Spending Affordability Briefing

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

December 5, 2006

Debt Management

State Property Taxes

Tax Rates Reduced in Fiscal 2007

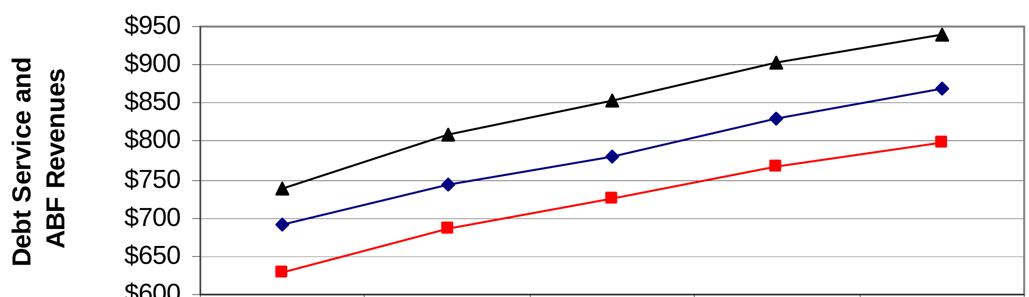
- State property taxes are deposited into the Annuity Bond Fund (ABF), which supports State General Obligation (GO) bond debt. In the past, shortfalls in the ABF were made up by appropriating general funds to support debt service payments.

- In April 2003, the Board of Public Works (BPW) raised the State property tax from $0.084 to $0.132 per $100 of assessable base. In April 2006, BPW reduced the fiscal 2007 State property tax rate to $0.112 per $100 of assessable base. This was a two-cent reduction.

- According to the State Department of Assessments and Taxation, the average sale price of a home has settled at $320,000. At this assessment, the two-cent reduction saves the average homeowner $64 in State property taxes in fiscal 2007.

- If the rate is maintained at $0.112 per $100 of assessable base, the State will need to provide a $64 million subsidy for the ABF in fiscal 2008. To fully support GO bond debt service, property taxes would need to be raised by $0.012 per $100 of assessable base in fiscal 2008.

Current State Property Tax Rate Cannot Support Debt Service
($ in Millions)



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Debt Service	$693	$744	$781	$830	$870
ABF Support at $0.132	738	808	854	902	939
ABF Revenues After Two-cent Reduction	628	686	725	766	797
GF Support at $0.112	64	58	56	63	73

Fiscal Years

State Debt Policy

Proposed Debt Levels Meet CDAC Criteria

- The Capital Debt Affordability Committee (CDAC) advises the General Assembly on State debt policy.

- State debt includes General Obligation (GO) bonds, transportation bonds, Grant Anticipation Revenue Vehicles (GARVEEs), bay restoration bonds, stadium authority bonds, and capital leases.

- CDAC criteria are that:

  - State tax-supported debt outstanding should not exceed 3.2 percent of Maryland personal income; and

  - State tax-supported debt service payments should not exceed 8 percent of State revenues.

- The table below shows the Department of Legislative Services' (DLS) projects that CDAC proposed authorization levels meet the affordability criteria:

Fiscal Year	Debt Outstanding as a Percent of Personal Income	Debt Service as a Percent of Revenues
2007	2.75%	5.69%
2008	2.83%	5.87%
2009	2.96%	6.09%
2010	2.94%	6.28%
2011	2.90%	6.38%
2012	2.80%	6.43%

State Debt Policy (Cont.)

Capital Debt Affordability Committee GO Bond Recommendations

- The CDAC recommends that the General Assembly authorize up to $810 million in GO bonds in the 2007 legislative session.

- This provides a $120 million increase over the authorization in the 2006 legislative session and represents a change in the committee's authorization policy.

  - The committee increased authorizations by $100 million.

  - The remaining $20 million increase was previously planned.

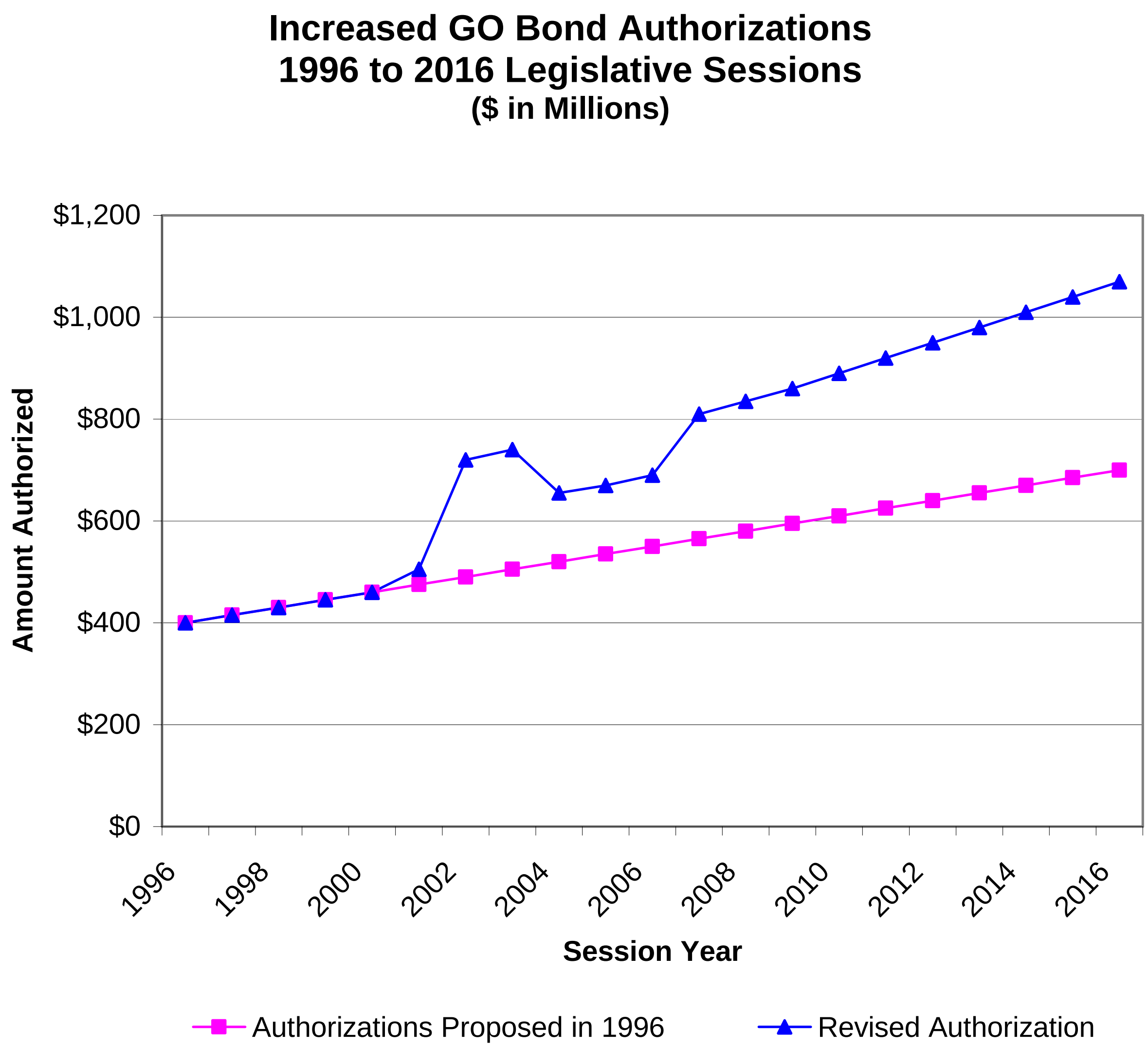
GO Bond Authorizations Have Increased by Over 40 Percent Since the 2001 Session

- Prior to the 2001 session, CDAC would authorize an additional $15 million in GO bonds each year.

- Beginning in the 2001 session, GO bond authorizations have increased by more than $15 million annually. Total proposed authorizations over the period increased $3.9 billion.

- If the pre-2001 policy were still in place, the 2007 session GO bond authorization limit would be $565 million, which is $245 million less than the current CDAC recommendation.

State Debt Policy (Cont.)



Notes:

(1) The source for 1996 to 2006 revised authorizations is the *Sine Die Report* and *90 Day Report* data of actual authorizations.

(2) The source for 2007 to 2012 revised authorizations is the 2006 Capital Debt Affordability Committee Report's recommended authorizations.

(3) The analysis ends in 2016, the final year that the CDAC report provides a recommended authorization.

State Debt Policy (Cont.)

