

**D50H01
Military Department**

Operating Budget Data

(\$ in Thousands)

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>	<u>% Change Prior Year</u>
General Fund	\$13,023	\$11,541	\$11,988	\$447	3.9%
Adjusted General Fund	\$13,023	\$11,541	\$11,988	\$447	3.9%
Special Fund	12,160	12,799	12,999	200	1.6%
Adjusted Special Fund	\$12,160	\$12,799	\$12,999	\$200	1.6%
Federal Fund	133,267	50,423	50,893	470	0.9%
Adjusted Federal Fund	\$133,267	\$50,423	\$50,893	\$470	0.9%
Adjusted Grand Total	\$158,449	\$74,764	\$75,881	\$1,117	1.5%

- The fiscal 2013 allowance increases by \$1.1 million, or 1.5%, compared to the 2012 working appropriation. General funds increase by \$447,229, or 3.9%; special funds increase by \$200,000, or 1.6%; and federal funds increase by 469,974, or 0.9%.
- Higher utility costs – fuel oil, propane or natural gas, and electricity – account for the increased costs in fiscal 2013.

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

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Personnel Data

	<u>FY 11 Actual</u>	<u>FY 12 Working</u>	<u>FY 13 Allowance</u>	<u>FY 12-13 Change</u>
Regular Positions	343.50	336.50	328.50	-8.00
Contractual FTEs	<u>49.50</u>	<u>17.00</u>	<u>17.00</u>	<u>0.00</u>
Total Personnel	393.00	353.50	345.50	-8.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	27.56	8.39%
Positions and Percentage Vacant as of 12/31/11	39.50	11.74%

- The total number of regular positions decreases by 8.0 in fiscal 2013. Of these, 5.0 information technology related positions with the Maryland Emergency Management Agency are transferred to the Department of Information Technology. Three positions within the Military Department are abolished in fiscal 2013.
- The turnover rate of 8.39% requires the department to maintain 27.56 vacant positions to achieve the necessary savings. As of December 31, 2011, the department had 39.5 vacant positions.

Analysis in Brief

Major Trends

National Guard Troop Strength Remains High: The Maryland National Guard (MDNG) has a goal of reaching 90% of the federally defined authorized troop strength. Prior to fiscal 2009, MDNG had not met this goal since fiscal 2002. However, the department anticipates that Maryland's troop strength will remain above 90% over the next two fiscal years.

Challenge Program Performance Declines in 2011: MDNG operates the Freestate Challenge Academy for at-risk youths. Twice a year, the department runs the program for 100 students. The department aims to have at least 80% of students maintain employment and 65% of students graduate with a general education diploma. The department measures students' performance by the ability to increase their reading and math scores by a minimum of 2.5 grade levels by the end of the program. Overall student math and reading outcomes reflect mixed results. While there had been some progress in the percentage of students that increased their math scores, both math and reading scores have declined in 2011. **The Military Department should comment on the declining outcome measures produced by the Freestate Challenge Academy in fiscal 2011. The department should also comment on what measures could more reliably evaluate the academy's outcomes.**

Issues

Revenues Underperform for the Volunteer Company Assistance Fund: Under current law, revenues generated from traffic conviction surcharges are deposited into the Volunteer Company Assistance Fund (VCAF) until total VCAF revenues reach \$20 million. While fiscal estimates conducted by the Department of Legislative Services (DLS) predicted that surcharges would generate \$20 million by the end of fiscal 2013, updated estimates indicate that the VCAF will not reach this threshold until fiscal 2015. The Maryland State Firemen's Association (MSFA) has received \$200,000 in general funds annually in prior years to support its operations. The fiscal 2013 allowance includes special funds from the VCAF to MSFA. DLS notes that supporting MSFA operating expenses with funds from VCAF will limit how much money the fund can lend to volunteer fire companies as VCAF's balance is capped at \$20 million. **DLS recommends that the BRFA should eliminate references to specific dollar amounts deposited into VCAF in fiscal 2012 and 2013. State law should instead direct citation surcharge revenue to the Maryland Emergency Medical Service Operations Fund (MEMSOF) after the VCAF balance reaches \$20 million. Further, DLS recommends that the Maryland Judiciary annually submit a report that includes the amount of citation surcharge revenue credited to VCAF until \$20 million is reached. Finally, DLS recommends that the \$200,000 special fund allowance from the VCAF to support MSFA operations be eliminated. The budget committees should express their intent regarding State funding for MSFA operations.**

Recommended Actions

	<u>Funds</u>
1. Eliminate funding for Maryland State Firemen’s Association operating expenses from the Volunteer Company Assistance Fund.	\$ 200,000
Total Reductions	\$ 200,000

Updates

Hurricane Reimbursement Payments Ongoing: Presidential declarations for public assistance were issued due to Hurricane Irene and Tropical Storm Lee. A disaster declaration provides 75% reimbursement of eligible costs for storm damage and emergency response. The State, in conjunction with the Federal Emergency Management Agency, is assisting government agencies and public organizations in writing project worksheet reimbursement grants to expedite the distribution of relief aid.

