
Spending Affordability Briefing

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

October 14, 2003

Executive Summary

- Current revenues are expected to grow in 2004 and 2005, consistent with a moderate, and later than expected, economic recovery.
- Through 2004, budget balance has been attained through one-time and short-term revenues.
- Despite the addition of new revenues and spending restraint, a significant structural shortfall continues, potentially reaching \$1 billion in fiscal 2005.

General Fund: Recent History and Outlook

Fiscal 2002 to 2005

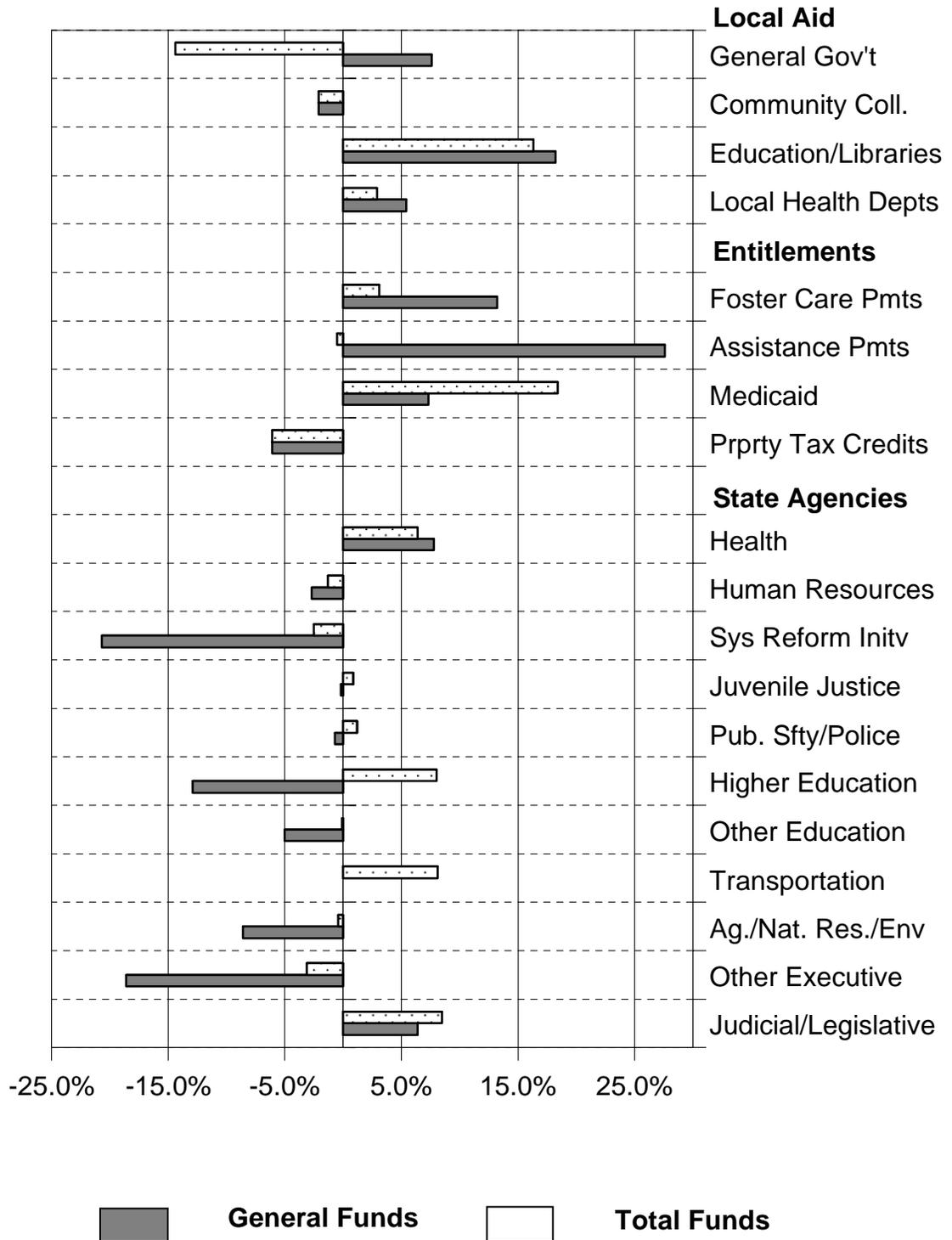
(\$ in Millions)

| | Actual | | Forecast | |
|---|-----------------|-----------------|-----------------|------------------|
| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
| Funds Available | | | | |
| Current On-Going Revenues | \$9,356 | \$9,281 | \$9,882 | \$10,316 |
| Balances & Transfers | 1,337 | 1,119 | 499 | 334 |
| One-time Federal Aid | - | 123 | 244 | - |
| Short-term Revenues | 29 | 36 | 88 | - |
| Subtotal Funds Available | \$10,722 | \$10,559 | \$10,713 | \$10,650 |
| Appropriations, Deficiencies, and Cost Containment | | | | |
| Ongoing Operating Costs & Deficiencies | \$10,029 | \$10,208 | \$10,498 | \$11,320 |
| Capital | 321 | 48 | 9 | 29 |
| Appropriations to Reserve Fund | 222 | 181 | - | 9 |
| Prior Year Reversions | (160) | | | |
| Subtotal Spending | \$10,413 | \$10,436 | \$10,507 | \$11,358 |
| Closing Balance/Projected Shortfall | \$309 | \$123 | \$206 | (\$707) |
| Structural Balance | (\$673) | (\$926) | (\$615) | (\$1,004) |
| Ratio of Ongoing Revenues to Ongoing Expenses | 93% | 91% | 94% | 91% |
| Reserve Fund Activity | | | | |
| Appropriations to Reserve Fund | \$172 | \$181 | \$0 | \$9 |
| Transfers to General Fund | (533) | (249) | - | - |
| Net Change | (\$361) | (\$68) | \$0 | \$9 |
| Estimated Rainy Day Fund Balance – June 30 | \$548 | \$490 | \$498 | \$518 |

**Ongoing Revenue Enhancements
Implemented in 2002 and 2003
Fiscal 2004 Impact
(\$ in Millions)**

| | |
|-----------------------------------|----------------|
| Tobacco Tax Increase | \$70.2 |
| Tax Compliance Measures | 39.6 |
| Increase in Corporate Filing Fees | 59.4 |
| State Property Tax Increase | 165.8 |
| Vital Records/Other Fees | 4.9 |
| Total | \$339.9 |

Ups and Downs Under Cost Containment Budget Change FY 2002 - 04

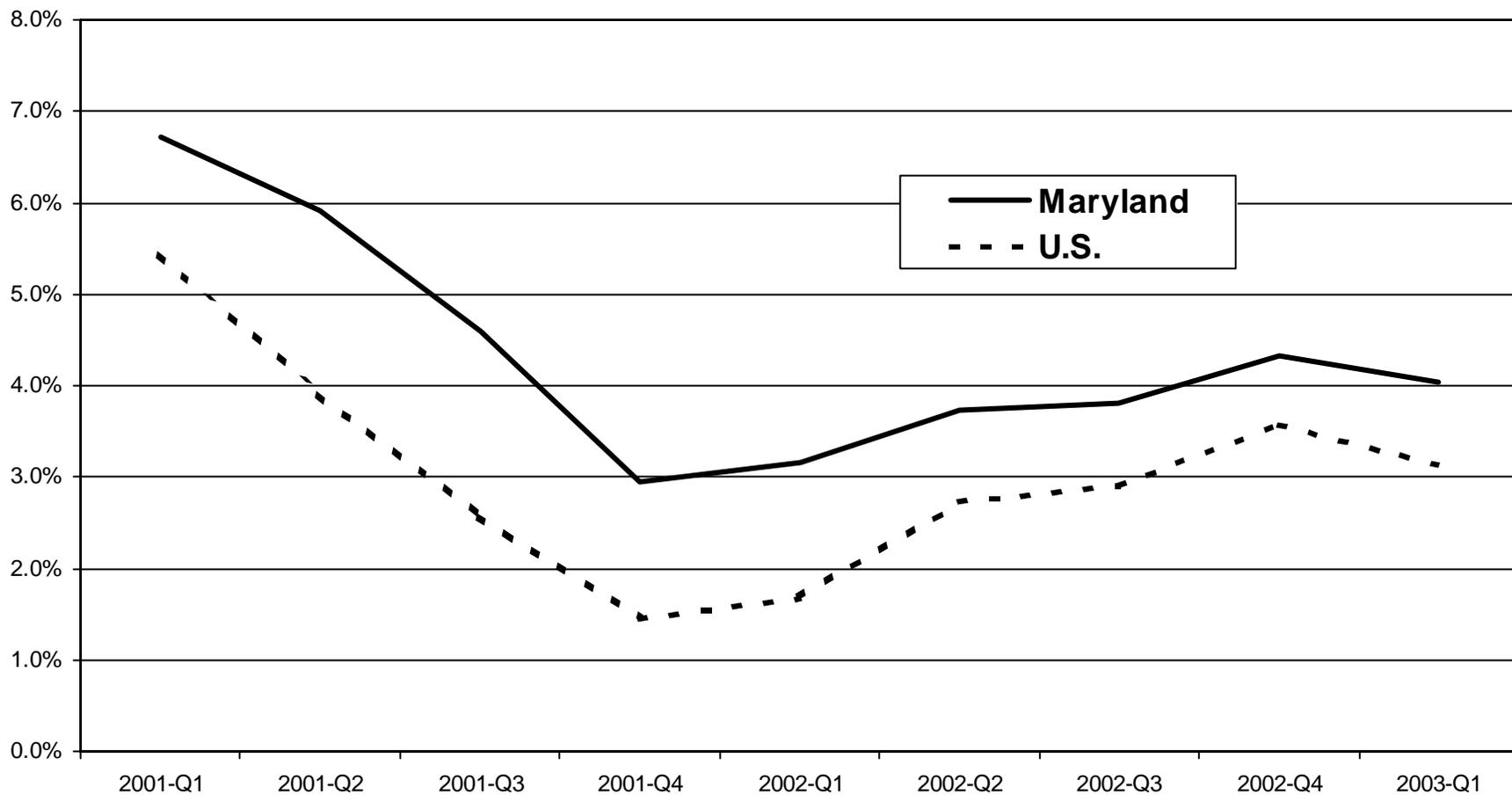


Economic Performance and Outlook

- The Maryland economy continues to outperform the nation by a significant degree.
- After starting the year off weakly, the Maryland economy has begun to pick up over the last few months. Whether this trend will be sustained is still an open question.
- Overall, economic growth in 2003 is turning out to be slower than originally forecasted by the Board of Revenue Estimates. As a result, current economic forecasts show weaker growth, especially in 2003 and 2004, relative to the forecast from last December.

