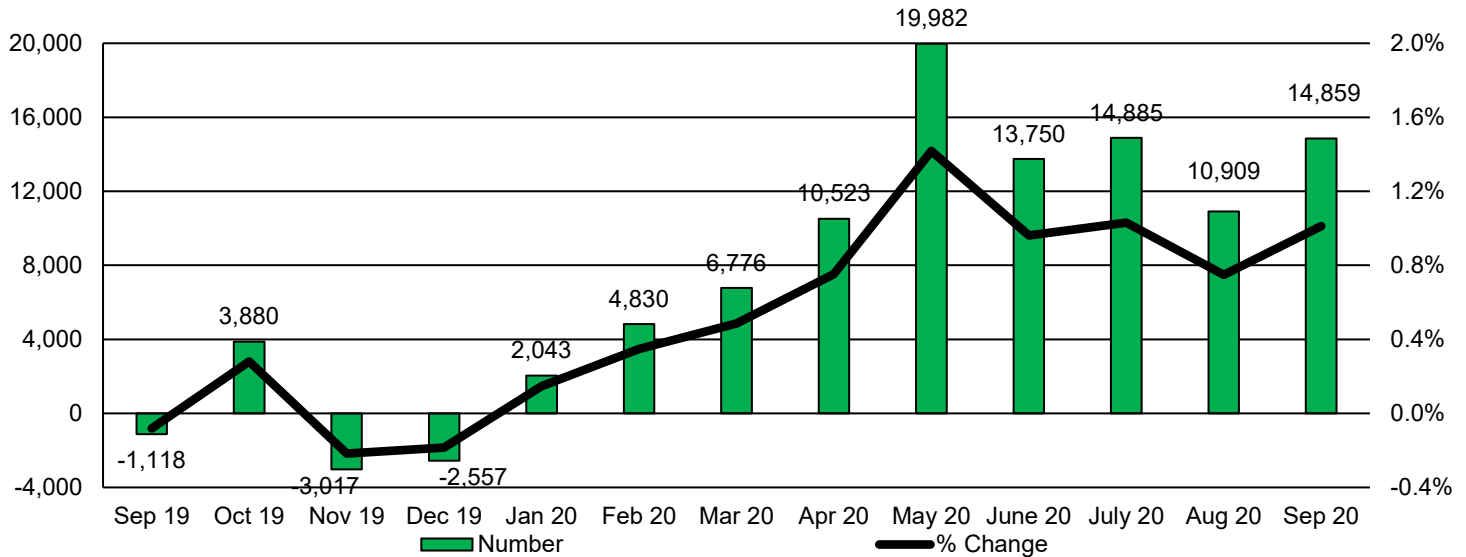
* Data for fiscal 2020, 2021, and 2022 reflect September 2018, September 2019, and September 2020 (est.) full-time equivalent enrollments.

- Employee compensation assumptions are more conservative than those traditionally included in the baseline, erring on the side of the need to make savings to relieve pressure on the General Fund beginning in fiscal 2021 and not adding additional demand in the immediate future. Assumptions include:
 - Savings in fiscal 2021 based on collective bargaining agreements for certain employees that permit a change in overtime policy and forego expected fiscal 2021 cost-of-living adjustments (COLA) and, for the State Law Enforcement Officers Labor Alliance, also increments. It should be noted that these changes have not been agreed to by AFSCME and also are not applied to non-union employees, and the baseline does not assume savings for those employees. Further, the concessions agreed to in recent collective bargaining agreements could be revisited if federal fund availability changes.
 - Savings in fiscal 2021 State health insurance contributions based on truing-up of contribution ratios between the State and its employees.
 - Taken together, the savings from these actions amount to \$56.0 million in general funds or \$77.0 million in total funds in fiscal 2021 and carry forward into fiscal 2022.
 - The assumption of no new COLA or increments in fiscal 2022. A 1% COLA, for example, would cost approximately \$41 million in general funds or \$53 million total funds.
- The baseline provides no inflationary adjustments except for those typically applied to natural gas (5.5%), medical care and medicine/drugs at State facilities (generally 3.5%), utilities/electricity (2.2%), food (2.7%), gas and oil (4.8%), and postage (2.4%). However, as appropriate, the baseline calculations are inflated off of the most recent actuals and is intended to more realistically forecast anticipated spending in fiscal 2022.
- The baseline does not assume any additional general fund spending in fiscal 2021 or 2022 related to COVID-19. It is assumed, for example, that additional testing and tracing costs will be met through existing federal funding allocated to the State for this purpose and that costs associated with vaccine distribution will also be borne by the federal government.

Medicaid

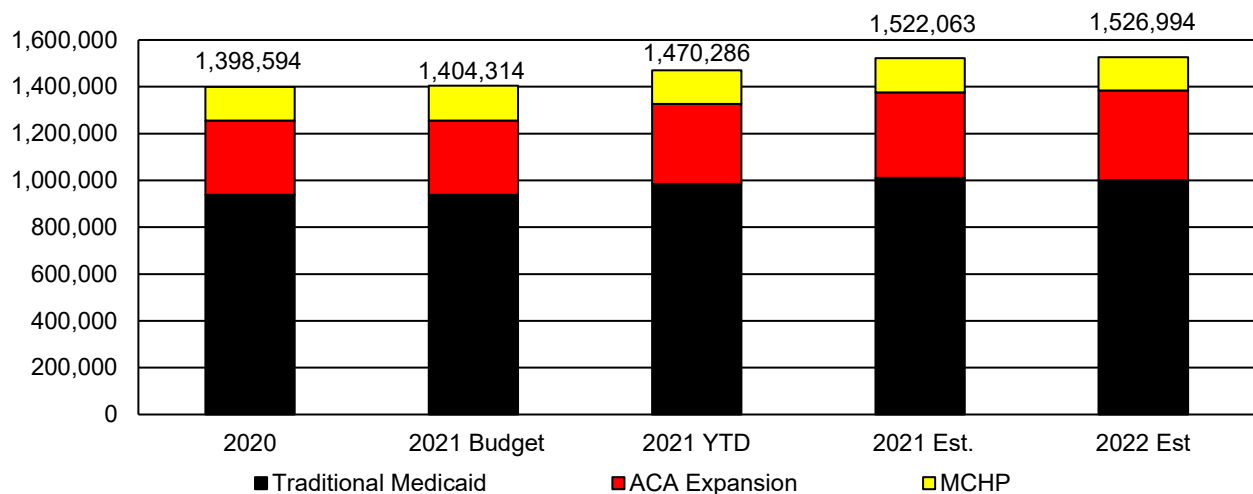
- Medicaid monthly enrollment growth has been strong since the declaration of a National Health Emergency in March. Growth reflects the freeze on annual eligibility redeterminations and economic dislocation.

Medicaid Enrollment – Month-over-month Change September 2019 to September 2020



- Through September of 2020, average monthly enrollment is already 66,000 over that anticipated in the fiscal 2021 budget and is forecast to end up 118,000, or 8.8%, over the budgeted level before plateauing in fiscal 2022.