Justification for and Amount of Increased GO Bond Authorizations
2001 to 2016 Legislative Sessions
($ in Millions)

Session Year	2001 – Low CDAC Ratios & Good Economy	2002 & 2003 – Poor Economy so Replace PAYGO	2002 – Exclude Tobacco Buyout	2004 – $100 Million Annually for Five Years	2006 – Capital Demand	2007 – Capital Demand	Total Increase
2001	$30	$0	$0	$0	$0	$0	$30
2002	30	200	0	0	0	0	230
2003	30	200	5	0	0	0	235
2004	30	0	5	100	0	0	135
2005	30	0	5	100	0	0	135
2006	30	0	5	100	5	0	140
2007	30	0	5	100	10	100	245
2008	30	0	5	100	15	105	255
2009	30	0	5	0	115	115	265
2010	30	0	5	0	125	120	280
2011	30	0	5	0	135	125	295
2012	30	0	5	0	145	130	310
2013	30	0	5	0	155	135	325
2014	30	0	5	0	165	140	340
2015	30	0	5	0	175	145	355
2016	30	0	5	0	185	150	370
Total	**$480**	**$400**	**$70**	**$500**	**$1,230**	**$1,265**	**$3,945**

Note: Dates denote legislative session year. In some cases the action stems from the CDAC report recommendation from the previous fall.

State Debt Policy (Cont.)

New Kinds of State Debt Were Also Authorized

- Chapter 428 of 2004 authorized the issuance of bay restoration bonds by a newly created Bay Restoration Fund. The fund was created to support wastewater treatment plant improvements. The State plans to issue $530 million in bay restoration bonds.

- Chapter 472 of 2005 authorized the issuance of GARVEEs. An authorization to issue GARVEEs was given to support the InterCounty Connector. GARVEEs are supported by federal transportation grants. The State plans to issue $750 million in GARVEEs.

Pressures to Continue Issuing More Debt Are Still Evident

- ***Transportation Capital Program Decline:*** Once again, a sharp decline in the transportation capital program is projected. In the past, the State has avoided these declines.

- ***Potentially Underfunded Bay Restoration Fund:*** Bonds are planned to make improvements to wastewater treatment plants. Costs have been higher and revenues lower than projected. It appears that if more funds are not found, the program's goals cannot be met.

- ***Unexpected Capital Leases:*** Capital leases for real estate are used to move quickly on capital projects. Because they are often unexpected, they are not included in the CDAC debt estimates. Since these projects do happen, however irregularly, actual lease debt outstanding tends to exceed projections.

- ***Maryland Stadium Authority Projects:*** The authority has a planning process and periodically prepares feasibility studies to examine capital needs. Approving a stadium authority project could increase the demand for debt financing.

State Debt Policy (Cont.)

Unused State Debt Capacity Has Declined Since the 2006 Legislative Session
($ in Millions)

Debt Outstanding on June 30, 2009	January 2006 Estimate	November 2006 Estimate	Difference
GO Bond	$5,673	$5,705	$32
Capital Leases	180	207	28
Transportation Bonds	1,551	1,746	195
GARVEEs	606	701	95
Stadium Authority Bonds	252	284	32
Bay Restoration Bonds	178	178	0
Total Debt Outstanding	**$8,440**	**$8,821**	**$381**
Estimated Personal Income in 2009	**$291,643**	**$297,806**	**$6,163**
Unused Capacity	**$893**	**$709**	**-$183**

Recent Changes in State Personal Income Affect State Debt Capacity

- CDAC and DLS estimates of unused capacity vary by $272 million.
  - DLS unused capacity is $189 million less because DLS projects higher debt outstanding than the CDAC; and
  - DLS unused capacity is $461 million more because of DLS' higher personal income estimates.
- The key point is not so much the direction of the change in personal income but the magnitude of the change. As the State gets closer to the debt affordability limit, the volatility of personal income estimates could result in a half-billion reduction in capacity that forces the State to choose between:
  - eliminating previously planned capital spending; or
  - loosening decades-old fiscal standards and risking the AAA bond rating.

State Debt Policy (Cont.)

The Growth in State Debt May Force the State to Rethink How Capital Projects Are Funded

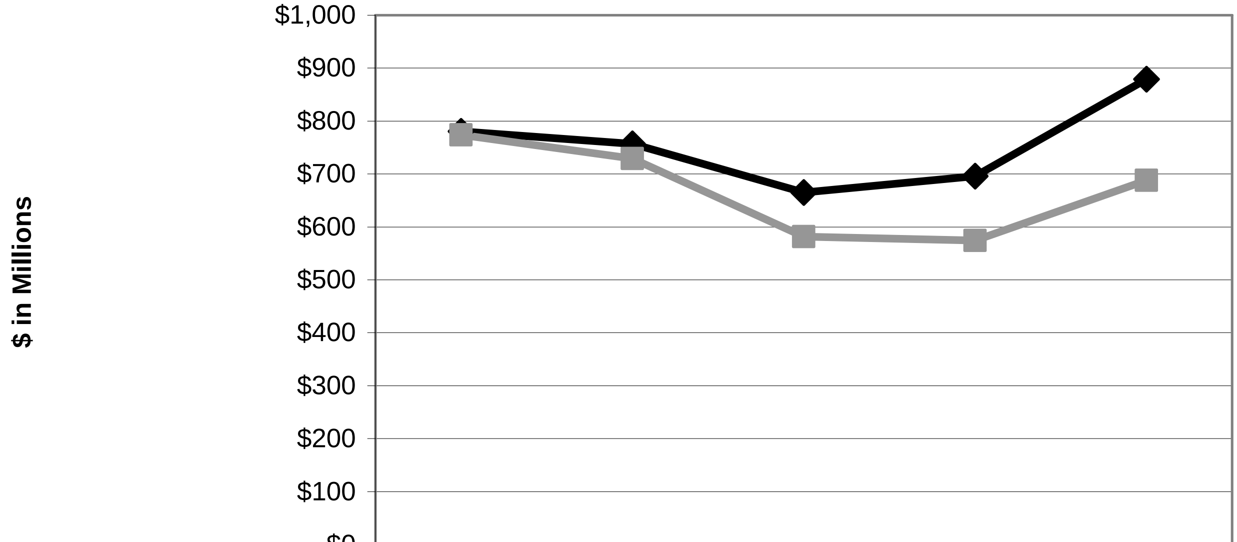
- In 2000, State debt outstanding was 77 percent of total debt capacity. Now total debt outstanding is 93 percent of capacity. This increase is attributable to:
  - aggressive increases in actual and proposed GO bond authorizations since 2001;
  - authorizations of two new kinds of debt (GARVEEs and bay bonds);
- A review of specific bond programs suggests that current estimates of non-GO debt outstanding, such as transportation and bay bonds, are more likely to be revised upward than downward; and
- As the State gets closer to the limit, volatility in personal income estimates can bring the State over the limit and force the State to eliminate previously planned capital projects.
- The analysis suggests that debt cannot grow as quickly in subsequent years as it has grown in the last six years without exceeding CDAC limits. If capital spending is to continue growing at the current rate, additional PAYGO funds will be needed to avoid exceeding the limits.

General Obligation Bond Capital Program

Escalating Construction Costs: More Amounts to Less

- Several years of elevated building construction costs coupled with declining capital appropriations have eroded the State's capital spending power.

GO and GF Capital Appropriations – Actual and Adjusted for Inflation
Fiscal 2003-2007



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total General & GO Funds	$780.3	$756.7	$664.9	$696.0	$878.8
Adjusted for Inflation	$774.1	$729.0	$581.8	$574.2	$688.1

Source: Fiscal 2003 through 2007 State operating and capital budgets

- Despite a fiscal 2007 funding level that exceeds each of the annual fiscal 2003 through 2006 appropriations, when adjusted for inflation, the fiscal 2007 funding level lags behind what was appropriated in fiscal 2003.

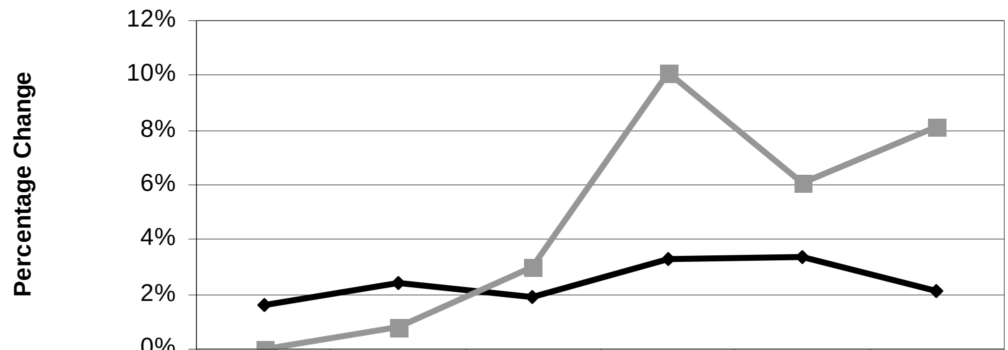
General Obligation Bond Capital Program (Cont.)