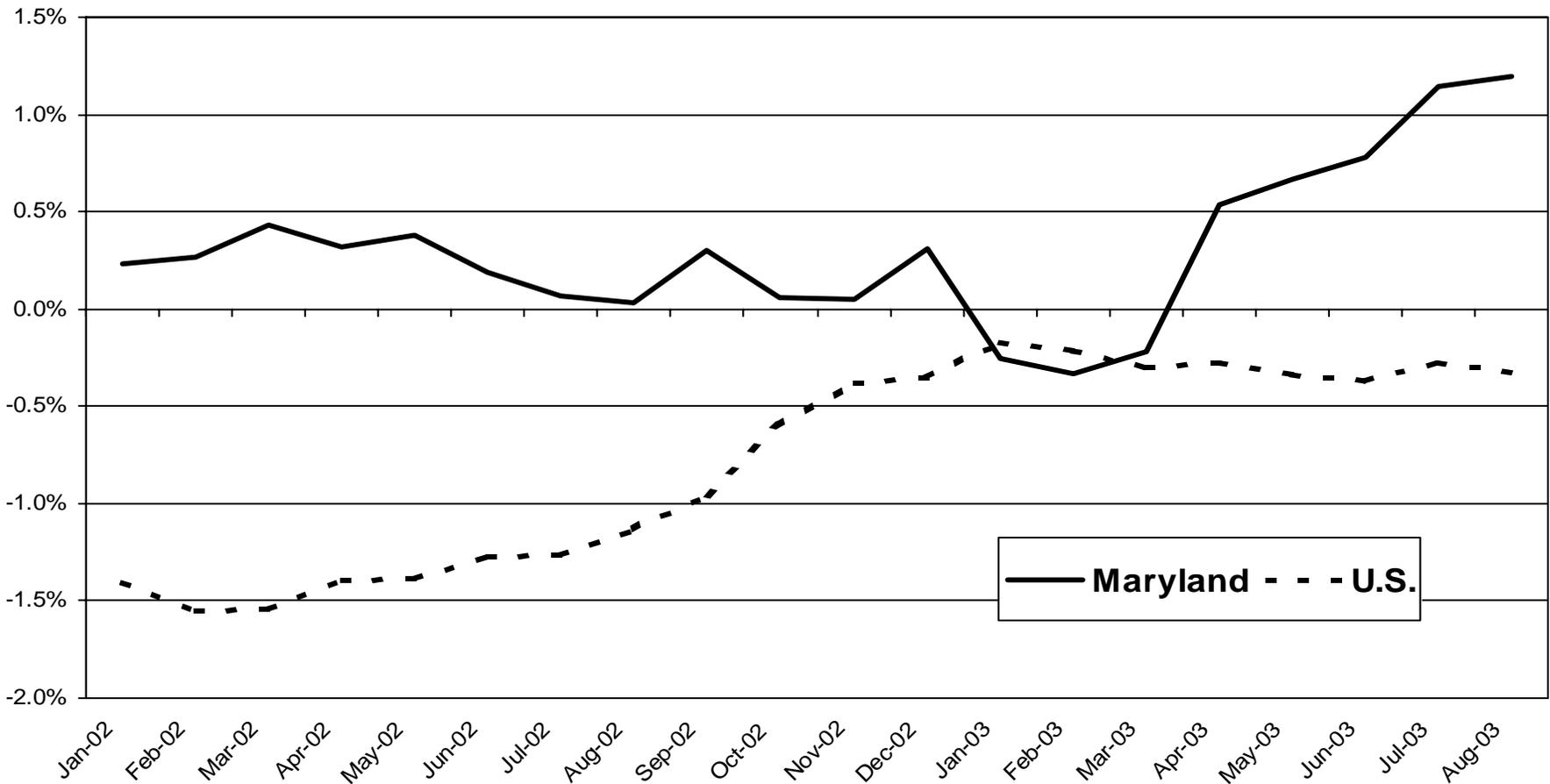
U.S. and Maryland Personal Income 2001 through 2003

Year-over-year Percent Change



U.S. and Maryland Employment* January 2002 through August 2003

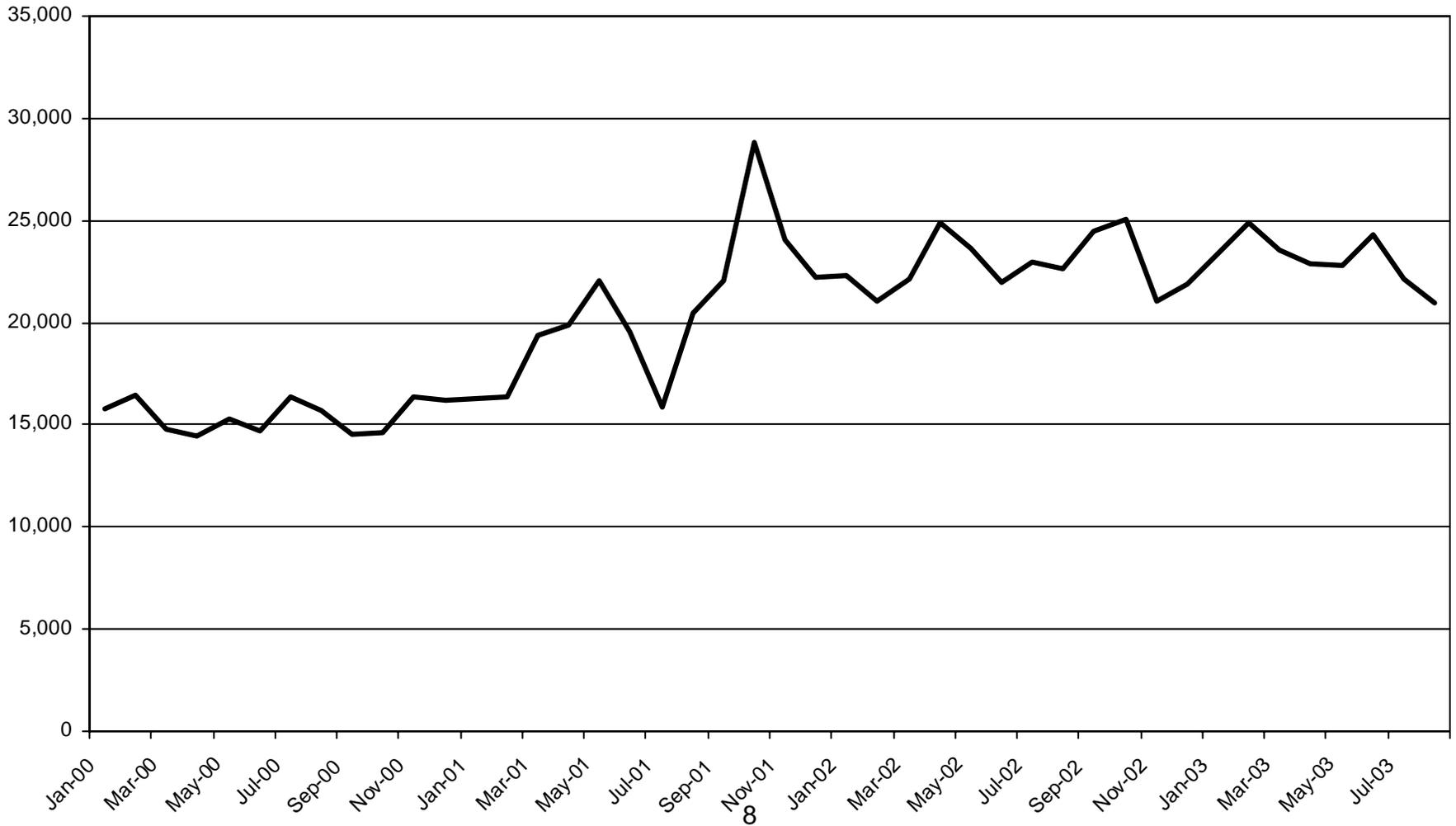
Year-over-year Percent Change



* Based on seasonally-adjusted data

Initial Claims for Unemployment Insurance*

January 2000 through August 2003



* Seasonally-adjusted monthly data

Maryland Economic Forecasts

September 2003 and December 2002

Year-over-year Percent Change

| Calendar <u>Year</u> | Employment | | Personal Income | |
|-------------------------|------------------|------------------|------------------|------------------|
| | <u>Dec. 2002</u> | <u>Sep. 2003</u> | <u>Dec. 2002</u> | <u>Sep. 2003</u> |
| 2000 | 2.6% | 2.6% | 7.8% | 8.1% |
| 2001 | 0.8% | 0.7% | 4.9% | 5.0% |
| 2002 | -0.6% | 0.2% | 4.1% | 3.8% |
| 2003E | 1.0% | 0.7% | 4.4% | 4.0% |
| 2004E | 1.6% | 1.4% | 5.3% | 4.5% |
| 2005E | 1.9% | 1.9% | 5.3% | 4.9% |
| 2006E | 1.5% | 1.9% | 5.0% | 5.2% |

Source: December 2002 data is from the Board of Revenue Estimates. The September 2003 data is from the Department of Legislative Services.