Medicaid and MCHP Average Annual Monthly Enrollment Fiscal 2020-2022 Estimate



ACA: Affordable Care Act

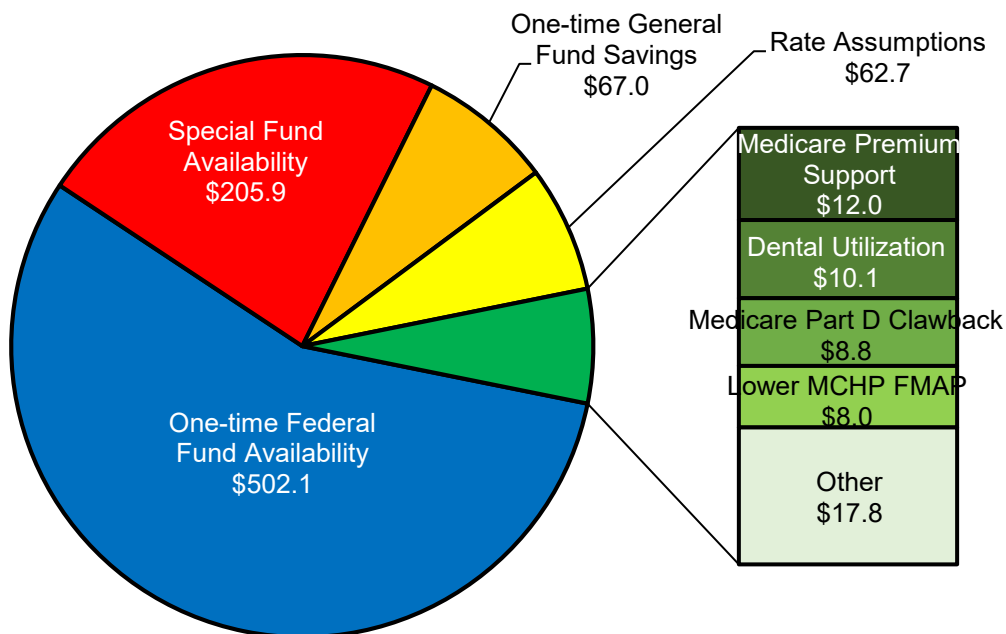
MCHP: Maryland Children's Hospital Program

The Enrollment Impact on the General Fund Budget Is Greatest in Fiscal 2022 (\$ in Millions)

	Fiscal 2020 <u>Actual</u>	Fiscal 2021 <u>Adjusted</u>	Fiscal 2022 <u>Estimate</u>	\$ Change 2021 Adj. 2022 Est.	% Change 2021 Adj.- 2022 Est.
General Funds	3,483.4	3,556.7	4,451.0	894.3	25.1%
Special Funds	979.3	952.2	746.3	-205.9	-21.6%
Federal Funds	7,155.0	7,597.5	8,058.7	461.2	6.1%
Total	11,617.7	12,106.5	13,256.0	1,149.6	9.5%

- The baseline assumes that the public health emergency will continue through March 2021. This would enable the collection of an enhanced federal match on eligible expenses for three quarters of fiscal 2021. Eligibility redeterminations would also begin April 2021.
- Additionally, the baseline assumes that, in fiscal 2021, Medicaid will recoup a fiscal 2020 overpayment of the Medicare Part D clawback, recognizes additional fiscal 2020 enhanced match savings, and benefits from some fiscal 2020 accrual savings.
- However, this relief on the general fund is anticipated to end in fiscal 2021, and together with lower available special fund revenue (primarily a technical change in the accounting for the Rate Stabilization Fund made in the Budget Reconciliation and Financing Act of 2020), drive general fund need in fiscal 2022.
- Assuming stabilization of enrollment, other than backfilling for funding no longer available in fiscal 2022, rate increases are the biggest anticipated additional expense.

Replacing One-time Fiscal 2021 Funding Drives Fiscal 2020 General Fund Growth



FMAP: Federal Medical Assistance Percentages

MCHP: Maryland Children's Health Program

**\$582 Million in Potential Fiscal 2021 General Fund Spending Is More Than Offset by
\$814 Million in Potential Savings from One-time Federal Support, Projected
Underspending, and Other One-time Funding Sources
(\$ in Millions)**

Increased Entitlement Spending: Medicaid including Maryland Children's Health Program and behavioral health (\$341.7 million); and Temporary Cash Assistance, Temporary Disability Assistance Payments, and foster care (\$23.7 million).	\$365.4
Shortfall in Education Trust Fund Revenues: Fiscal 2020 revenue shortfall (\$155.9 million) and fiscal 2021 revenue shortfall (\$26.0 million).	181.9
Long-term Liabilities: Developmental Disabilities Administration (DDA) federal fund audit disallowance for residential habilitation services (\$34.2 million).	34.2
Operating Expenses: Increased costs of \$38.8 million including one-time election costs in the State Board of Elections (\$15.8 million); Department of Public Safety and Correctional Services (DPSCS) inmate medical contract (\$9.1 million); Department of Information Technology funding for the Maryland State Department of Education Business Management System (\$7.5 million); Maryland Higher Education Commission for 529 match program (\$3.5 million); Department of State Police (DSP) restoration of funding for an Aviation Command base cut by the Board of Public Works (BPW) (\$1.3 million); BPW erroneous conviction compensation (\$1.1 million); and other (\$0.4 million). These costs are offset by savings of \$49.4 million including DPSCS vacancy and food cost savings (\$24.2 million); underspending in the Developmental Disabilities Administration (\$12.1 million); reversion of contingent funding in the Maryland Technology Development Corporation for the Maryland Technology Infrastructure Program (\$10.0 million); and in the Maryland Department of Health from available Title X funding based on recent litigation (\$3.0 million).	-10.6
Savings from Anticipated Personnel Actions: Collective bargaining agreements with the State Law Enforcement Officers Labor Alliance foregoing fiscal 2021 general salary increases and increments (\$13.8 million) and the American Federation of Teachers foregoing fiscal 2021 general salary increase (\$1.1 million), and collectively bargained overtime savings (\$5.6 million); and savings in health insurance based on truing-up the employer:employee cost share ration (\$35.5 million).	-56.0
Available Medicaid Funding (Nonenhanced Match): Additional fiscal 2020 enhanced match savings (\$80.0 million); recouping fiscal 2020 claw-back over-payment (\$50.0 million); and fiscal 2020 accrual savings (\$17.0 million).	-147.0
Use of CARES Funding to Offset General Fund Salary Expenses: DSP (\$148.2 million); Department of Natural Resources (\$24.1 million); and Department of General Services (\$5.7 million).	-178.1
Medicaid Enhanced Match Savings: Enhanced match of 6.2% on eligible expenses during national health emergency. Assumed for three quarters of fiscal 2021 (\$422.1 million).	-422.1
Total Deficiencies	-\$232.3

Components of General Fund Budget Change

(\$ in Millions)

Summary of Baseline Budget Growth Compared to Adjusted Legislative Appropriation

	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$1,150.1	67.2%
State Agency Costs	561.2	32.8%
Growth in Operating Budget, Including Anticipated Deficiencies	\$1,711.3	
Pay-as-you-go (PAYGO)	-\$12.7	
Appropriation to Reserve Fund	655.5	
Reversions	0.0	
Total Baseline Increase in State Expenditures	\$2,354.1	

Ongoing Requirements/Entitlements

Medical Assistance	\$894.3
Debt Service	103.0
Education and Library Aid Formulas and Other Grants	53.3
Community College Formula Plus Miscellaneous Grants	49.1
Temporary Cash Assistance Payments Based on Available Temporary Assistance or Needy Families (TANF) Funds and Backfilling for CARES Funding Used to Support Increased Caseload in Fiscal 2021	41.6
Foster Care Primarily through Aligning TANF Funding to Historical Levels	10.8
Other Entitlements and Local Aid	-2.0

State Agency Costs

Statewide Personnel Expenses (Excluding Higher Education):

Health Insurance	56.2
Annualization of January 1, 2021 2.0% General Salary Increase for Employees Who Have Not Agreed to Forgo Increase in Collective Bargaining	39.5
Turnover (Set at 7.6%, which is high but below the 8.7% Turnover Rate in Fiscal 2021)	38.5
Unemployment Insurance (Backfilling for One-time Savings)	6.2
Employee Retirement	3.3

Impact of 2020 Legislation Not Accounted for Elsewhere

Chapter 576 of 2020: Pay Rates and Staffing Requirements at Certain State-operated Health Facilities	25.7
Chapter 572 of 2020: Compensation at Certain State-operated Health Facilities	4.7
Chapters 149 and 150 of 2020: Judiciary Operating Expenses to Implement New Driver's License or Registration Requirements	1.5

