
Spending Affordability Briefing

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

October 30, 2007

Ongoing Revenues and Spending Structural Gap Persists



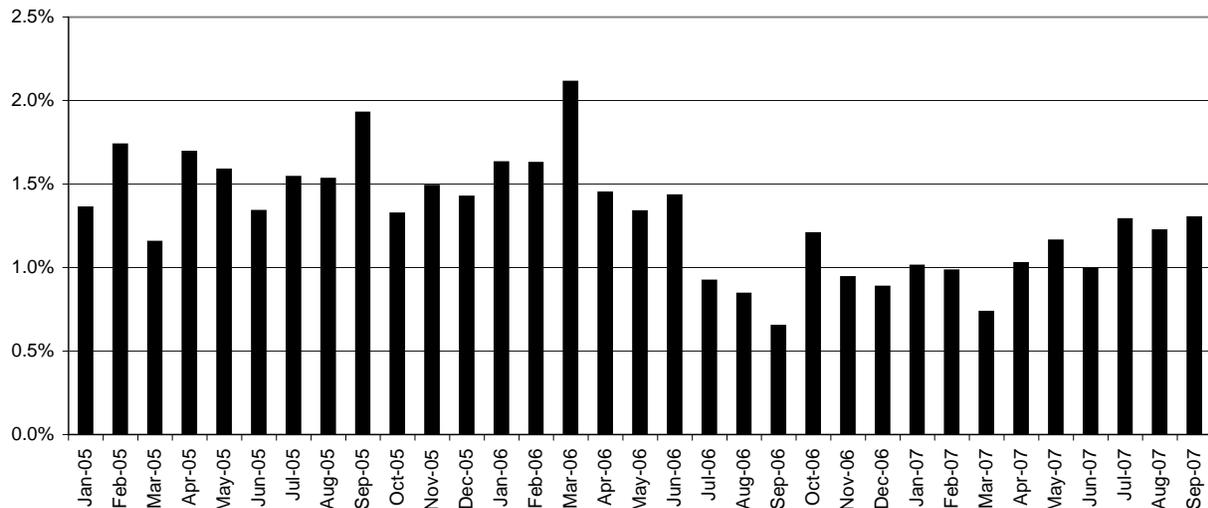
Fiscal Years

Recent Economic Performance

Year-over-year Percent Change

Calendar Year	U.S. Economy				Maryland Economy		
	<u>GDP</u>	<u>Employment</u>	<u>Personal Income</u>	<u>Existing Home Sales</u>	<u>Employment</u>	<u>Personal Income</u>	<u>Existing Home Sales</u>
2002	1.6%	-1.1%	1.8%	6.2%	0.3%	3.7%	3.7%
2003	2.5%	-0.3%	3.2%	9.2%	0.3%	3.5%	8.6%
2004	3.9%	1.1%	6.2%	8.8%	1.2%	6.9%	10.6%
2005	3.2%	1.7%	5.2%	5.1%	1.5%	5.7%	0.3%
2006	3.3%	1.9%	6.4%	-7.8%	1.2%	5.7%	-20.9%
	<i>Year-to-date</i>				<i>Year-to-date</i>		
2007	1.7%	1.4%	6.5%	-10.2%	1.1%	5.8%	-20.0%

Maryland Employment: Year-over-year Percent Change



GDP: inflation-adjusted gross domestic product

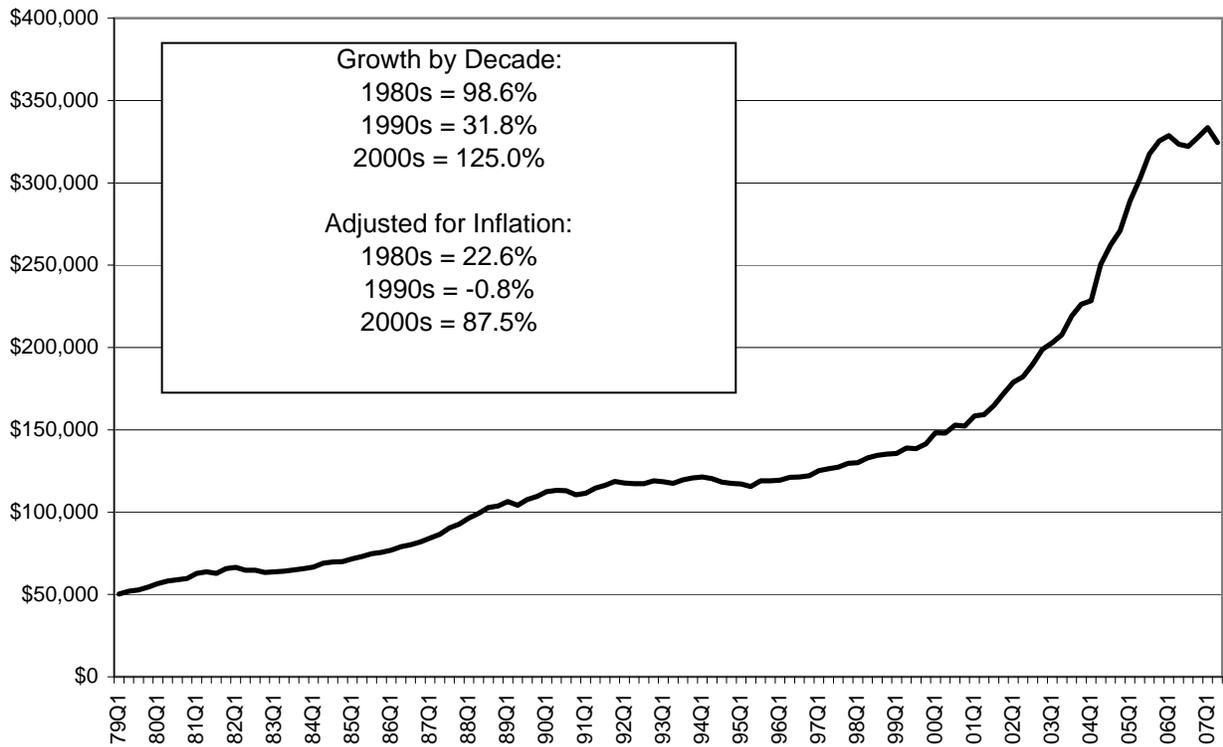
Note: Data for 2007 is through June for GDP and Maryland personal income, through August for U.S. personal income, and through September for home sales and employment.

