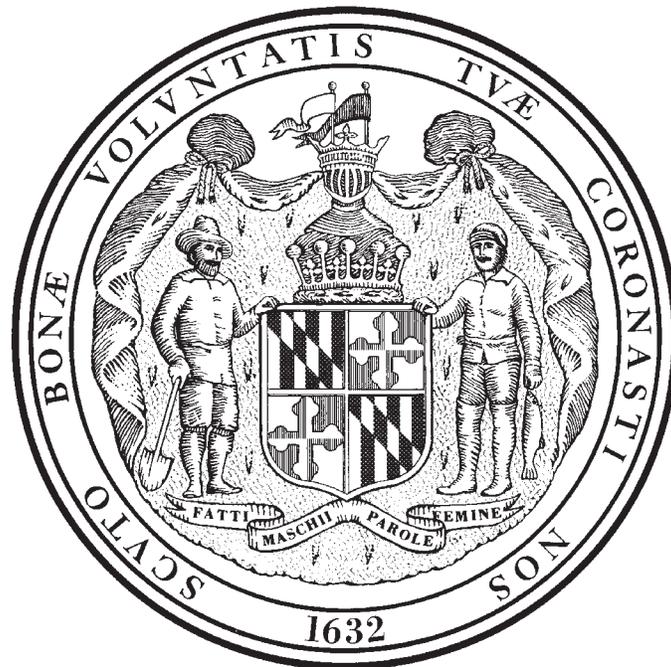


SPENDING AFFORDABILITY COMMITTEE

2009 Interim Report



ANNAPOLIS, MARYLAND
DECEMBER 2009

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December 18, 2009

The Honorable Martin O'Malley
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor O'Malley:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2009 interim. These recommendations were adopted by the committee at its meeting on December 17, 2009. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2011 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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

Sincerely,

Senator Ulysses Currie
Presiding Chair

Delegate John L. Bohanan, Jr
House Chair

UC:JLB/ESS/kjl

December 18, 2009

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
The Honorable Michael E. Busch, Co-Chairman
Members of the Legislative Policy Committee

Ladies and Gentlemen:

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Senator Ulysses Currie
Presiding Chair

Delegate John L. Bohanan, Jr.
House Chair

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**Maryland General Assembly
Spending Affordability Committee
2009 Interim
Membership Roster**

**Senator Ulysses Currie, Senate Chair
Delegate John L. Bohanan, Jr., House Chair**

Senators

David R. Brinkley
James E. DeGrange, Sr.
Edward J. Kasemeyer
Allan H. Kittleman
Rona E. Kramer
Richard S. Madaleno, Jr.
Nathaniel J. McFadden
Thomas M. Middleton
Thomas V. Mike Miller, Jr.
Donald F. Munson

Delegates

Kumar P. Barve
Talmadge Branch
Michael E. Busch
Norman H. Conway
Ann Marie Doory
Adelaide C. Eckardt
Sheila E. Hixson
Adrienne A. Jones
Anthony J. O'Donnell
James E. Proctor, Jr.

Citizens Advisory Committee

Dana M. Jones
Robert R. Neall
Frederick W. Puddester

Committee Staff

Erika S. Schissler

Support Staff

Kimberly J. Landry

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2009 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585 of 1982). The committee is composed of 20 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A three-member citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. The committee's prior recommendations and legislative action on the operating budget are reflected in the table on the following page.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic has fluctuated between 6.9 and 7.7%. Recent decisions, such as the unprecedented increases under the Bridge to Excellence in Public Schools Act, have raised spending to levels experienced in the mid-1980s. The chart on page 4 illustrates the historical pattern of spending versus personal income.

The committee notes that the State's budgetary outlook continues to reflect the national recession that began in December 2007. Although some economists feel that the recession has officially concluded, job growth and revenue growth remain stagnant at best and are projected to recover slowly.

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

**Spending Affordability Committee's Prior Recommendations and
Legislative Action on the Operating Budget
(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1983	9.00%	\$428.0	5.70%	\$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005***	6.70%	1,037.1	6.69%	1,036.3
2006***	9.60%	1,604.7	9.57%	1,599.0
2007	7.90%	1,450.0	7.51%	1,378.4
2008	4.27%	848.7	4.16%	826.8
2009****	0.70%	145.7	0.19%	39.2

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

**Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability limitation.

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

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

Economy

The U.S. economy officially entered a recession in December 2007. Employment in Maryland peaked in February 2008. Since then, the State has lost 79,400 jobs, a decline of 3.0%. The Maryland unemployment rate rose from 3.6% at the beginning of 2008 to 7.3% as of October 2009. The unemployment rate is the highest it has been since July 1984. Personal income growth slowed from 4.6% in calendar 2007 to 3.1% in calendar 2008. Wage and salary income growth slowed from 5.0% in calendar 2007 to just 2.4% in calendar 2008. In the first six months of calendar 2009, personal income growth slowed further to 1.2%. Wage and salary income has actually fallen in the first six months of calendar 2009, dropping by 1.1%.

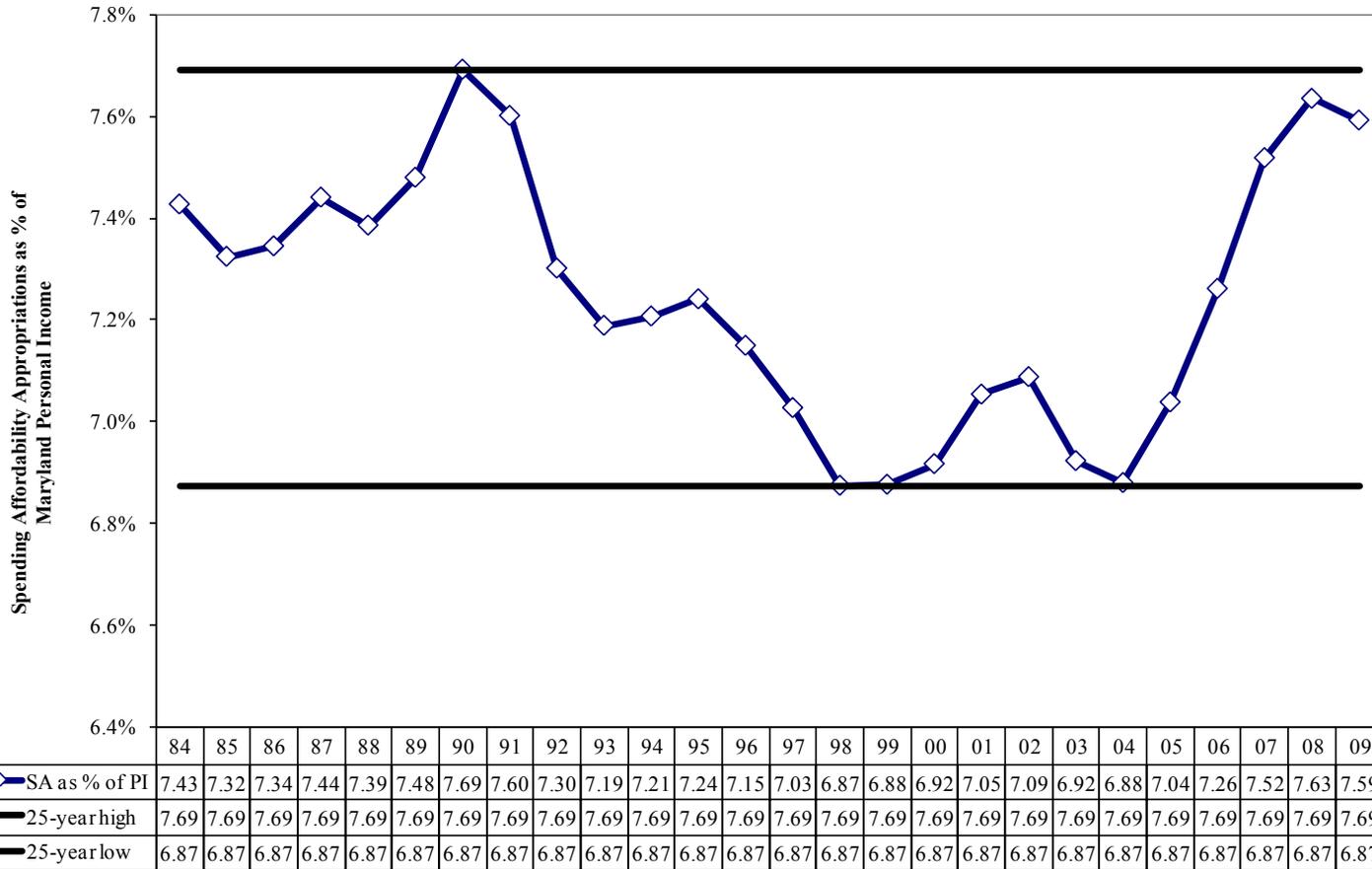
In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March. Recognizing the continuing problems in the State's economy, especially in the labor market, BRE forecasted a 2.9% decline in employment in calendar 2009 and a decline in personal income of 0.7%. In December, BRE altered its September forecast to reflect expectations that income growth over the calendar 2010 to 2013 period will be somewhat weaker as the economic recovery takes longer to fully develop. At the same time, BRE increased the estimate for income growth in calendar 2009 reflecting the recently released second quarter personal income data. That data suggests it is unlikely Maryland personal income will fall in calendar 2009, and BRE now estimates growth of 0.8%.

Revenues

Fiscal 2009 general fund revenues were below the estimate by \$347.9 million. General fund revenues totaled \$12.9 billion, a decline of 4.8% from fiscal 2008. Most of the underattainment was in the personal income tax which was under the estimate by \$304.3 million. The sales tax exceeded the estimate by \$9.5 million and fell 1.5% from fiscal 2008. However, adjusted for law changes, baseline sales tax revenues declined 5.5%, the second year of falling revenues.

In fiscal 2010 total general fund revenues through November are down 6.0% over the same period in fiscal 2009. The significant underattainment in fiscal 2009 combined with the weak year-to-date performance and deteriorating economic conditions resulted in a substantial downward revision to the general fund forecast for fiscal 2010. In September, BRE lowered its estimate for fiscal 2010 general fund revenues by \$683.0 million. BRE projected that revenues would fall 4.5% in fiscal 2010 and increase 3.4% in fiscal 2011. In December, BRE revised its general fund estimates. In December, BRE lowered its general fund estimate for fiscal 2010 by \$35.5 million but also recognized \$20.7 million in revenues from the tax amnesty program for a net decline of \$14.8 million. BRE lowered the revenue estimate for fiscal 2011 by \$62.2 million. General fund revenues are now projected to fall 4.7% in fiscal 2010 and increase by 3.0% in fiscal 2011.

Ongoing Spending in Relation to Personal Income Under Spending Affordability Concept



SA: spending affordability
PI: personal income

Budget Requirements

Considering the actions taken by the Board of Public Works (BPW) in July, August, and November 2009 to reduce the fiscal 2010 budget and the revenue projections adopted by BRE in December 2009, the committee is currently projecting an ending balance of -\$191.0 million at the close of fiscal 2010. This projection presumes additional revenues and reversions (totaling \$168.5 million) as well as legislative concurrence in \$365.8 million of fund transfers adopted by the BPW.

Contributing to this projected negative balance are anticipated spending shortfalls totaling \$278.7 million. Areas which are expected to require deficiency funding include medical assistance and temporary disability assistance payments, certain programs in Human Resources and Juvenile Services where federal funds have been disallowed, mental hygiene community provider payments, and inmate medical and personnel costs in Public Safety.

The loss of one-time federal and special funds, coupled with enrollment increases, creates a significant need for general funds in the Medicaid program, where an increase of \$879.9 million in general funds is needed. The forecast also includes a considerable increase in State agency costs by discontinuing employee furlough and providing a 2% general salary increase. Escalating costs for employee health insurance and retirement result in general fund increases of \$62.6 million and \$76.0 million, respectively.

The actions by BPW, while reducing the fiscal 2010 budget by \$531.4 million, have a much more modest impact on the fiscal 2011 budget. DLS estimates that only \$226.7 million of the reductions represent ongoing savings. The remaining items are deferrals of expenses that will come later and reductions to mandated formulas which will revert to full funding absent legislative action.

The committee projects the State will close fiscal 2010 with a balance of \$614 million in the Rainy Day Fund, which represents 5.0% of general fund revenues. When combined with a general fund balance of -\$191 million, the total combined cash balance is projected at \$423 million.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2010 session:

1. Operating Budget

A. Spending Limit and Sustainability

Appropriations subject to the spending affordability limit shall be limited to growth of 0% over those approved at the 2009 session. This limit would provide for no increase in appropriations at the 2010 session, allowing for total expenditures subject to spending affordability of \$20,846 million. Implementation of this limit will require reductions of \$1 billion from baseline budget estimates, while maintaining core State functions and positioning the State to respond well to economic recovery.

B. Calculation Adjustments

The availability of federal funds under the American Recovery and Reinvestment Act of 2009 (ARRA) has significantly altered the need for general funds in certain ongoing, core State government functions. In fiscal 2010, \$1.1 billion of ARRA funds are used in lieu of general funds, and another \$897.7 million is slated for fiscal 2011. The expenditures stem almost exclusively from the enhanced federal medical assistance percentage (FMAP) under the Medicaid program and the Fiscal Stabilization – Education and Fiscal Stabilization – Discretionary ARRA programs. **The committee recommends that appropriations of enhanced FMAP and Fiscal Stabilization funds provided through the ARRA be included in the affordability limit.**

2. Rainy Day Fund

In addition to its general fund recommendations, the committee also continues to recommend a prudent use of the Revenue Stabilization Account (“Rainy Day” Fund) to address general fund needs. The committee projects a Rainy Day Fund balance at the beginning of fiscal 2011 of \$616.7 million, which exceeds the statutory requirement for a balance of at least 5% of estimated general fund revenues by \$1.4 million.

The committee continues to recommend prudent use of the Rainy Day Fund. The balance should be reduced below 5% of estimated revenue only as a last resort and only as part of a multi-year plan to achieve structural balance.

3. Capital Budget

A. General Obligation (GO) Debt

The Capital Debt Affordability Committee (CDAC) has recommended that a maximum of \$990 million in GO bonds may be authorized at the 2010 session. This level allows for a \$30 million increase in spending over the 2009 session authorization, less a one-time infusion of \$150 million provided in the 2009 session for economic stimulus purposes.

The committee recognizes that CDAC may reevaluate its recommendation on the debt limit prior to the start of the 2010 legislative session in light of the State's economy and fiscal condition. Factors that will influence the committee are revisions to the September Board of Revenue Estimates' general fund revenue projection, options available to provide operating budget relief by transferring appropriate projects to the capital budget, revisions to debt service estimates, and extensions to federal authorizations incorporated in the ARRA.

The committee concurs in the recommendation of CDAC that up to \$990 million in new GO bonds may be authorized at the 2010 session. In the event the CDAC recommends an amount in excess of \$990 million, the committee would support up to an additional \$150 million (a total of \$1.14 billion) in GO bonds providing the additional authority is used for projects which will provide an economic stimulus, would create jobs, and are ready to proceed.

B. Higher Education Debt

For fiscal 2011, the University System of Maryland intends to issue up to \$27 million in academic debt. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2011. **The committee concurs in the recommendation of CDAC that \$27 million in new academic revenue bonds may be authorized in the 2010 session for the University System of Maryland.**

C. Transportation Debt

Maryland's debt policies have earned the State AAA bond ratings from all three major rating agencies. Rating agencies have commented that one of Maryland's strengths is setting and abiding by debt affordability limits. CDAC is charged with recommending debt limits. Included in its calculation of State debt are bonds issued by the Maryland Department of Transportation (MDOT). As such, these bonds compete with other State capital projects within debt affordability limits. **The committee recommends that the General Assembly continue to set an annual limit on the level of State transportation debt to keep debt outstanding within the 4% of personal income debt affordability criterion and debt service within the 8% of revenues debt affordability criterion.**

2009 Spending Affordability Committee Report

The Maryland Department of Transportation (MDOT) is required to maintain a net revenue to debt service ratio of at least 2.0. Historically, MDOT had maintained an administrative ratio of 2.5 to provide a hedge if revenues declined rapidly or expenses increased unexpectedly. Due to the economic downturn, the department adopted a policy decision in January 2009 to allow debt service coverage ratio to fall below 2.5 to maintain as much of the capital program as possible. The department's draft fiscal 2010 to 2015 financial forecast estimated a coverage ratio at 2.1 in fiscal 2011 and 2012, increasing to 2.7 in fiscal 2015. MDOT will need to carefully manage its finances to remain above the 2.0 limit. Were it to fall below the limit, per the bond covenants, MDOT would be unable to issue additional bonds until 2.0 times coverage was restored. This could have dire consequences for the transportation capital program. **Falling below the 2.5 administrative debt service coverage level in the short-term appears justified to create or retain as many jobs as possible during the current economic downturn. However, the committee feels strongly that the department prudently manage its finances so that it can return as swiftly as possible to the 2.5 administrative ratio and to maintain that level in all future fiscal years.**

D. Debt Management

The Administration is proposing that two major State capital projects, the State Center Complex in Baltimore and the new Department of Health and Mental Hygiene (DHMH) public health laboratory, be financed through capital leases instead of GO bonds. To clarify if these projects are State debt, the operating budget bill included a requirement that the State Treasurer's Office evaluate the proposed State Center lease for potential affordability implications. The Treasurer's assessment is that the prudent approach would be to assume that the State Center occupancy leases are, or will be, capital leases and that they will impact debt affordability. The same may be said for the new DHMH public health laboratory which, considering the essential public need and use of the facility, makes a capital lease determination and corresponding debt affordability impact even more likely. **The committee is concerned about the potential impact of State rent payments from public-private partnerships on the State's debt affordability calculation. When the operating leases for the State Center and public health laboratory projects are submitted for BPW approval, the committee believes that the State Treasurer should evaluate the leases to determine if the portion of rent paid from State revenue sources should count toward debt limits and advise the General Assembly and BPW. If the State's rent portion of these projects should be counted as capital leases, then it should be reflected by CDAC in the debt affordability analysis at such time as those rent payments are appropriated in the State budget.**

4. Operating Maintenance Exclusion

For the last nine years, operating spending by the Department of General Services (DGS) on facilities maintenance projects above a base funding level of \$2 million has been excluded from the spending affordability calculation. The exclusion was initially authorized in the committee's December 2000 report, which noted a backlog of operating maintenance projects at

2009 Spending Affordability Committee Report

State facilities in the magnitude of \$47 million. Left unaddressed, the committee recognized that this could lead to further deterioration of the State's infrastructure and to higher costs in the long run.

DGS reports that it currently has a \$36.0 million backlog of deferred maintenance and repair work, an increase of \$1.0 million since the report in 2007. DGS is making some progress in addressing needs rated as either high or medium priority (posing a high economic risk), reducing the backlog in that segment from \$22.4 million last year to \$20.4 million currently. In an October 2007 report to the budget committees, DGS estimated that the backlog could eventually be eliminated by fiscal 2021 with an annual deferred maintenance appropriation of \$5.0 million; annual appropriations of \$3.0 million would extend this time frame to fiscal 2023. These projections assume that new projects accumulate at the historical annual average of \$2.5 million a year. The DGS report indicated that current staffing levels would have to be increased in order to manage projects above a \$5.0 million funding level. **In an effort to reduce the backlog, the committee continues to support the exclusion from the spending affordability calculation of operating maintenance spending by DGS above the historical spending level of \$2.0 million.**

5. State Employment

Personnel costs comprise approximately one-fourth of the State operating budget; the use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 79,700 in fiscal 2010. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 51,538 in fiscal 2010. More than 2,400 positions have been added in higher education during this period.

The fiscal 2010 totals recognize the actions by BPW to eliminate 57.5 positions in July 2009, 363.5 positions in August 2009, and 112.0 positions in November 2009. Also included in the totals is the net reduction of 94.0 higher education positions during fiscal 2010: 161.0 have been created (as authorized by statute) while 255.0 positions have been eliminated in conjunction with BPW actions. Finally, the totals reflect the creation of 113.0 federally funded Executive Branch positions under the Rule of 200.

The committee finds that the current complement of 79,700 positions is appropriate for the delivery of State services given the State's fiscal condition. The fiscal 2011 budget should maintain this maximum number of positions across all functions (including the executive, legislative, and judicial branches and higher education). New activities, including the operation of new facilities, should be accommodated within this cap.