Fiscal 2003 General Fund Revenues

(\$ in Millions)

| <u>Source</u> | <u>Actual</u> | <u>Fiscal 2003</u> | | <u>Difference</u> | <u>Percent</u> |
|---|------------------|--------------------|------------------|-------------------|-----------------|
| | <u>FY 2002</u> | <u>Estimate*</u> | <u>Actual</u> | | <u>Change</u> |
| | | | | | <u>FY 02-03</u> |
| Personal Income Tax ⁽¹⁾ | \$4,771.6 | \$4,699.9 | \$4,703.7 | \$3.8 | -1.4% |
| Sales and Use Tax | 2,642.5 | 2,709.5 | 2,697.1 | -12.4 | 2.1% |
| State Lottery | 413.1 | 432.0 | 422.9 | -9.0 | 2.4% |
| Corporate Income Tax ⁽¹⁾ | 273.2 | 312.6 | 288.3 | -24.3 | 5.5% |
| Business Franchise Taxes | 145.2 | 154.8 | 143.4 | -11.5 | -1.3% |
| Insurance Premiums Tax ⁽¹⁾ | 193.7 | 214.5 | 228.5 | 13.9 | 17.9% |
| Estate & Inheritance Taxes | 184.7 | 133.9 | 142.3 | 8.4 | -23.0% |
| Tobacco Tax | 209.9 | 212.4 | 199.2 | -13.2 | -5.1% |
| Alcohol Beverage Taxes | 25.7 | 26.2 | 25.7 | -0.5 | -0.4% |
| Motor Vehicle Fuel Tax | 12.3 | 12.3 | 12.5 | 0.2 | 2.1% |
| District Courts | 72.6 | 71.2 | 71.6 | 0.4 | -1.4% |
| Clerks of the Court | 42.6 | 48.9 | 51.6 | 2.7 | 21.0% |
| Hospital Patient Recoveries | 96.4 | 61.4 | 73.7 | 12.3 | -23.5% |
| Interest on Investments | 71.5 | 35.9 | 31.9 | -4.0 | -55.4% |
| Miscellaneous | 201.0 | 203.0 | 224.8 | 21.8 | 11.8% |
| Total Current Revenues | \$9,356.1 | \$9,328.5 | \$9,317.0 | -\$11.4 | -0.4% |
| GAAP Transfer | 119.5 | | | | |
| Tax Amnesty | 28.5 | | | | |
| Property Transfer Tax | | 47.3 | 47.3 | | |
| Temporary Federal Medicaid Aid ⁽²⁾ | | | 33.4 | | |
| Miscellaneous Transfers ⁽³⁾ | | | 12.1 | | |
| Grand Total | \$9,504.0 | \$9,375.7 | \$9,409.8 | \$34.0 | -1.0% |

* From the Board of Revenue Estimates, March 2003.

⁽¹⁾ The Board of Revenue Estimates had estimated an incremental revenue loss of \$51.6 million from the heritage structure rehabilitation tax credit but did not break that amount down by revenue source. Most of the impact will be in the personal income tax but some also in the corporate income tax and the insurance premiums tax. For the purposes of this table, \$31.1 million of the estimated loss was put into the personal income tax, \$15 million into the corporate income tax and \$5.5 million into the insurance premiums tax.

⁽²⁾ In May 2003 Congress passed and the President signed the Jobs and Growth Tax Relief Reconciliation Act of 2003. This act provided temporary additional Federal aid to help relieve fiscal stress at the state level. Some of this aid was administered through the Medicaid program and Maryland's share is shown in this table.

⁽³⁾ In fiscal 2003 a total of \$750.3 million in transfers were authorized at the 2002 and 2003 legislative session. The \$12.1 million represents the amount by which actual transfers exceeded that amount.

Fiscal 2004 General Fund Revenues

(\$ in Millions)

| <u>Source</u> | <i>Fiscal Year through September</i> | | | |
|--|--------------------------------------|------------------|----------------------|---------------------|
| | <u>FY 2003</u> | <u>FY 2004</u> | <u>\$ Difference</u> | <u>% Difference</u> |
| Personal Income Tax | \$778.2 | \$817.6 | \$39.4 | 5.1% |
| Sales and Use Tax | 441.9 | 464.7 | 22.7 | 5.1% |
| State Lottery | 100.8 | 100.2 | -0.6 | -0.6% |
| Corporate Income Tax | 75.4 | 73.0 | -2.4 | -3.2% |
| Business Franchise Taxes | 36.1 | 30.9 | -5.1 | -14.3% |
| Insurance Premiums Tax | 52.4 | 57.0 | 4.6 | 8.7% |
| Estate & Inheritance Taxes | 38.3 | 29.9 | -8.4 | -21.8% |
| Tobacco Tax ⁽¹⁾ | 60.5 | 54.0 | -6.5 | -10.7% |
| Alcohol Beverage Taxes | 4.4 | 4.4 | 0.1 | 1.5% |
| Motor Vehicle Fuel Tax | 1.1 | 1.1 | 0.1 | 5.3% |
| District Courts | 16.6 | 19.5 | 2.9 | 17.5% |
| Clerks of the Court | 9.9 | 13.7 | 3.8 | 38.8% |
| Hospital Patient Recoveries ⁽²⁾ | 2.7 | 3.1 | 0.5 | 18.6% |
| Interest on Investments | 2.3 | 2.7 | 0.4 | 18.8% |
| Miscellaneous | 16.1 | 27.8 | 11.7 | 72.5% |
| Total Revenues | \$1,636.5 | \$1,699.6 | \$63.2 | 3.9% |

⁽¹⁾ For fiscal 2003, includes total tobacco tax revenues, not just the general fund.

⁽²⁾ Includes revenues from Medicare, insurance, and sponsors only.

General Fund Revenue Projections

(\$ in Millions)

| <u>Source</u> | FY 2003 | ----- FY 2004 Estimate ----- | | | % Change | FY 2005 |
|--|------------------|------------------------------|-------------------|-----------------|-----------------|-------------------|
| | Actual | May* | October | \$ Diff. | FY03-04 | Estimate |
| Personal Income Tax ⁽¹⁾ | \$4,728.9 | \$5,099.6 | \$5,014.1 | -\$85.5 | 6.0% | \$5,257.6 |
| Sales and Use Tax ^{(1) (2)} | 2,697.1 | 2,829.4 | 2,818.7 | -10.7 | 4.5% | 2,931.0 |
| State Lottery | 422.9 | 450.7 | 427.6 | -23.1 | 1.1% | 446.2 |
| Corporate Income Tax | 308.1 | 346.5 | 358.6 | 12.1 | 16.4% | 387.8 |
| Business Franchise Taxes ⁽¹⁾ | 143.4 | 217.4 | 210.8 | -6.7 | 47.0% | 212.5 |
| Insurance Premiums Tax | 234.0 | 229.2 | 248.9 | 19.7 | 6.4% | 255.6 |
| Estate & Inheritance Taxes | 142.3 | 136.9 | 135.3 | -1.6 | -4.9% | 131.8 |
| Tobacco Tax ⁽³⁾ | 199.2 | 275.6 | 264.9 | -10.6 | 33.0% | 257.2 |
| Alcohol Beverage Taxes | 25.7 | 26.6 | 25.8 | -0.8 | 0.8% | 26.0 |
| Motor Vehicle Fuel Tax | 12.5 | 12.4 | 12.9 | 0.5 | 3.0% | 13.3 |
| District Courts | 71.6 | 74.5 | 81.7 | 7.3 | 14.2% | 78.0 |
| Clerks of the Court | 51.6 | 45.8 | 51.1 | 5.3 | -0.8% | 47.2 |
| Hospital Patient Recoveries ⁽⁴⁾ | 73.7 | 76.4 | 81.4 | 5.0 | 10.5% | 82.2 |
| Interest on Investments ⁽¹⁾ | 31.9 | 45.6 | 36.7 | -8.9 | 15.0% | 50.1 |
| Miscellaneous ^{(1) (5)} | 224.8 | 223.0 | 230.2 | 7.2 | 2.4% | 197.2 |
| Total Current Revenues | \$9,367.6 | \$10,089.6 | \$9,998.9 | -\$90.7 | 6.7% | \$10,373.8 |
| Property Transfer Tax ⁽⁶⁾ | 47.3 | 47.3 | 47.3 | 0.0 | 0.0% | 0.0 |
| Heritage Tax Credit ⁽⁷⁾ | -50.6 | -54.3 | -28.4 | 25.9 | -43.9% | -57.9 |
| Temporary Federal Medicaid Aid | 33.4 | 0.0 | 0.0 | 0.0 | n.a. | 0.0 |
| Miscellaneous Transfers | 12.1 | 0.0 | 0.0 | 0.0 | n.a. | 0.0 |
| Grand Total | \$9,409.8 | \$10,082.5 | \$10,017.7 | -\$64.8 | 6.5% | \$10,315.9 |

* From the Board of Revenue Estimates, March 2003, with adjustments for legislative action at the 2003 session.