Other Major Agency Programmatic and Operating Expenses:

Offset of One-time Use of CARES Funding in Fiscal 2021 to Support Law Enforcement Salaries in Various Agencies	178.1
University System of Maryland: General Funds Required to Cover Growth in Base Costs Not Provided for through Tuition and Higher Education Investment Fund Revenue	85.1
Developmental Disabilities Administration: Chapters 10 and 11 of 2019 4% Rate Increase Plus Program Expansion	40.7
Sellinger Formula for Aid to Private Colleges and Universities	33.0
Justice Reinvestment Act Required Funding to Reflect a Reduction in Sentenced Prison Population	17.7

Behavioral Health Administration: Behavioral Health Services for the Uninsured Including Impact of Chapters 10 and 11 of 2019 4% Rate Increase (\$6.5 Million) and Increase in Crisis Response Grants (\$1.0 Million)	8.1
Morgan State University: Growth in State Operating Grant Support	6.2
Department of Public Safety and Correctional Services (DPSCS): Retention and Longevity Pay Incentives	5.9
DPSCS: Increase in Substance Use Disorder Treatment Contract	5.4
Sunny Day Fund: Marriott Grant	5.0
St. Mary's College of Maryland: Operating Grant	3.7
Maryland State Arts Council Grant Increase	3.7
Maryland Higher Education Commission: Restoration of Promise Scholarships to Mandated Funding Level	3.5
Baltimore City Community College: Restoration of Fiscal 2021 Board of Public Works (BPW) Funding Reduction	3.2
Judiciary: Annualization of Fiscal 2021 2% General Salary Increase	2.3
Information Technology: 700MHz System Maintenance and Radio Replacement	1.8
Maryland Higher Education Commission: Educational Excellence Awards	1.6
Department of Juvenile Services: Per Diem Payments Based on Higher Caseload Due to Reopening of the Courts	1.6
Maryland Department of Health (MDH): Backfilling for One-time Special Fund Support for Local Health Improvement Coalitions	1.0
Commerce: Restoration of Funding for the Cybersecurity Tax Credit (\$1.0 million) Offset by Less Funding for the Maryland Economic Development Assistance Authority and Fund (\$1.0 million) and More Jobs for Marylanders (\$1.0 million)	-1.0
MDH: Statutory Reduction in Grant to the University of Maryland National Capital Region Medical Center (\$3.5 million) and Savings Due to Available Title X Funding (\$2.0 million)	-5.5
State Board of Elections: One-time Fiscal 2021 Election Costs	-15.0
Other	-0.3

Reserve Fund and PAYGO

PAYGO: Re-basing the SEED Community Development Anchor Institution Fund	7.0
PAYGO: Maryland Historic Revitalization Tax Credit	5.5
PAYGO: Aid to Community Colleges Facilities Renewal	4.0
PAYGO: National Capital Strategic Fund	3.0
PAYGO: Comprehensive Flood Management	2.8
PAYGO: BPW Miscellaneous Grants	-1.5
PAYGO: Various Housing Programs Including Baltimore Regional Neighborhood Initiative, Neighborhood Business Works and Rental Housing	-3.5
PAYGO: Healthy Schools Facility Fund	-30.0
Reserve Fund: \$518.8 Million Appropriation to the Rainy Day Fund Plus \$136.7 Million Increase in the Dedicated Purpose Account Including an Increase in the Washington Metropolitan Area Transit Authority Grant to \$125.0 Million (\$28.0 Million), Supplemental Retirement Contribution for State Employees (\$30.5 Million), \$38.2 Million Transfer to Program Open Space, and \$25 Million Each for the Pension and Other Post Employment Benefit Liability Sweepers, Partially Offset by Not Providing Funding for Cybersecurity Assessments (\$10.0 Million)	655.5

Total	\$2,354.1
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State Reserve Fund Activity

Fiscal 2020-2022

(\$ in Millions)

	Rainy Day	Dedicated	Catastrophic
	<u>Fund</u>	<u>Purpose Acct.</u>	<u>Event Acct.</u>
Estimated Balances June 30, 2019	\$876.5	\$0.0	\$2.5
Fiscal 2020 Appropriations	\$443.8	\$215.9	\$0.5
Transfer to General Fund	-158.0	0.0	0.0
May 2020 BPW Reductions ¹	0.0	-97.0	0.0
Grant to WMATA	0.0	-75.0	0.0
DHCD Business Loan Repayment	0.0	0.0	0.9
Interest Earnings	14.9	0.0	0.0
Estimated Balances June 30, 2020	\$1,177.2	\$43.9	\$3.9
Fiscal 2021 Appropriations	\$7.0	\$145.0	\$0.0
Transfer to General Fund	-54.0	0.0	0.0
Governor's Economic Recovery Initiative	-250.0	0.0	0.0
July 2020 BPW Reductions ²	0.0	-38.0	0.0
Fiscal 2020 POS Transfer to General Fund	0.0	-43.9	0.0
Grant to WMATA	0.0	-97.0	0.0
Cybersecurity Assessments	0.0	-10.0	0.0
Interest Earnings	6.0	0.0	0.0
Estimated Balances June 30, 2021	\$886.2	\$0.0	\$3.9
Fiscal 2022 Appropriations	\$525.8	\$243.7	\$0.0
Draw Down Rainy Day Fund Balance to 6%	-240.3	0.0	0.0
Supplemental Retirement Contribution	0.0	-30.5	0.0
Pension Sweeper	0.0	-25.0	0.0
OPEB Liability Sweeper	0.0	-25.0	0.0
Transfer to Program Open Space	0.0	-38.2	0.0
Grant to WMATA	0.0	-125.0	0.0
Interest Earnings	8.2	0.0	0.0
Estimated Balances June 30, 2022	\$1,179.9	\$0.0	\$3.9
Percent of Revenues in Reserve	6.0%		

DHCD: Department of Housing and Community Development

OPEB: Other Post Employment Benefits

POS: Program Open Space

WMATA: Washington Metropolitan Area Transit Authority

¹Cost containment actions adopted at the May 20, 2020 Board of Public Works meeting deleted \$62 million in funding restricted for legislative priorities and reduced funding for the State's contribution to the WMATA capital grant by \$35 million.

²Cost containment actions adopted at the July 1, 2020 Board of Public Works meeting deleted \$10 million in funding for cybersecurity assessment and reduced the State's contribution to the WMATA capital grant by \$28 million.

Part 5

State Employment and Employee Benefits

Baseline Position Changes Fiscal 2021-2022

<u>Department/Service Area</u>	<u>2021 Leg Approp</u>	<u>2022 Baseline</u>	<u>2021-2022 Change</u>
Executive			
Health	6,347	6,369	22
Labor	1,378	1,383	5
General Services	645	638	-7
Education	1,986	1,976	-10
Budget and Management and DoIT	515	504	-11
Juvenile Services	2,012	1,996	-17
Financial and Revenue Administration	2,092	2,075	-17
Legal (Excluding Judiciary)	1,508	1,486	-23
Other Executive	32,201	32,194	-7
<i>Executive Subtotal</i>	48,685	48,621	-57
Higher Education	27,343	26,887	-456
Judiciary	4,068	4,094	26
Legislature	767	767	0
Total	80,863	80,369	-493

Significant Changes Include:

456 higher education positions eliminated.

91.8 vacant Executive Branch positions eliminated by July 1, 2020 Board of Public Works actions.

26 new positions in the Judiciary to add District Court processing clerks.

22 new positions in MDH, including 10 for OHCQ nurse surveyors and 9 related to the transfer of OCCC from the Military Department back to BHA.

5 new positions in MDL related to legislation on clean energy, wage history, and heat standards.