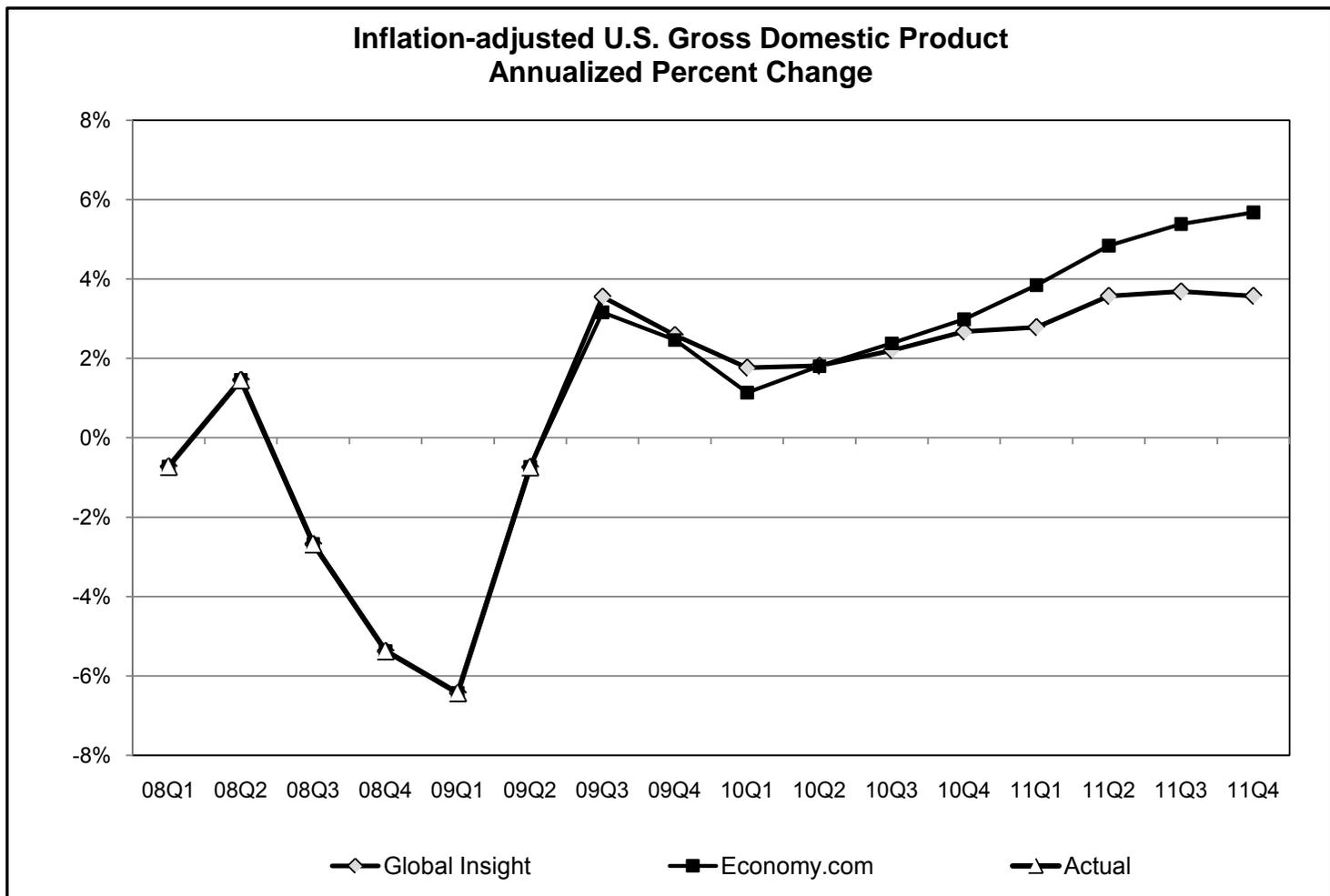
2009 Spending Affordability Committee Report

Part 1

Economic Outlook

U.S. Economic Outlook Year-over-year Percent Change

Calendar Year	Real GDP		Employment		Personal Income		
	<u>E.com</u>	<u>Global Insight</u>	<u>E.com</u>	<u>Global Insight</u>	<u>E.com</u>	<u>Global Insight</u>	
2006	2.7%	2.7%	1.8%	1.8%	7.5%	7.5%	
2007	2.1%	2.1%	1.1%	1.1%	5.6%	5.6%	
2008	0.4%	0.4%	-0.4%	-0.4%	2.9%	2.9%	
2009	E	-2.5%	E	-3.7%	E	-2.2%	-2.1%
2010	E	1.9%	E	-1.1%	E	1.9%	2.8%
2011	E	3.9%	E	2.1%	E	4.9%	4.0%
2012	E	5.3%	E	3.5%	E	6.2%	5.2%

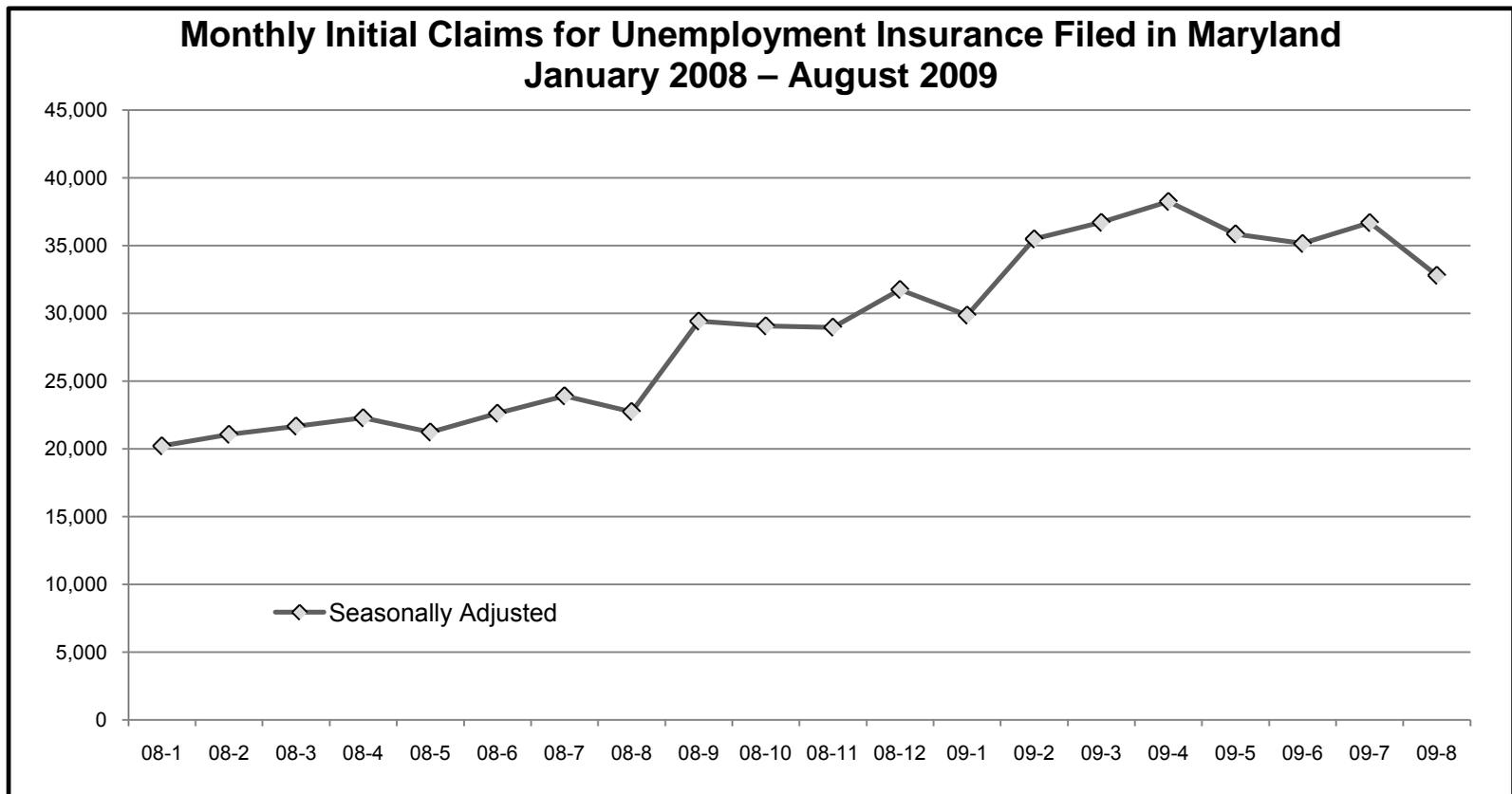


Real GDP: inflation-adjusted gross domestic product
E.com: Moody's Economy.com, Inc.

Note: The forecasts from Economy.com and Global Insight were last updated October 12 and October 7, respectively.

Maryland Economic Performance Year-over-year Percent Change*

<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>	<u>Sales Tax</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>	
Jan-09	-1.7%	-2.4%	6.2%	-17.7%	-14.7%	-14.5%	-1.2%
Feb-09	-2.0%	-2.9%	6.8%	-22.3%	-11.1%	-10.0%	-4.8%
Mar-09	-2.4%	-3.1%	6.9%	-9.6%	-6.8%	-14.2%	-8.0%
Apr-09	-2.7%		6.8%	-10.3%	-15.8%	-15.9%	-6.6%
May-09	-2.5%		7.2%	0.3%	-8.3%	-5.4%	-7.0%
Jun-09	-2.3%		7.2%	10.0%	-10.5%	-6.6%	-9.3%
Jul-09	-2.1%		7.2%	21.8%	-10.0%	-1.8%	-8.4%
Aug-09	-2.5%		7.2%	13.3%	-10.0%	3.1%	-8.0%



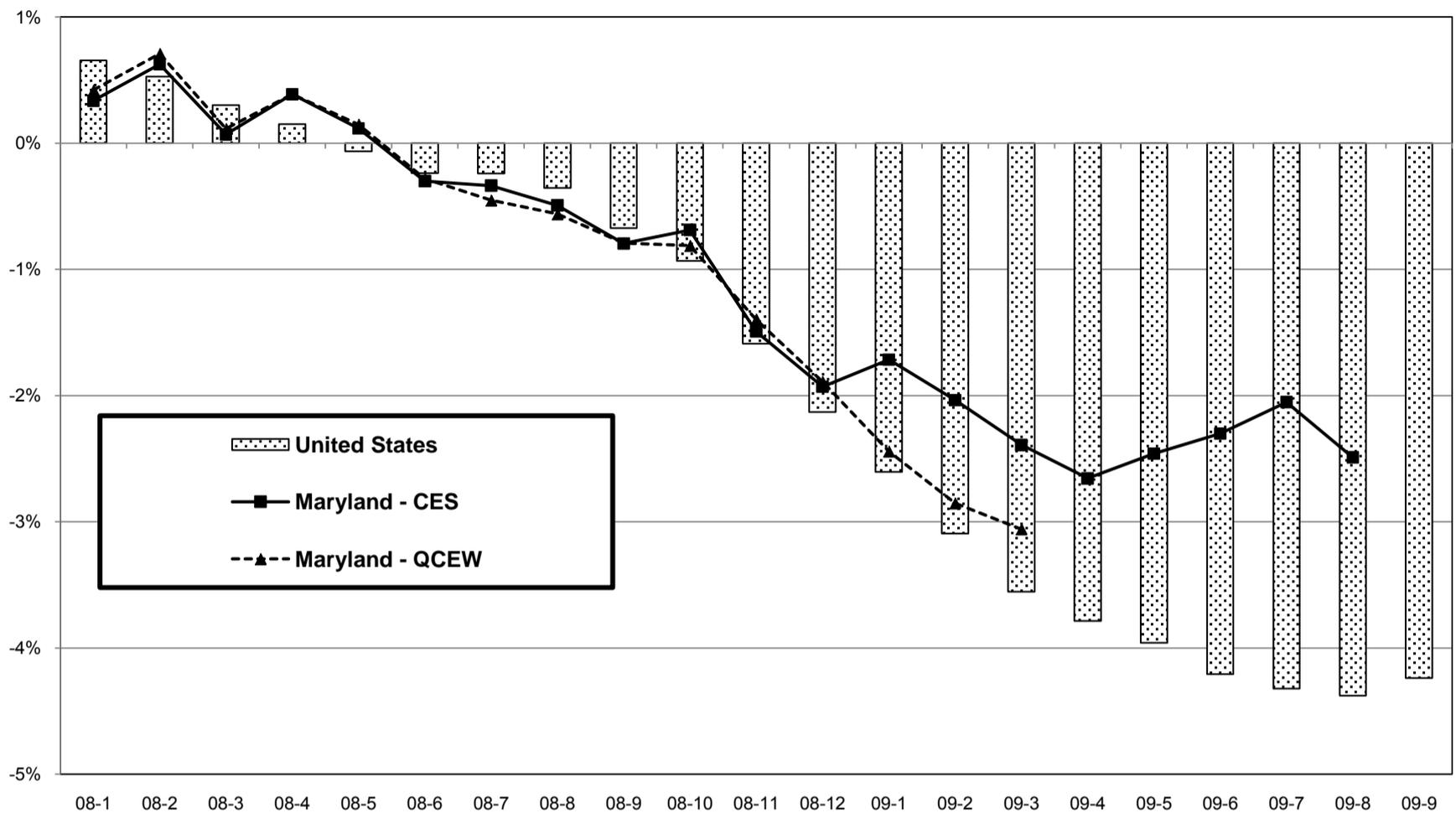
CES: Current Establishment Survey

QCEW: Quarterly Census of Employment and Wages

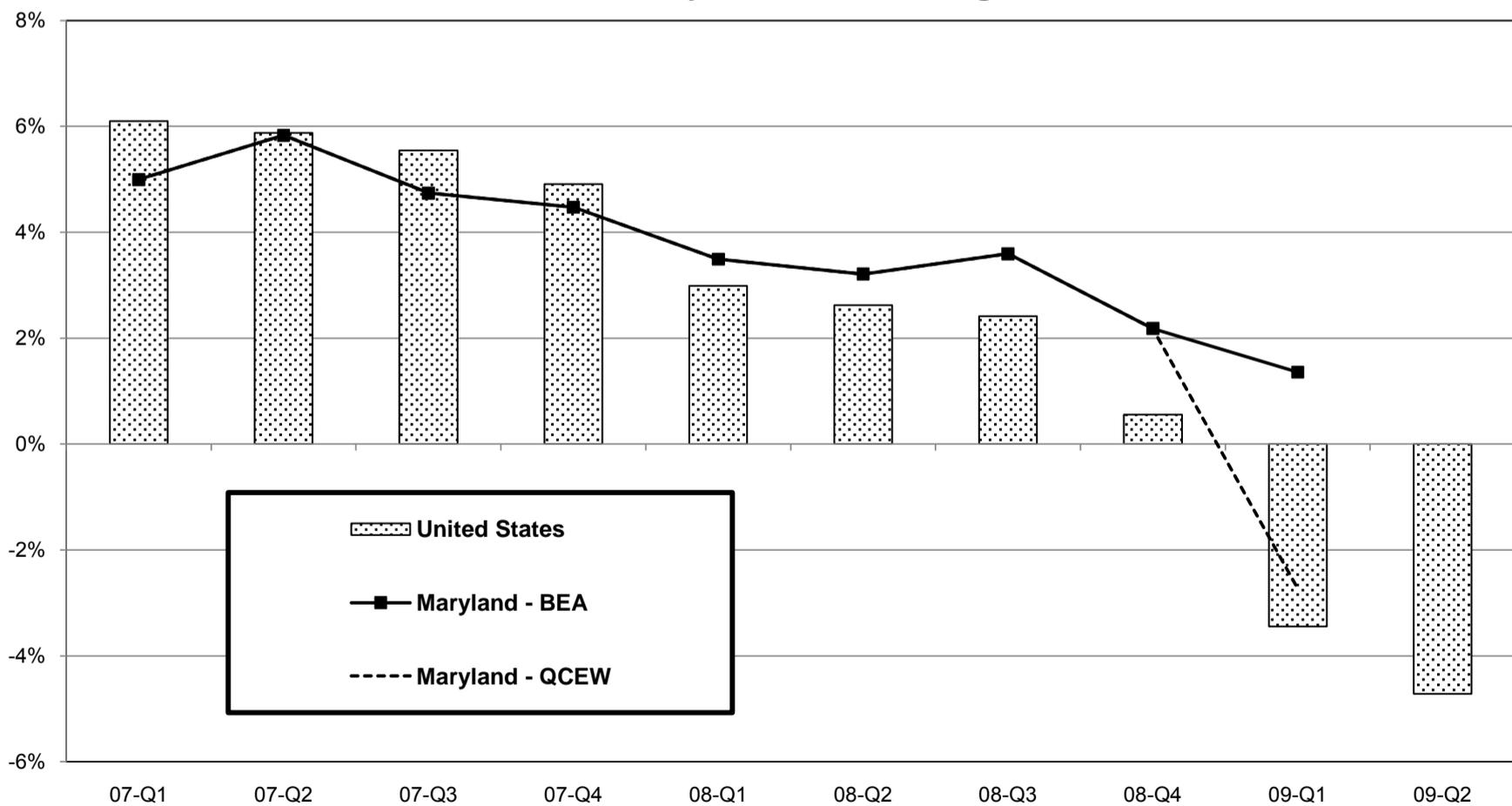
* Except the unemployment rate.

Note: The unemployment rate is based on seasonally adjusted data. The sales tax is gross receipts (excluding assessments) adjusted for law changes. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Economy.com. Data on existing home sales and the median home price comes from the Maryland Association of Realtors. Vehicle sales data is from the Maryland Motor Vehicle Administration.

Payroll Employment – January 2008 to September 2009
Year-over-year Percent Change



Wage and Salary Income – 2007Q1 to 2009Q2
Year-over-year Percent Change



BEA: Bureau of Economic Analysis, U.S. Department of Commerce
 CES: Current Establishment Survey
 QCEW: Quarterly Census of Employment and Wages

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment			Personal Income		
	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>
2006	1.3%	1.3%	1.3%	5.8%	5.8%	5.5%
2007	0.8%	0.8%	0.7%	6.3%	6.3%	6.2%
2008*	-0.2%	-0.5%	-0.4%	3.9%	3.6%	3.8%
2009E	-2.0%	-2.6%	-2.9%	1.7%	1.1%	-0.7%
2010E	0.1%	-0.2%	-0.4%	3.4%	2.7%	2.5%
2011E	1.5%	1.9%	1.6%	5.9%	5.8%	4.7%
2012E	2.1%	2.1%	2.3%	5.8%	5.7%	5.8%

Calendar Year	Wage and Salary Income			Taxable Capital Gains Income*		
	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>	<u>Dec. 2008</u>	<u>Mar. 2009</u>	<u>Sep. 2009</u>
2006	5.4%	5.4%	5.4%	12.5%	12.5%	12.5%
2007	5.0%	5.0%	5.0%	10.9%	10.9%	20.4%
2008*	2.9%	2.9%	3.1%	-45.0%	-45.0%	-63.5%
2009E	1.5%	0.5%	-2.1%	-15.0%	-30.0%	-33.5%
2010E	3.6%	2.6%	2.7%	8.4%	8.4%	12.5%
2011E	5.4%	5.5%	5.0%	8.4%	15.0%	8.0%
2012E	5.5%	6.0%	5.7%	8.4%	8.4%	8.2%

* 2008 is an estimate for taxable capital gains income.

Source: Board of Revenue Estimates

Part 2

General Fund Revenues

Fiscal 2009 General Fund Revenues

(\$ in Millions)

<u>Source</u>	FY 2008	Fiscal 2009			FY 2008-2009
	<u>Actual</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	<u>% Change</u>
Personal Income Tax	\$6,940.1	\$6,781.5	\$6,477.2	-\$304.3	-6.7%
Sales and Use Tax	3,675.3	3,611.0	3,620.4	9.5	-1.5%
State Lottery ⁽¹⁾	497.1	455.8	473.2	17.4	-4.8%
Corporate Income Tax	551.7	582.3	550.7	-31.6	-0.2%
Business Franchise Taxes	208.0	209.2	201.4	-7.9	-3.2%
Insurance Premiums Tax	301.8	298.3	275.2	-23.1	-8.8%
Estate and Inheritance Taxes	243.5	226.6	205.5	-21.1	-15.6%
Tobacco Tax	376.1	413.8	405.6	-8.2	7.8%
Alcohol Beverages Tax	29.0	29.0	29.2	0.2	0.7%
Motor Vehicle Fuel Tax	13.2	6.5	6.5	0.0	-50.8%
District Courts	91.3	88.3	89.4	1.1	-2.1%
Clerks of the Court	42.6	32.4	40.5	8.1	-4.8%
Hospital Patient Recoveries	86.6	94.7	96.5	1.7	11.4%
Interest on Investments	166.5	103.0	83.0	-20.0	-50.1%
Miscellaneous	322.9	307.9	338.3	30.4	4.8%
GAAP Transfer	<u>0.0</u>	<u>7.9</u>	<u>7.9</u>	<u>0.0</u>	<u>n/a</u>
Total Revenues	\$13,545.6	\$13,248.4	\$12,900.5	-\$347.9	-4.8%

GAAP: generally accepted accounting principles

* From the Board of Revenue Estimates, March 2009, with adjustments for action at the 2009 legislative session.

⁽¹⁾ Total fiscal 2008 net receipts after the distribution to the Stadium Authority totaled \$507.9 million, \$10.8 million above the estimate. The \$10.8 million overattainment was transferred to a special fund per SB 545 (2008 session).

Note: Legislation enacted at the 2007 special session and the 2008 regular session impacted the personal income tax, sales tax, corporate income tax, tobacco tax, motor fuel tax, and certain miscellaneous revenues. In general, these changes went into effect in January 2008 thus impacting the second half of fiscal 2008 revenues but all of fiscal 2009.

Fiscal 2010 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>			
	<u>FY 2009</u>	<u>FY 2010</u>	<u>\$ Difference</u>	<u>% Difference</u>
Personal Income Tax	\$1,758.2	\$1,621.8	-\$136.4	-7.8%
Sales and Use Tax ⁽¹⁾	947.5	884.1	-63.4	-6.7%
State Lottery	135.0	155.8	20.8	15.4%
Corporate Income Tax	125.1	108.4	-16.7	-13.3%
Business Franchise Taxes	44.5	43.4	-1.1	-2.6%
Insurance Premiums Tax	67.3	65.7	-1.6	-2.3%
Estate and Inheritance Taxes	78.4	56.4	-22.0	-28.1%
Tobacco Tax	116.2	114.5	-1.7	-1.5%
Alcohol Beverages Tax	7.3	7.3	0.0	0.6%
Motor Vehicle Fuel Tax	2.2	2.2	0.0	1.9%
District Courts	30.9	32.2	1.3	4.3%
Clerks of the Court	14.2	14.4	0.2	1.4%
Hospital Patient Recoveries ⁽²⁾	10.2	3.7	-6.5	-63.7%
Interest on Investments ⁽³⁾	24.0	7.0	-16.9	-70.6%
Miscellaneous	42.2	42.0	-0.1	-0.3%
Total Revenues	\$3,403.1	\$3,159.1	-\$244.0	-7.2%

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

(2) Includes revenues from Medicare, insurance, and sponsors only. Fiscal 2009 includes \$6.5 million from a Medicaid cost settlement.

(3) Adjusted to reflect accrued interest earnings.

Maryland General Fund Revenue Forecast (\$ in Millions)

<u>Source</u>	FY 2009	FY 2010 Estimate			% Change over FY 2009	FY 2011 Estimate	% Change over FY 2010
	<u>Actual</u>	<u>March</u>	<u>Sept.</u>	<u>Difference</u>			
Personal Income Tax	\$6,477.2	\$6,602.2	\$6,121.8	-\$480.3	-5.5%	\$6,358.2	3.9%
Sales and Use Tax	3,620.4	3,605.4	3,523.9	-81.6	-2.7%	3,647.2	3.5%
State Lottery ⁽¹⁾	473.2	507.1	523.0	15.9	10.5%	530.4	1.4%
Corporate Income Tax ⁽²⁾	550.7	555.5	495.0	-60.5	-10.1%	541.1	9.3%
Business Franchise Taxes	201.4	216.1	216.1	0.0	7.3%	216.1	0.0%
Insurance Premiums Tax	275.2	305.2	275.8	-29.5	0.2%	281.3	2.0%
Estate and Inheritance Taxes	205.5	177.6	180.2	2.6	-12.3%	178.3	-1.1%
Tobacco Tax	405.6	399.1	380.3	-18.9	-6.2%	375.7	-1.2%
Alcohol Beverages Tax	29.2	29.6	29.5	-0.1	1.2%	29.9	1.2%
Motor Vehicle Fuel Tax	6.5	8.4	8.4	0.0	29.0%	0.0	-100.0%
District Courts	89.4	88.8	88.6	-0.2	-0.9%	87.5	-1.2%
Clerks of the Court	40.5	32.8	42.0	9.2	3.7%	40.2	-4.4%
Hospital Patient Recoveries	96.5	66.4	65.7	-0.7	-31.9%	67.1	2.0%
Interest on Investments	83.0	73.0	38.0	-35.0	-54.2%	48.5	27.6%
Miscellaneous	338.3	329.8	326.0	-3.8	-3.6%	332.5	2.0%
GAAP Transfer	<u>7.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>-100.0%</u>	<u>0.0</u>	<u>n/a</u>
Total Revenues	\$12,900.5	\$12,997.0	\$12,314.2	-\$682.8	-4.5%	\$12,733.9	3.4%

GAAP: generally accepted accounting principles

⁽¹⁾ Legislation from the 2009 session (HB 101) lowered the agent commission from 5.5 to 5.0% for fiscal 2010 to 2012.