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Military Department

Operating Budget Analysis

Program Description

The Military Department provides overall direction, development, and maintenance of the Maryland National Guard (MDNG), which is comprised of the Maryland Army Guard and the Maryland Air Guard. It also operates the Maryland Emergency Management Agency (MEMA). MDNG may be called up by the Governor during State emergencies or may be activated by the federal Department of Defense. MEMA is responsible for the overall statewide direction, development, implementation, and coordination of a number of emergency response activities. MEMA works in concert with local jurisdictions, State departments and agencies, federal departments and agencies, and private and volunteer organizations.

To fulfill its mission, the Military Department oversees the construction, operations, and maintenance of armories and other facilities. Operating expenses of MDNG facilities are a shared State and federal responsibility. The equipment costs for MDNG are solely a federal responsibility provided for under the U.S. Department of Defense, National Guard Bureau (NGB). Active members of MDNG units receive pay and allowances while under inactive status (drill) or active duty status (training). These expenses are also the sole responsibility of NGB. During Governor call-ups, MDNG salaries and expenses are the responsibility of the State (see Public Safety Article, Title 13 of the Annotated Code); however, there is no funding provision in the Military Department's State operating budget for these expenses. The Board of Public Works makes mission-specific emergency allocations of funds for State call-ups. These activities include mitigation, preparedness, response, and recovery.

The Military Department's goals are to:

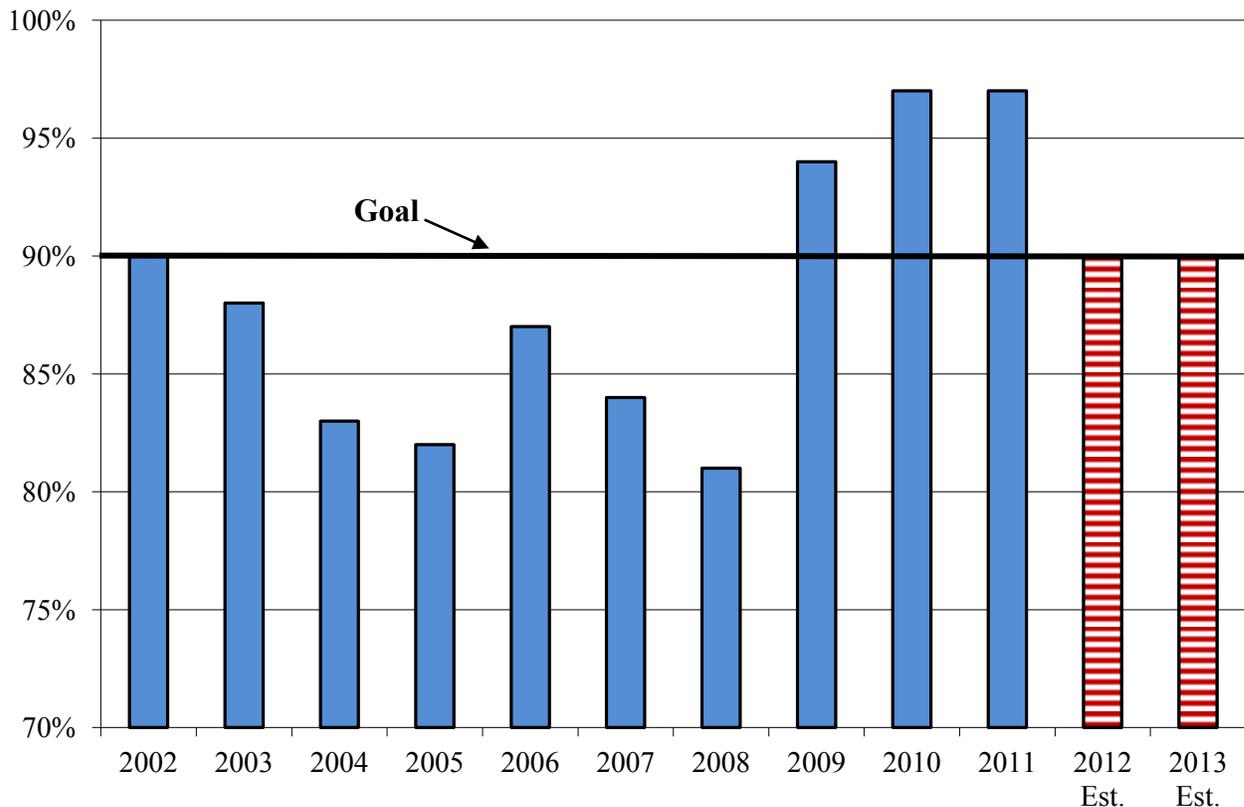
- ensure proper readiness for its missions;
- maintain all facilities so that they are adequate for training and supporting MDNG in its operations;
- successfully operate the Military Youth Challenge Program for at-risk youth; and
- develop and maintain the capability to perform the 13 emergency management functions in the Capability Assessment for Readiness standard.