Sources: GDP and personal income data from the Bureau of Economic Analysis, U.S. Department of Commerce; Employment data from the Bureau of Labor Statistics, U.S. Department of Labor; U.S. home sales from the National Association of Realtors; and Maryland home sales from the Maryland Association of Realtors

**Maryland Existing Homes – Active Inventory
1999-2007**



**Maryland Existing Single-family Median Home Price
1979-2007**



Maryland Economic Forecasts

December 2006 Compared to October 2007

Year-over-year Percent Change

Calendar <u>Year</u>	Employment		Personal Income	
	<u>Dec. 2006</u>	<u>Oct. 2007</u>	<u>Dec. 2006</u>	<u>Oct. 2007</u>
2004	1.2%	1.2%	7.2%	6.9%
2005	1.4%	1.5%	6.3%	5.7%
2006	1.4% *	1.2%	6.6% *	5.7%
2007E	1.3%	1.0%	5.8%	5.7%
2008E	1.5%	0.8%	5.7%	5.4%
2009E	1.8%	1.6%	5.8%	5.7%
2010E	1.8%	1.6%	6.0%	5.6%

* Estimates

Fiscal 2007 General Fund Revenues
(\$ in Millions)

<u>Source</u>	FY 2006	----- Fiscal 2007 -----		FY 2006-2007 <u>% Change</u>
	<u>Actual</u>	<u>Estimate*</u>	<u>Actual</u> <u>Difference</u>	
Personal Income Tax	\$6,200.2	\$6,593.9	\$6,679.2 \$85.3	7.7%
Sales and Use Tax ⁽¹⁾	3,355.2	3,457.2	3,420.1 -37.1	1.9%
State Lottery ⁽²⁾	480.5	477.4	473.1 -4.3	-1.5%
Corporate Income Tax	623.2	573.5	589.8 16.3	-5.4%
Business Franchise Taxes ⁽³⁾	196.2	194.2	206.6 12.4	5.3%
Insurance Premiums Tax	274.9	286.1	283.3 -2.8	3.1%
Estate and Inheritance Taxes	221.9	220.1	224.3 4.2	1.1%
Tobacco Tax	280.3	285.1	278.2 -6.9	-0.8%
Alcohol Beverages Tax	28.0	28.5	28.7 0.2	2.6%
Motor Vehicle Fuel Tax	13.2	13.3	13.2 -0.1	-0.1%
District Courts	91.3	104.2	97.0 -7.1	6.3%
Clerks of the Court	58.7	45.3	52.3 7.0	-10.9%
Hospital Patient Recoveries	85.8	83.1	84.9 1.8	-1.0%
Interest on Investments	162.5	172.8	178.9 6.1	10.1%
Miscellaneous	298.1	330.4	330.5 0.1	10.9%
Total Current Revenues	\$12,369.9	\$12,865.2	\$12,940.2 \$75.0	4.6%
MCI Settlement ⁽⁴⁾	20.4	0.0	0.0 0.0	n/a
Grand Total	\$12,390.3	\$12,865.2	\$12,940.2 \$75.0	4.4%

* From the Board of Revenue Estimates, March 2007, with adjustments for action at the 2007 legislative session.

(1) The vendor credit was halved for fiscal 2003 to 2006, increasing general fund revenues by \$14 million to \$18 million per year. In fiscal 2007, the vendor credit returned to its previous level. Fiscal 2007 also reflects the impact of HB 37 (2005 session) which provided for a tax-free period on certain back-to-school items in August 2006. Adjusting for these law changes would result in growth of around 2.6% in fiscal 2007.

(2) Fiscal 2007 lottery revenues reflect the impact of HB 147 (2005 session) which increased the agent commission from 5.0 to 5.5%.

(3) SB 335 of the 2006 session imposed a cap on the total amount of the Maryland-mined coal credit beginning with tax year 2007. Companies increased their estimated franchise tax payments in anticipation of the reduced coal credit thus boosting receipts in fiscal 2007 relative to fiscal 2006.

(4) In fiscal 2006, the Comptroller's settlement with MCI resulted in \$26.8 million in corporate income tax, \$20.4 million going to the general fund. Because the revenue is of a one-time nature, it is not included with the corporate income tax.

Fiscal 2008 General Fund Revenues

(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through September</i>			
	<u>FY 2007</u>	<u>FY 2008</u>	<u>\$ Difference</u>	<u>% Difference</u>
Personal Income Tax	\$1,182.4	\$1,238.5	\$56.1	4.7%
Sales and Use Tax	539.7	567.2	27.5	5.1%
State Lottery	105.1	114.0	8.8	8.4%
Corporate Income Tax	150.1	96.5	-53.6	-35.7%
Business Franchise Taxes	37.7	40.7	3.0	8.0%
Insurance Premiums Tax	70.7	69.9	-0.9	-1.2%
Estate and Inheritance Taxes	78.2	50.4	-27.8	-35.5%
Tobacco Tax	58.0	55.1	-2.9	-5.0%
Alcohol Beverages Tax	4.8	5.0	0.2	5.1%
Motor Vehicle Fuel Tax	2.4	2.3	0.0	-1.9%
District Courts	26.0	23.8	-2.2	-8.3%
Clerks of the Court	20.5	14.9	-5.6	-27.5%
Hospital Patient Recoveries ⁽¹⁾	2.7	2.3	-0.4	-15.1%
Interest on Investments ⁽²⁾	17.2	20.7	3.5	20.3%
Miscellaneous	32.8	36.1	3.3	10.0%
Total Revenues	\$2,328.3	\$2,337.3	\$9.0	0.4%

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

(2) Fiscal 2008 data was adjusted to reflect accrued interest earnings.

General Fund Revenue Projections

(\$ in Millions)

<u>Source</u>	<u>FY 2007</u>	<u>---- FY 2008 Estimate ----</u>			<u>FY 2007-2008</u>	<u>FY 2009</u>	<u>FY 2008-2009</u>
	<u>Actual</u>	<u>May*</u>	<u>October</u>	<u>\$ Chg.</u>	<u>% Change</u>	<u>Estimate</u>	<u>% Change</u>
Personal Income Tax	\$6,679.2	\$7,040.7	\$7,072.1	\$31.4	5.9%	\$7,517.3	6.3%
Sales and Use Tax ⁽¹⁾	3,420.1	3,622.7	3,516.7	-106.0	2.8%	3,680.0	4.6%
State Lottery	473.1	499.2	496.5	-2.7	4.9%	510.0	2.7%
Corporate Income Tax ⁽²⁾	589.8	598.1	575.6	-22.5	-2.4%	597.9	3.9%
Business Franchise Taxes	206.6	200.5	207.2	6.7	0.3%	211.6	2.1%
Insurance Premiums Tax	283.3	293.3	290.1	-3.2	2.4%	301.7	4.0%
Estate and Inheritance Taxes	224.3	200.3	184.3	-16.0	-17.8%	200.7	8.9%
Tobacco Tax	278.2	288.3	274.5	-13.8	-1.3%	273.8	-0.3%
Alcohol Beverages Tax	28.7	29.0	29.6	0.6	3.2%	30.3	2.3%
Motor Vehicle Fuel Tax	13.2	13.6	13.3	-0.3	1.0%	13.5	1.0%
District Courts	97.0	106.9	98.6	-8.3	1.6%	100.2	1.6%
Clerks of the Court	52.3	46.0	45.8	-0.2	-12.5%	46.4	1.3%
Hospital Patient Recoveries	84.9	84.9	85.3	0.4	0.4%	86.4	1.3%
Interest on Investments	178.9	95.0	150.7	55.7	-15.8%	124.7	-17.2%
Miscellaneous	330.5	319.0	322.9	3.8	-2.3%	321.3	-0.5%
Total	\$12,940.2	\$13,437.6	\$13,363.2	-\$74.4	3.3%	\$14,015.5	4.9%

* From the Board of Revenue Estimates, March 2007, with adjustments for legislative action at the 2007 session.