Construction Cost Inflation Exceeds General Inflation

- **Construction has experienced greater cost increases than the rest of the economy.** As shown below, beginning in 2003, the year-over-year measure for inflation in the building and construction market exceeded the general measure of inflation reflected in the consumer price index (CPI).

- Annual construction components and materials cost increases, ranging from 10 percent in calendar 2004, 6 percent in calendar 2005, and 8 percent through October 2006 have pushed construction costs up a total of 23 percent since December 2003.

Materials and Components of Construction Costs Compared to the Consumer Price Index



	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Consumer Price Index (CPI-U)	1.6%	2.4%	1.9%	3.3%	3.4%	2.1%
Materials & Components for Construction	0.0%	0.8%	3.0%	10.1%	6.1%	8.1%

Source: Bureau of Labor Statistics

- Expanding United States and global economies have created demand for many construction materials in excess of supply driving up costs.

- Fuel and transportation cost increases greatly impact construction costs and add to cost estimation uncertainty.

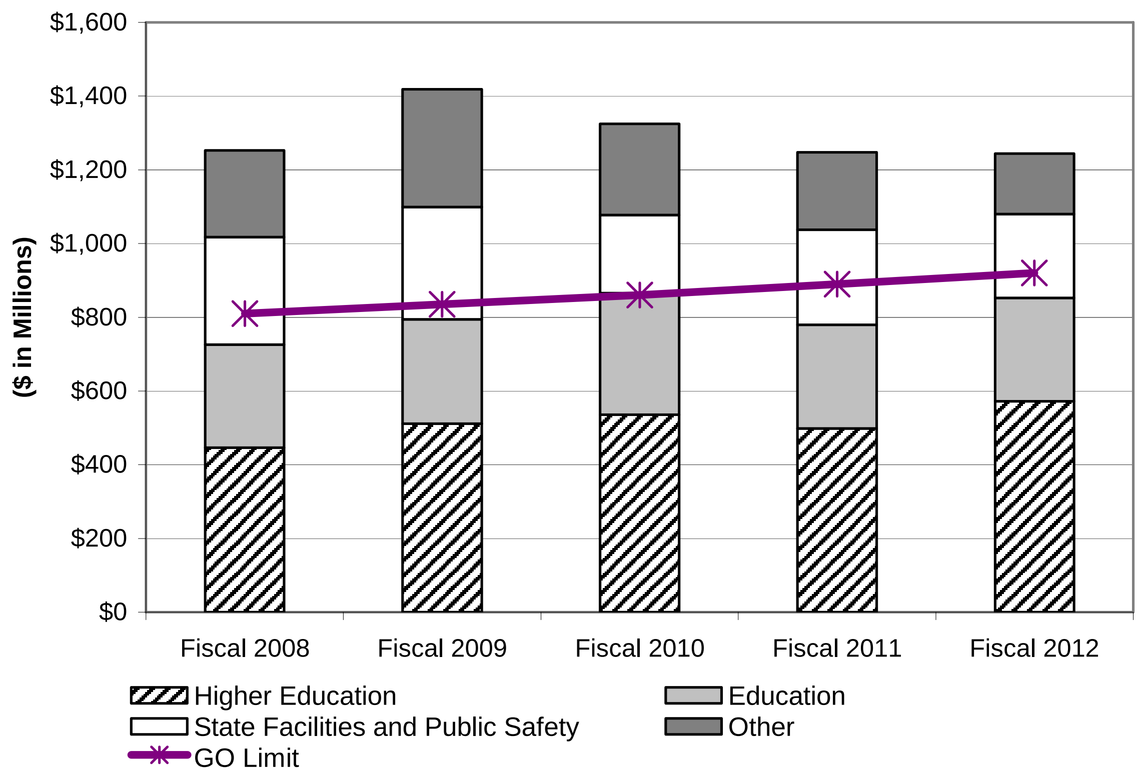
- Cost estimating in a volatile market is difficult and uncertainty is built into construction bids. Organizing a five-year capital improvement program is difficult under these circumstances.

Requests Exceed Resources

- Capital GO bond requests for fiscal 2008 total $1.25 billion, over $442.8 million more than the amount available under the recommended GO bond debt limit of $810 million. Capital requests for the next five years total nearly $6.4 billion, while the projected debt limit for the same period totals about $4.3 billion.

- The next illustratration indicates that the current levels of projected GO debt would just barely provide enough to fund higher education and public school construction requests. Prioritizing the State's most acute capital needs is required. **Appendix 1** provides the funding request detail by major category.

GO Bond Requests and CDAC GO Bond Debt Limit



Source: Department of Budget and Management

General Obligation Bond Capital Program (Cont.)

Impact of Projects Deferred and Accelerated

- As introduced, the fiscal 2007 capital budget deferred several projects in order to fund other budget priorities. As enacted, the capital budget also added several projects that were not scheduled to be funded in fiscal 2007. Both of these actions create additional funding demands on the fiscal 2008 capital program. The following table shows the potential fiscal 2008 budget impact of these project deferrals and accelerations is roughly $130.6 million.

Potential Fiscal 2008 Impact of Deferred and Accelerated Projects
($ in Millions)

Project	FY 2007 Planned Funding	FY 2007 Actual Funding	FY 2008 Potential Impact
Judiciary: Rockville District Court	$53.5	$0.0	$62.5
DPSCS: Maryland Correctional Training Center	24.5	0.0	30.8
DPSCS: Patuxent Institute Fire Safety Improvements	7.9	0.0	8.1
DPSCS: Western Correctional Institute Warehouse	5.6	0.0	6.6
DPSCS: Public Safety Training Center Simulated Environment	2.8	0.0	2.9
Planning: Archeology Facility	2.2	0.0	3.1
Judiciary: Cumberland District Court	2.0	0.0	0.8
University of Maryland, Baltimore: Pharmacy Hall	0.0	2.2	3.2
University of Maryland, College Park: Physical Sciences Complex	0.0	1.0	3.4
University of Maryland, College Park: New Journalism Building	0.0	10.0	5.0
Frostburg State University: Center for Communications	0.0	2.2	2.5
MD Higher Education Commission: Montgomery College Germantown Bioscience Center	0.0	1.7	1.7
Total Fiscal 2008 Impact of Projects Deferred and Accelerated			**$130.6**

Source: Department of Budget and Management

General Obligation Bond Capital Program (Cont.)

Transfer Tax Revenues Below Budgeted Estimate

- The fiscal 2007 budget included $264.5 million of estimated transfer tax revenues. Revised revenue estimates now put that figure at $240.7 million; $23.8 million below the amount upon which the fiscal 2007 budget was based.

- In accordance with applicable State law (Section 13-209, Tax Property Article), any underattainment would be reconciled in the second fiscal year following the deficiency (fiscal 2009 in this instance), or through the deauthorization of prior authorized projects.

- Although the fiscal 2007 revenue estimate is down from what was budgeted, transfer tax revenues still compare favorably to collections in recent prior fiscal years.