Footnotes for General Fund Revenue Projections

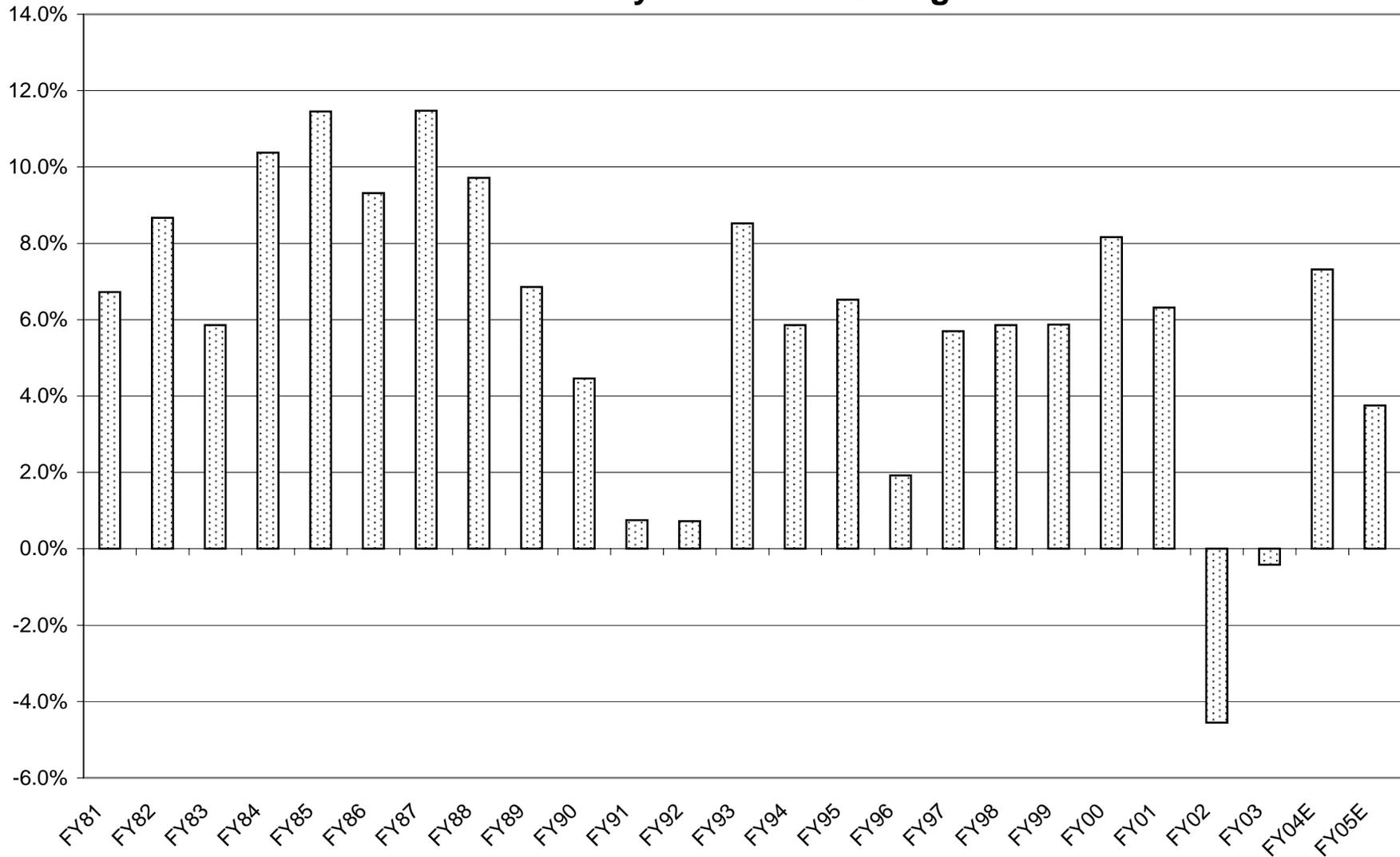
- (1) These sources reflect the impact of various provisions of the Budget Reconciliation and Financing Act of 2003. The business tax reflects an additional \$59 million in fiscal 2004 and 2005 from higher corporate filing fees. The personal income tax reflects a one-time increase of \$52 million due to the elimination of graduated withholding. The personal income and sales taxes reflect the impact of various tax compliance measures while interest on investments reflects additional interest earnings associated with compliance provisions as well as the change in the due date of withholding remittance. Miscellaneous revenues reflect certain fees.
- (2) Fiscal 2003 and 2004 reflect a lower vendor credit per the Budget Reconciliation and Financing Act of 2002. In fiscal 2005, the vendor credit returns to the previous level, reducing general fund revenues.
- (3) In fiscal 2003, \$79.7 million in tobacco tax revenue was treated as a special fund. Beginning in fiscal 2004, all tobacco tax revenue is credited to the general fund.
- (4) In fiscal 2003, \$14.0 million in hospital patient recoveries was treated as a special fund. Beginning in fiscal 2004, all revenue from hospital patient recoveries is credited to the general fund.
- (5) Beginning in fiscal 2004, local reimbursements for teacher's retirement costs associated with federally funded positions are credited to the general fund. The Budget Reconciliation and Financing Act of 2002 reduced the holding period for abandoned property from 12 months to 6 months, increasing revenues in fiscal 2003 and 2004. In fiscal 2005 abandoned property revenue is estimated to be about \$25 million, accounting for much of the decline in miscellaneous revenues.
- (6) The Budget Reconciliation and Financing Act of 2002 stipulates that \$47.3 million of State transfer tax revenue be credited to the general fund in fiscal 2003 and 2004. Transfer tax revenue is normally credited entirely to a special fund for land preservation programs.
- (7) According to quarterly reports from the Department of Housing and Community Development, there are approximately \$15 million earned and potential heritage tax credits for commercial projects to be claimed over the coming fiscal years. This includes CY 2003 (\$23 million) and CY 2004 (\$15 million) provided in the Budget Reconciliation and Financing Act of 2003. It is difficult to predict when these credits will actually be claimed on tax forms and therefore the magnitude of the credit in any particular fiscal year. The Department of Legislative Services (DLS) made some assumptions on the timing of the credits based on experience with credits claimed in Tax Year 2001 against the personal income tax. In addition, DLS developed these estimates in a way that is consistent with credits claimed in fiscal 2002 and 2003 as reported by the Comptroller's Office and the Maryland Insurance Administration.

General Fund Revenues – Underlying Growth
(\$ in Millions)

| | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
|---|----------------------|----------------------|-----------------------|
| Total Current Revenues | \$9,367.6 | \$9,998.9 | \$10,373.8 |
| | | \$631.3 | \$375.0 |
| | | 6.7% | 3.8% |
| <i>Temporary Special Fund Revenues</i> | | | |
| Tobacco Tax | \$79.7 | | |
| Hospital Patient Recoveries | 10.2 | | |
| Teachers' Retirement Reimbursement | 25.0 | | |
| <i>Nonrecurring Revenues</i> | | | |
| Sales Tax Vendor Credit (BRFA '02) | -\$10.6 | -\$11.0 | |
| Abandoned Property (BRFA '02) | -25.0 | -25.0 | |
| Graduated Withholding (BRFA '03) | | -52.0 | |
| Income Tax Safe Harbor (BRFA '03) | | -5.0 | |
| <i>Permanent Revenue Changes</i> | | | |
| Corporate Filing Fees (BRFA '03) | | -\$59.4 | -\$59.4 |
| Tax Compliance (BRFA '03) | | -34.7 | -50.9 |
| Other Fee Increases (BRFA '03) | | -4.9 | -5.0 |
| Underlying Current Revenues | \$9,446.8 | \$9,806.8 | \$10,258.5 |
| | | \$360.0 | \$451.6 |
| | | 3.8% | 4.6% |

Ongoing General Fund Revenues: Fiscal 1981 through 2005

Year-over-year Percent Change



2005 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- Current laws, policies, and practices are continued.
- Inflationary increases are recognized.
- Large one-time purchases and nonrecurring PAYGO expenditures are removed.
- Anticipated deficiencies are identified.
- Federal mandates and multi-year commitments are observed.
- Legislation enacted at the prior session is funded.
- Nondiscretionary changes in workload are recognized.
- Full year costs of programs started during the previous year are included.
- Board of Public Works actions in the current year affecting ongoing expenditures are recognized.
- Positions and operating expenses associated with new facilities are recognized.
- Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

| | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>Percent Change FY 04-05</u> |
|----------------------|-------------|-------------|-------------|------------------------------------|
| Pupil Enrollment * | 810,502 | 821,984 | 827,326 | 0.6% |
| Medicaid | 482,308 | 494,900 | 509,455 | 2.9% |
| Children's Health | 113,201 | 116,000 | 121,366 | 4.6% |
| Temporary Cash Asst. | 71,420 | 71,992 | 70,552 | -2.0% |
| Foster Care/Adoption | 13,908 | 14,487 | 15,176 | 4.8% |

* Data for 2003, 2004, and 2005 reflect 9/01, 9/02, and 9/03 (est.) full-time equivalent enrollments.

2005 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee Health Insurance (10% annual inflation since fiscal 2003).
- Medical Contracts and Supplies (5%).
- Prescription Drugs for State Facilities (9%).
- Food (1%).

Employee Compensation

- Account for savings from required fiscal 2004 position abolitions.
- Merit increases of 2% and 4% based on salary plan.
- Fully fund deferred compensation and pay for performance programs.
- No general salary increase for fiscal 2005.
- Retirement rates reflect rates presented to Board of Trustees.

Other Assumptions

- No increase in costs or reduction in funding related to Congressional re-authorization of Temporary Assistance for Needy Families (TANF) funding is assumed.
- Insufficient Cigarette Restitution Funds (CRF) exist to maintain fiscal 2004 spending level. Assume general funds will substitute for CRF to maintain all programs at fiscal 2004 funding levels.
- Recognize temporary federal fiscal relief for Medicaid (\$137 million) and general government (\$90 million) for fiscal 2004.