⁽²⁾ General fund corporate income tax revenues in fiscal 2009 and 2010 reflect distributions to the Higher Education Investment Fund. Under current law, there will be no distribution in fiscal 2011.

Source: Board of Revenue Estimates. The estimate from March has been adjusted for actions taken at the 2009 legislative session.

Part 3

General Fund Budget

2011 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 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	Percent Change <u>FY 2010-2011</u>
Pupil Enrollment*	815,742	814,609	814,126	0.0%
Medicaid	564,637	598,991	618,264	3.2%
Medicaid Expansion to Parents	28,257	47,746	51,566	8.0%
Children's Health	108,504	110,428	112,349	1.7%
Temporary Cash Assistance	58,426	68,921	68,921	0.0%
Foster Care/Adoption	14,292	14,151	14,007	-1.0%
Adult Prison Population	22,915	22,291	22,017	-1.2%

*Data for 2008, 2009, and 2010 reflect 9/07, 9/08, and 9/09 (est.) full-time equivalent enrollments.

2011 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance (6.0%).
- Medical contracts and supplies (4.9%).
- Prescription drugs for State facilities (4.9%).
- Food (1.9%).
- Postage (1.8%).

Employee Compensation

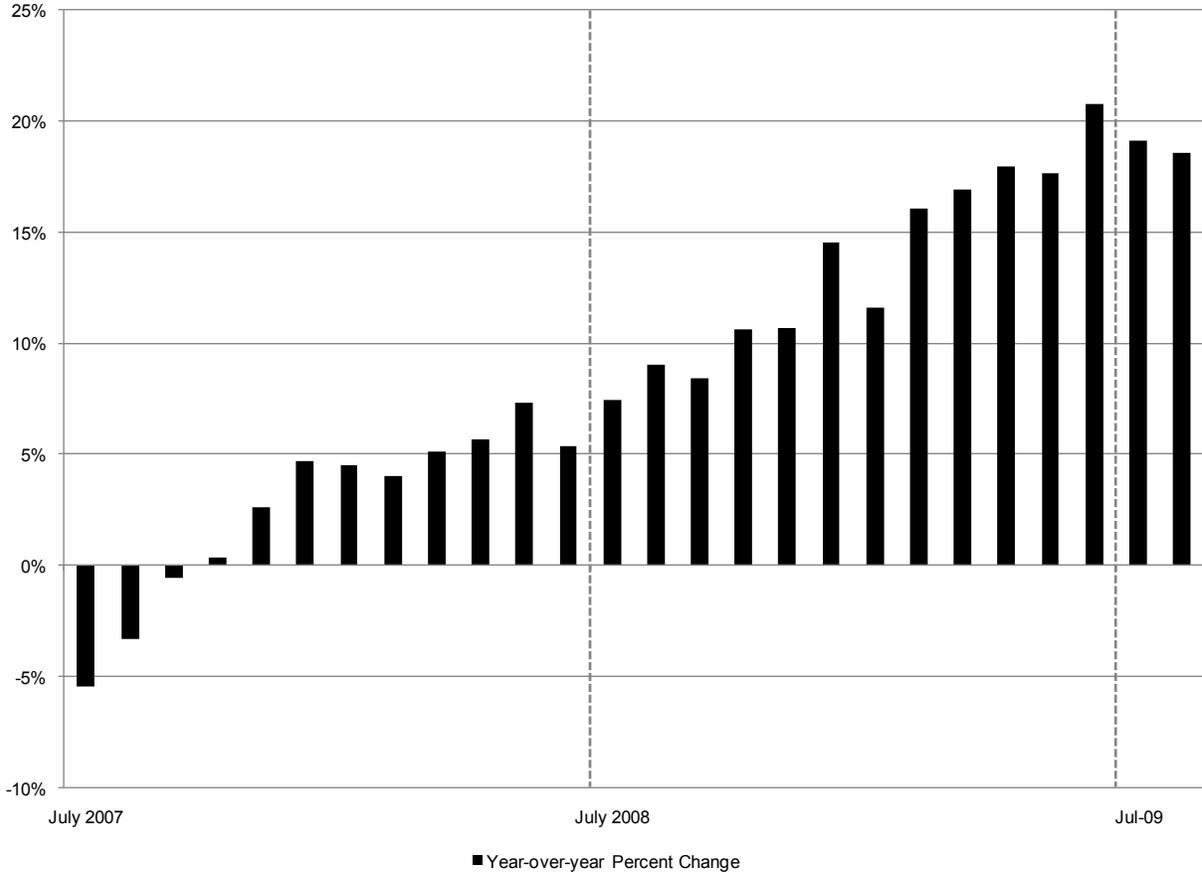
- Merit increases (increments) of 2.0 or 4.0% based on salary schedule.
- 2.0% general salary increase for fiscal 2011.

Other Assumptions

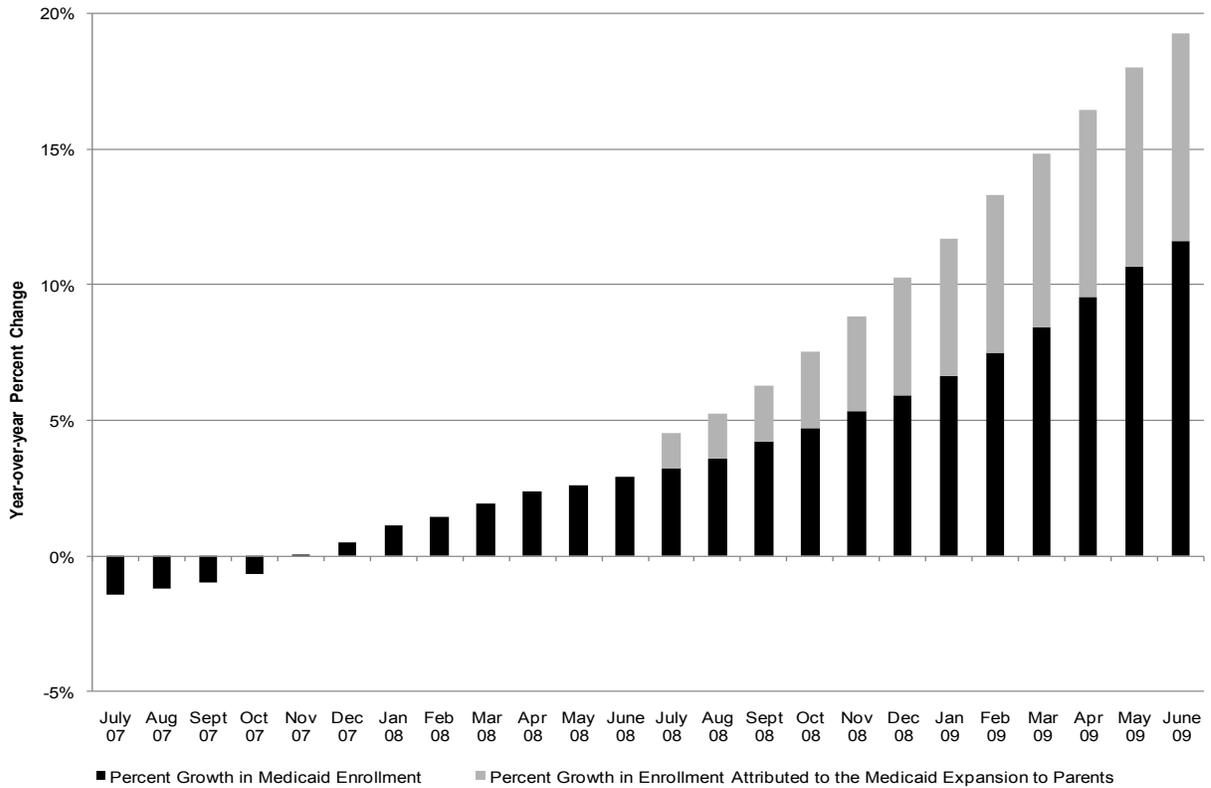
- Cost increases for the University System of Maryland and Morgan State University are allocated between general funds and tuition and fees based on the fiscal 2009 ratio of general funds to tuition and fees; a 5% tuition increase is assumed.

PAYGO: pay-as-you-go

Temporary Cash Assistance Caseloads July 2007 to July 2009



Medicaid Enrollment Fiscal 2008 and 2009



Fiscal 2010 General Fund Deficiencies
(\$ in Millions)

	<u>Dollars</u>
Medicaid: Medicaid and children's health program costs	\$145
Public Safety: Personnel costs due to reduced vacancies and turnover (\$34 million) and inmate medical costs (\$6 million)	40
Human Resources: Temporary Disability Assistance Program (\$17 million) and loss of federal funds for preplacement expenses (\$10 million)	27
Juvenile Services: Disallowed federal IV-E claims (\$14 million); various operating expenses (\$4 million); and per diem payments (\$1 million)	19
Health and Mental Hygiene: Mental Hygiene community provider costs (\$16 million) and breast and cervical cancer treatment program (\$1 million)	17
Education: Assessment contracts	10
Assessment and Taxation: Homeowners Tax Credit Program	5
Other: Community College Optional Retirement (\$6.8 million); State Board of Elections (\$3.2 million); Public Defender (\$2.2 million); Maryland Stadium Authority (\$2.0 million); Assessment and Taxation (\$1.0 million); Maryland State Department of Education (\$0.4 million); Information Technology (\$0.4 million); and General Services (\$0.1 million)	<u>16</u>
Total	\$279

State Expenditures – General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2009</u>	<u>Adjusted</u> <u>Leg. Appr.</u> <u>FY 2010</u>	<u>Baseline</u> <u>FY 2011</u>	<u>FY 2010 to FY 2011</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$0.0	\$0.0	\$0.0	n/a
County/Municipal	214.7	190.0	214.6	24.5	12.9%
Community Colleges	254.7	252.2	288.1	35.9	14.2%
Education/Libraries	5,436.8	5,230.0	5,287.8	57.8	1.1%
Health	57.4	37.3	40.2	2.9	7.8%
Aid to Local Governments	\$5,963.5	\$5,709.6	\$5,830.7	\$121.1	2.1%
Foster Care Payments	243.0	240.4	244.6	4.2	1.8%
Assistance Payments	38.2	34.5	98.0	63.5	184.1%
Medical Assistance	1,904.3	1,524.1	2,404.1	879.9	57.7%
Property Tax Credits	57.3	60.4	66.5	6.1	10.1%
Entitlements	\$2,242.7	\$1,859.4	\$2,813.2	\$953.8	51.3%
Health	1,401.3	1,367.9	1,461.2	93.3	6.8%
Human Resources	308.5	276.5	305.3	28.8	10.4%
Systems Reform Initiative	30.7	26.2	26.2	0.0	0.0%
Juvenile Services	267.0	255.2	268.8	13.7	5.4%
Public Safety/Police	1,256.7	1,163.7	1,267.1	103.4	8.9%
Higher Education	1,131.9	1,145.2	1,220.8	75.6	6.6%
Other Education	398.5	360.6	384.7	24.1	6.7%
Agric./Natl. Res./Environment	122.8	107.7	117.6	9.9	9.2%
Other Executive Agencies	549.9	526.8	610.2	83.4	15.8%
Judicial/Legislative	445.5	451.5	477.5	26.0	5.8%
State Agencies	\$5,912.8	\$5,681.2	\$6,139.4	\$458.1	8.1%
Deficiencies	0.0	278.7	0.0	-278.7	-100.0%
Salary Enhancement/Deferred Comp ⁽¹⁾	0.0	0.0	134.5	134.5	n/a
Total Operating	\$14,119.1	\$13,528.9	\$14,917.8	\$1,388.9	10.3%
Capital/Heritage Reserve Fund	23.0	5.1	6.0	0.9	18.6%
Transfer to MDTA	65.0	0.0	0.0	0.0	n/a
Reversions	-38.4	-46.5	-30.0	16.5	-35.4%
Appropriations	\$14,168.7	\$13,487.5	\$14,893.8	\$1,406.2	10.4%
Reserve Funds ⁽²⁾	146.5	139.9	0.0	-139.9	-100.0%
Grand Total	\$14,315.2	\$13,627.5	\$14,893.8	\$1,266.3	9.3%

MDTA: Maryland Transportation Authority

⁽¹⁾ Includes cost-of-living adjustment, increments, and the employer match for deferred compensation.

⁽²⁾ Excludes \$65 million in fiscal 2009 appropriated to the Dedicated Purpose Account that is to be transferred to MDTA. These monies are included in the transfer to MDTA line.

Note: The adjusted fiscal 2010 legislative appropriation reflects \$428.6 million in withdrawn appropriations and \$19.6 million in additional reversions approved by the Board of Public Works in July and August.

Components of Budget Change (\$ in Millions)

Summary of Budget Growth Compared to Working Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$1,177.7	69.9%
Legislation	8.3	0.5%
State Agency Costs	498.1	29.6%
Growth in Operating Budget, including Anticipated Deficiencies	\$1,684.1	
Pay-as-you-go (PAYGO)	0.9	
Appropriation to Reserve Fund	-139.9	
Total Baseline Increase in State Expenditures	\$1,545.1	
Less Deficiency Appropriations	-278.7	
Total	\$1,266.4	
Ongoing Requirements/Entitlements		
Medical Assistance – lack of one-time special and federal funds, enrollment and rate increases, and 2010 underfunding	\$879.9	
Temporary Cash Assistance and Temp. Disability Asst. Payments, including fiscal 2010 underfunding and depletion of TANF fund balance	63.5	
Mental Hygiene Administration – enrollment, utilization, and prior year underfunding	48.1	
Education Formulas	51.2	
Cade Formula for Community Colleges	30.1	
Child Welfare – general funds in lieu of federal funds for preplacement costs	19.0	
State Aid for Police Protection Grant mandated formula	21.3	
Prince George's Hospital Authority Grant – special funds used in 2010	15.0	
Sellinger Formula for Aid to Private Colleges and Universities	10.0	
Community College retirement	5.8	
Property Tax Credit Programs	5.8	
Annualize Cost of Prior Year Community Placements of Developmentally Disabled	5.8	
Aging Schools Program and Technology in Maryland Schools lease payment	4.7	
Foster Care – 2% provider increase offset by slight caseload decline	4.2	
St. Mary's College of Maryland and Baltimore City Community College formulas	2.9	
Local Health Formula Grants	2.9	
MARBIDCO and Soil Conservation Districts mandated funding	2.5	
Tourism Board mandated formula	2.4	
County Library Retirement Payments	1.9	
Baltimore City grant in lieu of security interest filing fees	0.5	
Arts Council mandated formula	0.2	
New Legislative Requirements		
Local Jail Inmate Grant Program	\$13.3	
BRAC Tax Credits (enacted in 2008 but not previously funded)	0.3	
Transfer and expansion of certain drug treatment services to Medicaid	-6.7	
Other legislation under \$1 million	1.4	
State Agency Costs		
Statewide Personnel Expenses, Including Higher Education:		
Employee Retirement	\$76.0	
2% General Salary Increase	64.6	
Employee and Retiree Health Insurance	62.6	
Employee Increments	58.1	
Restore Employee Salaries (no furlough)	44.9	
Employee Deferred Compensation Match	11.8	

Components of Budget Change (Cont.)

Agency Programmatic and Operating Expenses:

General Funds for USM and Morgan State in lieu of Higher Education Investment Fund	\$45.0
Major IT projects planned for 2011, including restoration of BPW deferrals	40.4
USM/Morgan State: operating increases, enrollment growth	27.6
Restoration of one-time BPW reductions not accounted for elsewhere	22.2
Division of Correction Inmate Medical Contracts	21.8
Reduced turnover and vacancies within Public Safety and Correctional Services	15.0
Provider Rate Increase of 2% for health program community providers	12.4
Video lottery terminal operating expenses	8.7
Juvenile services per diem payments and operating expenses – loss of federal funds and prior year underfunding	8.7
Restoration of general funds in lieu of one-time special or federal funds	4.7
Increased scholarships, based on assumption of 5% tuition increase	4.1
Breast and Cervical Cancer program	1.8
State Police – Additional 25 Vehicles	1.0
Additional revenue examiners and compliance auditors in Comptroller	0.8
Opening of Rockville District Court	0.5
Home and Community Based Waiver for Children with Autism Spectrum Disorder	0.3
Master Equipment Lease Payment Costs Statewide	-0.8
Workers Compensation: reduced claims partially offset by increased fees	-2.7
Annualized savings from 2010 consolidation of correctional facilities	-9.4
Annualized savings from 2010 closing of mental health facilities	-15.9
Other	-6.3

PAYGO

Hazardous Substance Cleanup Program	\$1.0
Veterans Affairs – project concluded	-0.1

Reserve Fund

Remove Appropriation to Rainy Day Fund of Fiscal 2008 Fund Balance in Excess of \$10 Million	-\$139.9
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BPW: Board of Public Works

BRAC: Base Realignment and Closure

IT: information technology

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

TANF: Temporary Assistance for Needy Families

USM: University System of Maryland

Medicaid General Fund Outlook (\$ in Millions)

Fiscal 2010

Working Appropriation	\$1,524.3
Deficiency Appropriation *	278.8
Estimated General Fund Expenditures	\$1,803.1

Fiscal 2011

Replacing Federal and Special Funds

End of American Recovery and Reinvestment Act (ARRA) enhanced matching rate	\$354.6
One-time special funds no longer available	193.9
Subtotal	\$548.5

Annual Growth

Provider Rates	
Managed Care Organizations – 5.1% increase	\$65.6
Nursing Homes – 2.0% increase	9.4
Physicians and Dentists – 2.0% increase	4.6
Community Providers – 2.0% increase	2.6
Enrollment growth of 3.3%	41.7
Subtotal	\$123.9

Total General Fund Increase Over Fiscal 2010 Estimated General Fund Expenditures	\$672.4
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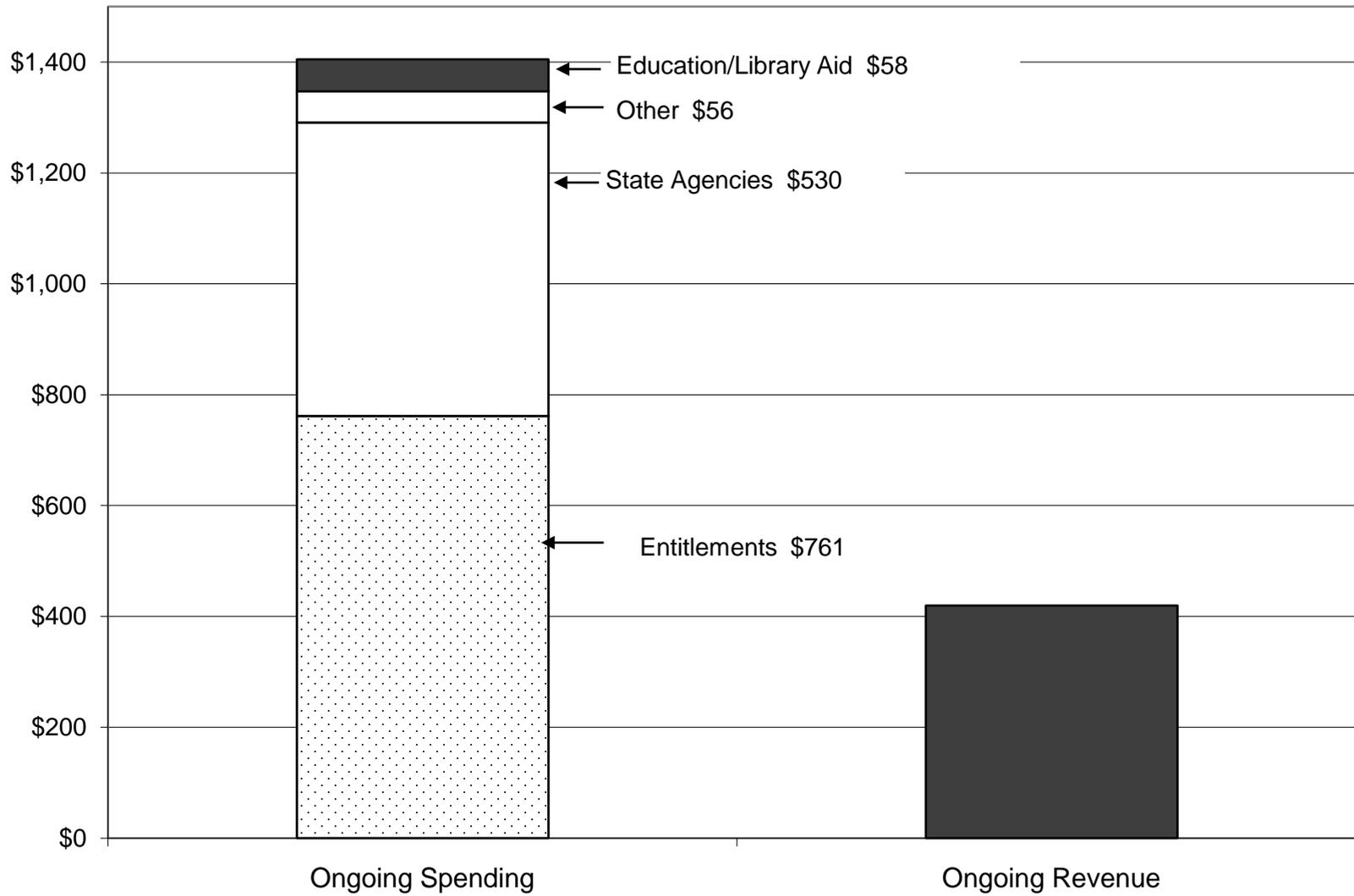
Estimated General Fund Expenditures for Fiscal 2011 *	\$2,475.5
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Total Percent Growth	37.3%
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Underlying Percent Growth	6.9%
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* General fund need partially offset by availability of ARRA-related general fund savings in other Medicaid-funded programs totaling \$134.0 million in fiscal 2010 and \$71.4 million in fiscal 2011.