BHA: Behavioral Health Administration

DoIT: Department of Information Technology

MDH: Maryland Department of Health

MDL: Maryland Department of Labor

OHCQ: Office of Health Care Quality

OCCC: Opioid Operational Command Center

Analysis of Vacancies and Turnover Rate
Executive Branch, Excluding Higher Education
Fiscal 2021 Working Appropriation Compared to October 2020 Vacancies

<u>Department/Service Area</u>	<u>Positions</u>	<u>Budgeted Turnover Rate</u>	<u>Vacancies to Meet Turnover</u>	<u>October Vacancies</u>	<u>Vacancies Above (or Below) Turnover</u>	<u>October Vacancy Rate</u>
Largest Six State Agencies						
Public Safety and Correctional Services	9,618	14.4%	1,389	1,523	133	15.8%
Human Services	6,118	7.0%	429	622	193	10.2%
Health	6,347	8.3%	525	646	121	10.2%
Police and Fire Marshal	2,458	6.9%	168	228	60	9.3%
Juvenile Services	1,996	7.2%	144	121	-23	6.1%
Transportation	9,058	6.2%	565	677	112	7.5%
Subtotal	35,594	7.2%	3,220	3,816	596	10.7%
Other Executive						
Legal (Excluding Judiciary)	1,483	13.6%	201	125	-76	8.4%
Executive and Administrative Control	1,594	5.4%	87	191	104	12.0%
Financial and Revenue Administration	2,077	5.6%	116	187	71	9.0%
Budget and Management and DoIT	510	5.0%	26	52	26	10.1%
Retirement	189	9.3%	18	28	10	14.8%
General Services	638	6.7%	43	56	13	8.8%
Natural Resources	1,341	5.4%	72	101	28	7.5%
Agriculture	412	5.8%	24	43	19	10.4%
Labor	1,378	7.3%	101	196	95	14.3%
MSDE and Other Education	1,976	10.5%	208	216	8	10.9%
Housing and Community Development	331	6.0%	20	26	6	7.9%
Commerce	188	6.3%	12	13	1	6.9%
Environment	883	6.5%	58	115	57	13.0%
Subtotal	13,001	7.7%	984	1,348	364	10.4%
Executive Branch Subtotal	48,595	8.5%	4,204	5,164	960	10.6%

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

Note: Includes reductions made by the Board of Public Works in July 2020

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

Part 6

Local Government Assistance

Aid to Public Schools
Fiscal 2021-2022
(\$ in Millions)

	<u>2021</u>	<u>2022</u>	<u>Change</u>
Total Baseline	\$7,373	\$7,320	-\$53
Remove Fiscal 2021 Funds to Backfill for Fiscal 2020 ETF Shortfall	-156		
Total Funds Supporting Public Schools in Fiscal Year	\$7,217	\$7,320	\$103
General Fund Baseline	\$6,723	\$6,674	\$53
Remove Fiscal 2021 Funds to Backfill for Fiscal 2020 ETF Shortfall	-156		
General Funds Supporting Public Schools in Fiscal Year	\$6,567	\$6,775	\$209
Special Fund Baseline	\$650	\$544	-\$106

ETF: Education Trust Fund

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

	<u>Fiscal 2022 State Aid Amount</u>	<u>Percent of Total</u>
Public Schools	\$7,319.5	85.3%
County/Municipal	736.2	8.6%
Community Colleges	379.9	4.4%
Libraries	84.1	1.0%
Local Health	62.5	0.7%
Total	\$8,582.1	100.0%

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

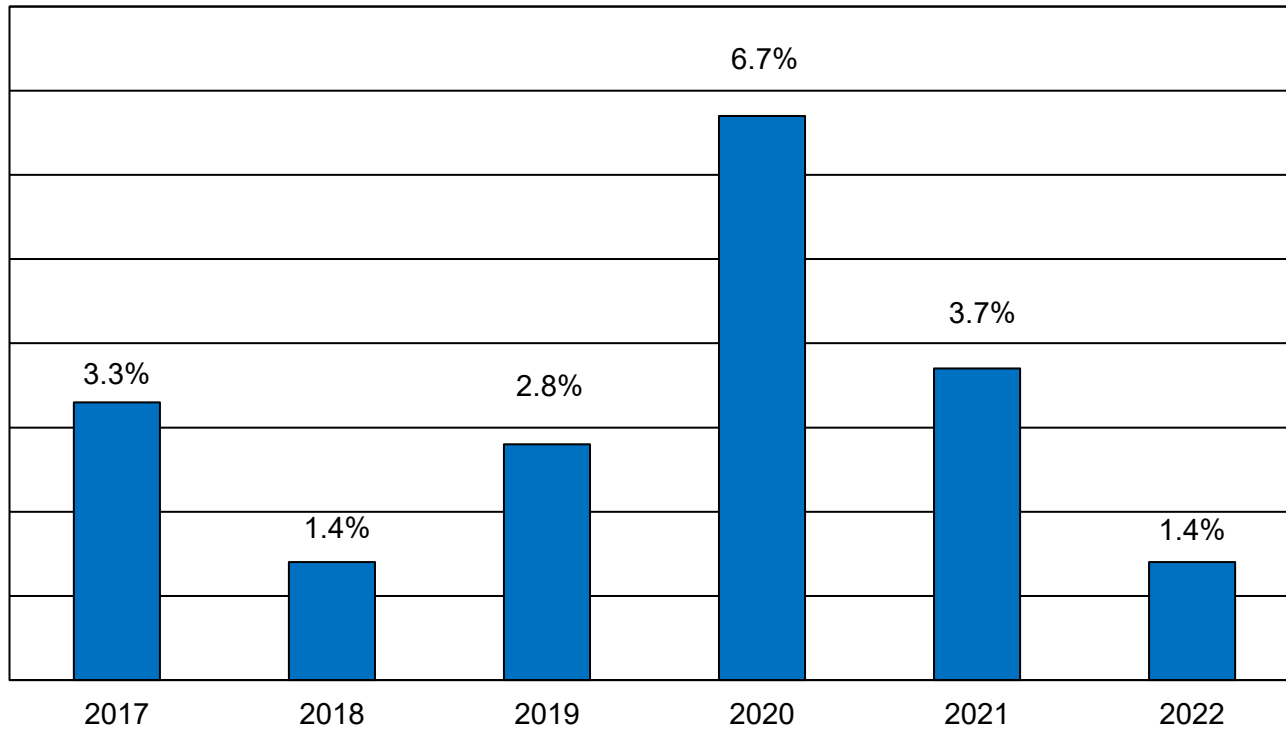
	<u>Fiscal 2022 Aid Change</u>	<u>Percent Change</u>
Public Schools	\$102.8	1.4%
County/Municipal	-31.0	-4.0%
Community Colleges	49.1	14.8%
Libraries	0.2	0.3%
Local Health	1.1	1.8%
Total	\$122.2	1.4%