Potential Fiscal 2004 General Fund Deficiencies (\$ in Millions)

| <u>Program</u> | <u>Dollars</u> |
|--|----------------|
| Medicaid/MCHP: | \$97.2 |
| \$64.2 million to cover fiscal 2004 shortfall due to development of budget on understated fiscal 2003 base (\$33 million) and unbudgeted increases in hospital and managed care rates. | |
| \$33 million to cover fiscal 2003 deficit carried into fiscal 2004. | |
| Mental Health: \$28.1 million for prior year deficits and \$34.6 million to cover fiscal 2004 services. | 62.7 |
| Local Jail Reimbursement Payments: \$4 million will cover prior year deficit and \$6 million will fund fiscal 2004 payments. | 10.0 |
| Child Care Subsidies: Cost containment actions have failed to reduce utilization. | 8.8 |
| Foster Care: | 8.4 |
| \$6 million due to overestimate of federal funds. | |
| \$2.4 million due to higher than anticipated program costs. | |
| Juvenile Services: Residential placement costs exceed budget. | 6.3 |
| Department of Public Safety and Correctional Services: Operating costs related to medical contract and fuel/utilities. | 2.3 |
| Stadium Authority: Mandated appropriation to cover deficit at Baltimore City Convention Center. | 0.8 |
| State Police: Gasoline costs. | 0.7 |
| Total Deficiencies | \$197.1 |

Temporary Federal Fiscal Relief (\$ in Millions)

| | |
|---|----------------|
| TANF Bonus: Reduction in out-of-wedlock births. | \$17.2 |
| Federal Medicaid Match Rate: Temporarily rises from 50% to 52.95%. | 137.0 |
| Temporary Federal Fiscal Relief: General aid to the State. | 90.0 |
| Total Temporary Federal Aid | \$244.2 |

State Expenditures – General Funds

(\$ in Millions)

| <u>Category</u> | <u>Revised Work. Appr. FY 2003</u> | <u>Leg. Appr. FY 2004</u> | <u>Baseline FY 2005</u> | <u>\$ Diff. 04 to 05</u> | <u>% Diff. 04 to 05</u> |
|---------------------------------|--|-------------------------------|-----------------------------|------------------------------|-----------------------------|
| Debt Service | \$183.9 | \$0.0 | \$0.0 | \$0.0 | n.a. |
| Aid to Local Governments | | | | | |
| General Government | \$228.6 | \$215.7 | \$210.2 | -\$5.5 | -2.6% |
| Community Colleges | 182.6 | 174.9 | 183.1 | 8.2 | 4.7% |
| Education/Libraries | 3,041.8 | 3,365.3 | 3,748.1 | 382.8 | 11.4% |
| Health | 61.9 | 60.4 | 62.1 | 1.7 | 2.8% |
| Unallocated Reduction | 0.0 | -10.0 | 0.0 | 10.0 | -100.0% |
| | \$3,514.9 | \$3,806.4 | \$4,203.5 | \$397.1 | 10.4% |
| Entitlements | | | | | |
| Foster Care Payments | \$143.8 | \$133.3 | \$155.0 | \$21.7 | 16.3% |
| Assistance Payments | 62.7 | 83.2 | 89.7 | 6.5 | 7.8% |
| Medical Assistance | 1,563.0 | 1,655.7 | 1,934.2 | 278.5 | 16.8% |
| Property Tax Credits | 48.3 | 48.9 | 48.8 | -0.1 | -0.2% |
| | \$1,817.7 | \$1,921.0 | \$2,227.7 | \$306.7 | 16.0% |
| State Agencies | | | | | |
| Health | \$1,194.3 | \$1,178.1 | \$1,272.0 | \$93.9 | 8.0% |
| Human Resources | 290.8 | 291.6 | 330.3 | 38.7 | 13.3% |
| Systems Reform Initiative | 38.1 | 31.8 | 31.8 | 0.0 | 0.0% |
| Juvenile Justice | 160.0 | 160.9 | 175.9 | 15.0 | 9.3% |
| Public Safety/Police | 946.0 | 927.1 | 966.0 | 38.9 | 4.2% |
| Higher Education | 895.7 | 837.5 | 889.1 | 51.6 | 6.2% |
| Other Education | 271.0 | 262.3 | 281.1 | 18.8 | 7.2% |
| Agric./Natl Res./Environment | 147.3 | 134.6 | 138.0 | 3.4 | 2.5% |
| Other Executive Agencies | 485.1 | 449.3 | 497.1 | 47.8 | 10.6% |
| Judicial/Legislative | 329.4 | 334.9 | 332.3 | -2.6 | -0.8% |
| Across-the-board Reductions | -20.0 | 0.0 | 0.0 | 0.0 | n.a. |
| | \$4,737.8 | \$4,608.2 | \$4,913.7 | \$305.5 | 6.6% |
| Anticipated Deficiencies | | 197.1 | | -197.1 | -100.0% |
| Subtotal | \$10,254.3 | \$10,532.7 | \$11,344.9 | \$812.2 | 7.7% |
| Capital | 47.5 | 9.4 | 28.7 | 19.3 | 205.0% |
| Reserve Fund | 181.0 | 0.0 | 9.0 | 9.0 | n.a. |
| Appropriations | \$10,482.8 | \$10,542.1 | \$11,382.6 | \$840.5 | 8.0% |
| Reversions | -49.0 | -35.0 | -25.0 | 10.0 | -28.6% |
| Temporary Federal Relief | 0.0 | -244.2 | 0.0 | 244.2 | -100.0% |
| Grand Total | \$10,433.8 | \$10,262.9 | \$11,357.6 | \$1,094.7 | 10.7% |

Note: The FY 2003 revised working appropriation reflects \$220.8 million in cost containment approved by the Board of Public Works, deficiency appropriations of \$87.1 million and \$0.7 million in reductions to the deficiency appropriations. It also includes \$5.0 million in withdrawn appropriations in the Budget Reconciliation and Financing Act (HB 935). The reversions in FY 2003 include \$4.7 million from the legislature and judiciary. The FY 2004 appropriation reflects \$208 million in cost containment approved by the Board of Public Works in July 2003.

The State Finance and Procurement Article requires that unappropriated general fund balances exceeding \$10 million be transferred to the Revenue Stabilization Account. At the end of fiscal 2003, there was a \$122.7 million unappropriated fund balance, which requires the Governor to include a \$112.7 million appropriation for the account. The baseline assumes this appropriation, the baseline also assumes that \$103.7 million is withdrawn from the account, leaving a net appropriation totaling \$9 million. This provides a Revenue Stabilization Account balance that is 5% of general fund revenues.

Components of Budget Change (\$ in Millions)

| Summary of Budget Change | <u>Dollars</u> | <u>Share of Growth</u> |
|--|-----------------------|-------------------------------|
| Ongoing Requirements/Entitlements | \$778.0 | 75% |
| Legislation | 19.0 | 2% |
| Commitments | 36.9 | 4% |
| State Agency Costs | <u>175.4</u> | <u>17%</u> |
| Subtotal Operating Budget | \$1,009.3 | 100% |
| PAYGO | 19.3 | |
| Appropriation to Reserve Fund | 9.0 | |
| Total Baseline Increase in State Expenditures | \$1,037.6 | |
| Less Deficiency Appropriations | (197.1) | |
| Total | \$840.5 | |

Detail on Components (\$ in Millions)

| | |
|--|----------------|
| Ongoing Requirements/Entitlements | \$778.0 |
| Education and Libraries Formulas | \$380.3 |
| Medical Assistance – enrollment, inflation, MCO rates, and prior underfunding | 212.9 |
| Mental Hygiene – inflation, utilization, and underfunding in fiscal 2003-2004 | 63.1 |
| Medical Assistance – decline in available Cigarette Restitution Funds | 57.1 |
| Foster Care – cases, cost per case and lower federal fund attainment | 21.7 |
| Higher Education (St. Mary's College, Community Colleges, BCCC, Sellinger Formula) | 21.1 |
| Restoration of unallocated FY 2004 reduction to local aid | 10.0 |
| Temporary Cash Assistance – federal TANF surplus exhausted | 6.5 |
| Per diem reimbursements for inmates in local facilities | 6.0 |
| Fully fund Utility Property Grant | 4.4 |
| Formula aid to local governments for police protection and health | 3.0 |
| Mandated funding for operating deficits at Baltimore City and Ocean City | 2.2 |
| Convention Centers and debt service for Montgomery County | |
| Conference Center | |
| Maryland Tourism Board | 1.5 |
| Formulas for Maryland School for the Deaf & Maryland School for the Blind | 1.3 |
| Mandated salary increases for Constitutional Officers/General Assembly | 0.6 |
| Other changes | (0.2) |
| Disparity Grant for low wealth counties | (13.5) |

Detail on Components (Cont.)
(\$ in Millions)

| | | |
|---|--------|---------------|
| Legislation | | \$19.0 |
| Wage initiative for providers serving developmentally disabled – Chapter 722, Acts of 2001 | \$12.3 | |
| MCHP cost containment actions end (premiums for 185 to 200% of poverty and enrollment freeze over 200% of poverty). | 2.5 | |
| Hickey School Education Program – Chapter 53, Acts of 2003 | 1.9 | |
| College Readiness Act – Outreach to high schools students and PSAT costs per Chapter 315/429, Acts of 2002 | 1.5 | |
| Other legislation with impact less than \$500,000 | 0.9 | |
| Commitments | | 36.9 |
| Major information technology projects per DBM schedule | 18.4 | |
| Expand Waiver for Older Adults to an additional 1,000 people | 6.0 | |
| Annualize fiscal 2004 cost of new community placements of developmentally disabled | 3.9 | |
| Increase staffing levels at Office of the Public Defender by 68.5 | 3.3 | |
| Lease payments for wiring schools for technology project | 2.5 | |
| New facilities/facility expansions (African American Museum, prison, etc.) | 1.8 | |
| Other commitments smaller than \$1 million each | 1.0 | |
| State Agency Costs | | 175.4 |
| University System of Maryland and Morgan State University | 48.6 | |
| Employee increments | 26.9 | |
| Employee health insurance | 22.1 | |
| Shift from special to general funds at Department of Human Resources | 19.6 | |
| Restore pay-for-performance bonus and deferred compensation match | 18.3 | |
| Vacancy rate decreases due to smaller workforce | 17.0 | |
| Child Care Subsidies – Decline in the availability of federal funds | 14.3 | |
| Workers' Compensation charges | 11.5 | |
| Public Safety (medical contract, food service, etc.) | 10.0 | |
| Dept. of Juvenile Services – Residential placement costs rise due to underfunding and caseload increases | 7.3 | |
| Programs funded with fund balance/other revenues in FY 04 and general funds in FY 05 (DHCD, DBM, and DHR) | 4.7 | |
| Other changes | (4.3) | |
| Annualized savings from position cap – abolition of almost 1,700 positions | (20.6) | |
| PAYGO | | 19.3 |
| State Reserve Fund | | 9.0 |