Fiscal 2011 Ongoing Spending Exceeds Projected Growth in Ongoing Revenue (\$ in Millions)



Part 4

General Fund Forecast

General Fund Budget Outlook
Fiscal 2009-2015
(\$ in Millions)

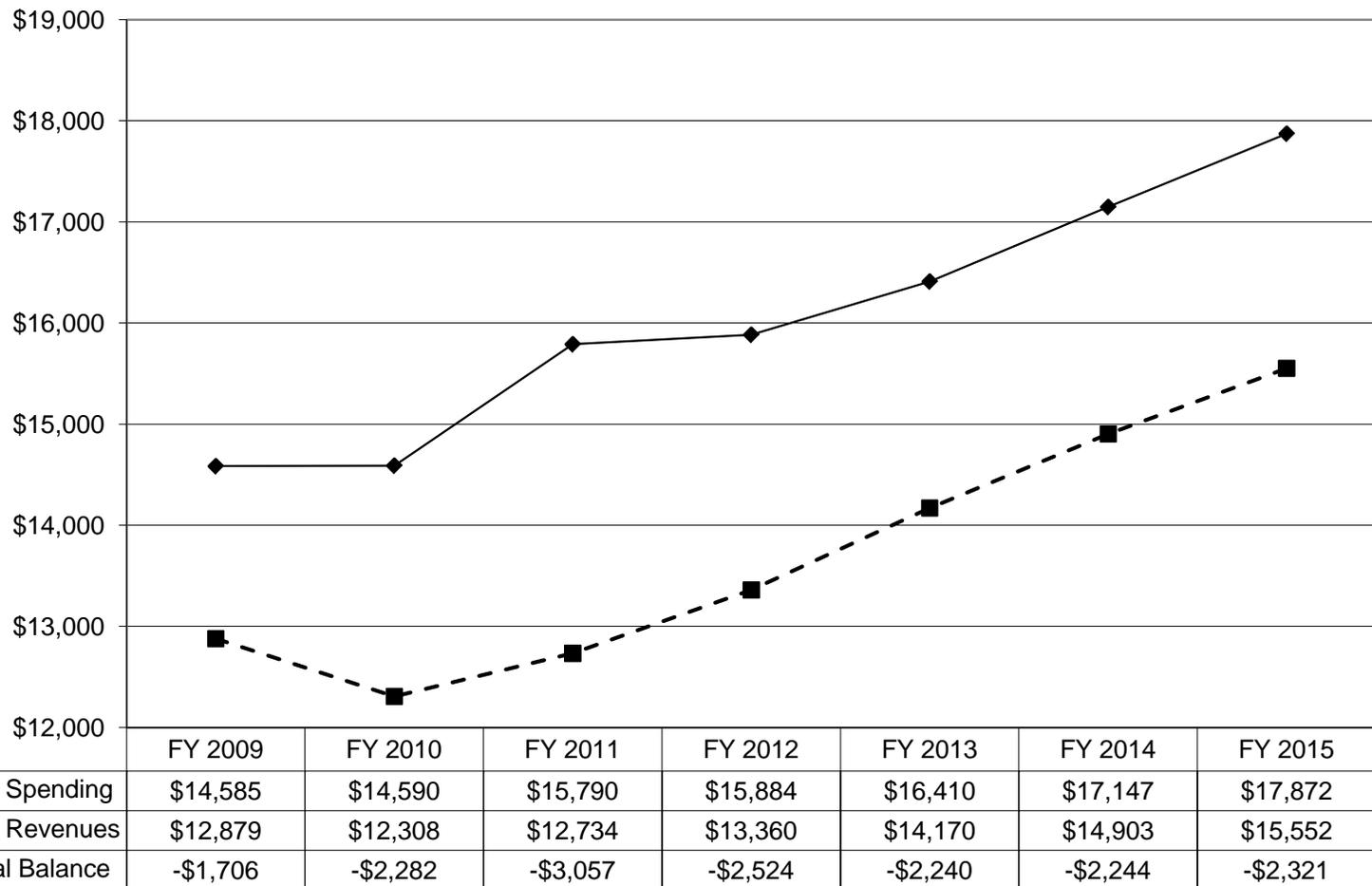
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Avg. Annual Change 2011-2015
	Actual	Working	Baseline	Est.	Est.	Est.	Est.	
Revenues								
Opening Fund Balance	\$487	\$87	\$0	\$0	\$0	\$0	\$0	
Transfers*	189	707	162	18	14	16	6	
One-time Revenues/Legislation	840	7	0	0	0	0	0	
Subtotal One-time Revenue	\$1,517	\$800	\$162	\$18	\$14	\$16	\$6	-56.1%
Ongoing Revenues	\$12,879	\$12,308	\$12,734	\$13,360	\$14,170	\$14,903	\$15,552	
Subtotal Ongoing Revenue	\$12,879	\$12,308	\$12,734	\$13,360	\$14,170	\$14,903	\$15,552	5.1%
Total Revenues and Fund Balance	\$14,396	\$13,108	\$12,896	\$13,378	\$14,184	\$14,919	\$15,558	4.8%
Ongoing Spending								
Operating Spending**	\$14,585	\$14,629	\$15,803	\$16,250	\$17,024	\$17,811	\$18,556	
VLT Spending Supporting Education	0	-39	-13	-366	-614	-664	-683	
Subtotal Ongoing Spending	\$14,585	\$14,590	\$15,790	\$15,884	\$16,410	\$17,147	\$17,872	3.1%
One-time Spending								
PAYGO Capital	\$14	\$0	\$1	\$1	\$1	\$1	\$1	
Federal Stimulus Funds	-437	-1,102	-898	0	0	0	0	
Appropriation to Reserve Fund	147	140	0	9	16	12	6	
Subtotal One-time Spending	-\$276	-\$962	-\$897	\$10	\$17	\$13	\$7	n/a
Total Spending	\$14,309	\$13,627	\$14,894	\$15,894	\$16,427	\$17,160	\$17,879	4.7%
Ending Balance	\$87	-\$519	-\$1,998	-\$2,516	-\$2,243	-\$2,241	-\$2,322	
Rainy Day Fund Balance	\$692	\$642	\$637	\$668	\$708	\$745	\$778	
Balance Over 5% of GF Revenues	47	26	0	0	0	0	0	
As % of GF Revenues	5.37%	5.21%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	-\$1,706	-\$2,282	-\$3,057	-\$2,524	-\$2,240	-\$2,244	-\$2,321	

GF: general funds
PAYGO: pay-as-you-go
VLT: video lottery terminal

* Fiscal 2010 includes \$481 million in transfers contingent on legislation.

** Includes \$279 million in projected fiscal 2010 deficiencies.

Structural Imbalance Between Ongoing Revenues and Ongoing Spending
Ranges Between \$2 Billion to \$3 Billion
Fiscal 2009-2015
(\$ in Millions)



Note: Fiscal 2009, 2010, and 2011 adjusted to reflect federal stimulus funds.

General Fund Budget Outlook
Fiscal 2009-2015
 (\$ in Millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	Avg. Annual Change 2011-2015
	Actual	Working	Baseline	Est.	Est.	Est.	Est.	
Revenues								
Opening Fund Balance	\$487	\$87	\$0	\$0	\$0	\$0	\$0	
Transfers*	189	946	135	64	51	47	51	
One-time Revenues/Legislation	840	27	5	0	0	0	0	
Subtotal One-time Revenue	\$1,517	\$1,060	\$141	\$64	\$51	\$47	\$51	-22.6%
Ongoing Revenues	\$12,879	\$12,273	\$12,668	\$13,191	\$13,970	\$14,668	\$15,359	
Subtotal Ongoing Revenue	\$12,879	\$12,273	\$12,668	\$13,191	\$13,970	\$14,668	\$15,359	4.9%
Total Revenues & Fund Balance	\$14,396	\$13,333	\$12,808	\$13,254	\$14,021	\$14,715	\$15,409	4.7%
Ongoing Spending								
Operating Spending**	\$14,585	\$14,578	\$15,714	\$16,152	\$16,923	\$17,706	\$18,447	
VLT Spending Supporting Education	0	-39	-13	-366	-614	-664	-683	
Subtotal Ongoing Spending	\$14,585	\$14,538	\$15,701	\$15,786	\$16,309	\$17,042	\$17,763	3.1%
One-time Spending								
PAYGO Capital	\$14	\$0	\$1	\$1	\$1	\$1	\$1	
Federal Stimulus Funds	-437	-1,129	-897	0	0	0	0	
Appropriation to Reserve Fund	147	115	0	50	50	50	50	
Subtotal One-time Spending	-\$276	-\$1,014	-\$896	\$51	\$51	\$51	\$51	n/a
Total Spending	\$14,309	\$13,525	\$14,805	\$15,837	\$16,360	\$17,093	\$17,814	4.7%
Ending Balance	\$87	-\$191	-\$1,997	-\$2,583	-\$2,339	-\$2,378	-\$2,405	
Rainy Day Fund Balance	\$692	\$614	\$635	\$664	\$705	\$741	\$774	
Balance Over 5% of GF Revenues	47	0	2	5	6	8	6	
As % of GF Revenues	5.37%	5.00%	5.02%	5.04%	5.04%	5.05%	5.04%	
Structural Balance	-\$1,706	-\$2,265	-\$3,033	-\$2,596	-\$2,338	-\$2,374	-\$2,405	

* Fiscal 2010 includes Board of Public Works' approved transfers contingent on legislation.

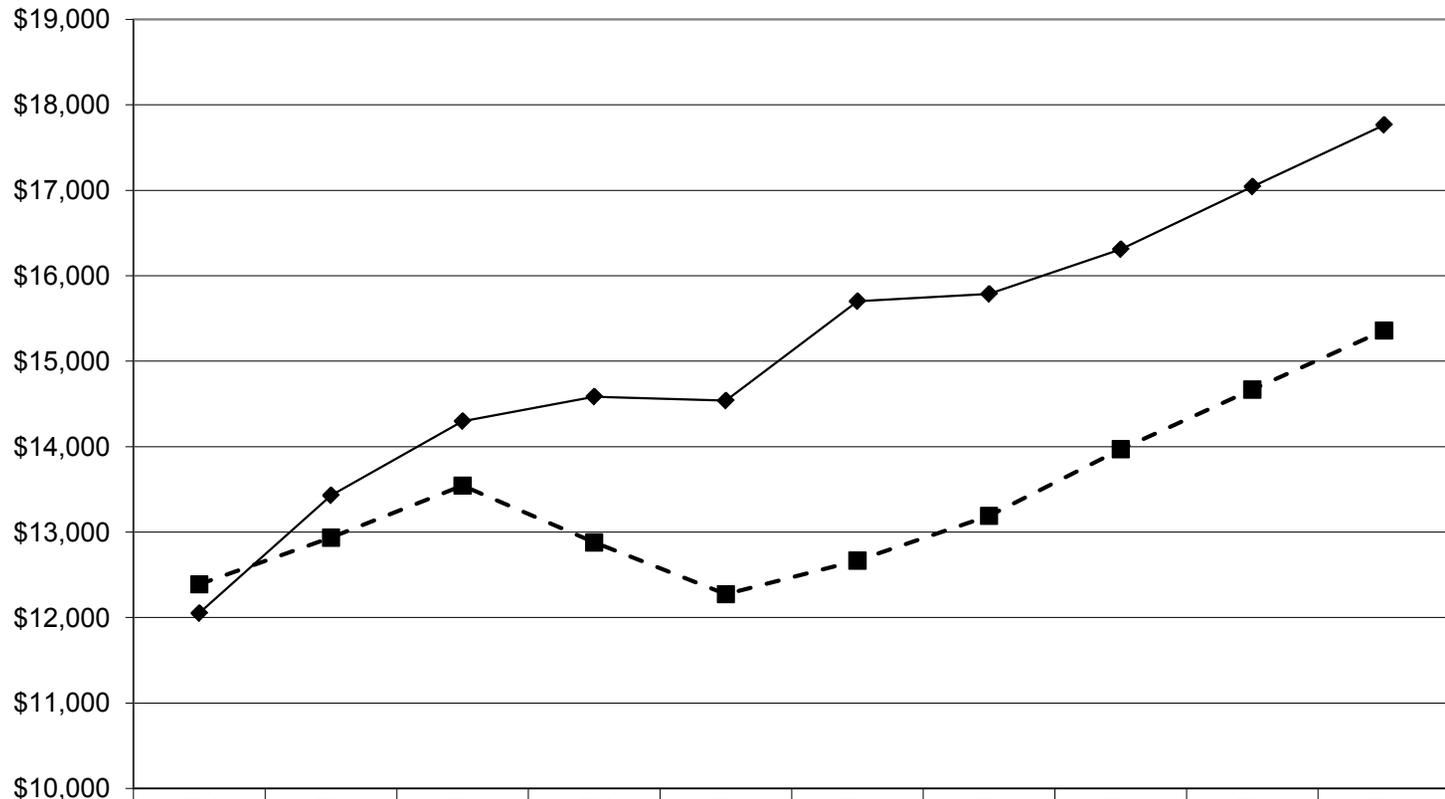
** Includes \$279 million in projected fiscal 2010 deficiencies and Board of Public Works' reductions.

GF: general fund

PAYGO: pay-as-you-go

VLT: video lottery terminal

Structural Imbalance Between Ongoing Revenues and Ongoing Spending
Ranges Between \$2 Billion to \$3 Billion
Fiscal 2009-2015
(\$ in Millions)



	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
—◆— Ongoing Spending	\$12,052	\$13,430	\$14,298	\$14,585	\$14,538	\$15,701	\$15,786	\$16,309	\$17,042	\$17,763
-■- Ongoing Revenues	12,390	12,935	\$13,545	\$12,879	\$12,273	\$12,668	\$13,191	\$13,970	\$14,668	\$15,359
—▲— Structural Balance	338	-495	-\$753	-\$1,706	-\$2,265	-\$3,033	-\$2,596	-\$2,338	-\$2,374	-\$2,405

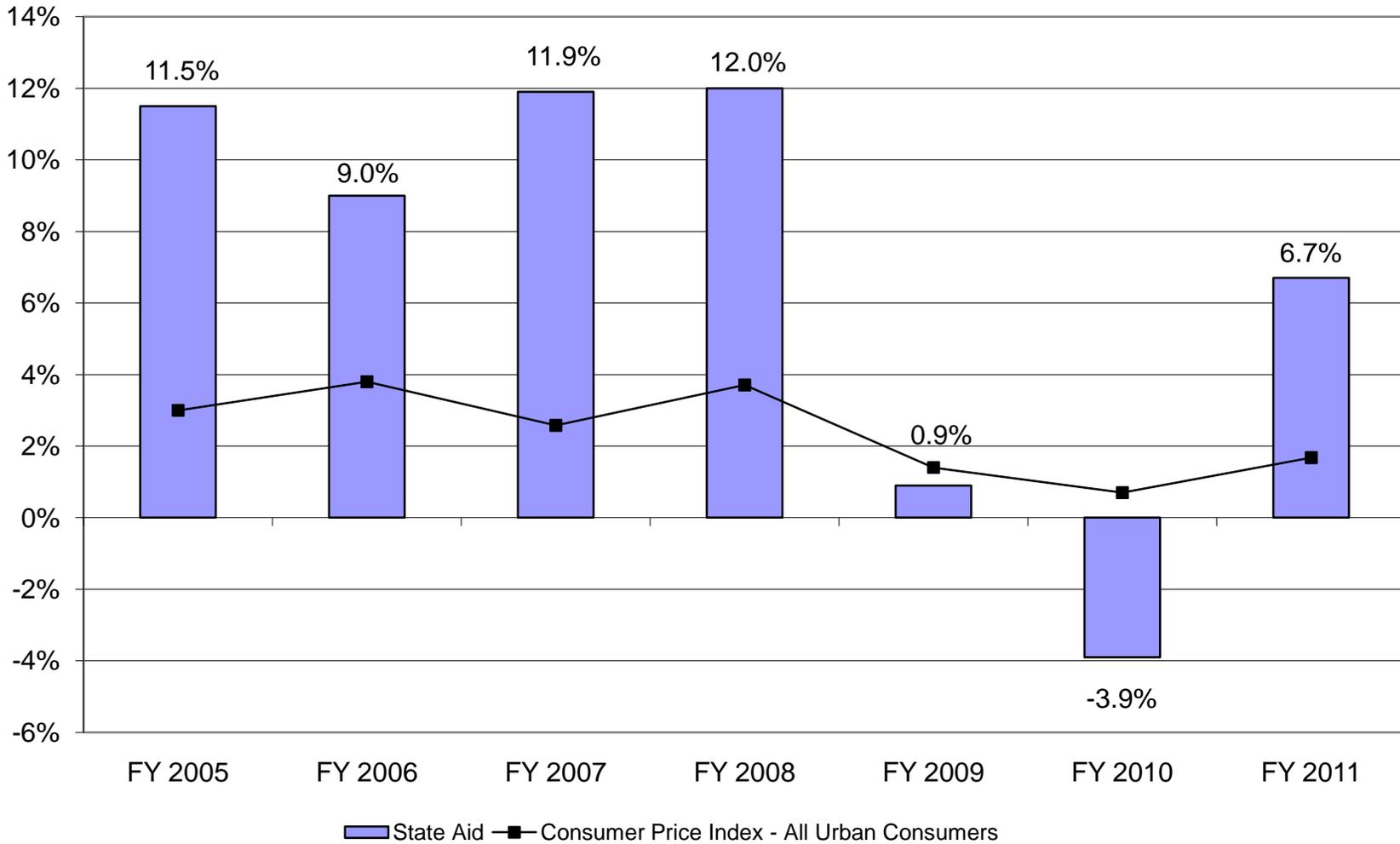
Note: Fiscal 2009, 2010, and 2011 adjusted to reflect federal stimulus funds.

Part 5

Local Government Assistance

Annual Growth in State Aid to Local Governments General and Special Funds Fiscal 2005-2011

43



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

	FY 2011 <u>State Aid Amount</u>	Percent <u>of Total</u>
Public Schools ¹	\$5,644.3	84.6%
County/Municipal	629.7	9.4%
Community Colleges ²	292.0	4.4%
Libraries	66.0	1.0%
Local Health	40.2	0.6%
Total	\$6,672.2	100.0%

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

	FY 2011 <u>Aid Change</u>	Percent <u>Change</u>
Public Schools ¹	\$137.3	2.5%
County/Municipal	242.8	62.8%
Community Colleges ²	35.9	14.0%
Libraries	1.9	2.9%
Local Health	2.9	7.8%
Total	\$420.8	6.7%

¹Reflects federal stabilization funds under the American Recovery and Reinvestment Act (ARRA) in the amount of \$297.6 million in fiscal 2010 and \$411.8 million in fiscal 2011.

²Reflects \$3.9 million in federal ARRA funds.

State Aid by Major Programs
Fiscal 2009-2011
State Funds
(\$ in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>Baseline FY 2011</u>	<u>\$ Change 2010-2011</u>	<u>% Change 2010-2011</u>
Public Schools					
Foundation Program	\$2,781.0	\$2,726.7	\$2,753.1	\$26.4	1.0%
Supplemental Grant	\$36.6	\$51.2	\$46.5	-\$4.7	-9.2%
Compensatory Aid	914.4	940.2	945.1	4.9	0.5%
Student Transportation	225.1	241.5	248.5	7.0	2.9%
Special Education – Formula Aid	272.7	267.4	265.5	-1.9	-0.7%
Special Education – Nonpublic Placements	127.6	112.8	118.1	5.3	4.7%
Limited English Proficiency Grants	143.9	148.6	157.8	9.1	6.1%
Guaranteed Tax Base	89.9	63.8	56.9	-6.9	-10.8%
Geographic Cost Index	37.9	126.3	126.1	-0.3	-0.2%
Other Education Programs	128.4	69.4	69.6	0.3	0.4%
Subtotal Direct Aid	\$4,757.6	\$4,747.9	\$4,787.1	\$39.2	0.8%
Retirement Payments	621.8	759.1	857.2	98.1	12.9%
Total Public School Aid	\$5,379.3	\$5,507.0	\$5,644.3	\$137.3	2.5%
Libraries					
Library Aid Formula	\$34.5	\$33.2	\$33.1	-\$0.1	-0.2%
State Library Network	16.4	15.6	15.7	0.0	0.3%
Subtotal Direct Aid	\$50.9	\$48.8	\$48.8	\$0.0	-0.1%
Retirement Payments	12.9	15.3	17.2	1.9	12.5%
Total Library Aid	\$63.8	\$64.1	\$66.0	\$1.9	2.9%
Community Colleges					
Community College Formula	\$202.6	\$199.8	\$228.3	\$28.5	14.2%
Other Programs	27.9	27.1	29.8	2.6	9.8%
Subtotal Direct Aid	\$230.5	\$226.9	\$258.0	\$31.1	13.7%
Retirement Payments	24.2	29.2	34.0	4.8	16.3%
Total Community College Aid	\$254.7	\$256.2	\$292.0	\$35.9	14.0%
Local Health Grants	\$57.4	\$37.3	\$40.2	\$2.9	7.8%
County/Municipal Aid					
Transportation	\$487.4	\$156.1	\$382.1	\$226.0	144.8%
Public Safety	108.4	90.6	112.0	21.4	23.6%
Program Open Space/Environment	20.7	9.6	1.9	-7.7	-80.5%
Disparity Grant	115.5	121.4	121.4	0.0	0.0%
Other Grants	16.6	9.1	12.3	3.1	34.1%
Subtotal Direct Aid	\$748.6	\$386.9	\$629.7	\$242.8	62.8%
Retirement Payments	2.2	0.0	0.0	0.0	0.0%
Total County/Municipal Aid	\$750.8	\$386.9	\$629.7	\$242.8	62.8%
Total State Aid	\$6,506.0	\$6,251.4	\$6,672.2	\$420.8	6.7%

Local Government Tax Actions Fiscal 2009 and 2010

	FY 2009		FY 2010	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Property Taxes	0	5	1	7
Income Taxes	1	0	0	0
Recordation Taxes	2	0	0	0
Transfer Taxes	0	0	0	0
Admissions Taxes	0	0	0	0
Lodging Taxes	1	0	0	0

Local Government Salary Actions Fiscal 2009 and 2010

<u>COLA Amount</u>	County Government		Public Schools	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>
No COLA	3	17	1	14
0.5% to 2.9%	7	3	7	9
3.0% to 3.9%	10	2	6	1
4.0% to 4.9%	1	0	5	0
5.0% to 5.9%	0	0	3	0
6.0% and Greater	1	0	2	0
Dollar Amount	2	1	0	0
Still Pending	0	1	0	0

	State Government		CPI-Urban Consumers	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u> ¹
COLA Amount	2.0%	0%	1.4%	0.7%
Furloughs ²	5 days	10 days		
Effective COLA ³	0.5%	-2.6%		

COLA: cost-of-living adjustment
CPI: Consumer Price Index

¹ Forecast of the CPI for 2010 comes from Moody's Economy.com.

² Maximum number of furlough and service reduction days based on salary level.

³ Effective COLA in fiscal 2010 ranges from -1.2% to -3.8% depending on the number of furlough days.

Local Government Salary Actions Fiscal 2009 and 2010

<u>COLA Amount</u>	<u>County Government</u>		<u>Public Schools</u>	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u>
No COLA	3	18	1	14
0.5 to 2.9%	7	3	7	9
3.0 to 3.9%	10	1	6	1
4.0 to 4.9%	1	0	5	0
5.0 to 5.9%	0	0	3	0
6.0% and Greater	1	0	2	0
Dollar Amount	2	2	0	0
Still Pending	0	0	0	0

Furlough and Salary Reductions Plans in Fiscal 2010

Furlough/Salary Reduction Plans	10 Counties
Eliminated Vacant Positions	18 Counties
Eliminated Filled Positions	12 Counties

	<u>State Government</u>		<u>CPI-Urban Consumers</u>	
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2010</u> ¹
COLA Amount	2.0%	0%	1.4%	0.7%
Furloughs ²	5 days	10 days		
Effective COLA ³	0.5%	-2.6%		

COLA: cost-of-living adjustment
CPI: Consumer Price Index

¹ Forecast of the CPI for 2010 comes from Moody's Economy.com.

² Maximum number of furlough and service reduction days based on salary level.