Fiscal 2005-2008 Estimated Transfer Tax Revenues
($ in Millions)

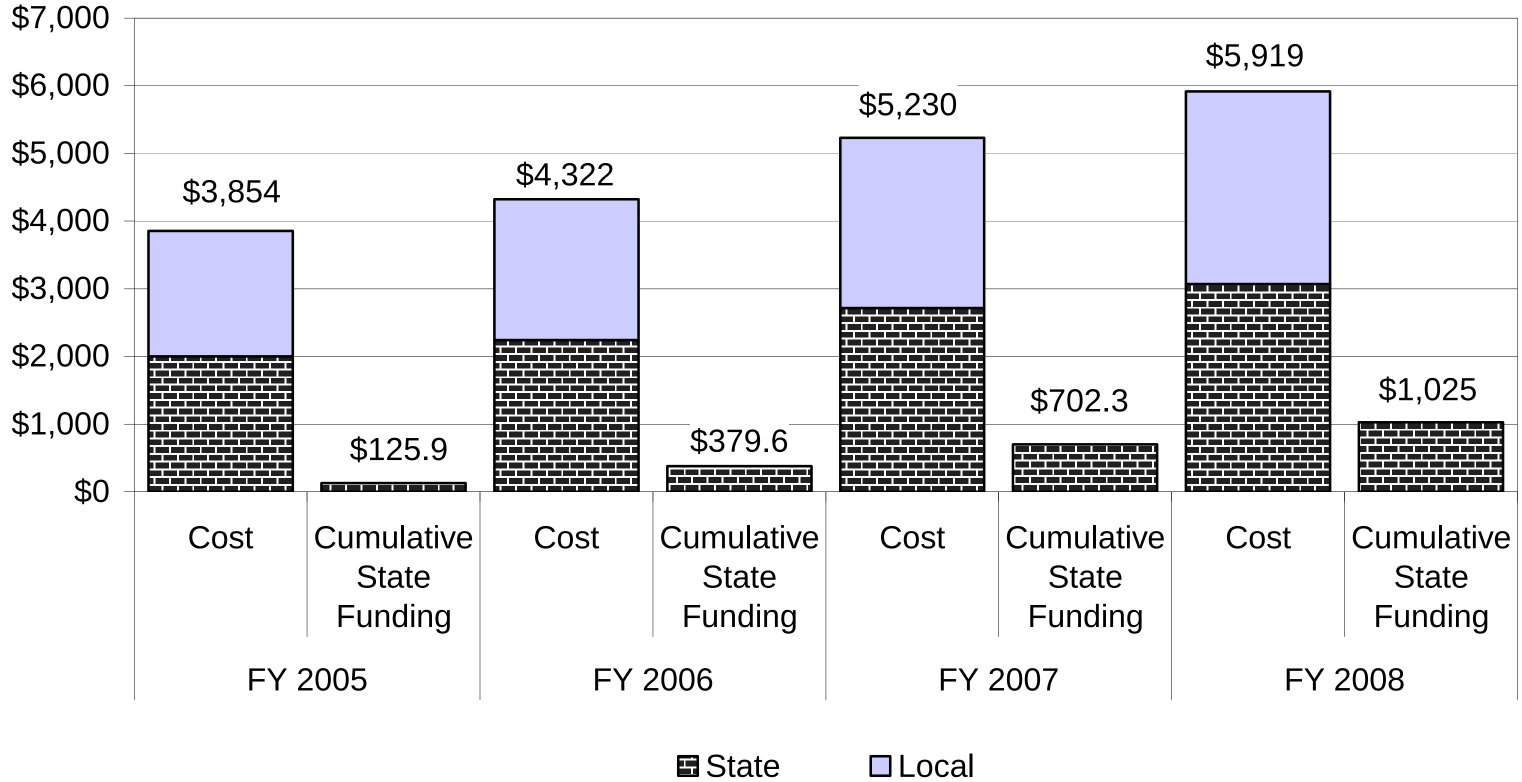
Fiscal Year	Original Revenue Estimate	Attainment Adjustment	Actual Collections
2005	$132.8	$104.5	$237.3
2006	194.5	75.5	270.0
2007	264.5	-23.8	240.7
2008 Est.	225.1	–	–

Note: Fiscal 2007 attainment adjustment and fiscal 2008 estimate are based on Office of the Comptroller Estimate made on October 16, 2006.

Source: Office of the Comptroller

Total Cost to Bring School Facilities Up to Minimum Standards

($ in Millions)



	FY 2006	**FY 2007**	**FY 2008**	**FY 2005-2008**
% Increase in Total Cost	12.1%	21.0%	13.2%	53.6%
% Increase in State Funding	101.6%	27.2%	0.1%	156.6%

Notes: Estimated total cost based on 2003 survey of public school facilities by the Public School Construction Program (PSCP); annual cost increases reflect PSCP building cost per square foot.

Transportation Trust Fund

Transportation Trust Fund Closeout
Comparison of Fiscal 2006 Projected and Actual Revenues
($ in Millions)

	Projected FY 2006	Actual FY 2006	Variance
Starting Fund Balance	**$245**	**$245**	**$0**
Revenues			
Titling Taxes	$742	$719	-$23
Motor Fuel Taxes	763	758	-5
Corporate Income, Registrations, Miscellaneous MVA Fees, and Rental Car Sales Taxes	744	754	10
Other Receipts and Adjustments	489	510	21
World Trade Center Sale Receipts	35	0	-35
Bond Proceeds and Premiums	105	104	-1
Total Revenues	**$2,878**	**$2,845**	**-$33**
Uses of Funds			
MDOT Operating Expenditures	$1,312	$1,303	-$9
MDOT Capital Expenditures	957	800	-157
MDOT Debt Service	141	141	0
Highway User Revenues	516	513	-3
Other Expenditures	97	94	-3
Total Expenditures	**$3,023**	**$2,851**	**-$172**
Ending Fund Balance	**$100**	**$239**	**$139**

MDOT: Maryland Department of Transportation

- Net revenues to the Transportation Trust Fund came in $33 million lower than anticipated largely due to titling tax revenues coming in $23 million less than estimated and the sale of the World Trade Center (estimated at $35 million) being postponed.

- Capital expenditures were approximately $157 million lower than anticipated. The capital program experienced cash flow changes in projects as well as higher than expected federal aid attainment which reduced the amount of special fund revenues necessary for the capital program by $13 million.

- The fiscal 2006 fund balance increased by $139 million, due mostly to capital cash flow changes which will be moved into fiscal 2007 and beyond and does not represent new funding for the capital program.

Trust Fund Forecast Assumptions

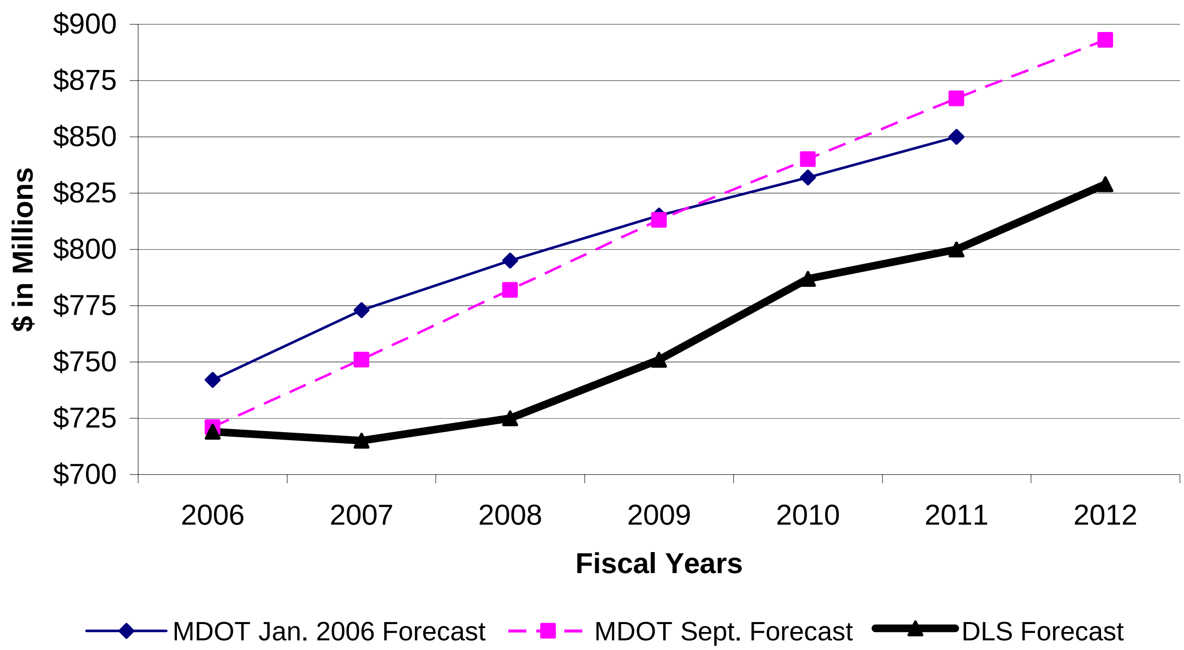
Revenue Assumptions

- A $100 million fund balance is maintained.

- Debt is capped at $2 billion outstanding and coverage ratios of 2.5 times are maintained.

- Titling tax revenues are anticipated to decline in fiscal 2007 by 0.5 percent. Over the six-year period, titling tax revenues will total $4.6 billion, roughly $340 million less than the September MDOT forecast.