(1) Fiscal 2007 reflects the impact of HB 37 (2005 session) which provided for a tax-free period on certain back-to-school items in August 2006.

2009 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 adopted at the prior session is funded.
- Nondiscretionary changes in workload are recognized.
- Full year costs of programs started during the previous year are included.
- Positions and operating expenses associated with new facilities are recognized.
- Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Percent Change FY 2008-2009</u>
Pupil Enrollment*	827,596	823,732	820,234	-0.4%
Medicaid	519,688	528,243	541,486	2.5%
Children's Health	105,935	113,175	117,348	3.7%
Temporary Cash Asst.	50,149	50,138	50,138	0.0%
Foster Care/Adoption	13,744	13,623	13,662	0.3%

* Data for 2007, 2008, and 2009 reflect 9/05, 9/06, and 9/07(est.) full-time equivalent enrollments.

2009 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance (9.0% inflation).
- Medical contracts and supplies (5.0%).
- Prescription drugs for State facilities (8.0%).
- Motor vehicle fuel (no increase).
- Postage (2.1%) and supplies (2.0%).

Employee Compensation

- Merit increases (increments) of 2 or 4% based on salary schedule.
- 2% general salary increase for fiscal 2009.

Other Assumptions

- Cost increases for the University System of Maryland and Morgan State University are allocated between general funds and tuition and fees based on the current ratio of general funds to tuition and fees after adjusting for one-time health savings in fiscal 2008 and Other Post-employment Benefits contributions in fiscal 2009.
- The fiscal 2009 forecast includes the full anticipated costs for both employee and retiree health insurance despite a modest projected surplus in the State Employees and Retirees Health and Welfare Benefits Fund.

Fiscal 2008 Deficiencies (\$ in Millions)

Juvenile Services: Underfunding of per diem placements (\$16.2 million), fiscal 2007 costs rolled into fiscal 2008 (\$8.8 million), and re-opening of Victor Cullen facility (\$6.6 million)	\$31.6
Medicaid: Managed Care Organization rate increase for half of fiscal 2008 (\$19.8 million), higher than anticipated inpatient costs and utilization (\$14.1 million), loss of Cigarette Restitution Funds (\$9.3 million), and reduced federal match for a portion of Maryland Child Health Insurance Program (\$0.9 million) offset by lower than anticipated enrollment growth (\$25.6 million savings)	18.5
Energy Assistance: Increased demand for Electric Universal Service Program due to rising energy costs	9.3
Public Safety: Additional costs for Public Safety Death Benefit (\$3.0 million), under collection of fees in the Drunk Driving Monitoring Program (\$1.0 million), and fuel expenses (\$0.5 million)	4.5
Agriculture: Increased costs and loss of federal funds for gypsy moth spraying program	3.5
Other	0.7
Total	\$68.1

State Expenditures – General Funds
(\$ in Millions)

<u>Category</u>	FY 2008		<u>FY 2009</u> <u>Baseline</u>	FY 2008-2009	
	<u>FY 2007</u> <u>Work. Approp.</u>	<u>Adjusted</u> <u>Leg. Approp.</u>		<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$29.3	\$40.0	\$10.7	36.3%
Aid to Local Governments					
County/Municipal	\$231.1	\$242.6	\$246.1	\$3.5	1.5%
Community Colleges	205.9	241.7	268.8	27.1	11.2%
Education/Libraries	4,534.6	5,224.2	5,561.0	336.8	6.4%
Health	63.7	66.6	68.3	1.8	2.7%
	\$5,035.2	\$5,775.1	\$6,144.4	\$369.3	6.4%
Entitlements					
Foster Care Payments	\$248.8	\$246.3	\$254.3	\$7.9	3.2%
Assistance Payments	43.6	35.5	35.4	-0.1	-0.4%
Medical Assistance	2,189.7	2,220.1	2,477.6	257.5	11.6%
Property Tax Credits	61.0	62.4	62.4	0.0	0.0%
	\$2,543.0	\$2,564.3	\$2,829.6	\$265.2	10.3%
State Agencies					
Health	\$1,324.6	\$1,377.6	\$1,473.8	\$96.2	7.0%
Human Resources	277.6	279.3	328.4	49.1	17.6%
Systems Reform Initiative	32.2	44.7	42.2	-2.5	-5.6%
Juvenile Services	238.8	230.6	253.1	22.5	9.7%
Public Safety/Police	1,207.5	1,187.4	1,277.7	90.3	7.6%
Higher Education	1,047.4	1,105.6	1,200.2	94.6	8.6%
Other Education	398.8	385.2	422.5	37.4	9.7%
Agric./Natl. Res./Environment	140.9	143.7	154.3	10.6	7.4%
Other Executive Agencies	614.6	559.3	611.4	52.1	9.3%
Judicial/Legislative	393.9	415.8	440.8	25.0	6.0%
Cost-of-living Allowance	0.0	59.7	61.8	2.1	3.5%
	\$5,676.3	\$5,788.9	\$6,266.2	\$477.2	8.2%
Deficiencies	\$0.0	\$68.1	\$0.0	-\$68.1	-100.0%
Total Operating	\$13,254.5	\$14,225.8	\$15,280.1	\$1,054.2	7.4%
Capital/Heritage Reserve Fund	166.2	41.9	67.5	25.5	60.9%
Transfer to MdTA	53.0	0.0	53.0	53.0	n/a
Reversions	-20.0	-30.0	-20.0	10.0	-33.3%
Appropriations	\$13,453.7	\$14,237.8	\$15,380.6	\$1,142.8	8.0%
Reserve Funds ⁽¹⁾	738.4	262.8	346.5	83.7	31.9%
Grand Total	\$14,192.1	\$14,500.6	\$15,727.1	\$1,226.5	8.5%

MdTA: Maryland Transportation Authority

⁽¹⁾ Excludes \$53 million in fiscal 2007 and 2009 appropriated to the Dedicated Purpose Account that is to be transferred to MdTA. These monies are included in the transfer to the MdTA line.

Note: Fiscal 2007 includes \$144.5 million in deficiencies. Fiscal 2007 also reflects reductions of \$65.9 million comprising \$51.6 million in withdrawn appropriations approved by the Board of Public Works in February and \$14.3 million in planned targeted reversions. Fiscal 2008 reflects withdrawn appropriations of \$128.4 million approved by the Board of Public Works in July and anticipated deficiencies of \$68.1 million.