³ Effective COLA in fiscal 2010 ranges from -1.2 to -3.8% depending on the number of furlough days.

Local Government Salary Actions in Fiscal 2010

County	County Government Generally		Board of Education Teachers		Comments
	COLA	Step	COLA	Step	
Allegany	0.0%	No	2.0%	Yes	<p>¹ Anne Arundel County renegotiated COLA amounts with several bargaining units. These units were scheduled to receive a 3% COLA in fiscal 2010; but instead will receive no COLA but will receive a merit increase. For units that did not renegotiate, no funds were budgeted for either COLA or merit increases. Police officers will not receive a COLA but will receive a 3% merit increase, based on their new contract.</p> <p>² Baltimore County COLAs take effect on January 1, 2010. Baltimore County school teachers received a 3.5% COLA and other school employees received a 2.0% COLA, both of which are implemented at mid-year.</p> <p>³ Frederick County deputy sheriffs will receive a merit/step increase.</p> <p>⁴ Garrett County employees will receive \$750 in December 2009 and an additional increase totaling up to 3% in March 2010; however, these adjustments will not increase employee base salaries. Road department employees represented by AFSCME received a 4% COLA.</p> <p>⁵ Howard County provided a 3.0% merit/step increase for most positions and a 3.5% merit/step increase for police officers.</p> <p>⁶ Somerset County school employees will receive a merit/step increase in January 2010 if sufficient funds are available.</p> <p>⁷ Washington County provided a 2% COLA for teachers and support personnel effective July 1, 2009, and a 3% COLA for school administrators effective January 1, 2010. School administrators did not receive a merit/step increase, while other school employees did.</p>
Anne Arundel ¹	0.0%	Varies	0.0%	No	
Baltimore City	2.0%	Yes	0.0%	Yes	
Baltimore ²	2.0%	Yes	3.5%	Yes	
Calvert	0.5%	No	0.5%	Yes	
Caroline	0.0%	No	0.0%	Yes	
Carroll	0.0%	No	0.0%	No	
Cecil	0.0%	No	1.1%	Yes	
Charles	0.0%	No	0.0%	No	
Dorchester	0.0%	No	0.0%	No	
Frederick ³	0.0%	No	0.0%	No	
Garrett ⁴	\$750	No	0.0%	Yes	
Harford	0.0%	No	0.0%	No	
Howard ⁵	0.0%	Yes	1.2%	No	
Kent	0.0%	Yes	0.5%	Yes	
Montgomery	0.0%	Yes	0.0%	Yes	
Prince George's	0.0%	No	0.0%	No	
Queen Anne's	\$900	No	2.0%	Yes	
St. Mary's	0.0%	Yes	1.8%	No	
Somerset ⁶	0.0%	No	0.0%	Yes	
Talbot	0.0%	Yes	1.0%	Yes	
Washington ⁷	3.0%	No	2.0%	Yes	
Wicomico	0.0%	No	0.0%	Yes	
Worcester	0.0%	No	0.0%	No	
Number Granting	6	8	10	14	

AFSCME: American Federation of State, County, and Municipal Employees
 COLA: cost-of-living adjustment

Local Government Furlough and Salary Reduction Plans in Fiscal 2010

County	Furlough/ Reduction	Layoffs	
Allegany	Yes	No	County employees will receive 2 furlough days or will forfeit 2 paid days off.
Anne Arundel	Yes	No	School employees will receive between 1 and 4 furlough days depending on their position. County eliminated 109 vacant positions.
Baltimore City	Yes	Yes	City employees will receive between 5 to 10 furlough days, while 75 filled and 474 vacant positions were eliminated.
Baltimore	No	No	
Calvert	No	No	
Caroline	Yes	Yes	County employee salaries will be reduced by 1% in fiscal 2010. County eliminated 4 filled and 9 vacant positions.
Carroll	No	No	County eliminated 14 vacant positions and school system reduced its workforce by 32 employees.
Cecil	No	No	County eliminated 6 vacant positions.
Charles	Yes	Yes	County employees will receive 10 furlough days, while 3 filled and 19 vacant positions were eliminated.
Dorchester	No	No	
Frederick	No	Yes	County eliminated 2 filled and 95 vacant positions. Sixty-three school employees received a reduction in work hours.
Garrett	No	No	County eliminated 8 vacant positions.
Harford	Yes	Yes	County employees will receive 5 furlough days, while 34 filled positions were eliminated.
Howard	Yes	Yes	County employees will receive between 4 and 5 furlough days, while 9 filled and 50 vacant positions were eliminated.
Kent	No	No	County eliminated 6.5 vacant positions.
Montgomery	No	Yes	The county eliminated 151 filled and 227 vacant positions.
Prince George's	Yes	Yes	County employees will receive 10 furlough days. County eliminated 50 filled and 495 vacant positions. School system eliminated 685 positions.
Queen Anne's	No	No	County eliminated 15 vacant positions.
St. Mary's	No	Yes	County eliminated 12 filled and 13 vacant positions.
Somerset	No	No	County eliminated 6 vacant positions.
Talbot	Yes	No	County employees will receive between 2 and 5 furlough days, while 4 vacant positions were eliminated.
Washington	No	Yes	The county eliminated 2 filled and 20 vacant positions.
Wicomico	Yes	Yes	County employees will receive between 5 and 10 furlough days depending on salary amount. County eliminated 10 filled positions.
Worcester	No	Yes	County eliminated 11 filled and 8 vacant positions.
Number of Counties	10	12	In total, counties eliminated 363 filled and 1,578.5 vacant positions. School systems eliminated 717 positions.

Source: Department of Legislative Services; Maryland Association of Counties

Part 6

Debt Management and Capital Program

State Debt Policy

- 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.
- Since 2000, State GO bond authorizations have increased and the State has authorized new kinds of State debt.
- In 2008, the CDAC completed a two-year study reviewing the debt affordability criteria. The committee recommended that:
 - State tax-supported debt outstanding should not exceed 4% of Maryland personal income; and
 - State tax-supported debt service payments should not exceed 8% of State revenues.
- The CDAC recommends that the General Assembly authorize up to \$990 million in GO bonds in the 2010 legislative session. This provides a \$120 million decrease from the authorization in the 2009 legislative session. The decrease represents a \$30 million previously planned inflationary adjustment and removing authorizations for a one-time, \$150 million increase. The CDAC also expressed its intention to review the recommendation in December 2009.
- The table below shows that projected authorizations meet the affordability criteria:

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as a % of Revenues</u>
2010	3.47%	6.99%
2011	3.42%	7.23%
2012	3.39%	7.18%
2013	3.27%	7.16%
2014	3.17%	7.16%
2015	3.08%	7.32%

State Debt Policy (continued)

Debt Service Costs Exceed Projected Revenues Fiscal 2010-2015 (\$ in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total Change 2010-2015</u>	<u>Average Annual % Change</u>
Special Fund Revenues								
Property Tax Receipts	\$748	\$771	\$791	\$813	\$837	\$862	\$114	2.9%
Bond Sale Premiums ¹	90	16	0	0	0	0	-90	-100.0%
Other Revenues	2	2	2	2	2	2	0	-2.4%
ABF Fund Balance Transferred from Prior Year	72	130	75	0	0	1	-71	n/a
Subtotal Special Fund Revenues Available	\$912	\$919	\$868	\$816	\$840	\$865	-\$47	n/a
General Fund Appropriations	\$0	\$0	\$16	\$142	\$153	\$188	\$188	n/a
Federal Fund Appropriations ²	1	2	2	2	2	2	1	14.9%
Total Revenues	\$913	\$921	\$885	\$960	\$995	\$1,055	\$142	2.9%
Projected Debt Service Expenditures	\$783	\$846	\$885	\$959	\$994	\$1,055	\$272	6.1%
ABF End-of-year Fund Balance	\$130	\$75	\$0	\$0	\$1	\$0	-\$130	n/a

ABF: Annuity Bond Fund

¹ To date, the State has realized \$64 million in bond sale premiums in fiscal 2010. The Department of Legislative Services projects an additional \$26 million bond sale premium realized at March 2010 bond sale and a \$16 million bond sale premium realized at the July 2010 bond sale.

² Federal fund appropriations represent subsidy on Build America Bonds.

State Debt Policy (continued)

The Department of Legislative Service's Recommendations

Continue Issuing Build America Bonds

- Build America Bonds (BABs) were authorized by the federal American Recovery and Reinvestment Act of 2009. The bonds are taxable and provide the issuer with a subsidy equal to 35% of the interest payments. The State issued \$50 million in August 2009 and \$51.8 million in October 2009.
- The Department of Legislative Services (DLS) estimates that the True Interest Cost for BABs was 0.92% (92 basis points) less than the yield for AAA-rated 15-year bonds. This reduces annual debt service costs by approximately \$1 million annually.
- **DLS recommends that the Treasurer's Office continue to issue BABs.**

Limit Retail Bond Sale Issuances

- In 2009, Maryland issued its first retail bond sale in at least 20 years. The sales totaled \$225.8 million in March and \$235.0 million in August.
- DLS estimates that the True Interest Cost of retail bonds is 0.25% (25 basis points) greater than the cost of competitively bid bonds to institutional investors. These costs are offset by the savings realized by reducing the total bonds sold to institutional investors. The interest cost increases 0.06% (6 basis points) for each \$100 million issued.
- Based on the statistical analysis, DLS estimates that the retail bonds increased the interest cost on the \$460.8 million issued by 0.10% (10 basis points), which reduced the premium realized by the State by an estimated \$3.5 million.
- **Since the analysis of the bond sale data suggests that retail bonds tend to be more expensive than bonds sold to institutional investors through a competitive process, it is recommended that subsequent bond sales be limited to one retail sale per year.**
- **DLS recognizes that the data from the first two bond sales is insufficient to conclusively estimate the cost of retail bonds, and DLS recommends that subsequent bond sales be evaluated.**

State Debt Policy (continued)

State Center and Health Laboratory Capital Leases Should Be Included in State Debt Projections

- The Administration is proposing that two major State capital projects, the State Center Complex in Baltimore and the new Department of Health and Mental Hygiene (DHMH) public health laboratory, be financed through capital leases instead of GO bonds.
- To clarify if these projects are State debt, the operating budget bill included a requirement that the State Treasurer's Office evaluate the proposed State Center lease for potential affordability implications.
- The Treasurer's assessment is that the prudent approach would be to assume that the State Center occupancy leases are, or will be, capital leases and that they will impact debt affordability. The same can be said for the new DHMH public health laboratory which, considering the essential public need and use of the facility, makes a capital lease determination and corresponding debt affordability impact even more likely.
- **Insofar as the State Center and public laboratory projects are State projects funded with State revenues and the Treasurer's Office advises that it is prudent to consider these projects State debt, DLS recommends that CDAC include these projects as State debt.**

Issue Bay Restoration Bonds in a Competitive Sale, Instead of Negotiated Sale

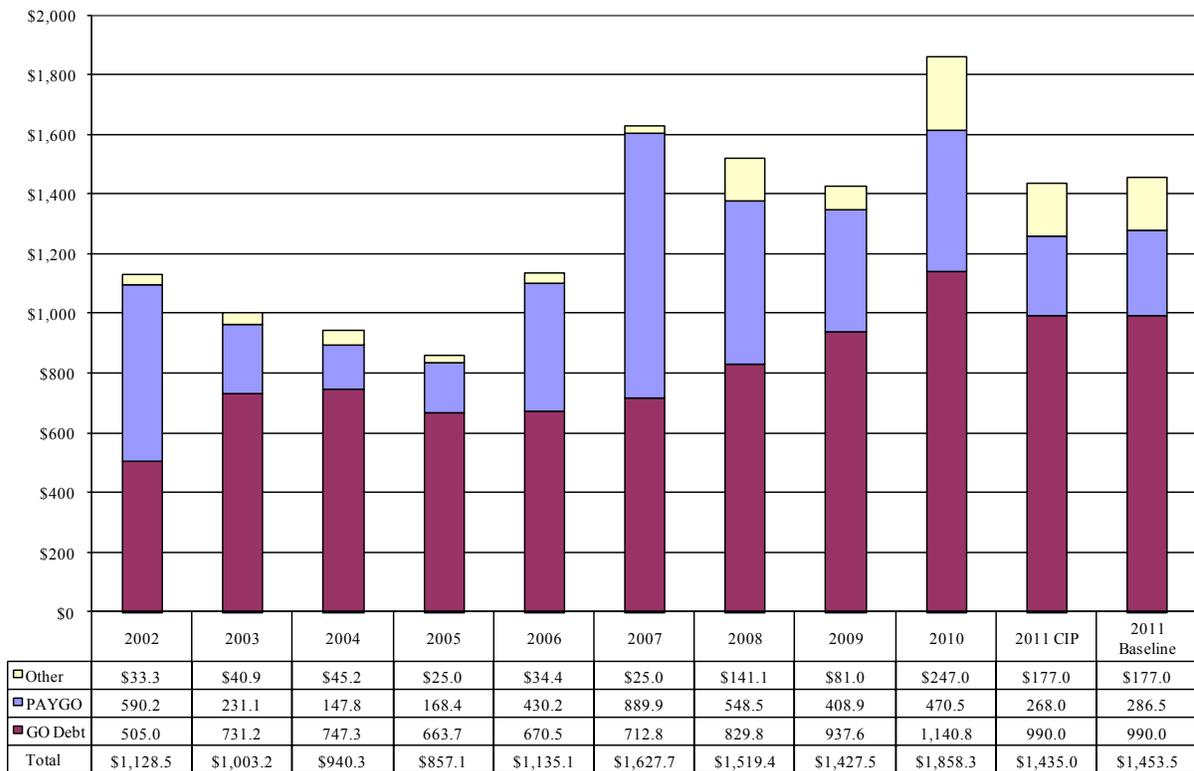
- In June 2008, the State issued the first series of bay restoration bonds. The bonds were issued through a negotiated sale. Because competitive bond sales tend to reduce the cost of debt, GO and transportation bonds are issued through competitive sales.
- **Insofar as bay restoration bonds have been issued successfully, are highly rated, are supported by stable revenues, and do not have any particularly unique or complicated provisions, it is recommended that subsequent bay bonds be issued through a competitive sale, instead of a negotiated sale.**

Capital Program

Capital Program Funding Trends

The fiscal 2010 capital program exceeded \$1.85 billion, all funds included, eclipsing all previous annual capital funding levels. The current estimate is \$1.4 billion for fiscal 2011.

**Capital Funding by Major Source
Fiscal 2002-2011
(\$ in Millions)**

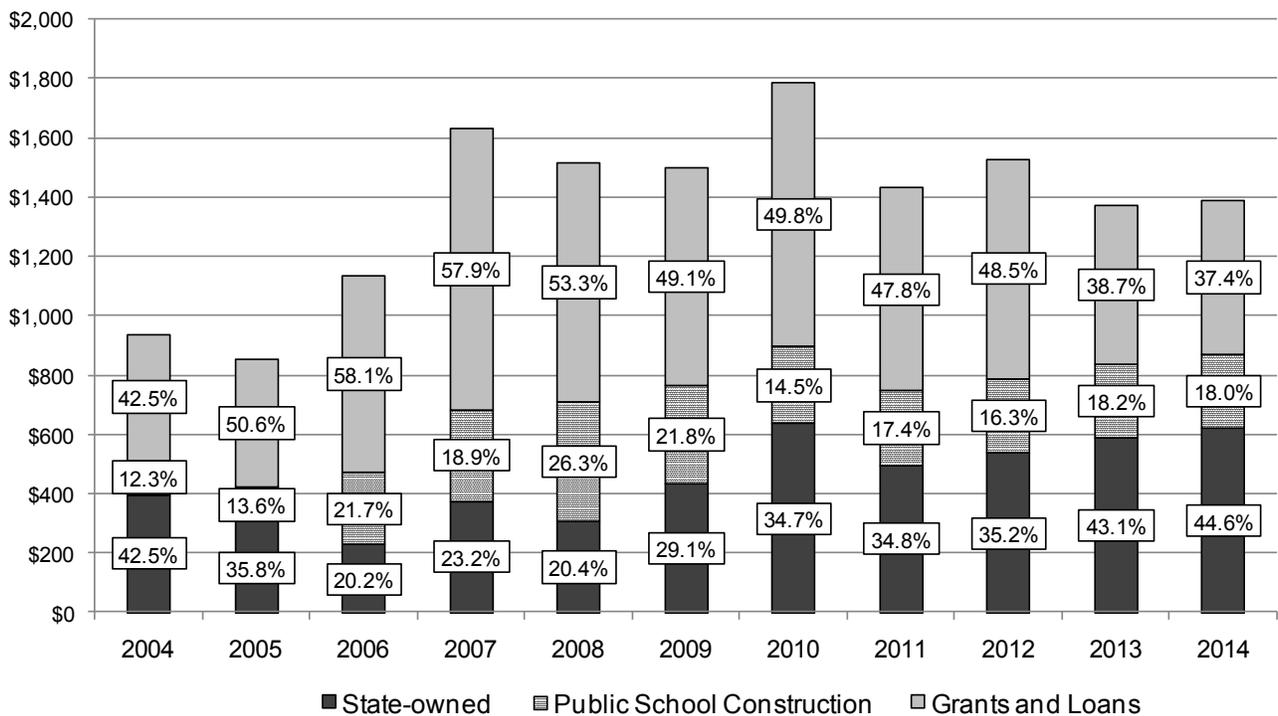


CIP: Capital Improvement Program
GO: general obligation
PAYGO: pay-as-you-go

Greater Share of Funding for State-owned Projects Proposed

Beginning in fiscal 2006 and in direct response to the Public School Facilities Act of 2004, the level of funding for public school construction increased in both absolute dollars and as a share of the total capital program. The allocation of funding for grant and loan programs similarly increased resulting in reduced allocation for State-owned projects. Fiscal 2009 and 2010 funding levels began to reverse this trend.

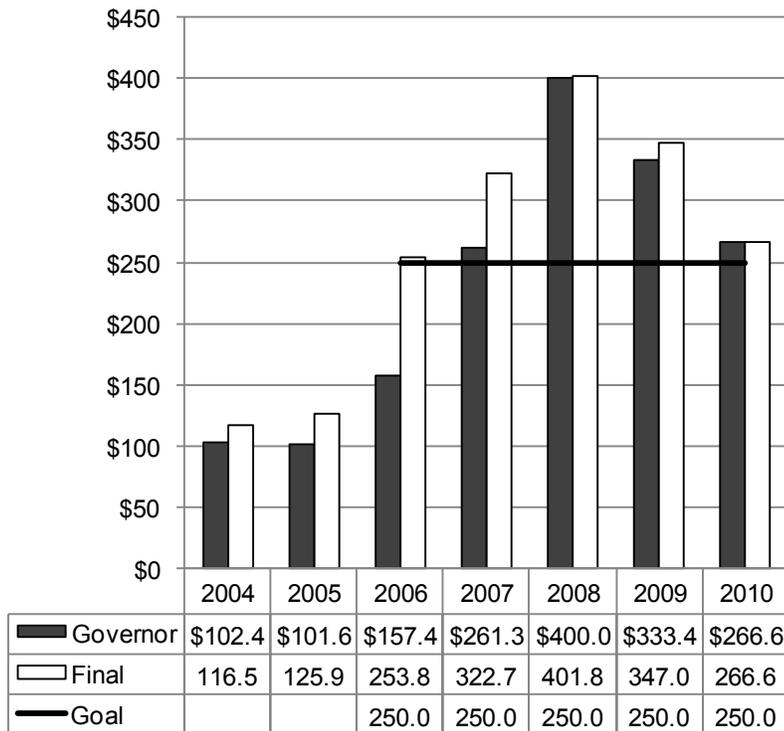
Fiscal 2004-2014
(\$ in Millions)



School Construction Funding Goal

Fiscal 2010 marked the fifth year in a row that funding for public school construction projects met or exceeded the \$250 million annual funding goal set in the 2004 Public School Facilities Act. Since fiscal 2006, the State has invested a total of \$1.591 billion towards the State's nominal funding goal of \$2 billion by 2013.

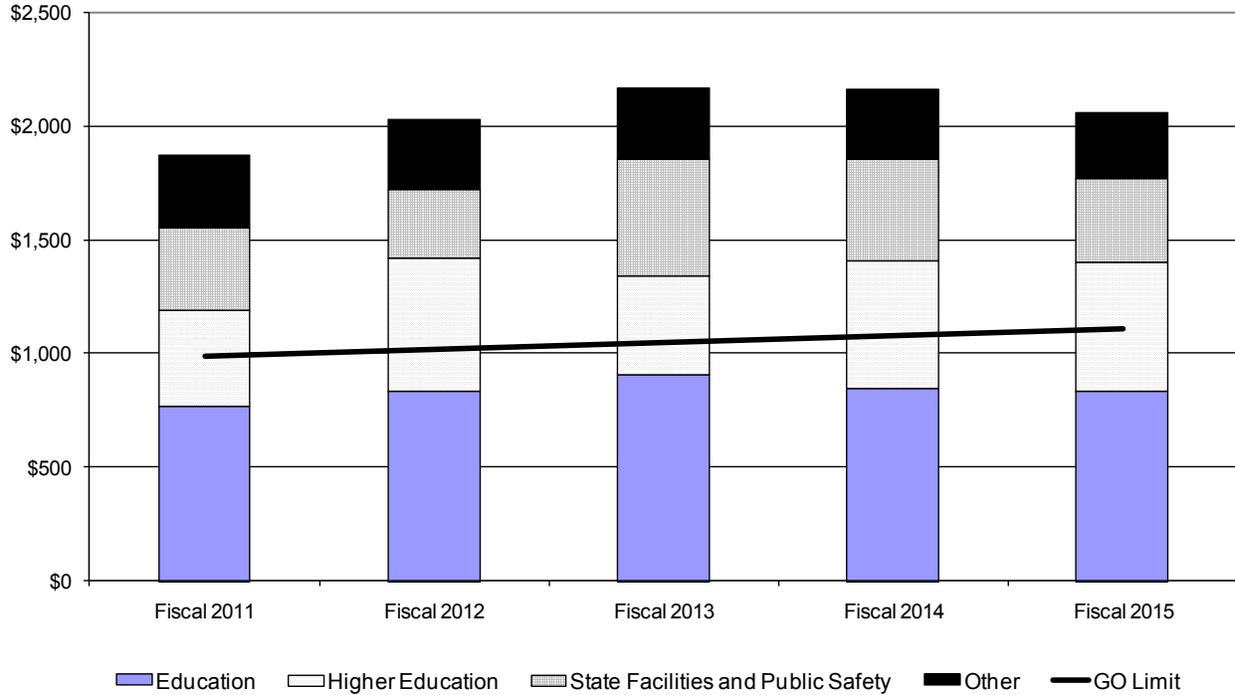
**Fiscal 2004-2010
(\$ in Millions)**



Capital Demand

Capital general obligation (GO) bond requests for fiscal 2011 total \$1.87 billion, or \$884 million more than the amount available under the Capital Debt Affordability Committee (CDAC) recommended GO bond debt limit of \$990 million. Capital requests for the next five years total nearly \$10.3 billion, while the projected debt authorizations for the same period total about \$5.2 billion.