Titling Tax Revenues Expected to Flatten



- Motor fuel tax revenues are expected to grow 1.0 percent in fiscal 2007 and 1.8 percent in fiscal 2008 which results in revenues being $47 million less over the six-year period compared to the September MDOT forecast.

- The $43 million transfer from the Maryland Transportation Authority (MdTA) for the Transit Initiative will end in fiscal 2007.

- Deferred plans to sell the World Trade Center removes $35 million from the forecast.

Expenditure Assumptions

- Operating expenditure growth between 3 and 7 percent for MDOT modes and includes annual cost-of-living adjustment.

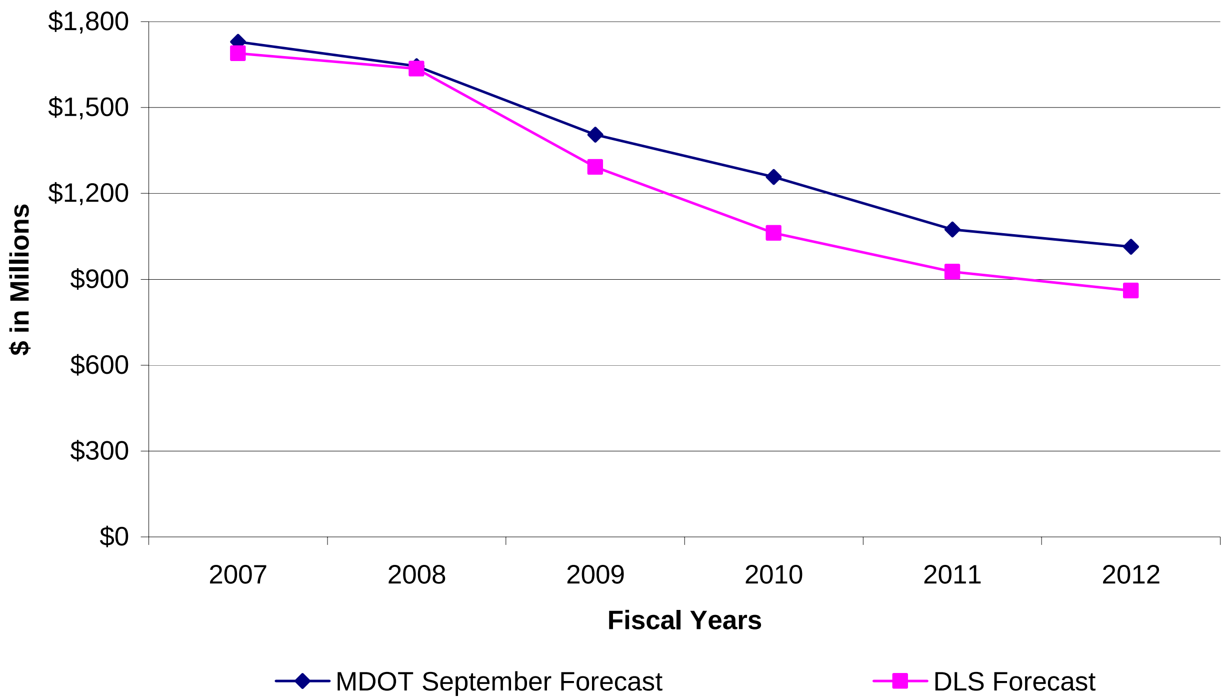
- Costs are added for the operation of the World Trade Center.

- The forecast assumes $30 million a year will be transferred to the Maryland Transportation Authority for the InterCounty Connector (ICC) from fiscal 2007 to 2010.

- GARVEE debt service payments for the ICC will begin in fiscal 2008 at $46 million, and reach $84 million by fiscal 2012.

- The total capital program, net of GARVEE debt service, will total $7.5 billion over the six-year period.

Capital Spending For Fiscal 2007-2012 Could Be $655 Million Less Than the September Estimate



- When comparing the September draft forecast to the DLS estimate, the capital program could be $655 million lower for the six-year period due primarily to downward revisions to titling motor fuel and corporate income tax revenues.

- To maintain the capital program in fiscal 2008, it is projected a bond sale of $425 million will be needed. In its September forecast, MDOT projects a $350 million bond sale in fiscal 2008.

- Due to the larger bond sale to maintain the capital program in fiscal 2008, initial debt service payments will be higher than anticipated. Future bond issuances for the capital program are constrained by the net income coverage test due to lower revenues and higher debt service payments.

- Federal fund estimates in the out-years appear to be conservative. To the extent that federal fund receipts are higher, this will help to mitigate the downward revision in revenues.

Public Private Partnerships (P3)

- P3 arrangements are a growing trend in transportation finance and represent a fundamental change in how transportation projects are constructed and maintained. Notable national examples include the Indiana Toll Road, Chicago Skyway, and Virginia Pocahontas Parkway.

- There are typically two forms of P3 agreements, with variations possible:

  - ***Concession Agreements:*** An existing State revenue generating asset (toll roads) is leased to a private entity to operate and maintain for an extended period. A lump sum payment is made to the State with the private sector collecting and retaining toll collections.

  - ***Design Build Operate Maintain:*** Similar to a concession agreement except that the private entity designs and builds a revenue generating facility for the right to collect future revenues.

- MdTA has issued a Request for Expressions of Interest (RFEI) from the private sector for the I-270/Corridor Cities Transitway project in Montgomery County. The RFEI requests input from the private sector as to what interest there may be in providing private financing for the project.

Issues

- **Weak Legal Framework:** In Maryland, there is no formal statutory framework governing P3 projects or agreements. The current legal framework for a P3 consists of regulations, existing procurement law, and an Attorney General opinion.

- **Lack of Legislative Oversight:** Currently, neither statute nor regulation provide for General Assembly approval of P3 projects, although MdTA must submit a P3 contract or agreement to the Board of Public Works for approval.

- **Role of the Private Sector:** The public sector is motivated by providing goods and service to the public whereas the private sector is motivated by market and economic forces. How these differing motivations can work together is an important consideration.

State Employment

Regular Full-time Equivalent Positions
Fiscal 2002 and 2007 Working Appropriation

Department/Service Area	FY 2002 Actual	FY 2007 Wkg. Approp.	Change	% Change
Legislative Branch	730	744	14	1.9%
Judicial Branch	3,010	3,397	388	12.9%
Subtotal	***3,740***	***4,141***	***402***	***10.7%***
Human Resources[1]	8,273	7,021	-1,251	-15.1%
Health & Mental Hygiene	8,536	7,656	-880	-10.3%
Transportation	9,538	9,021	-518	-5.4%
Natural Resources	1,629	1,369	-261	-16.0%
Labor, Licensing, & Regulation	1,706	1,475	-231	-13.6%
Public Safety & Correctional Services	11,663	11,503	-160	-1.4%
General Services	793	636	-157	-19.8%
Housing & Community Development[1]	449	316	-133	-29.6%
Financial & Revenue Administration	2,158	2,026	-133	-6.1%
Police & Fire Marshal	2,590	2,472	-118	-4.6%
Budget & Management	524	442	-82	-15.7%
Environment	1,028	951	-77	-7.5%
Agriculture	480	436	-45	-9.3%
Juvenile Services	2,123	2,080	-43	-2.0%
Business & Economic Development	324	292	-32	-9.9%
Retirement	194	189	-5	-2.3%
Executive & Administrative Control[1]	1,619	1,664	45	2.8%
Legal[1]	1,381	1,586	205	14.9%
MSDE and Other Education[1]	1,955	2,198	243	12.4%
Non-higher Education Executive Branch Subtotal	***56,961***	***53,329***	***-3,632***	***-6.4%***
Higher Education	21,386	22,783	1,397	6.5%
Total	**82,087**	**80,254**	**-1,833**	**-2.2%**

[1]The Department of Human Resources' workforce was reduced in size due to the transfer of 198 positions in the Child Care Administration to MSDE in fiscal 2006. There was also a large reduction in the workforce at Housing and Community Development when the Cultural and Historic Programs transferred to the Maryland Department of Planning in the same year. The Office of the Public Defender's workforce has increased due to the Caseload Initiative.