Components of Budget Change
(\$ in Millions)

Summary of Budget Change	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$654.3	55%
Legislation	8.3	1%
Commitments	104.6	9%
State Agency Costs	427.1	36%
Subtotal Operating Budget	\$1,194.3	100%
Pay-as-you-go (PAYGO)	25.5	
Appropriation to Reserve Fund/Transfer to the Maryland Transportation Authority	136.7	
Total Baseline Increase in State Expenditures	\$1,356.5	
Less Deficiency Appropriations	-68.1	
Total	\$1,288.4	

Detail on Components
(\$ in Millions)

Ongoing Requirements/Entitlements	\$654.3
Medical Assistance – Enrollment, Inflation, and Managed Care Organization Rates, Including Deficiency	245.3
Inflationary Increases in Education Formulas (Implicit Price Deflator Only)	205.3
Teachers’ and Librarians’ Retirement	56.1
End of Hospital Day Limits – Medical Assistance and Mental Hygiene	36.1
Community Colleges	27.1
Mental Hygiene – Enrollment, Inflation, Rates, and Utilization	22.8
Other Education Aid	21.3
Higher Education (St. Mary’s College, Baltimore City Community College, and Sellinger Formula)	10.8
Debt Service	10.7
Increase in Foster Care Payments and Group Home Rates	7.9
Formula Aid to Local Libraries	3.6
Formula Aid to Local Governments for Police Protection and Health	3.4
Residential Boarding School for At-risk Students – Chapter 397 of 2006	2.0
Formula Aid for School for the Deaf and School for the Blind	1.7
Restore Utility Restructuring Grant	1.0
Increases for the Maryland Correctional Adjustment Center and Soil Conservation Districts – Chapter 289 of 2006	0.9
Disparity Grant for Low Wealth Counties	0.7
Mandated Increase for Maryland State Arts Council	0.7
Rent Payments to Counties for Circuit Court Operations	0.5
Autism Waiver – Costs Rise Due to Medical Inflation	0.5
Baltimore City Convention Center Operating Deficit	-4.0

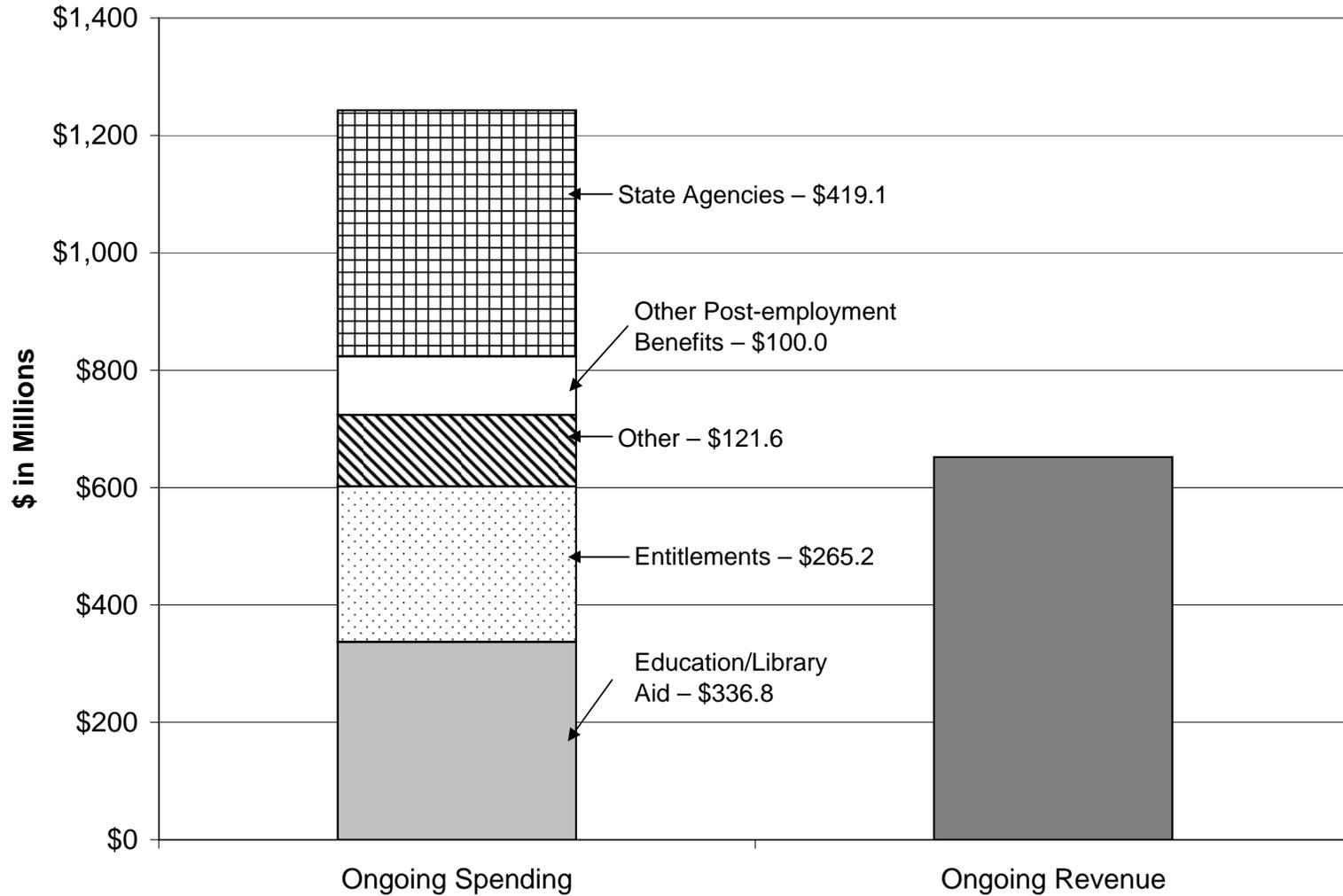
Detail on Components (Continued)
(\$ in Millions)

Legislation Adopted at 2007 Session	\$8.3
Voter-verifiable Paper Records – Chapter 547 of 2007	3.2
Oral Health Safety Net Program – Chapter 527 of 2007	1.2
Other Legislation with Impact Less Than \$1 Million	3.8
Commitments	\$104.6
Geographic Cost of Education Index	40.1
Increased Cost of Electric Universal Service Program	36.4
Major Information Technology Projects Per Department of Budget and Management Schedule	11.5
Infants and Toddlers Program Formula – Chapter 312 of 2002	8.2
Annualization of Mid-year Community Placements by the Developmental Disabilities Administration (DDA)	3.1
Public School Facilities Assessment Survey	2.8
Ongoing Shift of Responsibility for Education at Juvenile Facilities from the Department of Juvenile Services to the Maryland State Department of Education (MSDE)	2.5
State Agency Costs	\$427.1
Employee and Retiree Health Insurance (Includes Higher Education)	100.9
2% General Salary Increase (Includes Higher Education)	61.8
University System of Maryland and Morgan State University	47.4
Juvenile Services – Fiscal 2008 Underfunding, Rising Placements Costs, and Annualization of Operations at Victor Cullen	46.8
Employee Increments	35.5
Increase in DDA Payments to Community Providers	22.9
State Contribution for Employee Retirement	21.0
Restore One-time Reduction to MSDE Assessment Program	14.5
Major Information Technology Projects in the Judiciary	11.0
Reversions at Historical Level of \$20 Million	10.0
Inmate Medical Contracts	7.0
Gypsy Moth Eradication Program, Including Fiscal 2008 Deficiency	7.0
Increase in Panel Attorney Fees and Additional Staff Attorneys in the Office of the Public Defender	6.4
Additional Costs for Public Safety Death Benefit	6.0
2% Provider Cost-of-living Adjustment	5.1
Annualization of Costs to Open North Branch Correctional Facility	4.8
State Retirement Agency Information Technology System	3.4
Undercollection of Fees in the Drinking Driver Monitoring Program	2.0
Workers' Compensation Premiums	1.6
Final Year of Salary Enhancement Per Judicial Compensation Commission (HJR 1 of 2005)	1.3
Local Jail Reimbursement Costs	1.2
Four Additional Judgeships and Eight Related Positions Per Certification by Chief Judge of the Court of Appeals	1.1
Restoration of One-time Reduction to Buprenorphine Initiative	0.8