Performance Analysis: Managing for Results

National Guard Troop Strength Remains High

MDNG has a goal of reaching 90% of the federally defined authorized troop strength. Prior to fiscal 2009, MDNG had not met this goal since fiscal 2002. In recent years, the guard has been heavily relied upon for activations and extended overseas tours of duty in combat zones. The increase in deployments had taken a toll on the department's recruitment and retention efforts. However, the department anticipates that Maryland's troop strength will remain above 90% over the next two fiscal years. (See **Exhibit 1**.)

Exhibit 1
Authorized Troop Strength
Fiscal 2002-2013

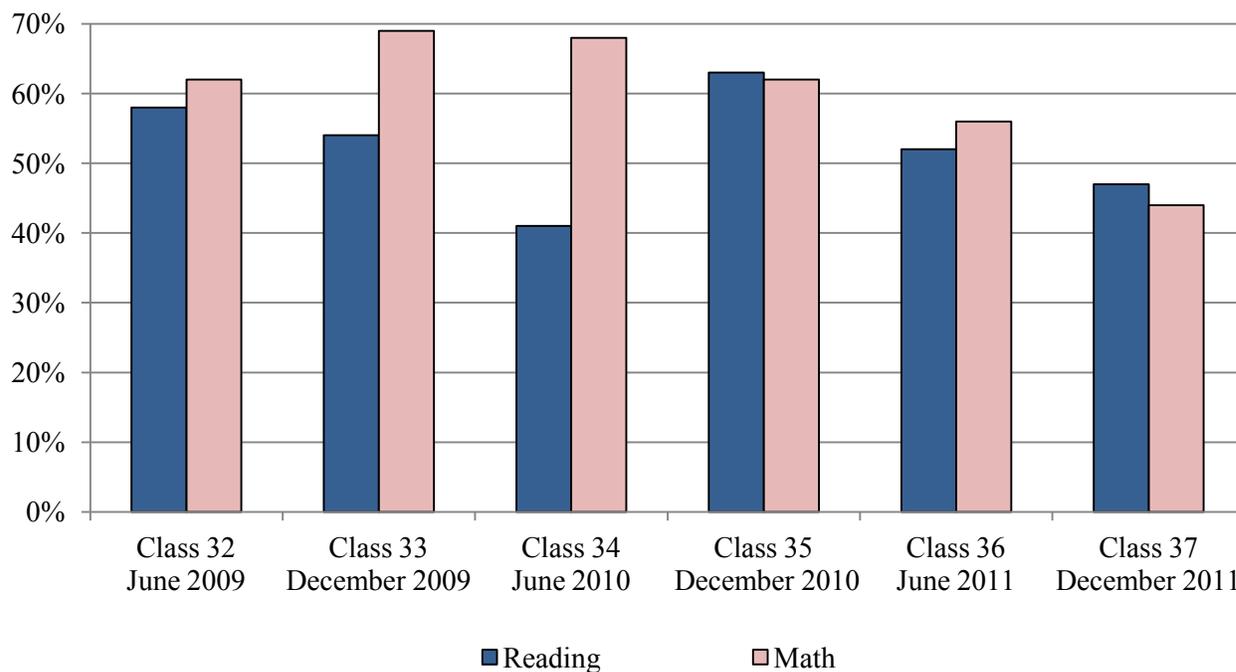


Source: Governor's Budget Books, Fiscal 2001-2013

Challenge Program Performance Declines in 2011

MDNG operates the Freestate Challenge Academy for at-risk youth. Twice a year, the department runs the program for 100 students. The goal is to reach at-risk youth and give them the life skills necessary to maintain employment or to continue their schooling. The department aims to have at least 80% of students maintain employment and 65% of students graduate with a general education diploma (GED). According to the department, given the skill set of students entering the program, students' performance should not be measured by their ability to pass the GED exam, but by students' ability to increase their reading and math scores by a minimum of 2.5 grade levels during their stay in the program. **Exhibit 2** shows the percentage of students that increased their reading and math scores by a minimum of 2.5 grade levels during the last six classes held at the academy. Overall, similar to student employment and GED outcomes, student math and reading outcomes reflect mixed results. While there had been some progress in the percentage of students that increased their math scores prior to 2010, both math and reading scores have declined in 2011.