Regular Full-time Equivalent Filled Positions
Fiscal 2002 and 2007 Working Appropriation

Department/Service Area	FY 2002 Wkg. Approp.	FY 2007 Wkg. Approp.	Change	% Change
Legislative Branch	718	725	7	1.0%
Judicial Branch	2,882	3,233	352	12.2%
Subtotal	***3,600***	***3,958***	***359***	***10.0%***
Executive Branch				
Human Resources	7,560	6,549	-1,011	-13.4%
Health & Mental Hygiene	7,642	6,960	-682	-8.9%
Transportation	8,940	8,457	-483	-5.4%
Public Safety & Correctional Services	10,688	10,426	-262	-2.5%
Natural Resources	1,446	1,252	-193	-13.4%
Labor, Licensing, & Regulation	1,531	1,371	-160	-10.4%
Financial & Revenue Administration	2,034	1,884	-150	-7.4%
Housing & Community Development	409	294	-115	-28.1%
Police & Fire Marshal	2,410	2,320	-90	-3.7%
Budget & Management	463	389	-74	-16.1%
Environment	947	873	-74	-7.8%
General Services	663	597	-66	-9.9%
Agriculture	442	401	-41	-9.4%
Business & Economic Development	309	277	-32	-10.3%
Retirement	179	174	-5	-2.8%
Executive & Administrative Control	1,467	1,506	39	2.7%
Legal	1,290	1,459	168	13.1%
MSDE and Other Education	1,844	2,022	178	9.6%
Juvenile Services	1,454	1,914	460	31.7%
Non-higher Education Executive Branch Subtotal	***51,716***	***49,122***	***-2,593***	***-5.0%***
Higher Education	20,281	21,562	1,281	6.3%
Total	**75,596**	**74,642**	**-954**	**-1.3%**

Vacant Positions, Turnover Rate, and Necessary Vacancies
Fiscal 2007 Working Appropriation

Department/Service Area	Turnover Rate	Necessary Vacancies	Vacancy Rate	Vacant Positions[1]	Funded Vacancies/ (Unfunded Filled)
Legislative	1.5%	11	2.6%	19	8
Judiciary	3.3%	111	4.8%	164	53
Executive Branch					
Legal (no Judiciary)	5.8%	92	8.0%	128	36
Executive and Administrative Control	3.6%	60	9.5%	158	98
Financial and Revenue Administration	3.9%	79	7.0%	141	63
Budget and Management	3.6%	16	12.0%	53	37
Retirement	4.9%	9	8.2%	16	6
General Services	4.6%	29	6.1%	39	10
Transportation	4.6%	418	6.3%	564	146
Natural Resources	3.9%	53	8.5%	116	63
Agriculture	5.3%	23	8.0%	35	12
Health and Mental Hygiene	5.4%	413	9.1%	696	283
Human Resources	4.2%	297	6.7%	472	175
Labor, Licensing, and Regulation	4.4%	65	7.0%	103	38
Public Safety and Correctional Services	7.2%	831	9.4%	1,077	246
MSDE and Other Education	7.2%	157	8.0%	176	19
Housing and Community Development	3.0%	9	7.0%	22	13
Business and Economic Development	4.0%	12	5.1%	15	3
Environment	3.8%	36	8.2%	78	42
Juvenile Services	5.7%	119	8.0%	166	47
Police and Fire Marshal	4.9%	120	6.2%	152	32
Subtotal	***5.1%***	***2,960***	***7.6%***	***4,390***	***1,430***
Higher Education	3.9%	867	5.4%	1,222	354
Total	**4.6%**	**3,827**	**7.0%**	**5,612**	**1,784**

[1] The number of vacancies are as of November 1, 2006, with the exception of those in the University System of Maryland, which are as of September 30, 2006.

The State Workforce: Considerations for Fiscal 2008

- **Child Welfare:** The Child Welfare Workforce Initiative (Chapter 544 of 1998) requires the Department of Human Resources to develop a plan to hire sufficient staff to meet caseload to staff standards recommended by the Child Welfare League of America (CWLA). The fiscal 2008 baseline includes 191 new child welfare caseworker, supervisor, and support positions which are needed to bring the caseload to staff ratios within the levels recommended by the CWLA.

- **Mental Hygiene Administration:** During the fourth quarter of fiscal 2008, the State plans on opening a 44-bed wing addition to Clifton T. Perkins, the State's maximum security psychiatric hospital, requiring 136 positions.

- **Maryland State Department of Education:** Chapter 431 of 2004 requires the Maryland State Department of Education to assume responsibility for all educational programs in the Department of Juvenile Services residential facilities by July 1, 2012; in the fiscal 2008 baseline, this means the potential addition of 18 positions in the Thomas Waxter Children’s Center and the J. DeWeese Carter Youth Facility to reflect the phase-in of the legislation.

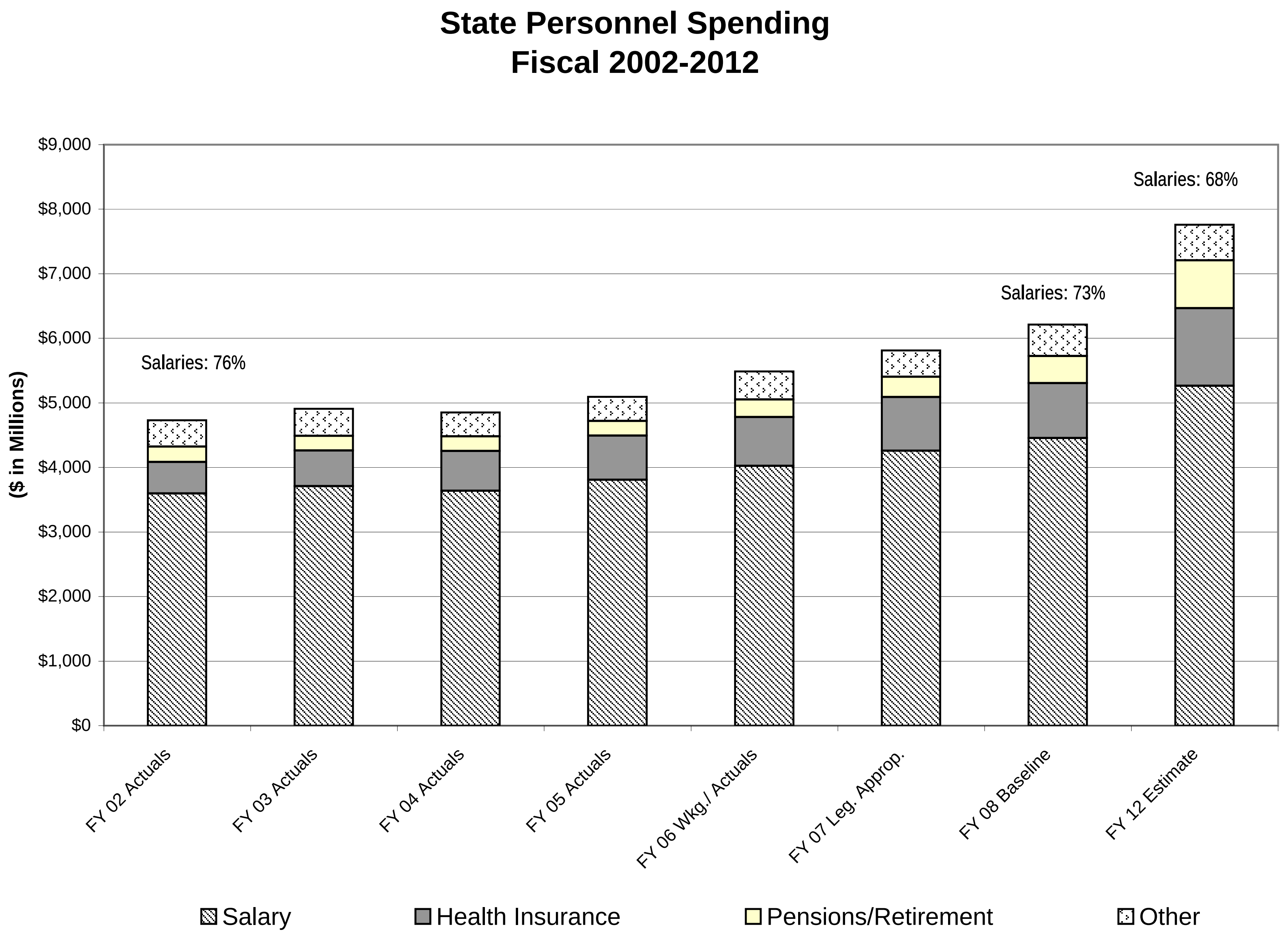
- **Why Are More Positions Not Being Filled?:** There are about 1,800 vacant positions in the fiscal 2007 budget for which there is funding, including about 350 in higher education. The high number of funded vacant positions suggests that agencies are unable or unwilling to fill them, possibly holding these or other positions open to cover expenditures not related to personnel.