Detail on Components (Continued)
(\$ in Millions)

EmPOWER Maryland Initiative	0.6
Other Changes	7.1
PAYGO	\$25.5
Medevac Helicopter Replacement	10.7
Heritage Structure Rehabilitation Tax Credit	10.3
Public Safety Communication System	2.5
Rural Broadband Assistance Fund	2.0
Library Capital Grants Program (to be Funded by General Obligation Bonds)	-2.0
Other PAYGO	2.0
Transfer to Maryland Transportation Authority	\$53.0
State Reserve Fund	\$83.7
Unappropriated Fund Balance from Fiscal 2007	146.5
Increased Contribution to the Other Post-employment Benefits Liability	100.0
Remove Appropriation to Rainy Day Fund of Fiscal 2006 Fund Balance in Excess of \$10 Million	-162.8

Fiscal 2009 Ongoing Revenue Growth Funds Projected Education Aid and Entitlement Increases



General Fund: Recent History and Outlook
Fiscal 2007-2009
(\$ in Millions)

	Budget		Forecast
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Funds Available			
Ongoing Revenues	\$12,935	\$13,363	\$14,016
Balances and Transfers	1,365	1,283	330
One-time Generally Accepted Accounting Principles Transfer	154	0	0
Short-term Revenues	6	0	0
Subtotal Funds Available	\$14,459	\$14,646	\$14,345
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$13,400	\$14,359	\$15,538
Prior Year Withdrawn Appropriations/One-time Cuts	0	-49	0
PAYGO Capital	136	27	42
Appropriations to Reserve Fund	638	163	147
Subtotal Spending	\$14,174	\$14,501	\$15,727
Cash Balance/Shortfall	\$285	\$145	-\$1,382
Structural			
Balance (Ongoing Revenues Less Operating Costs)	-\$465	-\$996	-\$1,523
Ratio (Ongoing Revenues/Operating Costs)	97%	93%	90%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$593	\$163	\$147
Transfers to General Fund	0	-978	-157
Estimated Rainy Day Fund Balance – June 30	\$1,432	\$680	\$702
Total Cash (Rainy Day, General Fund Balance)	\$1,717	\$825	-\$680

PAYGO: Pay-as-you-go

**Status of the Fiscal 2009 Structural Deficit
DLS Estimate vs. Administration's \$1.7 Billion Estimate
(\$ in Millions)**

	<u>FY 2009</u>	
Administration Estimate	\$1,667	
DLS Baseline Estimate	1,523	
Difference		\$144
 Differences Are Due to:		
DLS Re-estimated baseline spending for fiscal 2009	\$62	
DLS Revenue Estimate Above September BRE Estimate	83	
Difference		\$144

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

State Reserve Fund Activity
Fiscal 2008 and 2009
(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>	<u>Joseph Fund Acct.</u>
Estimated Balances 6/30/07	\$1,432.2	\$142.6 ¹	\$8.3	\$0.0
Fiscal 2008 Appropriations	162.8	100.0	0.0	0.0
Expenditures				
Energy Subsidies for Low-income Residents		-20.6		
Transfer OPEB Funds to Special Fund		-200.0		
Substance Abuse Case Mgmt. Compact		-2.0		
Transfers to General Fund (GF)	-978.0	0.0		
Estimated Interest	62.7			0.0
Estimated Balances 6/30/08	\$679.6	\$20.0	\$8.3	\$0.0
Fiscal 2009 Appropriations	146.5	53.0	0.0	0.0
Expenditures				
Transfer to MdTA for ICC		-53.0		
Transfers to Rainy Day Fund	0.0	0.0		
Transfers to GF	-157.0			
Estimated Interest	32.4			
Estimated Balances 6/30/09	\$701.6	\$20.0 ³	\$8.3	\$0.0 ⁴
Balance in Excess of 5% GF Revenues	\$0.8			

ICC: InterCounty Connector

OPEB: Other Post-employment Benefits

MdTA: Maryland Transportation Authority

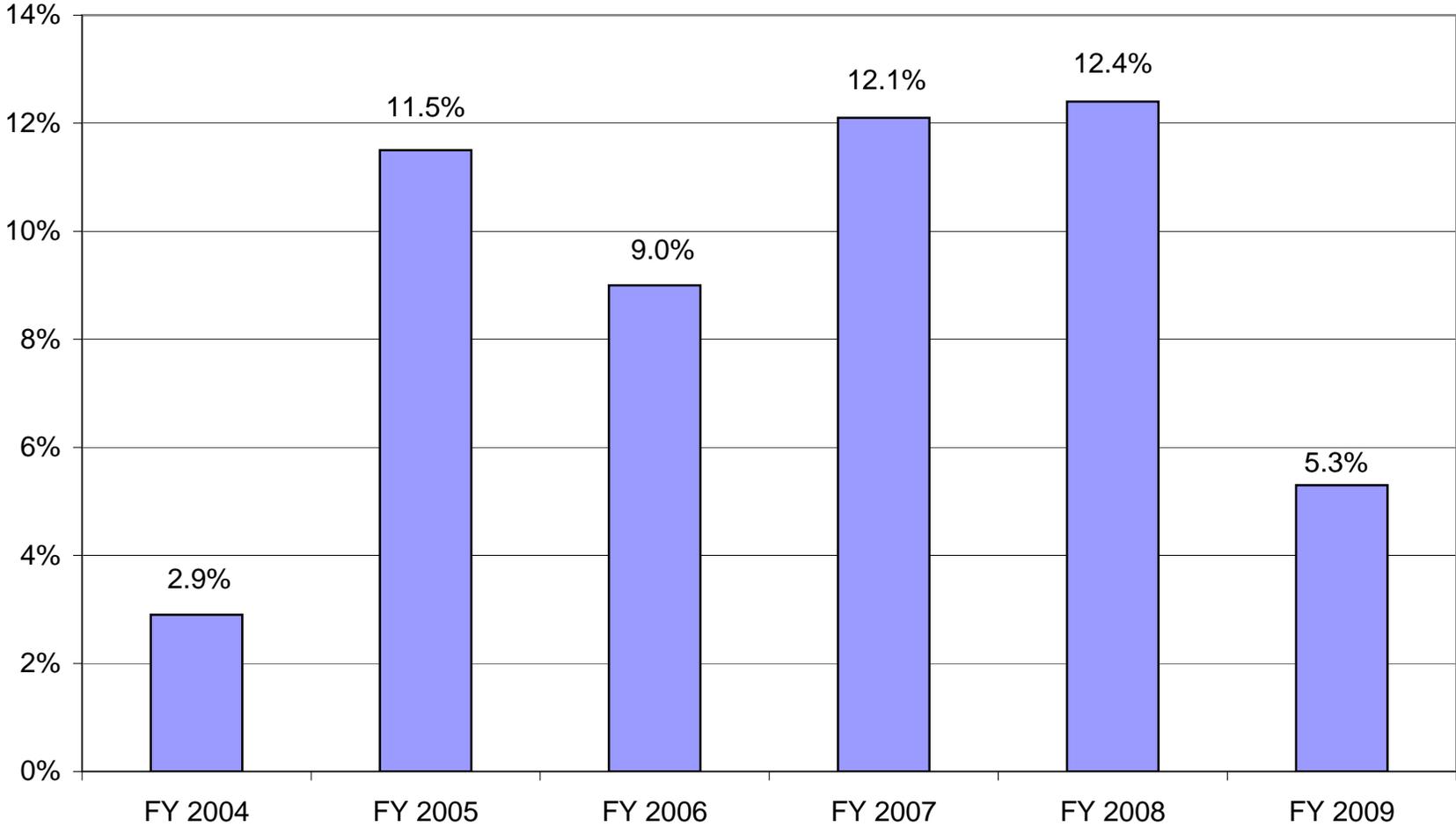
¹ This includes \$100 million toward OPEB obligations, \$20 million toward closure of the Prince George's County Hospital, \$20.6 million for low income energy assistance, and \$2 million for substance abuse services.