**GO Bond Requests and CDAC GO Bond Debt Limit
Fiscal 2011-2015
(\$ in Millions)**



CDAC: Capital Debt Affordability Committee
GO: general obligation

**Variance between Requests and CIP Estimates
(\$ in Millions)**

	Fiscal 2011			Four-year Plan		
	<u>CIP</u>	<u>Request</u>	<u>Variance</u>	<u>CIP</u>	<u>Request</u>	<u>Variance</u>
Public School Construction	\$250.0	\$742.1	-\$492.1	\$1,000.5	\$3,269.2	-\$2,268.7
University System of Maryland	224.2	259.8	-35.6	913.8	1,157.2	-243.4
Department of Juvenile Services	30.1	110.2	-80.1	210.0	453.1	-243.1
Public Safety Communication System	10.0	68.0	-58.0	100.0	255.0	-155.0
Community Colleges	100.2	107.8	-7.6	366.0	502.2	-136.2
Morgan State University	38.4	48.9	-10.5	129.3	252.4	-123.1

CIP: Capital Improvement Program

**Use of GO Bond Program to Relieve Pressure on the
Operating Budget
(\$ in Millions)**

	<u>Fiscal 2010</u>	<u>Estimate for Fiscal 2011</u>
<ul style="list-style-type: none"> ● Transfer Tax Diversion to the General Fund: Transfers to the general fund authorized in the Budget Reconciliation and Financing Act of 2009 (BRFA) totaled \$172.3 million of which \$102.3 million was replaced with GO bond funds and another \$70.0 million with POS revenue bonds. 	\$102.3	\$30.0*
<ul style="list-style-type: none"> ● InterCounty Connector Funding: \$55.0 million authorized in fiscal 2010 – statutory changes made in the BRFA would require remaining \$156.9 million in fiscal 2011. 	55.0	156.9*
<ul style="list-style-type: none"> ● Medevac Helicopter Replacement: The \$52.5 million authorized for fiscal 2010 to fund the purchase of three helicopters. The 2009 CIP programs another \$30 million in fiscal 2011. 	52.5	30.0
<ul style="list-style-type: none"> ● Use of GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds: The 2009 CIP programs \$36.1 million of GO bonds in fiscal 2011 for these programs. 	28.1	36.1
<ul style="list-style-type: none"> ● Special Fund Revenue Replacement: Potential transfer of special fund revenues from various revolving grant and loan programs and replacement with GO bond authorizations. 	0.0	90.0*

CIP: *Capital Improvement Program*

GO: general obligation

POS: Program Open Space

*Not currently programmed in the *Capital Improvement Plan*.

- **Making Room for Commitments Made in the 2009 Session:** In addition to potentially needing to make room for an estimated \$277 million of bondable costs not currently projected in the CIP, another \$64 million is needed to fund projects that were either deferred, split-funded, or added by the General Assembly in the 2009 session.

- **Accommodating Prior Year Commitments:** Projects already programmed in the CIP awaiting construction or equipment funding in fiscal 2011 account for approximately \$570 million of the \$990 million of proposed new GO bond authorizations. This includes State-owned projects split-funded in the 2009 session and other multi-year commitments to projects funded through grants and loans to local governments.

Bay Restoration Bonds Not Projected to Be Sufficient

The Maryland Department of the Environment (MDE) currently estimates that the cost to upgrade the 67 major wastewater treatment plants is \$1.539 billion. The bond revenue, in addition to revenues expended from the fund as pay-as-you-go special funds, would fund approximately \$881 million leaving a shortfall of approximately \$659 million potentially unfunded.

Bay Restoration Fund Fiscal 2010-2015 (\$ in Millions)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Project Costs	\$332	\$195	\$343	\$241	\$160	\$152
Bay Restoration Fees and Bond Funds	332	195	220	4	2	2
Projected Annual Deficit	0	0	-123	-237	-158	-150

Source: Maryland Department of the Environment

The Bay Restoration Fund Advisory Committee may consider the following options for addressing the shortfall: (1) increase the current \$30 annual household fee – this action would require legislative approval to implement; (2) reduce the percent of grant funding to local governments for Enhanced Nutrient Removal (ENR) projects which is currently being provided at 100% of eligible costs – this action would not require legislation to implement; (3) delay ENR upgrades at certain wastewater treatment plant facilities – this action would not require legislation to implement; and (4) use a portion of the fee for payment of local government bond debt (with terms greater than 15 years) where bond proceeds are used for MDE approved ENR upgrade costs – this action would require legislative approval to implement.

Transfer Tax Revenues Continue to Decline

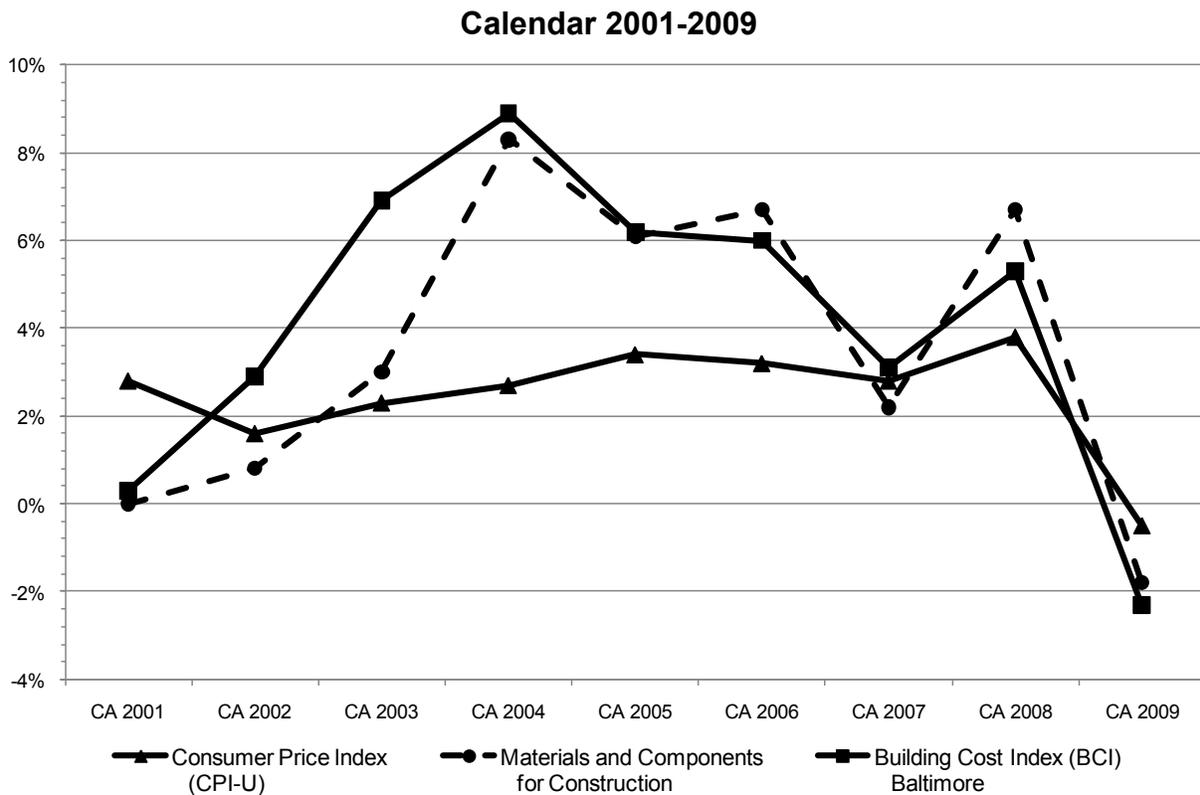
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011 Est.</u>
Revenues				
Budgeted Revenue Estimate	\$188.58	\$166.30	\$114.74	\$112.36
Less Administrative Expenses*	-5.66	-4.99	-4.66	-\$4.59
Attainment Adjustment	75.50	-51.96	-35.05	-52.64
Net Available for Allocation	\$258.43	\$109.35	\$75.03	\$55.14
Allocations				
Program Open Space (POS)				
POS Bonds Debt Service	\$0.00	\$0.00	\$0.00	\$7.00
POS Local	95.60	18.59	6.15	0.00
Forest and Park Service**	0.00	21.00	21.00	21.00
Heritage Areas Authority	3.00	3.00	3.00	0.36
POS State Land Acquisition	61.76	20.87	10.57	0.00
POS State Rural Legacy	8.00	8.00	0.00	8.00
POS State Capital Development	24.64	9.52	0.00	4.14
POS State Park Operating	1.20	1.20	1.20	1.20
POS Subtotal	\$194.21	\$82.18	\$41.92	\$41.70
Other Allocations				
Additional State Land Acquisition	\$2.58	\$1.09	\$0.76	\$0.00
Agricultural Land Preservation	44.06	18.64	0.00	9.61
Rural Legacy Additional	12.92	5.47	0.00	2.82
Heritage Conservation Fund	4.65	1.97	1.37	1.01
Other Subtotal	\$64.22	\$27.17	\$2.13	\$13.44
Total Transfer Tax Allocations	\$258.43	\$109.35	\$44.06	\$55.14
General Obligation (GO) Bond Replacement				
POS State Rural Legacy	\$0.00	\$0.00	\$8.00	\$0.00
POS State Capital Development	0.00	0.00	6.16	0.00
Agricultural Land Preservation	0.00	0.00	13.00	0.00
Rural Legacy Additional	0.00	0.00	3.81	0.00
Total GO Bond Replacement	0.00	0.00	30.97	0.00
Total Funding	\$258.43	\$109.35	\$75.03	\$55.14

*The Budget Reconciliation and Financing Act of 2009 authorizes the use of \$1,217,000 of the State's share of funds to be used for administrative expenses.

**In order to provide \$21 million for the Forest and Park Services required under the formula, the estimate for fiscal 2011 for State Land Acquisition is adjusted to \$0 million and the discretionary funds to the Heritage Area Authority to \$0.4 million.

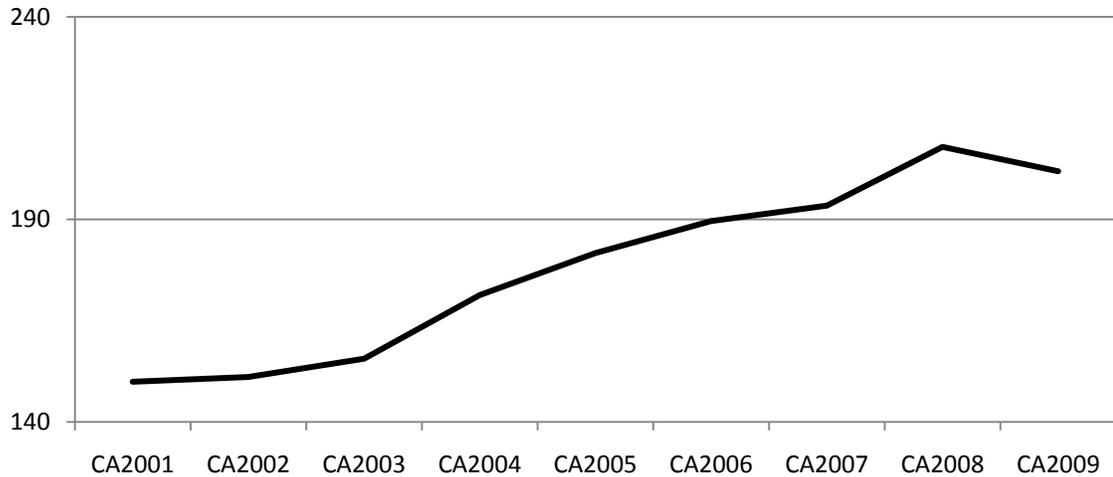
Construction Costs Decline

- **Construction Costs Decline in 2009:** The year-over-year measure for inflation in the building and construction market as measured nationally through the materials and components for construction component of the Producer Price Index and locally through the Engineering News-record Building Cost Index for Baltimore City reflect a decrease in construction costs both nationally and locally. Through September 2009, construction costs are 3.0% below calendar 2008 figures.



- **Despite 2009 Declines Average Annual Costs Increase:** Despite negative growth in construction cost in calendar 2009, overall costs have increased at an average annual rate of 3.9% from calendar 2001 through September 2009.

**Calendar 1999-2009
(Inflation Index)**



-
- **Recent Bids Below Authorization Levels:** The recent decline in construction costs, which began in the third quarter of calendar 2008, is now reflected in construction bids anywhere from 10 to 15% below authorization levels. This will allow for some recycling of prior authorized funds to support fiscal 2011 projects and allow the CIP to accommodate more project requests.
 - **The Department of Budget and Management (DBM) Revised Annual Escalation and Regional Cost Factors Used in Cost Estimating Process:** DBM revised the escalation rate for projects requested in the 2010 session to reflect escalation at 1.0% for calendar 2009, 3.5% for calendar 2010, and 4.0% for each year thereafter. This compares to rates set for the 2008 session of 8.0% for calendar 2009, and 5.0% for each year thereafter. DBM also revised the methodology for calculating the “regional cost factor” (RCF) used in the cost estimating process. This produces variance between the old and revised RCF as high as 35.0% which will lower cost estimates for projects that are included in the next five-year CIP.
 - **Stabilization of School Construction Costs:** The Interagency Committee on School Construction (IAC) recently reported stabilization of bid prices and increased contractor competitiveness. Individual projects are bidding at 25 to 30% below budget and well below the \$224 square foot cost used for fiscal 2010. As a result, the IAC has lowered the square foot rate applicable to fiscal 2011 by 12% to \$197 per square foot.

Part 7

Transportation

Transportation Trust Fund Closeout
Comparison of Fiscal 2009 Projected and Actual Revenues
(\$ in Millions)

	<u>Projected</u> <u>FY 2009</u>	<u>Actual</u> <u>FY 2009</u>	<u>Variance</u>
Starting Fund Balance	\$53	\$53	\$0
Revenues			
Titling Taxes	\$550	\$514	-\$36
Motor Fuel Taxes	741	736	-5
Sales Tax	207	202	-5
Corporate Income, Registrations, and Misc.			
MVA Fees	726	712	-14
Other Receipts and Adjustments	484	521	37
Bond Proceeds and Premiums	420	402	-18
Total Revenues	\$3,128	\$3,087	-\$41
Uses of Funds			
MDOT Operating Expenditures	\$1,576	\$1,526	-\$50
MDOT Capital Expenditures	837	716	-121
MDOT Debt Service	142	142	0
Highway User Revenues	478	465	-13
Other Expenditures	48	47	-1
Total Expenditures	\$3,081	\$2,896	-\$185
Ending Fund Balance	\$100	\$244	\$144

MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

- The fiscal 2009 ending funding balance totaled \$244 million, \$144 million higher than expected. The higher-than-expected fund balance is largely due to capital budget reductions that were made in March 2009 and a wet spring slowing construction. Operating cost containment and cancellations at the end of the year resulted in an additional \$50 million for the fund balance.
- Total revenues to the department were \$41 million less than estimated. The decline in revenues is attributed to the recession with the largest decline in titling tax revenues. Other receipts increased \$37 million, but this was due to additional federal funds for transit operating expenses that reduced the need for special funds and a higher level of reimbursements.

Maryland Department of Transportation's (MDOT) Draft Financial Forecast Highlights

Revenue

- MDOT forecasts a rebound in titling tax receipts with growth of 10.0, 18.0, and 14.0% in fiscal 2011 to 2013, respectively. The department's share of Highway User Revenues increases to 71.5% in fiscal 2012, and its share of sales tax receipts increases from 5.3 to 6.5% in fiscal 2014.

Operating Budget

- MDOT assumes approximately \$50 million in cost containment in fiscal 2010. The average annual growth rate for the operating budget is 3.8%.

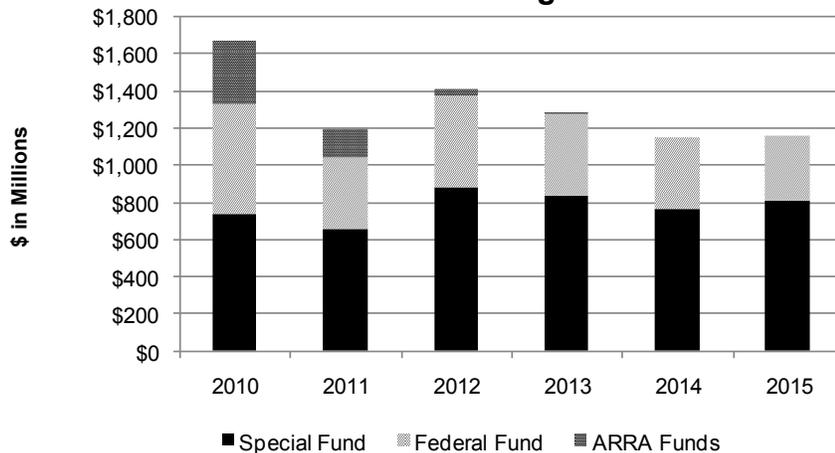
Debt Issuances

- The department has planned \$1,425 million in bond issuances over the six-year period. Total debt outstanding reaches \$2.3 billion, below the statutory cap of \$2.6 billion. The department's net income coverage ratio is 2.1 in fiscal 2011 and 2012 and then gradually increases to 2.7 in fiscal 2015.

Capital Budget

- The six-year capital budget totals \$7.9 billion for special and federal funds. For the comparable fiscal years, the capital budget has not changed significantly since the March 2009 forecast.

**Maryland Department of Transportation Draft Forecast
Fiscal 2010-2015 Funding for Draft CTP**



CTP: Consolidated Transportation Program

MDOT's Draft Financial Forecast Risks

Revenue

- MDOT assumes that vehicle sales will begin to recover in fiscal 2011, with a strong recovery in fiscal 2012 and 2013; however, it is not clear what impact the recent gas price shock or recession will have on future purchases. The downside risk is that the department will not meet its estimates for titling, and that a slow economic recovery may also adversely affect other revenues.
- Due to the larger State budget difficulties, it is not clear if the increase in the sales tax distribution to the Transportation Trust Fund is sustainable.

Operating Budget

- Despite MDOT's efforts to constrain expenditures, spending pressures remain. Specific areas that may be underbudgeted in the forecast include snow removal, MARC contract costs, and union personnel expenditures.

Debt Issuances

- One of the department's constraints on debt is a net income coverage test. The department has indicated to bond holders that if the coverage ratio falls below 2.0, it will not issue debt until the ratio exceeds 2.0. If revenues do not meet estimates or spending is higher than estimated, MDOT runs the risk of falling below the 2.0 level and not being able to issue debt for the capital program.

Capital Budget

- Future levels of federal funding are uncertain due to federal revenues not being able to sustain prior levels of spending without an increase in the gas tax or other revenues.
- The current *Consolidated Transportation Program* (CTP) does not provide funding for the construction of the Purple or Red Line or the Corridor Cities Transitway even though the department continues to move forward to obtain federal approval of these three major mass transit initiatives.
- The current capital program already assumes an economic recovery, leaving little capacity for new projects to be added.

**Impact of Downside Risks to the Capital Program
Incorporated in DLS Estimate
(\$ in Millions)**

Revenues Compared to Draft CTP

Titling Tax – DLS estimates that vehicle sales will begin to recover in fiscal 2010 and 2011 and then return to more historical rates of growth. -373

Motor Fuel Tax, Corporate Income Tax, Sales Tax, Registrations, and Miscellaneous MVA Fees – Slight downward adjustments were made to revenues, in particular the sales tax (\$57 million) to reflect the Board of Revenue Estimates' estimate and registration fees (\$46 million) due to lower estimates of vehicle sales. -113

Other Receipts and Adjustments 63

Bond Sales – Due to the write-down in revenue and increased operating budget expenditures, bond sales are constrained by the net income coverage test over the six-year period. -880

Total Revenues Compared to Draft CTP **-\$1,303**

Expenditures Compared to Draft CTP

Operating Budget – DLS assumed the operating budget would grow at an average annual rate of 5.1% compared to MDOT's growth rate of 3.8%, and DLS did not assume cost containment in fiscal 2010, except for Board of Public Works reductions. \$556

Local Highway User Revenues – Due to downward revisions in revenues, the local share of highway user revenues is reduced. -90

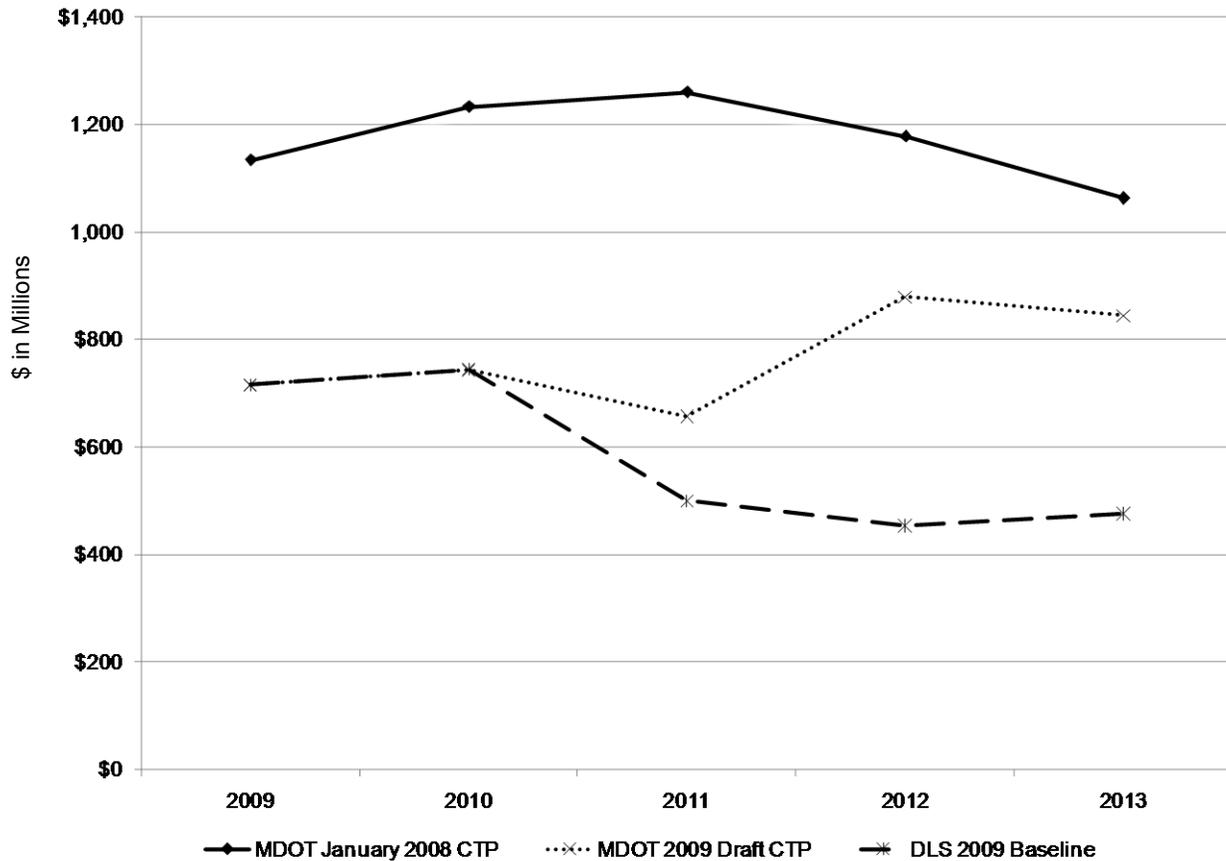
Debt Service – Due to reduced bond sales, debt service payments are less than estimated. -127

Capital Program – As revenues are revised downward and operating expenditures increase, bond sales are constrained reducing the capital program. DLS estimates the special fund capital budget will total \$3.1 billion compared to MDOT's estimate of \$4.7 billion, over the fiscal 2010 to 2015 period. -1,642

Total Expenditures Compared to Draft CTP **-\$1,303**

CTP: *Consolidated Transportation Program*
DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

Transportation Special Fund Capital Budget January 2008 Forecast Compared to Current Forecast Fiscal 2009-2013



CTP: Consolidated Transportation Program
DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation

- The special fund capital program was reduced by \$2.2 billion from January 2008 to January 2009, offsetting the additional funding for the capital program that was added as a result of the 2007 special session revenue increase.
- MDOT updated its financial forecast in March 2009 and further reduced the capital program from fiscal 2009 to 2011; however, funding was moved into fiscal 2012 to 2014.
- The draft CTP did not include any additional capital reductions, with funding for the comparable fiscal years largely the same.
- The DLS forecast highlights the risks to the capital program which could result in an additional \$1.6 billion in reductions to the capital program.