How Has State Employee Health and Prescription Coverage Changed in the Last Two Years?

- Beginning in January 2005, the Department of Budget and Management implemented a number of changes including:
  - increasing primary doctor's office visit copayments from $5 to $15 for POS and HMO plans and increasing specialist doctor's office visit copayments from $10 or $20 to $25 for all types of plans;
  - increasing emergency room hospital charge copayments from $25 to $50 if emergency criteria are not met and implementing physician's charge copayments of $50 per emergency room visit; and
  - covering up to 50 rather than 100 visits per year of physical therapy.
- Program restructuring in fiscal 2006 included:
  - increasing the point-of-service health insurance copremiums from 15 to 17 percent of the total cost;
  - increasing prescription copayments to $5 for generic drugs, $15 for preferred brand name drugs, and $25 for non-preferred brand name drugs from $3, $5, and $10 for the three existing tiers;
  - implementing a $700 spending cap per family for prescriptions;
  - requiring two copayments instead of one copayment for 90 days of medication;
  - implementing a 30-day maximum for the first fill of a new drug;
  - requiring prior authorization for certain medications; and
  - implementing a number of other changes such as required step therapy, managed quantities of drugs, and voluntary mail order and specialty drug pharmacies.
- Program restructuring in fiscal 2007 includes implementing a maximum $20 copayment in the voluntary mail order prescription program for prescriptions written for up to 90 days.

What Is Going on with Health Insurance Spending?
Fiscal 2005-2008

Claims Costs	FY 2005	FY 2006	FY 2007 Est.	% Change FY 06-07	FY 2008 Est.	% Change FY 07-08
Medical	$541.8	$584.9	$629.2	7.6%	$677.3	7.6%
Dental	25.8	30.3	31.8	4.9%	33.4	4.9%
Prescription	303.4	262.8	285.2	8.5%	309.4	8.5%
Administration	5.6	5.6	7.0	23.8%	7.3	5.0%
Increased Workforce Participation			9.5		19.7	107.8%
Total	**$876.7**	**$883.7**	**$962.6**	**8.9%**	**$1,047.0**	**8.8%**
Agencies' Payments	$705.8	$771.6	$814.1			
Enrollees' Payments	177.3	196.9	198.2			
Agency Balance		14.7				
Medicare Part D			27.2			
Total	**$883.2**	**$983.2**	**$1,039.5**			
Difference	**$6.5**	**$99.5**	**$76.9**			
Closing Account Balance	**$93.6**	**$193.1**	**$270.0**			


State Personnel Spending
Fiscal 2002-2012
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
($ in Millions)
Salaries: 76%
Salaries: 73%
Salaries: 68%
FY 02 Actuals
FY 03 Actuals
FY 04 Actuals
FY 05 Actuals
FY 06 Wkg./ Actuals
FY 07 Leg. Approp.
FY 08 Baseline
FY 12 Estimate
Salary
Health Insurance
Pensions/Retirement
Other

Retiree Health Care Liabilities
Shown on State's Financial Statement in Fiscal 2008

- Governmental Accounting Standards Board (GASB) Statement No. 45 will require the State to apply an accounting methodology similar to the one used for pension liabilities to Other Post Employment Benefits (OPEB), including retiree health benefits, beginning in fiscal 2008.

- Actuarial valuation of retiree health liabilities performed by AON Consulting estimated the unfunded actuarial accrued liability for retiree health benefits to be approximately $20.4 billion. Under the GASB 45 standards, this will result in an Annual Required Contribution (ARC) amount of $1.96 billion. Any amount of the ARC that the State does not pay in a fiscal year will appear on the State's financial statement as a Net OPEB Obligation (NOO).[1]

- If the State establishes a mechanism to prefund liabilities similar to the pension system, to the extent the State pays into the fund, the State can use a similar long-term investment return assumption (7.75 percent) as opposed to the return on other State investments (5 percent).

Discount Rate	**5.0% ($ Billions)**	**7.75% ($ Billions)**
Actuarial Accrued Liability for Retiree Health Benefits	$20.4	$13.0
Annual Required Contribution Amount	1.9	1.4
Net OPEB Obligation (on Financial Statement)	1.6	1.1

[1] Because the ARC incorporates AON's estimate of approximately $311 million in costs that the State would have paid for retiree benefits on a pay-as-you-go (PAYGO) basis, if no additional contributions are made, the NOO shown on the State's financial statement would be $1.65 billion.

- ***Funding Normal Cost Recommendation:*** The task force recommended that the State set a goal of funding normal costs for retiree health benefits beginning in fiscal 2008 by setting aside approximately one-half of the total funds required to meet this goal in both the fiscal 2007 and 2008 budgets. AON's estimated normal/service cost for fiscal 2008 was $650 million, of which it is estimated that the State would already be paying approximately $320 million for current retiree health PAYGO costs. Of the remaining $329 million necessary to meet normal costs, $209 million would be general funds and $120 million would be special funds/federal funds.

  In response to the recommendation of the task force, in the fiscal 2007 budget, the Governor included $100 million in the Dedicated Purpose Account for retiree health care liabilities.

Pension Contribution Rates and Corridor Funding

- Chapter 440 of 2002 established what is known as the "corridor method" of pension funding. By this method, the contribution rates for the Employees' and Teachers' pension systems are frozen at 2002 levels, so long as the systems remain actuarially funded between 90 and 110 percent inclusive. Once a system “falls outside” the corridor, there is an increase in the contribution rate equal to 20 percent of the true actuarial rate for that year.

- The Employees and Teachers’ systems both remain out of the corridor with actuarial funding levels at the end of fiscal 2006 of 80.6 and 84.2 percent, respectively. Pension enhancements adopted in the 2006 session have resulted in an increased employer contribution of approximately $115 million as well as a decrease in the funded status of both systems.

($ in Millions)

Plan	FY 2006 Rate	FY 2007 Rate	FY 2008 Rate	Actuarial Funding Level	Budget Increase due to 2006 Enhancement	FY 2008 Budget Increase
Corridor-funded Plans						
Employees	5.76%	6.83%	8.86%	84.2%	$32.7	$65.7
Teachers	9.35%	9.71%	11.60%	80.6%	82.6	125.2
Non-corridor-funded Plans						
State Police	8.22%	13.83%	13.00%	98.2%	n/a	1.8
Judges	41.12%	42.43%	44.12%	77.6%	n/a	1.5
Law Enforcement Officers’ Pension System	38.47%	40.60%	41.74%	62.8%	n/a	0.5
Aggregate	**8.46%**	**9.18%**	**11.10%**	**87.8%**	**$115.3**	**$194.7**

Note: Funding levels reflect State funds only and exclude any municipal contributions or funds.