State Aid by Major Programs
State Funds
Fiscal 2020-2022
(\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2021-2022</u> <u>\$ Change</u>	<u>2021-2022</u> <u>% Change</u>
Public Schools					
Foundation Program	\$3,140.4	\$3,218.4	\$3,119.9	-\$98.5	-3.1%
Geographic Cost Index	145.5	149.5	145.0	-4.6	-3.1%
NTI Education Grant	65.3	69.7	62.8	-7.0	-10.0%
Declining Enrollment Grant	18.9	7.6	0.0	-7.6	-100.0%
Hold Harmless Grant	11.9	9.5	0.0	-9.5	-100.0%
Kirwan Blueprint Funding	245.7	294.7	500.0	205.3	69.7%
Compensatory Aid	1,330.4	1,364.7	1,472.0	107.2	7.9%
Student Transportation	303.0	310.2	296.4	-13.7	-4.4%
Special Education – Formula Aid	303.3	314.9	289.4	-25.5	-8.1%
Special Education – Nonpublic Placements	123.5	123.9	124.5	0.6	0.5%
Limited English Proficiency Grant	311.1	348.2	328.5	-19.7	-5.7%
Guaranteed Tax Base	43.7	41.2	54.7	13.5	32.8%
Head Start/Pre-kindergarten	50.8	75.2	29.6	-45.6	-60.6%
Other Education Programs	142.8	138.6	139.8	1.2	0.9%
Subtotal Direct Aid	\$6,236.1	\$6,466.4	\$6,562.6	\$96.2	1.5%
Retirement Payments	\$767.9	\$750.3	\$756.9	\$6.6	0.9%
Total Public School Aid	\$7,004.0	\$7,216.7	\$7,319.5	\$102.8	1.4%
Library Aid	\$83.2	\$83.8	\$84.1	\$0.2	0.3%
Community College Aid	\$330.7	\$330.8	\$379.9	\$49.1	14.8%
Local Health Grants	\$59.1	\$61.4	\$62.5	\$1.1	1.8%
County/Municipal Aid					
Transportation	\$261.7	\$270.0	\$254.4	-\$15.7	-5.8%
Public Safety	148.2	186.4	174.2	-12.2	-6.6%
Disparity Grant	146.2	158.3	147.5	-10.8	-6.9%
Gaming Impact Grant	67.5	90.8	91.7	1.0	1.1%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	32.4	34.0	40.8	6.7	19.8%
Total County/Municipal Aid	\$683.7	\$767.2	\$736.2	-\$31.0	-4.0%
Total State Aid	\$8,160.7	\$8,460.0	\$8,582.1	\$122.2	1.4%

NTI: net taxable income

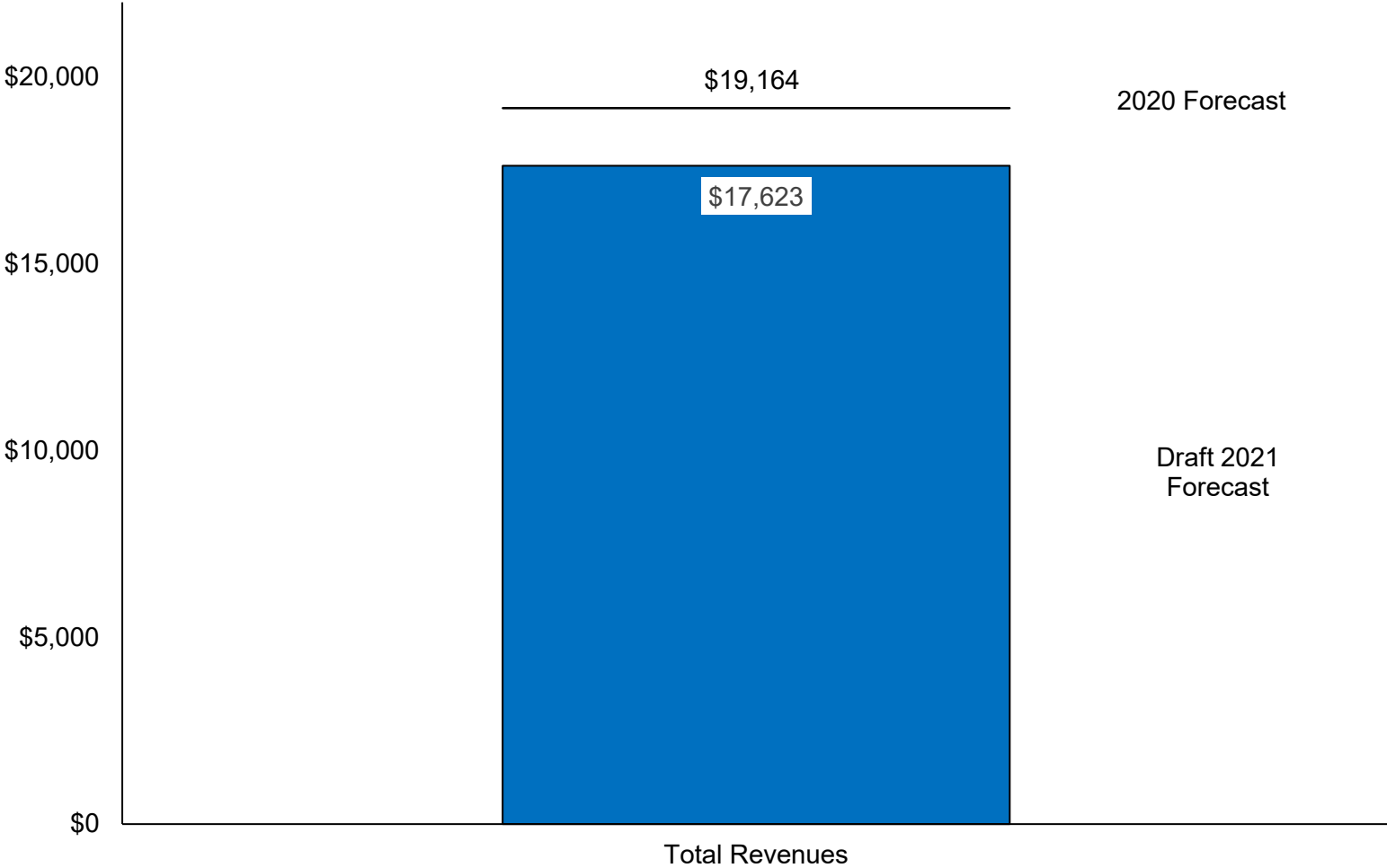
Annual Change in State Aid to Local Governments Fiscal 2017-2022



Part 7

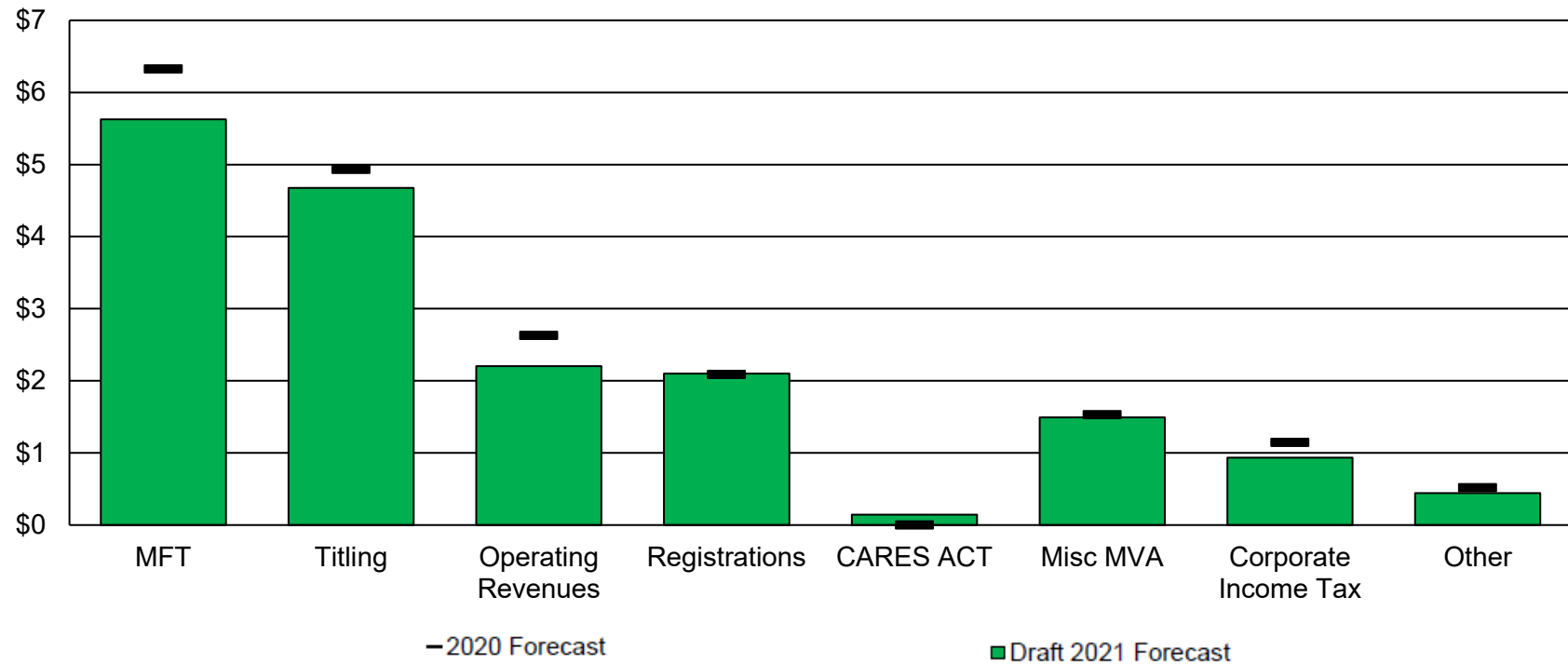
Transportation

Transportation Trust Fund Revenues
2020 Forecast vs. Draft 2021 Forecast
Fiscal 2021-2025
(\$ in Millions)