Exhibit 2
Military Youth Challenge Program
Students Increasing Math or Reading Scores by 2.5 Grade Levels
Calendar 2009-2011



Source: Military Department

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The agency measures a student's grade level on a scale with a 12.9 grade level ceiling. Thus, it is important to note that students with initial grade levels of 10.5 or higher cannot increase their grade level by 2.5. Even though some students increase from 10.5 to 12.9, the results do not reflect this as a 2.5 grade level increase.

The Military Department should comment on the lower outcome measures produced by the Challenge Academy in fiscal 2011. The department should also comment on what measures may more reliably evaluate the academy's outcomes.

Fiscal 2012 Actions

Section 47 of the fiscal 2012 Budget Bill required the Governor to abolish 450 positions as of January 1, 2012. The department's share of the reduction was 2 positions. The annualized salary savings due to the abolition of these positions is expected to be \$87,083 in general funds.

Proposed Budget

The fiscal 2013 allowance increases by \$1.1 million, or 1.5%, as shown in **Exhibit 3**. General funds increase by \$447,299, or 3.9%; special funds increase by \$200,000, or 1.6%; and federal funds increase by \$469,974, or 0.9%.

Personnel Costs Decrease in Fiscal 2013

The department's staffing costs decrease by \$388,536 in fiscal 2013 compared with the 2012 working appropriation. The primary cause of the decrease is the abolition or transfer of 8 regular positions within the department. The loss of these 8 positions results in a decrease of \$549,698. Employees who fill 5 of these positions are responsible for information technology related functions within MEMA. These 5 positions are transferred to the Department of Information Technology (DoIT) in fiscal 2013. The department advises that it has established an agreement with DoIT whereby these staff members will perform similar functions for the department, but they will no longer be employees of the department. As a result, the allowance for contractual services costs increases by \$355,838 for information technology services that will be provided by DoIT.

Utility Costs No Longer on the Back Burner

Expenses for heating oil, natural gas and propane, and electricity increase by a combined \$1.2 million compared with the 2012 working appropriation. The department advises that its fiscal 2012 appropriation for utilities was reduced due to cost containment. Moreover, the funding level for utilities was artificially low in fiscal 2012, and the agency may require a deficiency appropriation to cover its actual costs.

Exhibit 3
Proposed Budget
Military Department
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Total
2012 Working Appropriation	\$11,541	\$12,799	\$50,423	\$74,764
2013 Allowance	<u>11,988</u>	<u>12,999</u>	<u>50,893</u>	<u>75,881</u>
Amount Change	\$447	\$200	\$470	\$1,117
Percent Change	3.9%	1.6%	0.9%	1.5%
 Contingent Reductions	 \$0	 \$0	 \$0	 \$0
Adjusted Change	\$447	\$200	\$470	\$1,117
Adjusted Percent Change	3.9%	1.6%	0.9%	1.5%
 Where It Goes:				
Personnel Expenses				
Abolished/transferred positions				-\$550
Increments and other compensation				-40
Social Security and employee and retiree health insurance				21
Employee retirement				181
Workers' compensation premium assessment				22
Elimination of the one-time \$750 bonus				-242
Turnover adjustments				222
Other fringe benefit adjustments				-3
Utilities				
Heating oil				233
Natural gas				545
Electricity				439
Other Changes				
Equipment rental and repair costs				-66
Computer maintenance and programming				-21
Reduction in State tuition assistance funding for National Guard members				-197
Department of Information Technology costs				356
Cost allocations				281
Supplies and materials				-46
Other				-18
Total				\$1,117

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

Issues

1. Revenues Underperform for the Volunteer Company Assistance Fund

Under current law, revenues generated from traffic conviction surcharges are deposited into the Volunteer Company Assistance Fund (VCAF) until total VCAF revenues reach \$20 million. While fiscal estimates conducted by the Department of Legislative Services (DLS) predicted that surcharges would generate \$6.4 million in fiscal 2011 and \$8.5 million beginning in fiscal 2012, the Maryland Judiciary advises that only about \$4.0 million in surcharge revenue was collected in fiscal 2011. Based on earlier assumptions, the VCAF was expected to have accumulated \$9.7 million from citation surcharges by the end of fiscal 2011.