Underlying Growth in State Spending on Medicaid is 8%
(\$ in Millions)

| | <u>FY 2004</u> | <u>FY 2005</u> | <u>Change</u> | <u>Percent Change</u> |
|--|------------------|------------------|----------------|-----------------------|
| General Fund Appropriation/DLS Estimate | \$1,655.7 | \$1,934.2 | \$278.5 | 16.8% |
| Anticipated Deficiency | 97.1 | - | | |
| Total General Fund Appropriation | \$1,752.8 | \$1,934.2 | \$181.4 | 10.3% |
| Adjust for FY 2003 Costs and General Fund Substitutes | | | | |
| Remove Portion of Deficiency for FY 2003 Costs | (33.0) | - | | |
| Cigarette Restitution Funds | 106.6 | 49.5 | | |
| Total Underlying FY 2004 State Costs | \$1,826.4 | \$1,983.7 | \$157.3 | 8.6% |
| Remove Enhancements | | | | |
| Expand Waiver for Older Adults | | (6.0) | | |
| Restoration of MCHP Eligibility | | (2.5) | | |
| Adjusted Total FY 2004 State Costs | \$1,826.4 | \$1,975.2 | \$148.8 | 8.1% |

Cigarette Restitution Funds

Fiscal 2005 Baseline Estimates

(\$ in Millions)

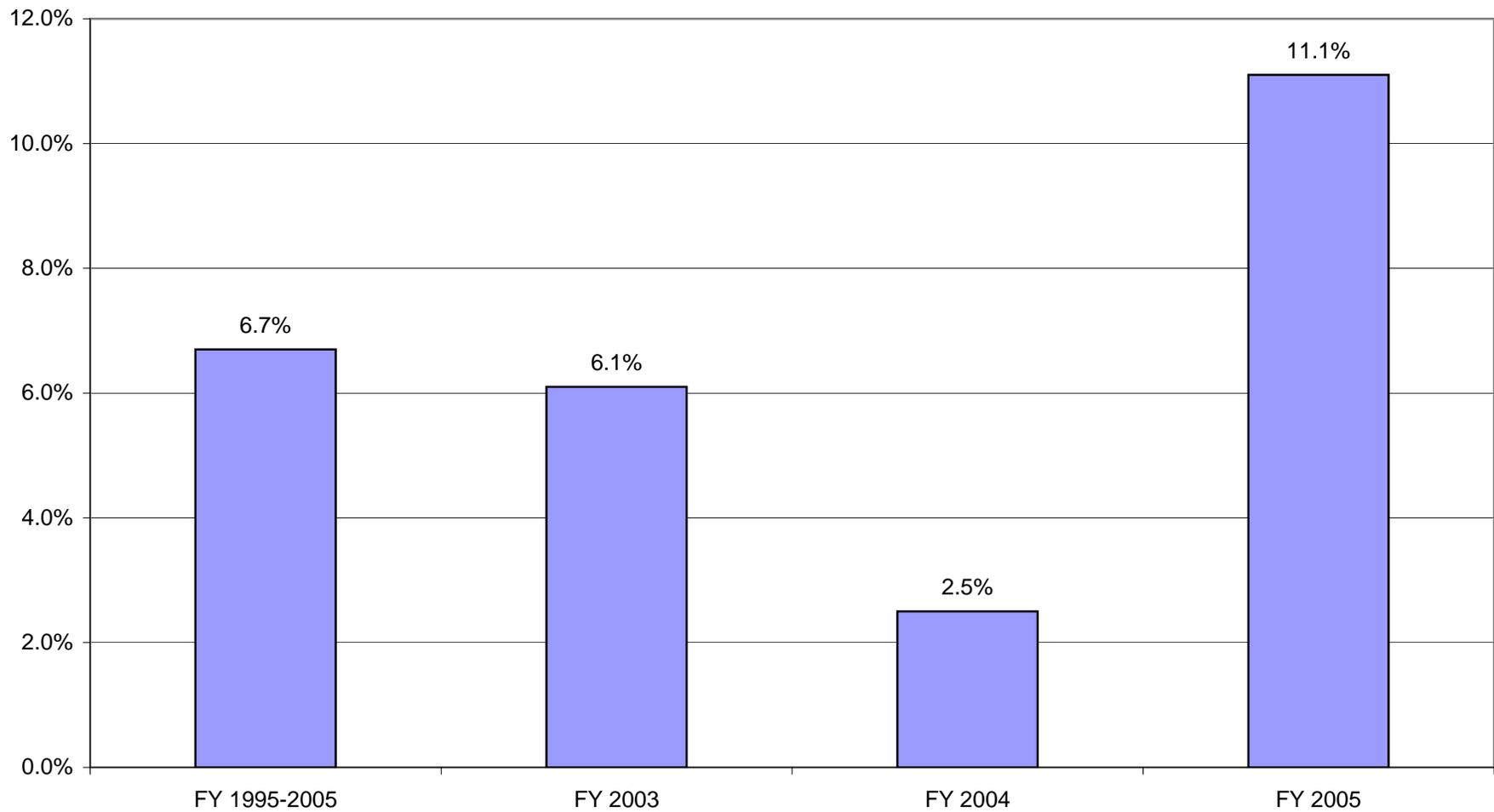
| | <u>FY 03 Actual Spending</u> | <u>FY 04 Working Appropriation</u> | <u>FY 05 Baseline Estimate</u> |
|-------------------------------------|--------------------------------------|--|--|
| Beginning Fund Balance ¹ | \$107.1 | \$49.0 | \$3.8 |
| Settlement Payments | 172.4 | 151.2 | 151.9 |
| Subtotal | \$279.5 | \$200.2 | \$155.7 |
| Payment to Law Offices | (\$30.0) | (\$30.0) | (\$30.0) |
| Available from Escrow | 4.7 | | |
| From Special Reserve Fund | | 13.6 | |
| Total Available Revenue | \$254.2 | \$183.8 | \$125.7 |
| Health | | | |
| Tobacco | \$19.6 | \$13.3 | \$15.3 |
| Cancer | 37.2 | 30.9 | 30.9 |
| Substance Abuse | 18.5 | 17.1 | 17.1 |
| MD Health Care Foundation | 1.0 | 0.0 | 0.0 |
| Medicaid | 104.0 | 106.6 | 49.5 |
| Administration | 0.4 | 0.6 | 0.6 |
| Subtotal | \$180.7 | \$168.5 | \$113.4 |
| Education | | | |
| Aid to Nonpublic Schools | \$3.6 | \$3.0 | \$3.0 |
| Judy Hoyer Centers | 4.0 | 0.0 | 0.0 |
| Teacher Mentoring | 2.5 | 0.0 | 0.0 |
| Teacher Certification | 1.5 | 0.0 | 0.0 |
| Technology Academy | 1.7 | 0.0 | 0.0 |
| Access/Success | 1.0 | 0.0 | 0.0 |
| Subtotal | \$14.3 | \$3.0 | \$3.0 |
| Crop Conversion | \$6.3 | \$6.1 | \$6.1 |
| Attorney General | \$0.1 | \$0.0 | \$0.2 |
| Total Expenses | \$201.4 | \$177.6 | \$122.7 |
| Transfer to the general fund | (\$3.8) | | |
| Anticipated deficiency ² | | \$2.4 | \$3.0 |
| Ending Fund Balance | \$49.0 | \$3.8 | \$0.0 |

¹ The fiscal 2003 beginning fund balance includes prior year funds not reverted until the close of fiscal 2003.

² The Department of Health and Mental Hygiene is anticipating using Cigarette Restitution Funds to offset deficits in the Family Health Administration's Breast and Cervical Cancer Program.