Source: Segal Company

Appendices

Fiscal 2008-2012 GO Bond Capital Request

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total	Category Totals
State Facilities							$712.6
Board of Public Works	$142.3	$194.4	$91.5	$133.1	$126.7	$688.0	
Military	9.5	3.6	0.9	2.6	0.0	16.6	
Dept. Disabilities	1.6	1.6	1.6	1.6	1.6	8.0	
Health and Social Services							$527.7
Health and Mental Hygiene	$67.5	$103.8	$91.7	$17.9	$38.2	$319.1	
University of MD Medical System	12.5	22.5	20.0	15.0	25.0	95.0	
Senior Citizen Activity Center	1.3	1.5	1.5	1.5	1.5	7.3	
Juvenile Services(1)	6.3	55.0	10.0	5.0	5.0	81.3	
Private Hospital Grant Program	5.0	5.0	5.0	5.0	5.0	25.0	
Environment							$258.7
Natural Resources	$13.0	$13.0	$13.0	$13.0	$13.5	$65.5	
Agriculture(2)	5.1	7.5	7.5	8.0	8.0	36.1	
Environment	27.3	28.0	27.5	26.0	26.0	134.8	
MD Environmental Service	3.8	3.7	4.7	4.8	5.3	22.3	
Education							$1,453.3
Education	$0.0	$0.7	$50.5	$0.0	$0.0	$51.2	
MD School for the Deaf	1.5	4.2	1.6	1.1	0.0	8.4	
Public School Construction(3)	277.9	277.6	277.9	280.0	280.3	1,393.7	
Higher Education							$2,562.9
University System of MD(4)	$281.8	$211.1	$242.0	$281.4	$269.5	$1,285.8	
Baltimore City Comm. College	1.4	23.9	35.9	23.9	1.0	86.1	
St. Mary's College	2.0	7.2	25.5	1.4	45.9	82.0	
Morgan State University	23.8	92.6	81.4	77.1	69.5	344.4	
Community Colleges	125.1	163.5	125.2	101.6	173.8	689.2	
Southern MD Higher Educ. Center	0.0	1.2	13.4	0.8	0.0	15.4	
Private Facilities Grant Program	12.0	12.0	12.0	12.0	12.0	60.0	
Public Safety							$581.1
Public Safety	$79.5	$51.8	$79.6	$97.2	$97.4	405.5	
State Police	21.2	21.4	24.6	11.0	0.0	78.2	
Local Jails	37.3	31.8	14.6	12.3	1.4	97.4	
Housing and Economic Development							$81.5
Economic Development	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	
Housing and Comm. Development	10.5	8.0	8.0	9.0	9.0	44.5	
Canal Place	0.0	0.0	0.0	1.7	0.0	1.7	
Historic St. Mary's City	1.6	1.2	8.0	6.8	1.3	18.9	
Planning	1.4	4.4	1.3	1.4	7.9	16.4	
Legislative Initiatives	15.0	15.0	15.0	15.0	15.0	75.0	$75.0
Miscellaneous	62.6	49.4	29.0	12.0	3.5	156.5	$156.5
Subtotal Request	**$1,249.8**	**$1,416.6**	**$1,320.4**	**$1,179.2**	**$1,243.3**	**$6,409.3**	**$6,409.3**
Tobacco Transition Program	3.0	3.0	5.0	0.0	0.0	11.0	$11.0
Total Request	**$1,252.8**	**$1,419.6**	**$1,325.4**	**$1,179.2**	**$1,243.3**	**$6,420.3**	**$6,420.3**
Debt Affordability Limits	**$810.0**	**$835.0**	**$860.0**	**$890.0**	**$920.0**	**$4,315.0**	

(1) The figures above are based on the 2006 *Capital Improvement Program* .

(2) The Department of Agriculture request does not include the Tobacco Transition Program.

(3) The Interagency Committee on School Construction received requests in excess of $470 million for fiscal 2008; however, the amount included in the request to the Department of Budget and Management reflects base funding of $250 million plus 12 percent attributable to construction escalation.

(4) In addition to the GO bond request, the University System of Maryland has requested academic revenue bond funding of $30.0 million for fiscal 2008 and $25 million annually for fiscal 2009 through 2012.

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

Source: Department of Budget and Management

Transportation Trust Fund Forecast
Fiscal 2007-2012

	Actual Year 2006	Current FY 2007	Est. FY 2008	Est. FY 2009	Est. FY 2010	Est. FY 2011	Est. FY 2012
Opening Fund Balance	**$245**	**$239**	**$106**	**$100**	**$100**	**$100**	**$100**
Closing Fund Balance	**$239**	**$106**	**$100**	**$100**	**$100**	**$100**	**$100**
Net Revenues							
Taxes and Fees	$1,614	$1,626	$1,665	$1,710	$1,760	$1,789	$1,832
Operating and Miscellaneous	465	450	454	470	477	490	523
Transfers between TTF and General Fund (GF)	50	0	0	0	0	0	0
MdTA Transfer	5	13	-30	-30	-30	0	0
Subtotal Net Revenues	***$2,134***	***$2,089***	***$2,089***	***$2,150***	***$2,207***	***$2,279***	***$2,355***
Bonds Sold	100	235	425	220	100	65	40
Bond Premiums	4	0	0	0	0	0	0
Total Revenues	**$2,238**	**$2,324**	**$2,514**	**$2,370**	**$2,307**	**$2,344**	**$2,395**
Expenditures							
Debt Service	$141	$118	$137	$157	$166	$175	$195
Operating Budget	1,303	1,392	1,467	1,513	1,572	1,634	1,701
State Capital	800	947	916	700	569	534	498
Total Expenditures	**$2,244**	**$2,457**	**$2,520**	**$2,370**	**$2,307**	**$2,343**	**$2,394**
Debt							
Debt Outstanding	$1,078	$1,246	$1,602	$1,746	$1,766	$1,741	$1,669
Debt Coverage – Net Income	5.5	4.5	3.0	2.7	2.5	2.5	2.5
Local Highway User Revenues	**$561**	**$561**	**$571**	**$586**	**$602**	**$612**	**$624**
Transferred to GF	49	0	0	0	0	0	0
Net HUR to Counties	**$513**	**$561**	**$571**	**$586**	**$602**	**$612**	**$624**
Capital Summary							
State Capital	$800	$947	$916	$700	$569	$534	$498
Net Federal Capital (Cash Flow)	721	746	720	592	493	392	362
Subtotal Capital Expenditures	**$1,521**	**$1,693**	**$1,636**	**$1,292**	**$1,062**	**$926**	**$860**
GARVEE Debt Service	0	0	46	52	85	84	84

Contractual Full-time Equivalent Positions
Fiscal 2002, 2006 Working Appropriation, and 2007 Legislative Appropriation

Department/Service Area	FY 2002 Actual	FY 2006 Wkg. App.	FY 2007 Leg. Approp.	FY 02-06 Change FTEs	FY 02-06 Change %	FY 06-07 Change FTEs	FY 06-07 Change %
Judiciary	371	371	368	0	0.0%	-4	-0.9%
Executive Branch							
Legal	99	111	114	12	11.9%	4	3.2%
Executive & Administrative Control	208	179	171	-30	-14.3%	-8	-4.3%
Financial & Revenue Administration	35	36	34	1	2.7%	-2	-4.4%
Budget & Management	33	12	16	-21	-63.9%	4	33.3%
Retirement	30	30	27	0	-1.1%	-3	-8.5%
General Services	35	27	26	-8	-23.5%	0	-0.3%
Transportation	142	159	177	16	11.5%	19	11.6%
Natural Resources	332	342	432	10	2.9%	91	26.5%
Agriculture	36	40	37	5	13.2%	-3	-8.4%
Health & Mental Hygiene	409	472	478	63	15.4%	6	1.3%
Human Resources	111	135	141	24	22.0%	6	4.4%
Labor, Licensing, & Regulation	176	177	194	1	0.7%	17	9.4%
Public Safety & Correctional Services	298	462	426	164	55.1%	-37	-8.0%
MSDE and Other Education	218	212	222	-6	-2.9%	10	4.8%
Housing & Community Development	49	38	43	-11	-22.6%	5	13.5%
Business & Economic Development	49	32	35	-17	-33.9%	3	9.3%
Environment	32	45	35	12	37.8%	-10	-22.5%
Juvenile Services	119	243	139	124	104.1%	-104	-42.9%
Police & Fire Marshal	46	45	50	-1	-2.6%	5	12.1%
Non-higher Education Executive Branch Subtotal	***2,457***	***2,795***	***2,797***	***338***	***13.7%***	***3***	***0.1%***
Higher Education	6,079	5,892	5,880	-187	-3.1%	-13	-0.2%
Total	**8,907**	**9,058**	**9,045**	**151**	**1.7%**	**-13**	**-0.1%**

Cigarette Restitution Fund Baseline Estimates
Fiscal 2008 Baseline Estimates
($ in Millions)

	FY 06 Actual Spending	FY 07 Working Appropriation	FY 08 Baseline Appropriation
Beginning Fund Balance	$15.4	$4.4	$0.0
Settlement Payments	158.2	152.3	180.6
NPM Adjustment(1)	-17.7	-17.7	-17.7
Subtotal	**$155.9**	**$139.1**	**$162.9**
Payment to Law Offices	-29.9		
Prior Year Recoveries	1.1		
Total Available Revenue	**$127.1**	**$139.1**	**$162.9**
Health			
Tobacco	9.3	18.7	18.7
Cancer	20.1	28.1	28.1
Substance Abuse	17.1	17.1	17.1
Medicaid	66.8	89.7	85.6
Administration	0.3	0.6	0.6
Subtotal	**$113.6**	**$154.3**	**$150.2**
Other			
Aid to Nonpublic School	2.9	4.0	4.0
Crop Conversion	6.0	7.6	7.6
Attorney General	0.2	0.2	0.2
Subtotal	**$9.1**	**$11.8**	**$11.8**
Restricted Medicaid Funds		**-$26.0**	
Total Expenses	**$122.7**	**$140.1**	**$162.0**
Ending Fund Balance	**$4.4**	**-$1.0**	**$1.0**

NPM: nonparticipating manufacturer

(1) The baseline assumes an NPM adjustment of $17.7 million in fiscal 2007 and 2008.

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