Source: Maryland Department of Transportation; Department of Legislative Services

Transportation Trust Fund Revenues
2020 Forecast vs. Draft 2021 Forecast
Fiscal 2021-2025
(\$ in Billions)



CARES: Coronavirus Aid, Relief, and Economic Security
MFT: Motor Fuel Taxes
MVA: Motor Vehicle Administration

Source: Maryland Department of Transportation; Department of Legislative Services

Transportation Trust Fund Forecast Comparison
Fiscal 2020-2025 vs. Fiscal 2021-2026 Six-year Totals
(\$ in Millions)

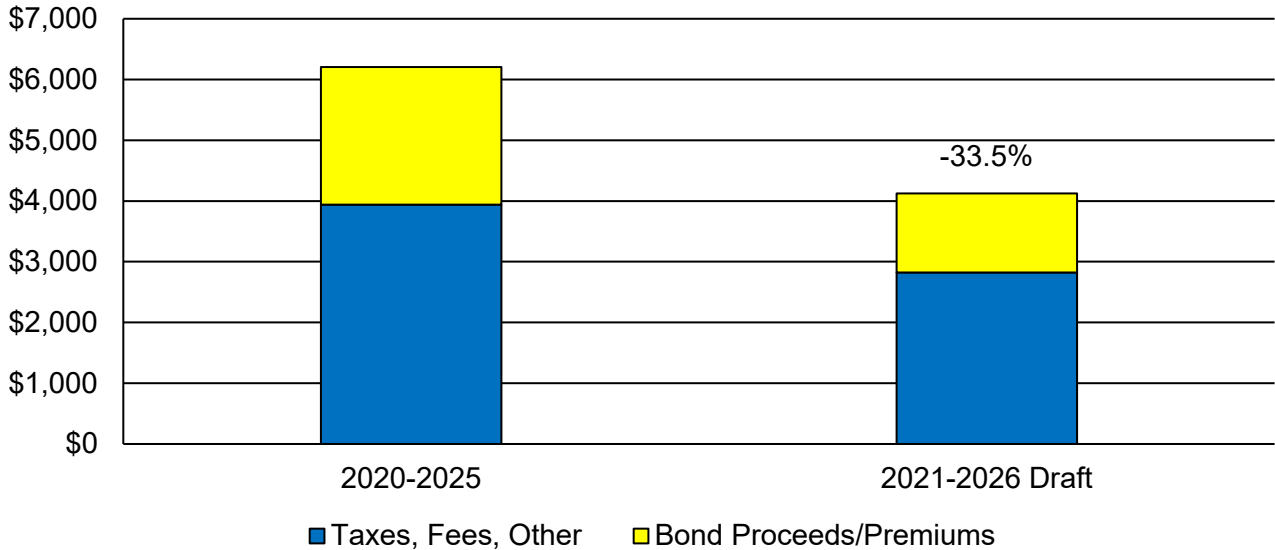
	<u>MDOT Final</u> <u>2020-2025</u>	<u>MDOT Draft</u> <u>2021-2026</u>	<u>Variance</u>
Revenues			
Taxes and Fees			
Motor Vehicle Fuel Taxes	\$7,500	\$6,864	-\$636
Titling Taxes	5,864	5,679	-185
Sales Tax -Rental Vehicles	222	132	-91
Corporate Income Tax	1,332	1,149	-183
Registration Fees	2,488	2,528	40
Miscellaneous Motor Vehicle Fees	1,837	1,799	-38
Subtotal – Taxes and Fees	\$19,242	\$18,151	-\$1,092
Other Revenues			
Operating Revenues	\$3,104	\$2,729	-\$375
Federal Operating Assistance	638	636	-2
Bond Proceeds/Premiums	2,267	1,304	-963
CARES Act	0	144	144
Other	409	314	-95
Change in Fund Balance	144	-61	-205
Subtotal – Other Revenues	\$6,562	\$5,066	-\$1,496
Total Revenues	\$25,804	\$23,217	-\$2,588
Expenditures			
Debt Service	\$2,696	\$2,655	-\$41
Operating Budget	14,417	14,092	-325
P3 Availability Payments	458	389	-69
Deductions to Other Agencies	477	478	2
HUR and Local Grants	1,540	1,382	-158
State Capital Program	6,217	4,221	-1,996
Total Expenditures	\$25,804	\$23,217	-\$2,588

CARES: Coronavirus Aid, Relief, and Economic Security
HUR: Highway User Revenues

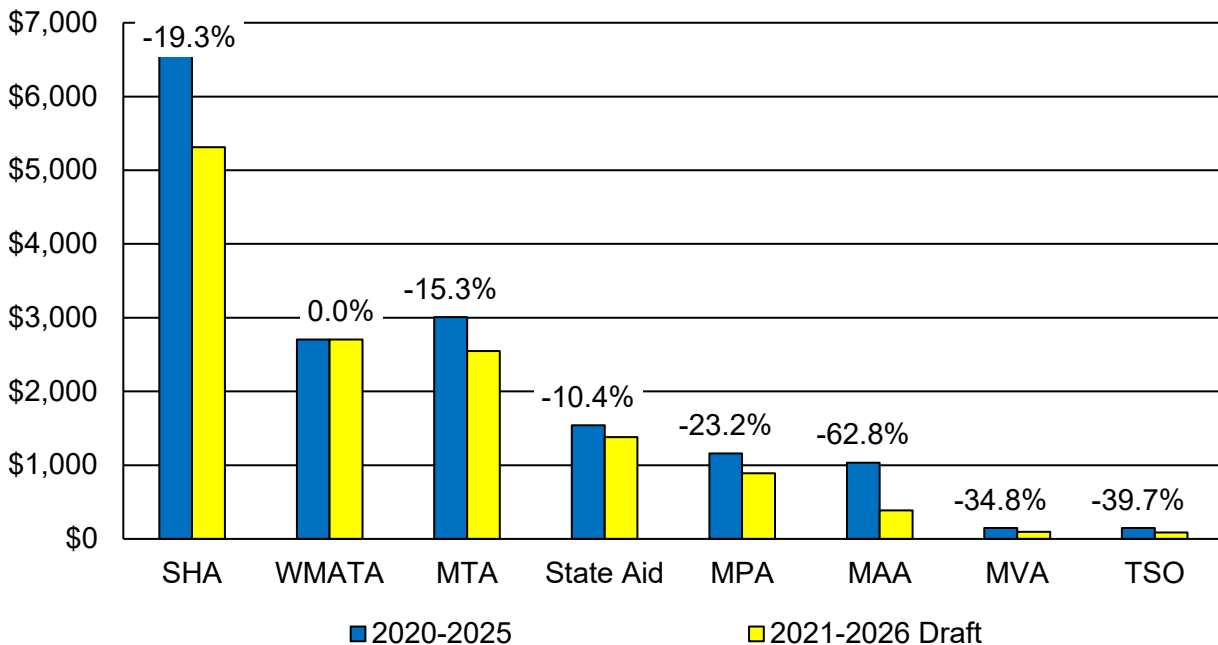
MDOT: Maryland Department of Transportation
P3: public-private partnership

Consolidated Transportation Programs
Fiscal 2020-2025 v. Fiscal 2021-2026 Draft
Six-year Funding and Percent Change between Programs

Special Funds



State Funds by Mode



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 the Washington Metropolitan Area Transit Administration.