Sources: Department of Budget and Management; Department of Health and Mental Hygiene; Department of Legislative Services

Annual Growth in State Aid to Local Governments General and Special Funds



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

| | FY 2005 <u>State Aid Amount</u> | <u>Percent of Total</u> |
|--------------------|--|------------------------------------|
| Public Schools | \$3,698.2 | 79.0% |
| County/Municipal | 686.3 | 14.7% |
| Community Colleges | 183.1 | 3.9% |
| Local Health | 62.1 | 1.3% |
| Libraries | 50.2 | 1.1% |
| Total | \$4,679.8 | 100.0% |

**Increase in State Aid
by Governmental Entity
State Funds
(\$ in Millions)**

| | FY 2005 <u>Aid Increase</u> | <u>Percent of Increase</u> |
|--------------------|--|---------------------------------------|
| Public Schools | \$381.8 | 82.0% |
| County/Municipal | 73.0 | 15.7% |
| Community Colleges | 8.2 | 1.8% |
| Local Health | 1.7 | 0.4% |
| Libraries | 0.9 | 0.2% |
| Total | \$465.7 | 100.0% |

State Aid by Major Programs
Fiscal 2003 through 2005
State Funds
(\$ in Millions)

| | <u>FY 2003</u> | <u>FY 2004</u> | <u>Baseline FY 2005</u> | <u>Difference</u> | <u>Percent Difference</u> |
|--|------------------|------------------|-----------------------------|-------------------|-------------------------------|
| Public Schools | | | | | |
| Foundation Program | \$1,764.2 | \$2,013.4 | \$2,153.6 | \$140.2 | 7.0 |
| Compensatory Aid | 141.9 | 350.8 | 476.4 | 125.5 | 35.8 |
| Student Transportation | 138.9 | 167.0 | 175.7 | 8.7 | 5.2 |
| Special Education – Formula | 81.3 | 116.3 | 155.6 | 39.4 | 33.9 |
| Special Education – Nonpublic | 100.2 | 104.0 | 115.2 | 11.3 | 10.8 |
| Limited English Proficiency Grants | 34.2 | 38.9 | 54.3 | 15.4 | 39.7 |
| Teacher Salary Challenge Program | 72.5 | 5.3 | 17.9 | 12.6 | 238.2 |
| Baltimore City Partnership Grant | 70.5 | 28.2 | 21.1 | -7.0 | -25.0 |
| School Technology/Modernization | 17.3 | 13.4 | 11.3 | -2.1 | -15.6 |
| Other Ongoing Programs ² | 97.6 | 95.5 | 113.7 | 18.2 | 19.0 |
| Discontinued Programs | 240.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Subtotal Direct Aid | \$2,759.1 | \$2,932.8 | \$3,295.0 | \$362.2 | 12.4 |
| Teachers' Retirement | 354.5 | 383.6 | 403.2 | 19.6 | 5.1 |
| Total Public School Aid | \$3,113.7 | \$3,316.3 | \$3,698.2 | \$381.8 | 11.5 |
| County/Municipal Aid | | | | | |
| Highway User Revenues ¹ | \$432.1 | \$358.6 | \$418.3 | \$59.7 | 16.6 |
| Disparity Grants | 115.2 | 105.8 | 92.3 | -13.5 | -12.8 |
| Police Aid ¹ | 62.1 | 61.1 | 62.4 | 1.3 | 2.1 |
| Program Open Space ¹ | 18.3 | 20.6 | 22.1 | 1.5 | 7.2 |
| Utility Restructuring Grant ² | 30.6 | 26.2 | 30.6 | 4.4 | 16.8 |
| Property Tax Credits ¹ | 0.0 | -10.0 | 0.0 | 10.0 | -100.0 |
| 911 Grants | 4.1 | 5.3 | 13.0 | 7.7 | 144.3 |
| Other Programs ² | 42.1 | 44.0 | 46.2 | 2.2 | 5.0 |
| Subtotal Direct Aid | \$704.5 | \$611.6 | \$684.7 | \$73.1 | 12.0 |
| Retirement – Certain County Employees | 1.4 | 1.6 | 1.5 | -0.1 | -6.0 |
| Total County/Municipal Aid | \$705.9 | \$613.2 | \$686.3 | \$73.0 | 11.9 |
| Community Colleges | | | | | |
| Formula Program ^{1,2} | \$151.7 | \$142.7 | \$144.2 | \$1.5 | 1.0 |
| Other ² | 17.7 | 17.0 | 22.9 | 5.9 | 34.4 |
| Subtotal Direct Aid | \$169.4 | \$159.7 | \$167.1 | \$7.4 | 4.6 |
| Faculty Retirement | 14.0 | 15.2 | 16.0 | 0.8 | 5.3 |
| Total Community College Aid | \$183.3 | \$174.9 | \$183.1 | \$8.2 | 4.7 |
| Local Health | \$61.9 | \$60.4 | \$62.1 | \$1.7 | 2.8 |
| Libraries | | | | | |
| Formula Program | \$27.1 | \$27.3 | \$27.7 | \$0.5 | 1.7 |
| State Library Network | 12.6 | 13.9 | 14.2 | 0.2 | 1.7 |
| Subtotal Direct Aid | \$39.6 | \$41.2 | \$41.9 | \$0.7 | 1.7 |
| Librarians' Retirement | 7.8 | 8.0 | 8.3 | 0.2 | 2.9 |
| Total Library Aid | \$47.4 | \$49.2 | \$50.2 | \$0.9 | 1.9 |
| Total State Aid | \$4,112.2 | \$4,214.2 | \$4,679.8 | \$465.7 | 11.1 |

Note: ¹ Aid programs affected by the Budget Reconciliation and Financing Act of 2003.

² Aid programs reduced in fiscal 2004 by mid-year cost containment actions by the Governor.

Local Government Tax Changes in Fiscal 2004

| <u>County</u> | <u>Tax Action</u> |
|----------------------|---|
| Allegany | Increased property and recordation taxes. |
| Anne Arundel | Increased property taxes. |
| Calvert | Increased local income and admissions and amusement taxes. Imposed a new hotel tax. |
| Caroline | Increased recordation taxes. |
| Carroll | Increased local income and recordation taxes. |
| Dorchester | Increased property, recordation, and admissions and amusement taxes and decreased local transfer taxes. |
| Frederick | Increased the fire tax, a property tax dedicated to public safety purposes. |
| Howard | Increased local income tax rate to maximum amount. |
| Montgomery | Increased local income tax rate to maximum amount and increased its fuel, energy, and telephone taxes. |
| Prince George's | Increased local income tax rate to maximum amount and increased M-NCPPC property taxes. |
| Talbot | Increased local income taxes. |
| Washington | Imposed a local transfer tax. |
| Wicomico | Increased recordation taxes and decreased property taxes. |

Note: Thirteen counties made changes to their local tax rates in fiscal 2004, with five counties increasing two or more local taxes. Five counties increased property taxes and one county reduced property taxes. Six counties increased local income tax rates, with three counties imposing the maximum rate provided under State law. Five counties increased their recordation taxes. One county reduced its local transfer tax rate while one county imposed the tax for the first time. Two counties increased their admissions and amusement tax rates. One county imposed a new hotel tax rate.

Local Government Salary Actions in Fiscal 2004

| <u>County</u> | <u>County Government</u> | | <u>Board of Education</u> | | <u>Comments</u> |
|------------------------------|--------------------------|--------------|---------------------------|--------------|--|
| | <u>COLA</u> | <u>Merit</u> | <u>COLA</u> | <u>Merit</u> | |
| Allegany | 0.0% | No | 2.0% | Yes | <p>¹ In Anne Arundel County, 15% of county employees received a cost-of-living adjustment (COLA) and more than 50% received a merit increase. Employees receiving a COLA had contracts that required a COLA. COLAs were set at 4% for Detention Center Officers, 3% for Detention Center Sergeants and Correctional Program Specialists, and 3% for County Labor and Maintenance Workers.</p> <p>² Baltimore City is still in negotiation with many of its bargaining units.</p> <p>³ In Montgomery County the COLA is set at 3.5% for IAFF (fire fighters), 2% for Fire Management, 2% for FOP (police officers), 2% for Police Management, 3.75% for MCGEO, 2% for nonrepresented county employees, 4% for public school teachers, and 3% for public school administrators.</p> <p>⁴ In Prince George's County the COLA is set at 1.5% for non-union employees. COLAS for union employees vary. 3% for AFSCME, 2% for DSA (sheriffs'), 2% for PCEA (police officers), and 2% for corrections employees. The COLA for public school teachers is still being negotiated.</p> <p>⁵ In Talbot County, county employees except law enforcement and corrections will receive a 2% adjustment that will be issued in one check and will not be considered part of the employees' base pay. Law enforcement and corrections staff will receive a step increase.</p> |
| Anne Arundel ¹ | 0.0% | Yes | 0.0% | Yes | |
| Baltimore City ² | * | * | * | * | |
| Baltimore | 0.0% | Yes | 0.0% | Yes | |
| Calvert | 3.0% | Yes | 4.0% | Yes | |
| Caroline | 0.0% | No | 3.0% | Yes | |
| Carroll | 3.0% | No | 4.0% | Yes | |
| Cecil | 0.0% | Yes | 4.0% | Yes | |
| Charles | 0.0% | No | 2.0% | Yes | |
| Dorchester | 0.0% | No | 6.0% | Yes | |
| Frederick | 2.0% | Yes | 4.0% | Yes | |
| Garrett | 2.0% | Yes | 4.0% | No | |
| Harford | 0.0% | No | 1.0% | No | |
| Howard | 2.0% | Yes | 4.0% | Yes | |
| Kent | 0.0% | No | 0.0% | No | |
| Montgomery ³ | Varies | Yes | 4.0% | Yes | |
| Prince George's ⁴ | Varies | Yes | * | Yes | |
| Queen Anne's | 0.0% | Yes | 2.0% | No | |
| St. Mary's | 3.0% | Yes | 2.0% | Yes | |
| Somerset | 2.5% | No | 3.0% | Yes | |
| Talbot ⁵ | 0.0% | No | 5.0% | Yes | |
| Washington | 2.0% | No | 2.0% | Yes | |
| Wicomico | 1.0% | No | 2.5% | Yes | |
| Worcester | 2.0% | Yes | 2.0% | Yes | |
| Number Granting | 12 | 12 | 19 | 19 | |

Source: Department of Legislative Services Annual Tax Rate and Salary Survey, October 2003