² Chapter 472 of 2005 requires the Administration to appropriate at least \$50 million in general funds for the InterCounty Connector each year until \$264.9 million is repaid by fiscal 2010. Through fiscal 2008, \$211.9 million remains unpaid.

³ The remainder is \$20 million appropriated toward the cost of closure of the Prince George's County Hospital.

⁴ The Joseph Fund Account has an estimated balance of \$15,857 at the end of fiscal 2009. Spending from the account cannot occur until the balance reaches at least \$15 million. Assuming only interest income, a balance of \$15 million would be reached by fiscal 2240.

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)

	<u>FY 2009</u> <u>State Aid Amount</u>	<u>Percent</u> <u>of Total</u>
Public Schools	\$5,495.0	80.5%
County/Municipal	920.3	13.5%
Community Colleges	268.8	3.9%
Libraries	71.0	1.0%
Local Health	68.3	1.0%
Total	\$6,823.5	100.0%

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

	<u>FY 2009</u> <u>Aid Change</u>	<u>Percent</u> <u>Change</u>
Public Schools	\$327.0	6.3%
County/Municipal	-22.2	-2.4%
Community Colleges	27.1	11.2%
Libraries	7.4	11.6%
Local Health	1.8	2.7%
Total	\$341.0	5.3%

State Aid by Major Programs
Fiscal 2007-2009
State Funds
(\$ in Millions)

	<u>2007</u>	<u>2008</u>	<u>Baseline 2009</u>	<u>\$ Change 2008-2009</u>	<u>% Change 2008-2009</u>
Public Schools					
Foundation Program	\$2,493.2	\$2,782.7	\$2,916.9	\$134.2	4.8%
Compensatory Aid	726.7	902.1	949.4	47.3	5.2%
Student Transportation	202.1	219.0	225.2	6.2	2.8%
Special Education – Formula Aid	231.8	280.0	293.2	13.1	4.7%
Special Education – Nonpublic Placements	116.5	125.2	128.6	3.4	2.7%
Limited English Proficiency Grants	88.8	126.2	142.0	15.8	12.5%
Guaranteed Tax Base	60.5	78.9	83.4	4.5	5.7%
Geographic Cost Index	0.0	0.0	40.1	40.1	
Other Education Programs	112.4	87.5	94.5	7.0	8.0%
Subtotal Direct Aid	\$4,032.0	\$4,601.6	\$4,873.3	\$271.6	5.9%
Retirement Payments	446.1	566.4	621.8	55.3	9.8%
Total Public School Aid	\$4,478.1	\$5,168.1	\$5,495.0	\$327.0	6.3%
Libraries					
Library Aid Formula	\$31.0	\$33.9	\$36.6	\$2.6	7.8%
State Library Network	15.2	16.3	17.3	1.0	6.1%
Library Capital Program	0.0	2.0	5.0	3.0	146.9%
Subtotal Direct Aid	\$46.2	\$52.2	\$58.8	\$6.6	12.7%
Retirement Payments	9.2	11.5	12.2	0.7	6.5%
Total Library Aid	\$55.4	\$63.7	\$71.0	\$7.4	11.6%
Community Colleges					
Community College Formula	\$164.8	\$194.5	\$218.3	\$23.8	12.2%
Other Programs	23.5	24.9	26.4	1.4	5.8%
Subtotal Direct Aid	\$188.3	\$219.4	\$244.6	\$25.3	11.5%
Retirement Payments	17.6	22.3	24.2	1.9	8.4%
Total Community College Aid	\$205.9	\$241.7	\$268.8	\$27.1	11.2%
Local Health Grants	\$63.7	\$66.6	\$68.3	\$1.8	2.7%
County/Municipal Aid					
Transportation	\$562.8	\$573.9	\$592.1	\$18.2	3.2%
Public Safety	107.1	108.5	110.1	1.6	1.4%
Program Open Space/Recreation	136.4	97.8	53.8	-44.0	-45.0%
Disparity Grant	109.5	114.8	115.5	0.7	0.6%
Utility Restructuring Grant	30.6	29.6	30.6	1.0	3.4%
Other Grants	13.8	15.7	15.8	0.1	0.4%
Subtotal Direct Aid	\$960.2	\$940.3	\$917.9	-\$22.4	-2.4%
Retirement Payments	1.8	2.2	2.4	0.2	10.0%
Total County/Municipal Aid	\$962.0	\$942.5	\$920.3	-\$22.2	-2.4%
Total State Aid	\$5,765.1	\$6,482.5	\$6,823.5	\$341.0	5.3%

Local Government Tax Actions Fiscal 2007 and 2008

	2007		2008	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Property Taxes	0	17	1	5
Income Taxes	0	1	1	0
Recordation Taxes	0	0	2	0
Transfer Taxes	0	0	0	0
Admissions Taxes	0	1	0	0
Lodging Taxes	0	0	0	0

Local Government Salary Actions Fiscal 2007 and 2008

<u>COLA Amount</u> ¹	County Government		Public Schools	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
No COLA	0	1	0	0
1% to 2.9%	5	8	0	0
3% to 3.9%	8	8	7	2
4% to 4.9%	8	4	9	8
5% to 5.9%	1	1	4	8
6% and Greater	2	1	4	5
Still Pending	0	1	0	1

COLA Amount	State Government		CPI-Urban Consumers	
	<u>2007</u> ²	<u>2008</u>	<u>2007</u>	<u>2008</u> ³
	2.15%	2.00%	2.60%	2.53%

COLA: cost-of-living adjustment

CPI: Consumer Price Index

¹ The COLA amount includes market adjustments.