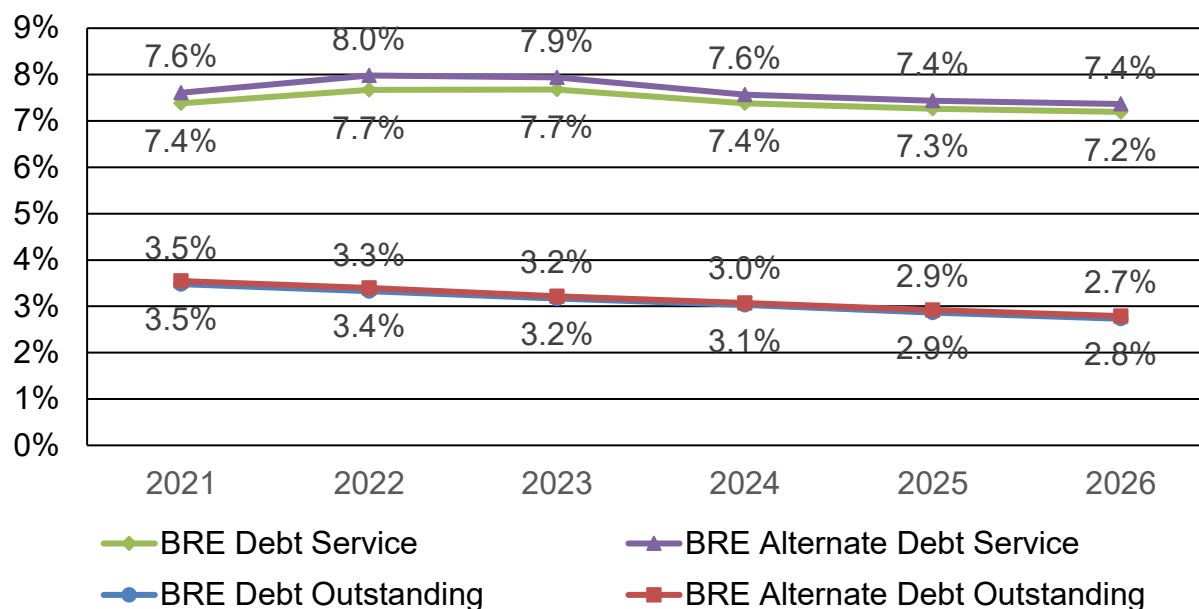
Part 8

Capital Program and State Debt Policy

State Debt Policy – Affordability Ratios

- The Capital Debt Affordability Committee (CDAC) reviews and makes recommendations to the Governor and General Assembly on State debt policy. CDAC has two affordability criteria: State debt service cannot exceed 8% of State revenues; and State debt outstanding cannot exceed 4% of personal income.
- In their 2019 reports, CDAC and the Spending Affordability Committee (SAC) planned a fiscal 2022 authorization totaling \$1,105 million:
 - Since 2015, SAC has recommended limiting increases in authorizations to 1%. This authorization is consistent with this SAC policy.
 - This level of debt is affordable under both the Board of Revenue Estimates (BRE) official revenue estimate and alternate BRE revenue estimate.
- CDAC recommends maintaining the fiscal 2022 general obligation bond authorization at \$1,095 million and increasing this by \$10 million annually beginning in fiscal 2023.

**Affordability Ratios
Fiscal 2021-2026**



BRE: Board of Revenue Estimates

Source: Bureau of Revenue Estimates; Department of Legislative Services

State Debt Policy – Debt Service Costs

- The Annuity Bond Fund (ABF) supports general obligation bond debt service costs. State property tax revenues are deposited into the ABF. General funds are required if there is a shortfall in dedicated revenues.
- Bond counsel advises that the amount of bond sale premiums supporting debt service cannot exceed the interest payments in an issuance's first three years. This limits the amount of premiums that can support debt service.

Annuity Bond Fund Forecast Fiscal 2021-2026 (\$ in Millions)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>Annual % Change</u>
Special Fund Revenues							
State Property Tax Receipts ¹	\$893	\$899	\$903	\$912	\$921	\$931	0.9%
Bond Sale Premiums	120	142	102	14	0	0	-100.0%
Other Revenues	2	2	2	2	2	2	0.0%
ABF Fund Balance							
Transferred from Prior Year	210	95	1	1	1	1	-65.1%
Subtotal Special Fund Revenues	\$1,327	\$1,139	\$1,009	\$929	\$924	\$935	-6.8%
General Funds	131	234	407	520	554	590	35.1%
Transfer Tax Special Funds ²	7	7	7	7	7	2	-24.8%
Federal Funds	10	9	8	7	5	3	-24.2%
Total Revenues	\$1,373	\$1,389	\$1,431	\$1,464	\$1,490	\$1,529	0.7%
Debt Service Expenditures³	\$1,278	\$1,388	\$1,430	\$1,463	\$1,489	\$1,528	3.6%
End-of-year ABF Balance	\$95	\$1	\$1	\$1	\$1	\$1	

ABF: Annuity Bond Fund

¹ The forecast assumes that State property tax rates remain at \$0.112 per \$100 of assessable base.

² This supports \$70 million of general obligation bonds issued in 2010 for Program Open Space.

³ Fiscal 2022 includes an arbitrage rebate.

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

Source: Department of Assessments and Taxation; State Treasurer's Office; Department of Legislative Services

State Debt Policy – Bond Sale Premiums

- In recent years, general obligation (GO) bond sales have sold at a large premium. These premiums have mostly been deposited into the Annuity Bond Fund (ABF) with some of the proceeds also supporting capital projects. This is attributable to:
 - historically low interest rates; and
 - the State issuing fixed rate bonds. If interest rates increase, fixed rate bonds hold their value better if they are bought at a premium.
- When selling bonds, every effort should be made to minimize the interest rate paid by the State. Underwriters should have the flexibility to structure amortization tables so that the marketability of the bonds is maximized. In recent years, underwriters have structured coupon rates on bonds so that they have generally ranged between 3.50% and 5.00%.

New Advice Regarding the Use of Bond Sale Premiums

- Bond counsel has recently reinterpreted its advice regarding the amount of premiums that can be applied to debt service from each bond sale. Premiums supporting debt service are limited to capitalized interest, which bond counsel defines as three years' debt service.¹
- The State Treasurer's Office anticipates issuing \$535 million of GO bonds in the winter 2021 sale. The Department of Legislative Services estimates that:
 - the first three years of debt service for this bond sale is \$72.2 million; and
 - under current market conditions, it is likely that this sale will realize premiums well in excess of \$72.2 million.
- If there are additional premiums, the State can:
 - authorize additional capital projects; or
 - resize the bond sale to reduce debt service costs.
- **Unless the State property tax rate is increased, limitations on the use of bond premiums for debt service will result in additional general fund expenditures for debt service. To minimize the impact on the General Fund, the Spending Affordability Committee may wish to consider recommending the use of bond premiums to resize bond sales.**