Transportation Federal Stimulus

- Maryland received \$565 million in federal stimulus funding through existing formula programs for highway and transit projects in Maryland. Approximately \$45 million was also provided to the Washington Metropolitan Area Transit Authority.

Federal Stimulus Update (\$ in Millions)

	<u>Total Allocation</u>	<u>Flexed Spending</u>	<u>Net Allocation</u>	<u>Value of Projects Advertised</u>	<u>Value of Projects Where Work Started</u>	<u>Value of Projects Completed</u>
Highway	\$431	-\$17	\$414	\$296	\$184	\$10
Transit	134	17	151	103	58	0.7

- Maryland received \$431 million in highway formula aid; however, due to favorable bids, the State Highway Administration had bid savings of \$30 million and MDOT elected to use \$17 million for transit funding.
- Of the \$414 million in federal aid, \$62 million is provided to local jurisdictions for projects and Baltimore City received \$35 million.
- To date, Maryland has advertised 117 highway projects totaling \$296 million, or 72%, of the total highway allocation. Within the State, 71 projects have started construction with a total value of \$184 million, and 6 projects have been completed with a value of \$10 million.
- MTA received \$151 million in the federal American Recovery and Reinvestment Act of 2009 and anticipates 134 contracts. To date, 49 projects have been advertised at a value of \$103 million. In addition, 24 projects have started construction at a value of \$58 million, and 6 projects have been completed with a value of \$0.7 million.
- Maryland has also applied for funding under a supplemental grant program (Transportation Investment Generating Economic Activity). Maryland has submitted five applications totaling \$204 million and includes projects for MARC capacity and Base Realignment and Closure improvements. Maryland is also supporting an additional \$120 million in projects that have been proposed by regional governmental entities.
- Maryland has also applied for \$360 million under the high speed rail grant program for MARC and Amtrak related improvements.

**Department of Legislative Services
Transportation Trust Fund Forecast
Fiscal 2010-2015**

	<u>Actual 2009</u>	<u>Estimate 2010</u>	<u>Estimate 2011</u>	<u>Estimate 2012</u>	<u>Estimate 2013</u>	<u>Estimate 2014</u>	<u>Estimate 2015</u>
Opening Fund Balance	\$53	\$244	\$100	\$100	\$100	\$100	\$100
Closing Fund Balance	\$244	\$100	\$100	\$100	\$100	\$100	\$100
Net Revenues							
Taxes and Fees	\$1,655	\$1,628	\$1,703	\$1,827	\$1,918	\$2,021	\$2,083
Operating and Miscellaneous	548	508	505	508	527	536	545
Transfers between TTF and GF	0	0	0	0	0	0	0
MDTA Transfer	-30	-30	0	0	0	0	0
Net Revenues Subtotal	2,173	2,106	2,208	2,335	2,445	2,558	2,627
Bonds Sold	390	220	130	55	55	45	40
Bond Premiums	12	0	0	0	0	0	0
Total Revenues	\$2,575	\$2,326	\$2,337	\$2,390	\$2,502	\$2,603	\$2,668
Expenditures							
Debt Service	\$142	\$151	\$165	\$185	\$190	\$210	\$230
Operating Budget	1,526	1,574	1,672	1,751	1,835	1,924	2,017
State Capital	716	745	500	454	476	468	420
Total Expenditures	\$2,384	\$2,470	\$2,337	\$2,390	\$2,502	\$2,603	\$2,669
Debt							
Debt Outstanding	\$1,583	\$1,725	\$1,707	\$1,659	\$1,603	\$1,515	\$1,400
Debt Coverage – Net Income	2.5	2.6	2.1	2.1	2.2	2.3	2.4
Local Highway User Revenues							
HUR Transfer to GF	\$0	\$320	\$102	\$0	\$0	\$0	\$0
Capital Summary							
State Capital	\$716	\$745	\$500	\$454	\$476	\$468	\$420
Net Federal Capital (Cash Flow)	762	928	546	528	444	388	346
Subtotal Capital Expenditures	\$1,478	\$1,673	\$1,046	\$982	\$920	\$856	\$766
GARVEE Debt Service	40	87	87	87	87	87	87

GARVEE: grant anticipation revenue vehicle
 GF: general fund
 HUR: highway user revenue
 MDTA: Maryland Transportation Authority
 TTF: Transportation Trust Fund

Part 8

State Employment and Employee Benefits

**Regular Full-time Equivalent Position Changes
Fiscal 2002 Actual to Fiscal 2011 Baseline**

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2010 Working Appropriation</u>	<u>2002-2010 Change</u>	<u>2011 Baseline</u>	<u>2010-2011 Change</u>
Health and Human Services					
Health and Mental Hygiene	8,555	6,636	-1,919	6,571	-65
Human Resources	7,364	6,742	-622	6,735	-7
Juvenile Services	2,123	2,254	131	2,254	0
Subtotal	18,041	15,632	-2,409	15,560	-72
Public Safety					
Public Safety and Correctional Services	11,663	11,308	-355	11,308	0
Police and Fire Marshal	2,590	2,416	-174	2,416	0
Subtotal	14,252	13,723	-529	13,723	0
Transportation	9,538	9,013	-525	9,013	0
Other Executive					
Legal (Excluding Judiciary)	1,364	1,517	153	1,517	0
Executive and Administrative Control	1,603	1,639	36	1,638	-1
Financial and Revenue Administration	2,151	1,991	-160	2,013	22
Budget and Management	517	451	-66	451	0
Retirement	194	204	11	204	0
General Services	793	598	-195	601	3
Natural Resources	1,618	1,303	-315	1,305	2
Agriculture	480	410	-71	423	13
Labor, Licensing, and Regulation	1,706	1,691	-15	1,692	1
MSDE and Other Education	1,956	1,952	-4	1,953	2
Housing and Community Development	416	311	-105	311	0
Business and Economic Development	324	246	-78	246	0
Environment	1,028	970	-58	994	24
Subtotal	14,149	13,282	-867	13,348	66
Executive Branch Subtotal	55,980	51,650	-4,330	51,644	-6
Higher Education	21,393	23,834	2,441	23,834	0
Judiciary	3,010	3,581	572	3,581	0
Legislature	730	747	17	747	0
Grand Total	81,113	79,812	-1,300	79,806	-6

MSDE: Maryland State Department of Education

Note: Fiscal 2010 Working Appropriation includes all position abolitions and creations approved by the Board of Public Works as of September 20, 2009. Numbers may not sum due to rounding.

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

The State Workforce Fiscal 2011 Baseline Budget Position Changes

- **Department of Health and Mental Hygiene (-64.8):** The primary reductions are the elimination of 45 vacant positions in the Developmental Disabilities Administration's Brandenburg Center, a net reduction of 13.5 positions from the closure of Walter P. Carter Center and transfers to Clifton T. Perkins Hospital, and a reduction of 7.5 positions due to the transition of one ward at the Eastern Shore Hospital to an assisted living unit.
- **Office of the Comptroller (22):** The baseline assumes that 22 new positions (16 revenue examiners and 6 compliance auditors) will be required due to the continued implementation of the Modernized Integrated Tax System.
- **Maryland Department of Agriculture (10):** 10 Soil Conservation District positions to reflect the statutorily mandated funding increase which presumably will be used to hire more staff in order to get closer to the statutorily mandated 110 Soil Conservation District field position count.
- **Department of General Services (3):** The baseline assumes that 3 additional facility maintenance and operations positions will be needed due to the State's assumption of the Calvert County Multi-service Center.
- **Department of Planning (2):** Adjustment to reflect estimated staffing and operating costs for maintaining and interpreting the Jefferson Patterson Park and Museum's Riverside Interpretative Trails and Exhibits Stations.
- **Commission on Human Relations (-3):** Due to a 16% across-the-board reduction in federal funding from the Equal Employment Opportunity Commission, fewer housing discrimination cases, and more strictly enforced case day limits leading to 3 fewer positions.

The State Workforce

Fiscal 2011 Budget Positions Supporting Legislation Enacted in 2009

- 11 positions to implement the Maryland Department of the Environment's (MDE) coal combustion by-products program (Chapter 480).
- 10 positions in MDE to complete a draft climate plan and for other greenhouse gas emission reduction activities (Chapters 171 and 172).
- 2 positions (1 agricultural inspector and 1 office secretary) for Maryland Department of Agriculture's administrative activities, inspections, and enforcement related to law reducing fertilizer phosphorus content (Chapters 278 and 279), and 1 position to administer the new emerald ash borer eradication fund (Chapter 421).
- 2 positions in the Department of Natural Resources to reflect Aquaculture program (Chapters 173 and 174).
- 1 position in MDE (environmental sanitarian) to review septic system applications, develop regulations, and monitor ongoing maintenance of installed septic systems (Chapter 280); 1 position (natural resources planner) to implement a program to remove mercury switches from vehicles (Chapter 713); and 1 position (natural resources planner) to develop recycling plans and provide technical assistance to other State agencies for a State recycling program (Chapter 408).
- 1 position in the Department of Labor, Licensing, and Regulation from establishment of a licensure for locksmiths (Chapter 552).
- 1 position in the Department of Health and Mental Hygiene to license Athletic Trainers (Chapter 529).
- 1 position at the Maryland State Department of Education (MSDE) to support the Gwendolyn Britt Student Health and Fitness Act (Chapter 622).
- 0.5 position at MSDE to support MDK12 Digital Library Legislation (Chapter 528).
- 7 positions were reduced in the baseline for the Department of Human Resource's Citizens Review Board for Children to reflect changes made to the requirements for case review (Chapters 629 and 630).

**Contractual Full-time Equivalent Position Changes
Fiscal 2002 Actual to Fiscal 2011 Baseline**

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2010 Working Appropriation</u>	<u>2002-2010 Change</u>	<u>2011 Baseline</u>	<u>2010-2011 Change</u>
Health and Human Services					
Health and Mental Hygiene	409	373	-36	358	-15
Human Resources	111	74	-37	74	0
Juvenile Services	119	126	7	126	0
Subtotal	639	573	-66	558	-15
Public Safety					
Public Safety and Correctional Services	298	395	97	395	0
Police and Fire Marshal	46	34	-12	34	0
Subtotal	344	429	85	429	0
Transportation	142	169	27	169	0
Other Executive					
Legal (Excluding Judiciary)	99	66	-33	77	11
Executive and Administrative Control	208	163	-45	167	4
Financial and Revenue Administration	35	40	5	40	0
Budget and Management	33	27	-6	27	0
Retirement	30	14	-16	14	0
General Services	35	25	-10	25	0
Natural Resources	332	414	82	414	0
Agriculture	36	52	16	52	0
Labor, Licensing, and Regulation	176	159	-17	159	0
MSDE and Other Education	218	228	10	227	-1
Housing and Community Development	49	42	-8	42	0
Business and Economic Development	49	27	-22	27	0
Environment	32	45	13	45	0
Subtotal	1,332	1,301	-31	1,315	14
Executive Branch Subtotal	2,457	2,471	14	2,471	0
Higher Education	6,079	6,217	138	6,217	0
Judiciary	371	348	-23	348	0
Grand Total	8,907	9,036	129	9,036	0

MSDE: Maryland State Department of Education

Note: Fiscal 2010 Working Appropriation includes all position abolitions and creations approved by the Board of Public Works as of September 20, 2009. Numbers may not sum due to rounding.

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

**Vacant Positions, Turnover Rate, and Positions Above Turnover
Fiscal 2010 Working Appropriation**

<u>Department/Service Area</u>	<u>2010 Working Appropriation</u>	<u>October 2009 Vacancies</u>	<u>October 2009 Vacancy Rate</u>	<u>Turnover Rate</u>	<u>Positions To Meet Turnover</u>	<u>Positions Above Turnover</u>
Health and Human Services						
Health and Mental Hygiene	6,636	495	7.5%	5.7%	376	119
Human Resources*	6,742	451	6.7%	5.0%	337	114
Juvenile Services	2,254	116	5.2%	2.0%	45	71
Subtotal	15,632	1,062	6.8%	4.9%	759	304
Public Safety						
Public Safety and Correctional Services	11,308	454	4.0%	6.0%	678	-224
Police and Fire Marshal	2,416	156	6.5%	7.2%	174	-18
Subtotal	13,723	610	4.4%	6.3%	852	-242
Transportation	9,013	309	3.4%	4.7%	425	-116
Other Executive						
Legal (Excluding Judiciary)	1,517	87	5.7%	3.5%	53	33
Executive and Administrative Control	1,639	120	7.3%	4.9%	81	39
Financial and Revenue Administration	1,991	127	6.4%	4.2%	84	42
Budget and Management	451	45	9.9%	2.3%	10	34
Retirement	204	11	5.4%	3.0%	6	5
General Services	598	40	6.7%	4.7%	28	12
Natural Resources	1,303	49	3.7%	6.0%	78	-30
Agriculture	410	21	5.0%	7.4%	30	-10
Labor, Licensing, and Regulation	1,691	161	9.5%	4.9%	84	78
MSDE and Other Education	1,952	119	6.1%	5.6%	110	9
Housing and Community Development	311	12	3.7%	5.0%	16	-4
Business and Economic Development	246	10	4.0%	4.1%	10	0
Environment	970	64	6.6%	7.0%	68	-4
Subtotal	13,282	863	6.5%	4.9%	659	204
Executive Branch Subtotal	51,650	2,844	5.5%	5.2%	2,693	151
Higher Education	23,834	1,022	4.3%	2.6%	624	398
Judiciary	3,581	145	4.0%	4.2%	149	-4
Legislature	747	18	2.4%	2.0%	15	3
Grand Total	79,812	4,029	5.0%	4.2%	3,482	548

MSDE: Maryland State Department of Education

* The Department of Human Resources received 100 new federally funded positions at the September 16, 2009 Board of Public Works meeting that register as vacant in October 2009.

Note: Fiscal 2010 Working Appropriation includes all position abolitions and creations approved by the Board of Public Works as of September 20, 2009. Numbers may not sum due to rounding.

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

Employee and Retiree Health Insurance Funding
Fiscal 2008-2012
(\$ in Millions)

	<u>2008</u> <u>Actual</u>	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Budget</u>	<u>2011</u> <u>Est.</u>	<u>2012</u> <u>Est.</u>
Beginning Balance	\$310	\$246	\$138	\$80	\$84
Receipts					
Agencies (Employer Contribution)	\$657	\$745	\$849	\$953	\$1,020
Employees/Retirees Contribution	201	195	205	213	220
Rebates, Recoveries	37	21	32	49	50
Total Receipts	\$895	\$961	\$1,086	\$1,215	\$1,290
% Growth in Receipts	-11.7%	7.4%	13.0%	11.9%	6.1%
Expenditures					
Payments	-\$959	-\$1,068	-\$1,143	-\$1,212	-\$1,284
% Growth in Payments	6.9%	11.4%	7.0%	6.0%	6.0%
Ending Balance	\$246	\$138	\$80	\$84	\$89

- Fiscal 2009 costs grew at a faster rate than anticipated (11.4%), primarily due to:
 - Increased membership as employees added more dependents;
 - Member movement into the more expensive Preferred Provider Organization plans;
 - Growing prescription costs, especially among retirees; and
 - There were 53 weeks of billable payments due to the utilization of a fiscal year schedule.
- All fund balance will be fully utilized by the end of fiscal 2010 and will, therefore, no longer be available to reduce the amount that must be appropriated in the budget to meet costs.
- So, fiscal 2011 receipts must grow by a larger percentage than expenditures. The ending balance shown is the amount required to cover incurred costs between fiscal years.

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

State Pension System – Assets, Liabilities, and Funded Ratio
Fiscal 2004-2009
(\$ in Millions)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Market Value of Assets	\$30,167	\$32,073	\$34,370	\$39,455	\$36,614	\$28,571
Actuarial Value of Assets	33,485	34,520	35,795	37,887	39,504	34,285
Actuarial Accrued Liability (AAL)	36,326	39,133	43,243	47,144	50,244	51,433
Unfunded AAL	\$2,841	\$4,613	\$7,448	\$9,257	\$10,740	\$17,148
Funded Ratio	92.18%	88.21%	82.78%	80.36%	78.62%	66.66%
Unfunded AAL as % of Act Assets	8.5%	13.4%	20.8%	24.4%	27.2%	50.0%

The contribution rates paid by the State as an employer are set so that, over time, they are large enough to cover the system's liabilities that are not accounted for by investment profits. Over the past six years, liabilities have expanded at a more rapid pace than assets. This is the case because:

- The liabilities represent the promised benefit, which has increased since fiscal 2004 by \$15 billion. This increase is mainly due to the 2006 pension enhancement, member salary increases, and increased numbers of retirees.
- Meanwhile, asset growth is tied to market performance and employer/employee contributions. The actuarial value of the system's portfolio had steadily increased from fiscal 2004 to 2008 as market returns were positive and employee contributions increased to partially offset the pension enhancement.
- However, in fiscal 2009, the market downturn pushed the assets value down by over \$8 billion, while liabilities continued to grow. So, higher employer contributions are required to maintain the long-term stability of the system.

Source: Gabriel Roeder Smith & Company, Cheiron, Inc., Public Fund Survey, and State Retirement and Pension System of Maryland

State Pension System – Contribution Rates and Budgeted Funding Levels
Fiscal 2009-2011
(\$ in Millions)

<u>Contributions</u>	<u>2009 Actual</u>	<u>2010 Projected</u>	<u>2011 Projected</u>	<u>2010-2011 Change</u>
State Rate for Employee System	8.73%	9.93%	11.75%	
State \$ for Employee System	\$258	\$302	\$393	\$91
<i>Annual % Change of State \$ Contributions</i>	<i>2.0%</i>	<i>17.1%</i>	<i>30.1%</i>	
State Rate for Teacher System	11.70%	13.15%	14.19%	
State \$ for Teacher System	\$676	\$827	\$928	\$101
<i>Annual % Change of State \$ Contributions</i>	<i>8.5%</i>	<i>22.3%</i>	<i>12.2%</i>	
State \$ for Other Systems*	\$60	\$72	\$108	\$36
<i>Annual % Change of State \$ Contributions</i>	<i>11.1%</i>	<i>20.0%</i>	<i>50.0%</i>	
Total \$ Contribution	\$994	\$1,201	\$1,429	\$228
<i>Annual % Change of State \$ Contributions</i>	<i>6.9%</i>	<i>20.8%</i>	<i>19.0%</i>	

Because of the timing of the budget process, the contribution rates are set two fiscal years in advance. For example, the rates for fiscal 2009 were set from actual system performance in fiscal 2007.

- The primary cause of the increased contribution requirements is the 20% investment loss registered by the system in fiscal 2009, as it accounts for approximately 80% of the cost growth across the various systems.
- The other causes of increased contributions were higher cost-of-living adjustments than assumed, more retirements than expected, fewer terminations and deaths than anticipated, and the use of the corridor method.
- In fiscal 2011, an additional \$228 million will be needed to meet the funding requirements, approximately \$76 million of which are general funds, bringing total fiscal 2011 general fund pension expenditures to \$978 million. This figure assumes that federal American Recovery and Reinvestment Act of 2009 funds will be utilized for the \$98 million increase in retirement costs paid by the State on behalf of the local school boards.

*Other systems represent those serving State Police, Judges, Law Enforcement Officers, and Legislators. Maryland Transportation Authority police officers are not included because they are nonbudgeted.

Source: Gabriel Roeder Smith & Company, State Retirement Agency

Statewide Personnel Summary and Conclusion

- Regular position totals in the Executive Branch have declined each of the past three fiscal years and are now 4,330 lower than the high point in fiscal 2002.
- Contractual positions have been relatively static over the same period and have not been used to replace abolished regular positions.
- Vacancy levels are now at appropriate budgetary levels, following legislative directives to systematically abolish vacancies.
- This workforce stability, combined with the absence of cost-of-living adjustments and other salary increases, leave two areas where costs to the State will continue to grow if no changes to the structure of benefits are made:
 - **Pensions**
 - Liabilities should not grow at an accelerated level because of the aforementioned stability; but
 - State contributions must continue to grow to offset large asset value losses from recent market turmoil;
 - **Health Insurance**
 - Even with static employee figures, enrollment increases as more dependents are included in coverage;
 - Exhaustion of the fund balance means all cost increases must be met with budgeted funds; and
 - Costs will continue to rise, especially as the State's self-funding method provides little disincentive to the utilization of expensive procedures and prescriptions.

Part 9

Perspective on Budget Constraints

Constraining General Fund Spending Fiscal 2008-2010

(\$ in Millions)

Governor's Proposed Budget Less Than DLS Baseline	\$1,198
Legislative Reductions	954
Board of Public Works Reductions	970
Additional Reversions at Closeout	118
Total Actions	\$3,240
DLS: Department of Legislative Services	

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- Actions to constrain general fund budget exceed \$3.2 billion over three years.
- However, it is estimated that about \$1.0 billion of the actions have not been ongoing.