General Fund: Recent History and Outlook

Revenue & Expenditure Detail

| | Actual | | Forecast | |
|---|-----------------|-----------------|-----------------|-----------------|
| | <u>FY 2002</u> | <u>FY 2003</u> | <u>FY 2004</u> | <u>FY 2005</u> |
| Funds Available | | | | |
| Current Revenues | \$9,398 | \$9,447 | \$9,807 | \$10,258 |
| Balances & Transfers | | | | |
| Estimated Fund Balance | 538 | 309 | 123 | 206 |
| Rainy Day Fund Transfers | 533 | 249 | | |
| GAAP Transfer | 119 | | | |
| BRFA of 2002 | 146 | 85 | | |
| BRFA of 2003 | | 377 | 171 | |
| Transfer Tax | | 86 | 103 | 77 |
| Highway User Revenues | | | 102 | 51 |
| Miscellaneous Revenues | | 12 | | |
| One-time Federal Aid | | | | |
| Medicaid | | 33 | 137 | |
| TANF bonus | | | 17 | |
| General aid | | 90 | 90 | |
| Short-term revenues | | | | |
| Tax Amnesty | 29 | | | |
| Sales Tax Vendor Credit | | 11 | 11 | |
| Abandoned Property | | 25 | 25 | |
| BRFA 2003 | | | 156 | 115 |
| Temporary Special Funds | (25) | (115) | | |
| Heritage Tax Credit | (17) | (51) | (28) | (58) |
| Revenue Total | \$10,722 | \$10,559 | \$10,713 | \$10,650 |
| Appropriations, Deficiencies, and Cost Containment | | | | |
| Operating Budget | \$10,029 | \$10,208 | \$10,336 | \$11,345 |
| Potential Budget Deficiencies | - | | 197 | - |
| Capital PAYGO | 321 | 48 | 9 | 29 |
| Approps to Rainy Day Account | 222 | 181 | - | 9 |
| Prior Year Reversions | (160) | | | |
| Reversions | - | | (35) | (25) |
| Spending Total | \$10,413 | \$10,436 | \$10,507 | \$11,358 |
| Balance Remaining | \$309 | \$123 | \$206 | (\$707) |

Fund Swaps Contribute to Fiscal 2005 General Fund Spending Growth
(\$ in Millions)

| <u>Substitutes for General Funds</u> | <u>Substitutes for General Funds FY 2004</u> | <u>Substitutes for General Funds FY 2005</u> | <u>Net Change</u> | <u>Percent Change</u> |
|---|--|--|-----------------------|---------------------------|
| Medicaid | | | | |
| Cigarette Restitution Fund | \$106.6 | \$49.5 | (\$57.1) | -54% |
| Temporary Federal Aid | 137.0 | 0.0 | (137.0) | |
| Department of Human Resources | | | | |
| One-time Transfer from Dedicated Purpose Fund | 11.4 | 0.0 | (11.4) | |
| Federal TANF Surplus Exhausted | 27.2 | 2.6 | (24.6) | |
| One-time Transfer from Joseph Fund | 8.2 | 0.0 | (8.2) | |
| Prior Year Encumbrances | 1.6 | 0.0 | (1.6) | |
| Maryland State Police | | | | |
| Temporary Federal Aid | 90.0 | 0.0 | (90.0) | |
| Budget and Management | | | | |
| Prior Year Encumbrances | 0.5 | 0.0 | (0.5) | |
| Housing and Community Development | | | | |
| Various One-time Revenues Sources | 3.5 | 0.0 | (3.5) | |
| Bonds Substitute for PAYGO | 7.9 | 0.0 | (7.9) | |
| Total Substitutes for General Funds | \$393.9 | \$52.1 | (\$341.8) | |
| Total General Funds – Baseline | \$10,262.9 | \$11,357.6 | \$1,094.7 | 10.7% |
| Underlying Growth – Total of General Funds and Substitutes for General Funds | \$10,656.8 | \$11,409.7 | \$752.9 | 7.1% |

**Uneven Impact of Cost Containment
Budget Change After Two Years
General Funds
(\$ in Millions)**

| Category | Actual FY 2002 | Leg. Appr. FY 2004 | \$ Diff. 02 to 04 | % Diff. 02 to 04 |
|---------------------------------|---------------------------|-------------------------------|------------------------------|-----------------------------|
| Debt Service | \$204.0 | \$0.0 | -\$204.0 | -100.0% |
| Aid to Local Governments | | | | |
| General Government | 200.5 | 215.7 | 15.2 | 7.6% |
| Community Colleges | 178.6 | 174.9 | -3.7 | -2.1% |
| Education/Libraries | 2,847.4 | 3,365.3 | 517.9 | 18.2% |
| Health | 57.3 | 60.4 | 3.1 | 5.4% |
| Unallocated Reduction | 0.0 | -10.0 | -10.0 | n.a. |
| | \$3,283.9 | \$3,806.4 | \$522.5 | 15.9% |
| Entitlements | | | | |
| Foster Care Payments | 117.7 | 133.3 | 15.6 | 13.2% |
| Assistance Payments | 65.2 | 83.2 | 18.0 | 27.6% |
| Medical Assistance | 1,543.1 | 1,655.7 | 112.6 | 7.3% |
| Property Tax Credits | 52.0 | 48.9 | -3.2 | -6.1% |
| | \$1,778.1 | \$1,921.0 | \$143.0 | 8.0% |
| State Agencies | | | | |
| Health | 1,093.1 | 1,178.1 | 85.0 | 7.8% |
| Human Resources | 299.8 | 291.6 | -8.2 | -2.7% |
| Systems Reform Initiative | 40.1 | 31.8 | -8.3 | -20.7% |
| Juvenile Justice | 161.3 | 160.9 | -0.4 | -0.2% |
| Public Safety/Police | 921.0 | 927.1 | 6.1 | 0.7% |
| Higher Education | 961.3 | 837.5 | -123.7 | -12.9% |
| Other Education | 276.0 | 262.3 | -13.7 | -5.0% |
| Agric./Natl Res./Environment | 147.3 | 134.6 | -12.7 | -8.6% |
| Other Executive Agencies | 548.8 | 449.3 | -99.5 | -18.1% |
| Judicial/Legislative | 314.8 | 334.9 | 20.0 | 6.4% |
| | \$4,763.5 | \$4,608.2 | -\$155.4 | -3.3% |
| Subtotal | \$10,029.5 | \$10,335.6 | \$306.1 | 3.1% |
| Capital | 321.1 | 9.4 | -311.7 | -97.1% |
| Reserve Fund | 221.8 | 0.0 | -221.8 | -100.0% |
| Appropriations | \$10,572.3 | \$10,345.0 | -\$227.3 | -2.1% |
| Reversions | 0.0 | -35.0 | -35.0 | n.a. |
| Grand Total | \$10,572.3 | \$10,310.0 | -\$262.3 | -2.5% |

Note: The FY 2004 appropriation reflects \$204 million in cost containment approved by the Board of Public Works in July 2003. The amounts do not reflect any estimated deficiency appropriations or the impact of temporary federal assistance.

**Uneven Impact of Cost Containment
Budget Change After Two Years
All Funds
(\$ in Millions)**

| Category | Actual FY 2002 | Leg. Appr. FY 2004 | \$ Diff. 02 to 04 | % Diff. 02 to 04 |
|---------------------------------|---------------------------|-------------------------------|------------------------------|-----------------------------|
| Debt Service | \$726.0 | \$676.0 | -\$49.9 | -6.9% |
| Aid to Local Governments | | | | |
| General Government | 734.3 | 628.5 | -105.8 | -14.4% |
| Community Colleges | 178.6 | 174.9 | -3.7 | -2.1% |
| Education/Libraries | 3,482.0 | 4,048.1 | 566.1 | 16.3% |
| Health | 63.1 | 64.9 | 1.8 | 2.9% |
| Unallocated Reduction | 0.0 | -10.0 | -10.0 | n.a. |
| | \$4,458.0 | \$4,906.4 | \$448.4 | 10.1% |
| Entitlements | | | | |
| Foster Care Payments | 237.2 | 244.7 | 7.4 | 3.1% |
| Assistance Payments | 374.5 | 372.7 | -1.9 | -0.5% |
| Medical Assistance | 3,066.2 | 3,629.5 | 563.3 | 18.4% |
| Property Tax Credits | 52.1 | 48.9 | -3.2 | -6.1% |
| | \$3,730.1 | \$4,295.8 | \$565.7 | 15.2% |
| State Agencies | | | | |
| Health | 1,811.9 | 1,927.3 | 115.4 | 6.4% |
| Human Resources | 901.8 | 889.7 | -12.1 | -1.3% |
| Systems Reform Initiative | 64.5 | 62.9 | -1.6 | -2.5% |
| Juvenile Justice | 174.3 | 175.9 | 1.6 | 0.9% |
| Public Safety/Police | 1,071.6 | 1,084.4 | 12.7 | 1.2% |
| Higher Education | 3,059.2 | 3,304.8 | 245.6 | 8.0% |
| Other Education | 410.2 | 409.8 | -0.5 | -0.1% |
| Transportation | 1,058.9 | 1,144.4 | 85.5 | 8.1% |
| Agric./Natl Res./Environment | 289.8 | 288.6 | -1.1 | -0.4% |
| Other Executive Agencies | 1,127.1 | 1,092.5 | -34.6 | -3.1% |
| Judicial/Legislative | 329.5 | 357.5 | 28.0 | 8.5% |
| | \$10,298.7 | \$10,737.6 | \$438.8 | 4.3% |
| Subtotal | \$19,212.8 | \$20,615.8 | \$1,403.0 | 7.3% |
| Capital | 2,008.4 | 1,592.7 | -415.7 | -20.7% |
| Reserve Fund | 221.8 | 0.0 | -221.8 | -100.0% |
| Appropriations | \$21,443.0 | \$22,208.5 | \$765.5 | 3.6% |
| Reversions | 0.0 | -35.0 | -35.0 | n.a. |
| Grand Total | \$21,443.0 | \$22,173.5 | \$730.5 | 3.4% |

Note: The FY 2004 appropriation reflects \$208 million in cost containment approved by the Board of Public Works in July 2003. The amounts do not reflect any estimated deficiency appropriations or the impact of temporary federal assistance.