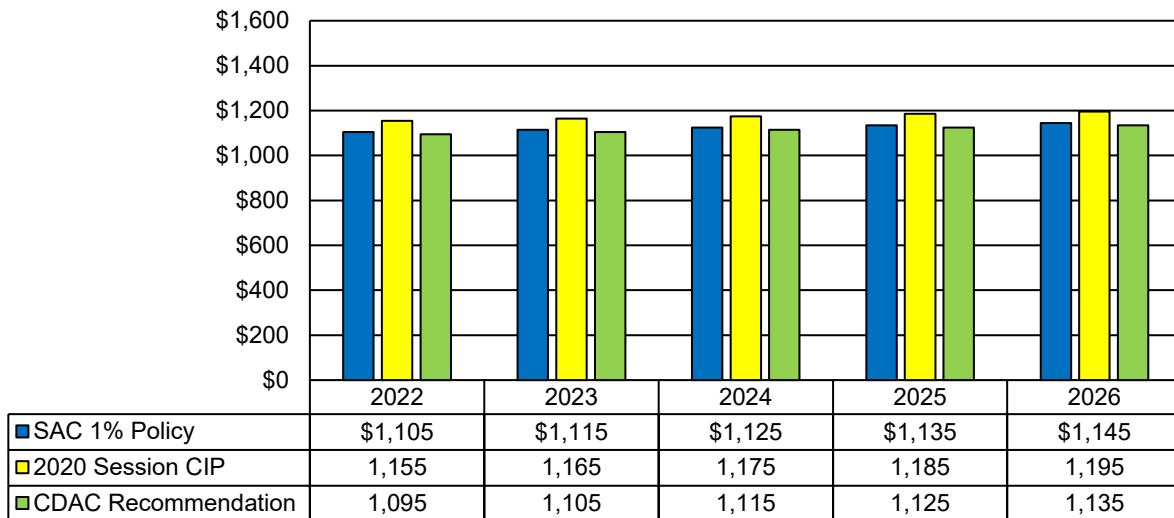
¹ The July 2020 bond sale realized a \$179 million premium. Consistent with the new bond counsel advice, deposits into the ABF were \$149 million. The remaining proceeds will be used for capital projects.

Capital Program

Capital Debt Affordability Committee Recommends Reduced General Obligation Bond Authorization Levels

- The Capital Debt Affordability Committee (CDAC) recommended a level of general obligation (GO) bond authorizations for the five-year forecast period beginning in fiscal 2022 below both the level recommended by the Spending Affordability Committee (SAC) in December 2019 and the amount currently programmed in the 2020 *Capital Improvement Program* (CIP). The CDAC recommendation holds the fiscal 2022 authorization level at \$1,095 million, which is the same amount authorized for fiscal 2021, while maintaining an annual 1% increase through the planning period. This results in an annual authorization level:
 - \$10 million below the SAC recommendation, or \$50 million through the five-year planning period; and
 - \$60 million below the amount currently programmed in the 2020 CIP, or \$300 million through the planning period.

CDAC Recommended CIP Planned and SAC Recommended Authorization Levels Fiscal 2022-2026 (\$ in Millions)



CDAC: Capital Debt Affordability Committee
CIP: *Capital Improvement Program*

SAC: Spending Affordability Committee

Source: 2020 *Capital Improvement Program*; Department of Budget and Management

**Commitments in Excess of CDAC Recommended GO Bond
Authorization Levels
Fiscal 2022
(\$ in Millions)**

	<u>2022</u>
CDAC Recommended GO Bond Authorization Levels	\$1,095.0
Bond Proceeds Above Debt Service – July 2020 Bond Sale (Amount from Bond Sales in Fiscal 2022 TBD)	31.0
<i>Subtotal GO Bonds and Bond Premium</i>	<i>\$1,126.0</i>
Commitments	
GO Bonds Programmed in 2020 CIP	\$1,155.0
Projects Deferred from Fiscal 2021 / Moved Up in the Plan to Fiscal 2022	120.0
Projects Preauthorized Above CIP (Excluding Accelerated Projects)	70.0
Revised Project Schedules	- 60.0
<i>Subtotal Net Commitments</i>	<i>\$1,285.0</i>
Additional Pressures	
Potential Bond Replacement for General Fund PAYGO Baseline (Includes Mandates, POS Repayments, and Ongoing Programs)	\$78.2
Legislative – Local Initiatives (\$45 Million Average Fiscal 2019-2021)	45.0
Potential Replacement of Reductions to Fiscal 2021 PAYGO General Funds	15.0
<i>Subtotal Additional Pressures</i>	<i>\$138.2</i>
Total Commitments and Additional Pressures	\$1,423.2
Commitments and Pressures Above Recommended GO Bond Authorization Level and Available Bond Premium	\$297.2

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

PAYGO: pay-as-you-go
POS: Program Open Space
TBD: to be determined

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: 2020 *Capital Improvement Program*; Department of Legislative Services

PAYGO General Fund Forecast
Fiscal 2020-2026
(\$ in Millions)

	2021 Legislative Approp	2021 Working Approp	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2022-2026 Forecast
Mandates								
DNR – Transfer Tax Repayment – (Chapter 10 of 2016 as amended by Chapter 10 of 2018) – Dedicated Purpose Account	\$0.0	\$0.0	\$38.2	\$16.7	\$11.8	\$6.0	\$6.0	\$78.7
MDE Comprehensive Flood Management (Chapter 652 of 2019)	0.2	0.2	3.0	2.0	0.0	0.0	0.0	5.0
Healthy School Facility Fund (Chapter 561 of 2018)	30.0	30.0	0.0	0.0	0.0	0.0	0.0	0.0
School Safety Enhancement (Chapter 14 of 2018)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	50.0
DHCD SEED Community Development Anchor Institution Fund (Chapter 31 of 2016 - Chapter 25 of 2019)	5.0	3.0	10.0	10.0	10.0	10.0	10.0	50.0
DHCD National Capital Strategic Fund (Ch. 732 of 2019)	7.0	4.0	7.0	7.0	7.0	7.0	0.0	28.0
Aid to Community Colleges – Facilities Renewal Program (Chapters 687 and 688 of 2018)	4.0	0.0	4.0	4.0	4.0	4.0	4.0	20.0
Subtotal Mandates	\$56.2	\$47.2	\$72.2	\$49.7	\$42.8	\$37.0	\$30.0	\$231.7
Other								
DNR – Transfer Tax Repayment (Chapter 10 of 2016 as amended by Chapter 10 of 2018) – Dedicated Purpose Account	\$0.0	\$0.0	\$0.0	\$10.8	\$10.8	\$10.8	\$10.8	\$43.2
Nonpublic School Safety Improvements	3.5	3.5	3.5	3.5	3.5	3.5	3.5	17.5
Maryland Heritage Structure Rehabilitation Tax Credit	9.0	3.5	9.0	9.0	9.0	9.0	9.0	45.0
DHCD Baltimore Regional Neighborhood Initiative (Chapter 29 of 2016)	0.0	0.0	9.0	0.0	0.0	0.0	0.0	9.0
DHCD Strategic Demolition Fund (CORE)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DHCD Rental Housing Program	12.0	12.0	0.0	0.0	0.0	0.0	0.0	0.0
DHCD Neighborhood Business Works Program	0.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Environment – Hazardous Substance Clean-up Program	0.5	0.0	0.0	1.0	1.0	1.0	1.0	4.0
BPW – Miscellaneous Grants	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Dedicated Purpose Account – Public School Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dedicated Purpose Account – Public School Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dedicated Purpose Account – DHCD Rental Stratetic Demo	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subtotal Other	\$27.0	\$21.0	\$21.5	\$24.3	\$24.3	\$24.3	\$24.3	\$118.7
Total General Fund PAYGO Capital	\$83.2	\$68.2	\$93.7	\$74.0	\$67.1	\$61.3	\$54.3	\$350.4

BPW: Board of Public Works

CORE: Creating Opportunities for Renewal and Enterprise

DHCD: Department of Housing and Community Development

DNR: Department of Natural Resources

PAYGO: pay-as-you-go