² The COLA amount for State employees in fiscal 2007 totaled \$900 for employees earning \$45,000 or less; \$1,400 for employees earning \$70,000 or more; and 2% for employees earning between \$45,000 and \$70,000. On average, the COLA totaled 2.15%.

³ Forecast of the CPI for 2008 comes from Moody's Economy.com.

Local Government Salary Actions in Fiscal 2008

County	County Government Generally		Board of Education Teachers		Comments
	COLA	Step	COLA	Step	
Allegany ¹	2.5%	Yes	6.5%	Yes	<p>¹ Allegany County roads employees received a 3% cost-of-living adjustment (COLA), animal control employees and E-9-1-1 employees received a 5% COLA, and nursing home employees received a 4.8% COLA.</p> <p>² Anne Arundel County teaching assistants and board of education secretaries, operations, maintenance, and food service employees received a 3% COLA.</p> <p>³ In Baltimore City, negotiations for firefighters and police officers are pending. Negotiations for board of education teachers, paraprofessionals, and unaffiliated employees are pending, but school administrators received a 3.5% COLA.</p> <p>⁴ While Cecil County employees in general did not receive a COLA in fiscal 2008, county public safety employees received a 6% COLA.</p> <p>⁵ In Howard County, police officers received a 5% COLA, fire and rescue employees received a 6% COLA, and corrections employees and dispatchers received a 4% COLA.</p> <p>⁶ In Kent County, grades 1-4 received a salary market adjustment of \$3,000, grade 5 received \$2,000, and grades 6-10 received \$1,500 on March 28, 2007. Kent County law enforcement officers' salaries were adjusted to the State Police salary scale (an average 5 to 6% increase). School administrators and board of education support staff received a 4% COLA.</p> <p>⁷ Montgomery County police officers received a 7.5% COLA while fire and rescue employees received a 5.0% COLA.</p> <p>⁸ Negotiations for all Prince George's County government bargaining units are pending.</p> <p>⁹ Queen Anne's County employees received the greater of \$900, or 1.5%, of salary.</p> <p>¹⁰ Somerset County school administrators and board of education classified employees received a 4% COLA.</p> <p>¹¹ Talbot County school administrators and board of education support staff received a 2.3% COLA.</p> <p>¹² Washington County board of education support personnel received a 5% COLA while school administrators received a 4 to 7% COLA, depending on the position. The county did not indicate whether county government employees received merit or step increases.</p>
Anne Arundel ²	3.0%	Yes	6.0%	Yes	
Baltimore City ³	4.0%	Yes	Pending	Pending	
Baltimore	3.0%	Yes	4.0%	Yes	
Calvert	3.8%	Yes	4.5%	Yes	
Caroline	2.0%	Yes	5.0%	Yes	
Carroll	2.0%	Yes	7.0%	Yes	
Cecil ⁴	0.0%	Yes	4.5%	Yes	
Charles	2.3%	Yes	5.0%	Yes	
Dorchester	1.5%	Yes	4.0%	Yes	
Frederick	2.0%	Yes	4.5%	Yes	
Garrett	6.0%	No	6.0%	Yes	
Harford	3.0%	Yes	4.0%	Yes	
Howard ⁵	3.0%	Yes	5.0%	Yes	
Kent ⁶	Varies	Varies	5.0%	Yes	
Montgomery ⁷	4.0%	Yes	4.8%	Yes	
Prince George's ⁸	Pending	Pending	5.0%	Yes	
Queen Anne's ⁹	Varies	Yes	5.0%	Yes	
St. Mary's	3.8%	Yes	3.8%	Yes	
Somerset ¹⁰	2.5%	Yes	5.0%	Yes	
Talbot ¹¹	3.7%	No	3.6%	Yes	
Washington ¹²	3.5%	No	7.0%	Yes	
Wicomico	4.0%	No	4.0%	Yes	
Worcester	5.0%	Yes	5.0%	Yes	
Number Granting	22	19	23	23	

Regular Full-time Equivalent Positions Fiscal 2002-2009

<u>Department/Service Area</u>	<u>2002 Actual Approp.</u>	<u>2008 Work. Approp.</u>	<u>2002-2008 Change</u>	<u>2009 Baseline Estimate</u>	<u>2008-2009 Change</u>
Legislative	730	747	17	747	0
Judiciary	3,010	3,498	488	3,508	10
Subtotal	3,740	4,245	505	4,255	10
Executive Branch					
Legal (Excluding Judiciary)	1,381	1,591	210	1,652	61
Executive and Administrative Control	1,619	1,673	54	1,684	11
Financial and Revenue Administration	2,158	2,034	-124	2,029	-5
Budget and Management	524	443	-81	443	0
Retirement	194	203	9	203	0
General Services	793	645	-148	645	0
Transportation	9,538	9,091	-448	9,091	0
Natural Resources	1,629	1,357	-273	1,357	0
Agriculture	480	447	-34	447	0
Health and Mental Hygiene	8,536	7,630	-906	7,635	5
Human Resources	8,273	7,049	-1,224	7,049	0
Labor, Licensing, and Regulation	1,706	1,473	-233	1,478	6
Public Safety and Correctional Services	11,663	11,642	-22	11,747	105
MSDE and Other Education	1,955	2,203	248	2,201	-3
Housing and Community Development	449	316	-133	316	0
Business and Economic Development	324	280	-44	280	0
Environment	1,028	945	-83	947	2
Juvenile Services	2,123	2,240	117	2,239	-1
Police and Fire Marshal	2,590	2,473	-118	2,473	0
Subtotal	56,963	53,733	-3,230	53,914	181
Higher Education	21,386	23,247	1,861	23,235	-12
Total	82,089	81,225	-864	81,404	179

MSDE: Maryland State Department of Education

The State Workforce

Fiscal 2009 Baseline Budget Changes

- **Department of Public Safety and Correctional Services:** The baseline adds 105 positions to support the two new housing units at the Division of Correction's North Branch Correctional Facility in Cumberland.
- **Public Defender:** Another 57 attorneys are added to support caseloads in District Operations, Collateral Review and Appellate Divisions, and Mental Health Divisions.
- **Maryland Energy Administration:** The energy administration's new EmPOWER Maryland program receives 11 new positions to support reductions in energy demand.
- **Judiciary:** Another two circuit court judges (Baltimore City and Montgomery County), two circuit court clerks, two District Court judges (Charles and Montgomery counties), two District Court clerks, and two judicial law clerks are added to the baseline.
- **Legislation:** Positions supporting legislation enacted in 2007 includes:
 - 2 positions in the Attorney General's Office supporting a gang violence initiative (Chapter 496);
 - 1 position in the Attorney General's Office supporting vehicle protection regulations (Chapter 407);
 - 2 positions in the Attorney General's Office supporting the Maryland Homeowners Association Act (Chapter 593);
 - 5.5 positions at the Department of Labor, Licensing, and Regulation to support living wage requirements (Chapter 284) and regulate elevator inspections (Chapter 308);
 - 2 positions at the Department of the Environment supporting the Statewide Electronics Program (Chapter 239) and the Maryland Clean Cars Act of 2007 (Chapter 112);
 - 2 Mental Hygiene Administration supporting sex-offender evaluations prior to sentencing (Chapter 519);
 - 1 position in the health department's Office of Health Care Quality supporting forensic laboratory oversight (Chapter 147);
 - 1 position in the Department of Assessment and Taxation to establish a statewide ground lease registry (Chapter 290); and
 - 1 position in the Department of Planning supporting wastewater treatment facilities' upgrade reporting requirements (Chapter 290).