Current Fiscal 2010 Spending Is \$2.3 Billion Below 2006 Estimate

Projected Fiscal 2010 Spending Compared to Current Spending (\$ in Millions)

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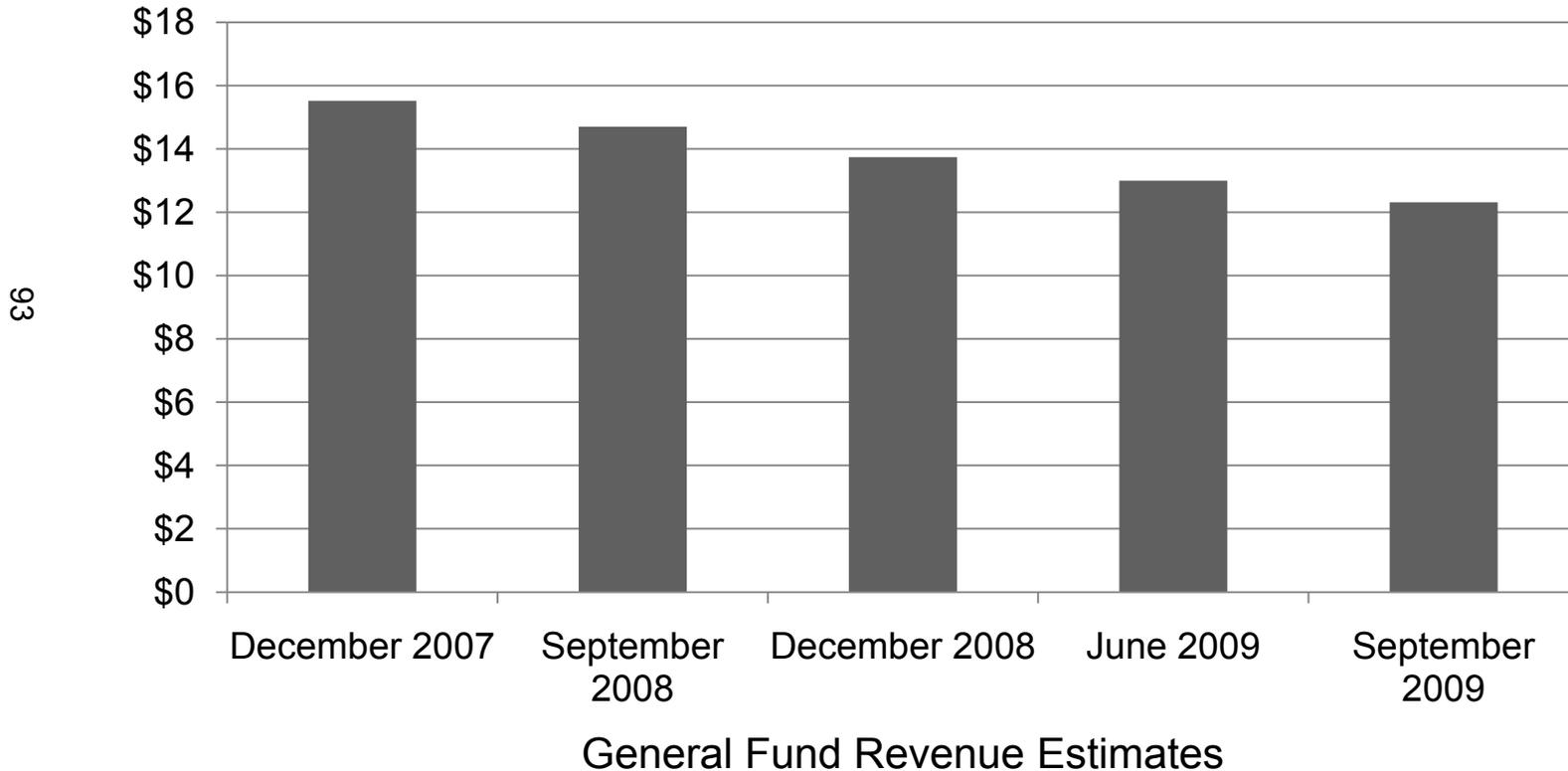
	DLS Projection Dec 2006	Current Fiscal 2010 Spending	Difference
Operations	\$16,525	\$14,311	-\$2,214
PAYGO Capital	88	0	-\$88
Total	\$16,613	\$14,311	-\$2,302

DLS : Department of Legislative Services
PAYGO: pay-as-you-go

Note: Current spending includes general funds and the federal American Recovery and Reinvestment Act of 2009 monies (\$1.1 billion) that replaced general funds in the fiscal 2010 budget. Amounts exclude appropriations to State reserve fund.

Constrained Budget Growth Overwhelmed By \$3.2 Billion Revenue Decline

(\$ in Billions)



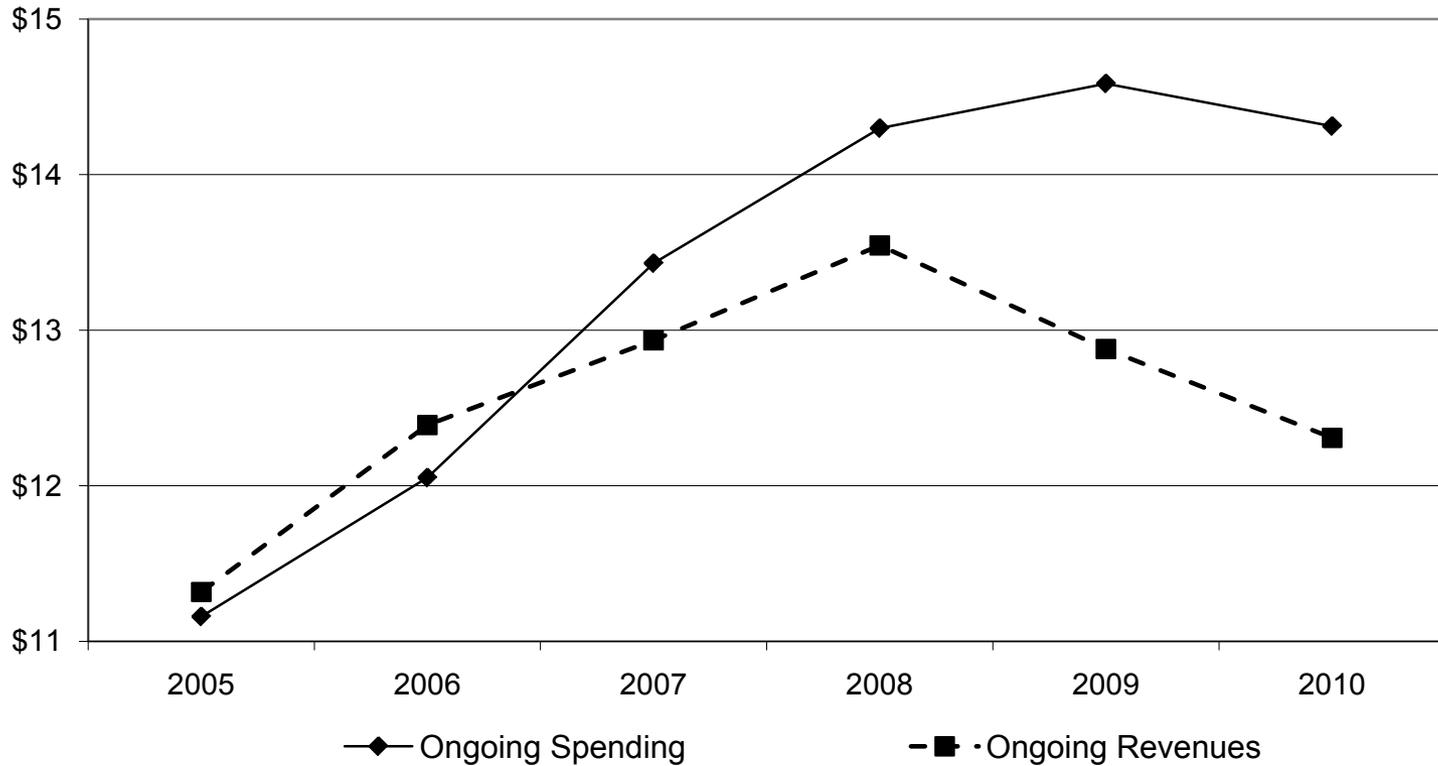
Fiscal 2010 Revenues Level with Fiscal 2006

Budget Gap Grows to \$2 Billion

Fiscal 2005-2010

(\$ in Millions)

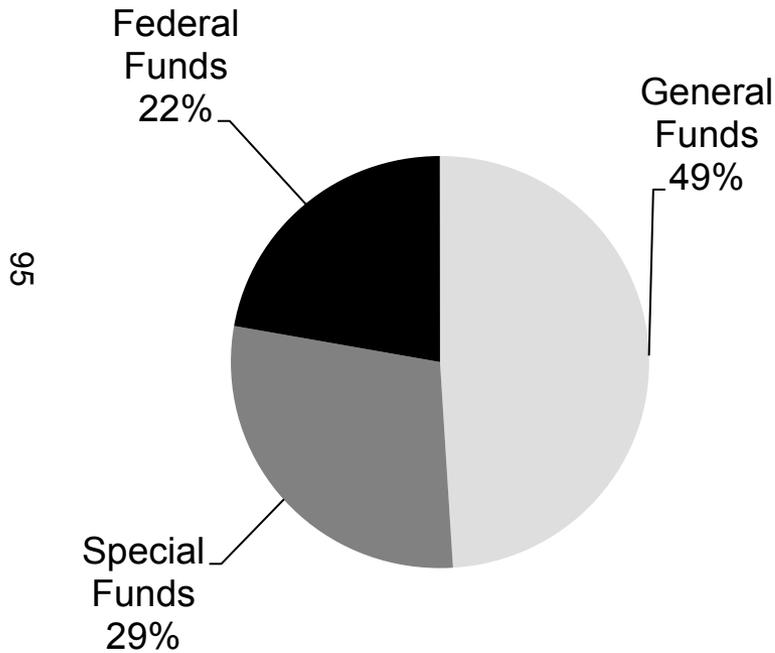
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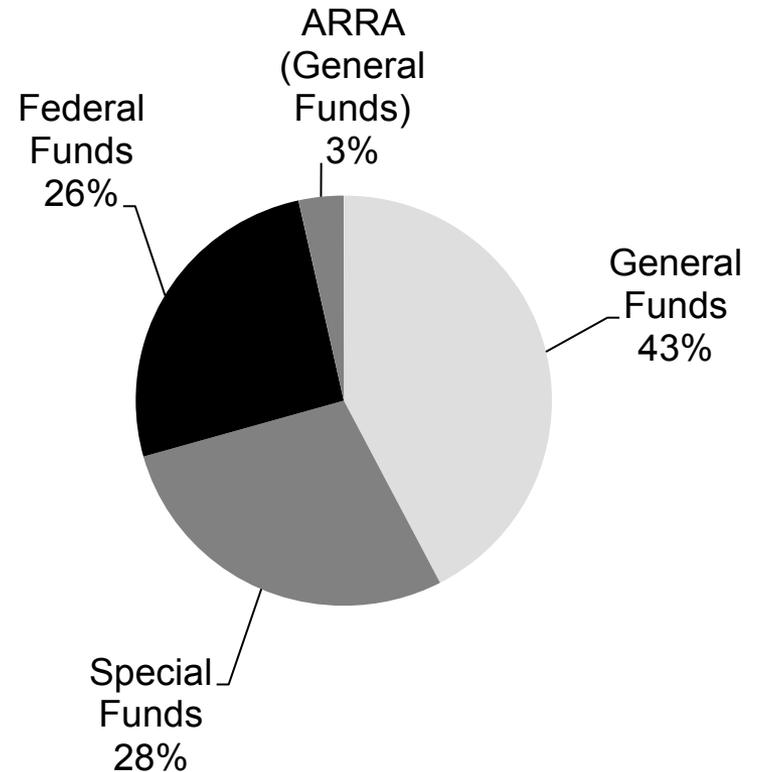
Note: Fiscal 2009 and 2010 adjusted to reflect federal stimulus funds.

Stimulus Funds Grow Federal Share of Budget to Almost 30 Percent

Fiscal 2008



Fiscal 2010



ARRA: American Recovery and Reinvestment Act of 2009

ARRA (General Funds) – ARRA monies replacing general funds

Federal Stimulus Funds Drive Growth in State Budget

(\$ in Millions)

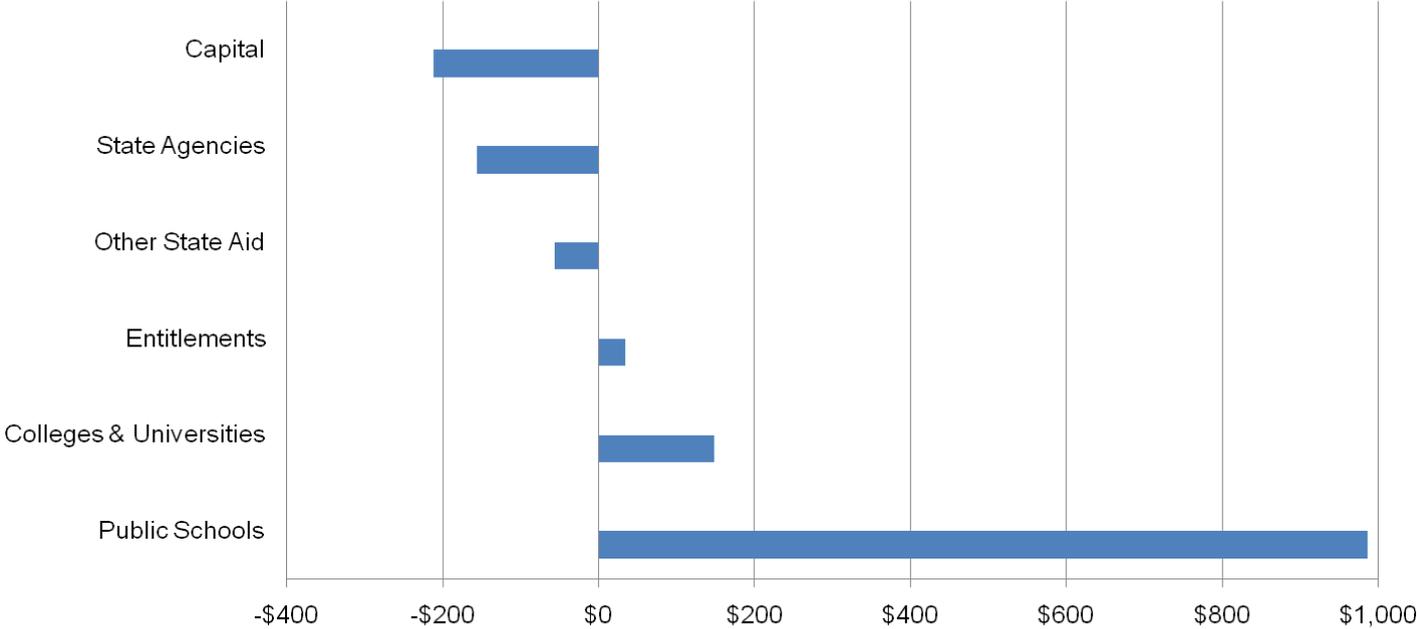
	<u>FY 2007</u>	<u>FY 2010</u>	<u>Change</u>	<u>% Change</u>
General	\$13,566	\$13,209	-\$357	-2.6%
Special	5,319	5,526	207	3.9%
Higher Education	2,870	3,386	516	18.0%
Federal	<u>6,364</u>	<u>9,186</u>	<u>2,822</u>	44.3%
	\$28,119	\$31,307	\$3,188	11.3%
General/ARRA Funds	\$13,566	\$14,311	745	5.5%

ARRA: federal American Recovery and Reinvestment Act of 2009

Note: General funds exclude reserve fund appropriations. General/ARRA Funds include ARRA funds substituted for general funds.

Education Aid Up \$1 Billion and Agency Budgets Constrained Since Fiscal 2007

Change in General Fund Spending
Fiscal 2010 Over Fiscal 2007
(\$ in Millions)



Note: Colleges and universities includes community colleges. All amounts augmented by the federal American Recovery and Reinvestment Act of 2009 funds used in lieu of general funds in fiscal 2010.

Budget Gap Remains for Fiscal 2010 Planned Reductions and Windfall Narrow the Gap

Fiscal 2010 Budget (\$ in Millions)

- \$240.6 Current Gap to Close
-278.7 Potential Budget Deficiencies (DLS Estimate)
- \$519.5 Potential Gap to Close

\$300.0 November 2009 BPW Actions – Planned
95.0 Corporate Income Tax – CEG Asset Sale
- \$124.5 Remaining Gap

DLS: Department of Legislative Services
BPW : Board of Public Works
CEG : Constellation Energy Group

Revenues Minus Baseline Spending Estimate = \$2 Billion Fiscal 2011 Hole

Fiscal 2011 General Fund Budget (\$ in Millions)

Starting Balance		\$0.0
Revenues		
BRE Estimated Revenue September 2009	\$12,733.9	
Transfers	161.6	
Funds Available		\$12,895.5
Spending		
DLS Baseline Estimate	\$14,923.8	
Estimated Agency Reversions	-30.0	
Net Expenditures		\$14,893.8
Ending Balance		-\$1,998.2

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

Components of Growth Conducive to Level Funding about \$350 Million

(\$ in Millions)

- Level Fund Mandated Formulas \$72
- No Employee COLAs/Increments 123
- Continue State Employee Furloughs 45
- No Deferred Compensation Match 12
- Continue to Defer IT Projects 40
- Level Fund Higher Education 28
- Constrain Agency Operating Costs 15
- No Community Provider Rate Increases 12

COLA: cost-of-living adjustment

IT: information technology

Other Gap Closers

(\$ in Millions)

- Enhanced Medicaid Match for Extra 6 Months per House Health Bill \$384
- Continue One-time BPW Reductions or Transfers for Another Year 175
- Maximize Use of Bonds to Benefit the General Fund 120
- Additional Federal TANF Monies 85

BPW: Board of Public Works

TANT: Temporary Assistance to Needy Families

Part 10

American Recovery and Reinvestment Act of 2009

**Impact of American Recovery and Reinvestment Act on Maryland State and Local Budgets
Appropriations Compared to Total Available Funds**

(\$ in Millions)

<u>Program</u>	<u>FY 09 Approp.</u>	<u>FY 10 Approp.</u>	<u>Unapprop.</u>	<u>Total ARRA Funding (a)</u>	<u>Expended as of 9/30/2009</u>
Supporting State General Fund Commitments					
Fiscal Stabilization – Education	\$0.0	\$295.9	\$423.8	\$719.7	\$139.4
Fiscal Stabilization – Discretionary	1.5	79.6	79.0	160.1	15.4
Medicaid	<u>435.0</u>	<u>652.0</u>	<u>506.1</u>	<u>1,593.1</u>	<u>(b)</u>
Subtotal	\$436.5	\$1,027.5	\$1,008.9	\$2,472.9	\$154.8
Education Grants Appropriated in the State Budget					
Special Education	\$0.0	\$107.3	\$122.0	\$229.4	\$3.7
Title I	0.0	156.8	19.2	175.9	0.2
Education Technology	<u>0.0</u>	<u>4.3</u>	<u>4.3</u>	<u>8.5</u>	<u>0.0</u>
Subtotal	\$0.0	\$268.4	\$145.5	\$413.8	\$3.8
Infrastructure Appropriated in the State Budget					
Highways	\$0.0	\$249.0	\$182.0	\$431.0	\$36.4
Transit Capital	0.0	93.1	86.2	179.3	5.8
HOME Investment Partnerships Program	0.0	31.7	0.0	31.7	0.0
Community Health Centers	0.0	0.0	12.3	12.3	0.0
Leaking Underground Storage Tanks	0.0	3.7	0.0	3.7	0.0
Clean Water	0.0	96.0	-0.3	95.7	0.1
Drinking Water	<u>0.0</u>	<u>27.0</u>	<u>-0.2</u>	<u>26.8</u>	<u>0.0</u>
Subtotal	\$0.0	\$500.5	\$280.0	\$780.5	\$42.3
Other Grants Appropriated in the State Budget					
State Energy Programs	\$1.5	\$0.0	\$108.0	\$109.5	\$0.0
Weatherization	6.6	28.1	26.8	61.4	1.1
Community Services Block Grant	0.0	12.6	1.1	13.7	0.0
Homelessness Prevention – State	0.0	5.7	0.0	5.7	0.0
Community Development Block Grant – State	0.0	2.2	0.0	2.2	0.0
Foster Care	8.6	11.5	2.9	23.0	(b)
Child Support Enforcement	0.0	0.0	29.2	29.2	0.0
Health Centers Increased Demand	0.0	0.0	4.3	4.3	0.0
Food Assistance – Individuals	34.2	45.0	146.0	225.2	(b)
Food Assistance – Other	2.6	2.0	1.6	6.2	1.1
Temporary Assistance for Needy Families	20.0	0.6	94.0	114.5	(b)
Ind. Living, Homeless Educ., & Work Study	0.4	0.9	5.1	6.4	0.1
Child Care Development Block Grant	0.0	25.0	-0.9	24.0	15.4
Vocational Rehabilitation	3.4	3.4	0.0	6.9	1.0
UI/Workforce Investment/Dislocated Workers	1.8	34.9	7.1	43.8	6.5
Preventive Health Block Grant/Immunization	0.0	0.0	3.8	3.8	0.0
AmeriCorps State Program	0.0	1.0	-0.4	0.6	0.3
Arts Funding	0.3	0.0	0.0	0.3	0.2
Byrne Grants/Public Safety Grants	<u>0.0</u>	<u>13.1</u>	<u>18.1</u>	<u>31.2</u>	<u>0.1</u>
Subtotal	\$79.5	\$185.9	\$446.5	\$711.9	\$25.9
Total State Grants	\$516.0	\$1,982.2	\$1,881.0	\$4,379.2	\$226.8

<u>Program</u>	<u>FY 09 Approp.</u>	<u>FY 10 Approp.</u>	<u>Unapprop.</u>	<u>Total ARRA Funding (a)</u>	<u>Expended as of 9/30/2009</u>
Federal Grants Not Appropriated in the State Budget					
Homelessness Prevention	n/a	n/a	n/a	\$60.6	n/a
Community Development Block Grant	n/a	n/a	n/a	12.5	n/a
Head Start	n/a	n/a	n/a	7.9	n/a
Lead Hazard Reduction	n/a	n/a	n/a	0.8	n/a
Public Housing	n/a	n/a	n/a	48.2	n/a
Subtotal				\$129.9	
Total Grants for Maryland Governments	\$516.0	\$1,982.2	\$1,881.0	\$4,509.1	\$226.8(a)

ARRA: American Recovery and Reinvestment Act of 2009

UI: Unemployment Insurance

(a) Does not include competitive grant awards.

(b) ARRA does not require spending reports for grants going directly to individuals.

Source: Federal Funds Information for the States; Governor's StateStat Office; Department of Legislative Services

Part 11

Reserve Fund

State Reserve Fund Activity
Fiscal 2010 and 2011
(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>
Estimated Balances 6/30/09	\$691.8	\$0.6	\$8.4
Fiscal 2010 Appropriations	139.9		0.0
Expenditures			
Prince George's County Hospital		-0.6	
Transfers to General Fund (GF)	-210.0		-7.4
Estimated Interest	20.0		
Estimated Balances 6/30/10	\$641.7	\$0.0	\$1.0
Fiscal 2011 Appropriations	0.0		
Transfers to General Fund	-27.0		
Estimated Interest	22.1		
<hr/> Estimated Balances 6/30/11	<hr/> \$636.8	<hr/> \$0.0	<hr/> \$1.0
Balance in Excess of 5% GF Revenues	\$0.1		