Employee and Retiree Health Care and Dental Insurance Funding
Fiscal 2006-2009
(\$ in Millions)

	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Budget</u>	<u>2009 Est.</u>
Beginning Balance	\$94	\$193	\$310	\$78
Receipts				
Agencies (Employer Contribution)	766	804	649	811
Employees/Retirees Match	197	208	211	209
Rebates, Recoveries	14	36	17	17
Total Receipts	977	1,048	877	1,037
% Growth in Receipts		7.2%	-16.3%	18.3%
Less Health and Dental Payments	877	931	977	1,026
% Growth in Payments		6.1%	5.0%	5.0%
Ending Balance	193	310	209	89
Minimum Balance	67	74	78	85
Excess Balance	126	236	132	4
Transfer of Excess Balance			132	
General Fund Share of Excess Balance			82	

Vacant Positions, Turnover Rate, and Necessary Vacancies Fiscal 2008 Working Appropriation

<u>Department/Service Area</u>	<u>Turnover Rate</u>	<u>Necessary Vacancies</u>	<u>Vacancy Rate</u>	<u>Vacant Positions</u>	<u>Funded Vacancies (Unfunded Filled)</u>
Legislative	1.5%	11	2.4%	18	7
Judiciary	4.8%	168	7.5%	263	95
Executive Branch					
Legal (Excluding Judiciary)	5.7%	91	6.9%	111	19
Executive and Administrative Control	3.9%	71	10.8%	196	125
Financial and Revenue Administration	3.8%	77	6.1%	124	46
Budget and Management	4.1%	18	8.5%	38	20
Retirement	5.9%	11	8.1%	16	4
General Services	5.8%	37	9.5%	62	24
Transportation	5.3%	577	5.7%	620	43
Natural Resources	4.9%	68	8.6%	118	50
Agriculture	7.0%	31	13.6%	61	29
Health and Mental Hygiene	5.1%	557	6.5%	711	153
Human Resources	4.8%	340	7.4%	525	185
Labor, Licensing, and Regulation	3.8%	56	7.6%	112	56
Public Safety and Correctional Services	4.1%	475	10.4%	1,213	738
MSDE and Other Education	5.5%	121	6.3%	141	20
Housing and Community Development	4.0%	13	6.6%	21	8
Business and Economic Development	4.0%	12	12.8%	37	25
Environment	6.5%	106	5.1%	83	-23
Juvenile Services	3.4%	72	10.5%	220	148
Police and Fire Marshal	4.6%	114	6.2%	153	39
Subtotal	4.8%	2,830	7.7%	4,559	1,728
Higher Education	3.3%	775	4.7%	1,087	312
Total	4.2%	3,658	6.8%	5,927	2,269

MSDE: Maryland State Department of Education

General Fund Budget Outlook

Fiscal 2008-2013

(\$ in Millions)

	2008	2009	2010	2011	2012	2013	2009-2013
Revenues	<u>Working</u>	<u>Baseline</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>	<u>Avg Annual Change</u>
Opening Fund Balance	\$285	\$145	\$0	\$0	\$0	\$0	
Transfers	998	184	69	78	71	61	
Subtotal One-time Revenue	\$1,283	\$330	\$69	\$78	\$71	\$61	
Ongoing Revenues	\$13,363	\$14,016	\$14,811	\$15,606	\$16,431	\$17,268	
Subtotal Ongoing Revenue	\$13,363	\$14,016	\$14,811	\$15,606	\$16,431	\$17,268	5.4%
Total Revenues & Fund Balance	14,646	14,345	14,880	15,684	16,502	17,329	
Ongoing Spending							
Operating Spending	\$14,244	\$15,260	\$16,081	\$16,901	\$17,666	\$18,577	
Multi-year Commitments	115	278	384	200	200	200	
Subtotal Ongoing Spending	\$14,359	\$15,538	\$16,465	\$17,101	\$17,866	\$18,777	4.8%
One-time Spending							
PAYGO Capital	\$27	\$42	\$41	\$43	\$39	\$39	
One time spending reductions	-49	0	0	0	0	0	
Appropriation to Reserve Fund	163	147	50	50	50	50	
Subtotal One-time Spending	\$141	\$189	\$91	\$93	\$89	\$89	
Total Spending	\$14,501	\$15,727	\$16,556	\$17,194	\$17,955	\$18,866	
Ending Balance	\$145	-\$1,382	-\$1,676	-\$1,510	-\$1,452	-\$1,536	
Rainy Day Fund Balance	\$680	\$701	\$744	\$781	\$822	\$865	
Balance Over 5% of GF Revenues	12	0	3	0	1	1	
Structural Balance	-\$996	-\$1,523	-\$1,654	-\$1,495	-\$1,435	-\$1,509	

Status of the General Fund
Fiscal 2008
(\$ in Millions)

Starting Balance		\$284.7
Revenues		
DLS Estimated Revenue	<u>\$13,363.2</u>	\$13,363.2
Transfers		
Revenue Stabilization Account	\$978.0	
From Reserve for Heritage and Biotechnology Tax Credits	<u>20.0</u>	\$998.0
Funds Available		\$14,645.9
Spending		
Fiscal 2008 Allowance	\$14,590.9	
BPW July 2007 Withdrawn Appropriations	-128.4	
DLS Estimated Deficiencies	68.1	
Estimated Agency Reversions	<u>-30.0</u>	
Net Expenditures		\$14,500.6
Ending Balance		\$145.3

BPW: Board of Public Works

DLS: Department of Legislative Services

Status of the General Fund
Fiscal 2009
(\$ in Millions)

Starting Balance		\$145.3
Revenues		
DLS Estimated Revenue	<u>\$14,015.5</u>	\$14,015.5
Transfers		
Revenue Stabilization Account	\$157.0	
From Reserve for Heritage and Biotechnology Tax Credits	<u>27.4</u>	\$184.4
Funds Available		\$14,345.2
Spending		
DLS Baseline	\$15,747.1	
Estimated Agency Reversions	<u>-20.0</u>	
Net Expenditures		\$15,727.1
Ending Balance		-\$1,381.9

DLS: Department of Legislative Services