The underattainment in surcharge revenue is of particular concern because the Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) modified the distribution of the traffic conviction surcharge revenues to mandate that the VCAF receive \$8.2 million in fiscal 2012 and \$2.1 million in fiscal 2013. However, the revised surcharge estimates indicate that the VCAF will not receive its mandated level of funding in fiscal 2012; thus, the fund will not receive \$20.0 million by the end of fiscal 2013. Moreover, according to the Maryland Judiciary, the VCAF had received only \$7.3 million in surcharge revenue by the end of fiscal 2011.

Revised Estimate Projects \$4.2 Million Annually in Surcharge Revenue

Based on data from the Maryland Judiciary indicating the number of annual traffic citations, DLS estimates that in future years there will be roughly 1,122,600 citations issued annually. However, prior year data indicates that roughly 20% of citations are dismissed and never assessed the surcharge; in 30% of cases, citations are eligible for or assessed the surcharge, but money is not collected as the case may be pending final disposition, under warrant, or otherwise deferred. Therefore, DLS assumes that only 50% of citations result in the collection of surcharge revenue in a given fiscal year. **Exhibit 4** shows the projected annual citations and revenue in fiscal 2012 and future years.

Exhibit 4 Estimated Annual Citations and Revenue

Annual Citations	1,122,600
Collectable Citations	561,300
Citation Surcharge	\$7.50
Annual Revenue	\$4,209,750

Source: Maryland Judiciary, Department of Legislative Services

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Exhibit 5 shows that the projected timetable for VCAF to reach \$20 million is early fiscal 2015. Note that the full amount of surcharge revenue is not credited to VCAF. Chapter 397 specified that the Charles W. Riley Fire and Emergency Medical Services Tuition Reimbursement Program must receive roughly \$341,000 annually in surcharge revenue.

Exhibit 5
Estimated Timetable for the VCAF to Reach \$20 Million
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Surcharge Revenue	\$4,049,655	\$4,209,750	\$4,209,750	\$4,209,750	\$4,209,750
Riley Scholarship	0	340,979	340,979	340,979	340,979
VCAF	4,049,655	3,868,771	3,868,771	3,868,771	1,059,032
Total Credited to VCAF (Cumulative)	\$7,334,655	\$11,203,426	\$15,072,197	\$18,940,968	\$20,000,000

VCAF: Volunteer Company Assistance Fund

Source: Department of Legislative Services

Maryland State Firemen’s Association Costs Supported by the VCAF

The Maryland State Firemen’s Association (MSFA) has received \$200,000 in general funds annually in the three prior years to support its operations. The fiscal 2013 allowance includes \$200,000 in special funds from the VCAF for this purpose. As it is not a loan, this type of expense from the VCAF will not be repaid. DLS notes that supporting MSFA operating expenses with funds from the VCAF – in conjunction with ever-increasing costs for fire equipment – will limit how much money the fund can lend to volunteer fire companies as VCAF’s balance is capped at \$20 million.

DLS recommends that the BRFA of 2012 amend the Courts and Judicial Proceedings Article to eliminate specific dollar amounts that should be deposited into the VCAF in fiscal 2012 and 2013. Instead, State law should direct citation surcharge revenue to the Maryland Emergency Medical Service Operations Fund (MEMSOF) after a total of \$20 million in revenue from this source has been received by the VCAF.

In addition, DLS recommends that the Maryland Judiciary annually report to the budget committees on the amount of citation surcharge revenue credited to the VCAF until the VCAF balance reaches \$20 million.

Finally, DLS recommends that the \$200,000 special fund allowance from the VCAF to support MSFA operations be eliminated. The budget committees should express their intent regarding State funding for MSFA operations. Specifically, the committees should indicate

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(1) whether MSFA should continue to receive general funds; (2) whether funding for MSFA should be available through MEMSOF; or (3) if MSFA should no longer receive State funding for its operations.

Recommended Actions

	<u>Amount Reduction</u>	
1. Eliminate funding for Maryland State Firemen’s Association operating expenses from the Volunteer Company Assistance Fund.	\$ 200,000	SF
Total Special Fund Reductions	\$ 200,000	

Updates

1. Hurricane Reimbursement Payments Ongoing

Two presidential declarations for public assistance were declared due to Hurricane Irene. A pre-landfall emergency declaration was issued on August 27, 2011, for Baltimore City and all counties except Garrett County. The emergency declaration provides to State and local governments for reimbursement of 75% of eligible costs for Hurricane Irene response.

A disaster declaration also resulted from Hurricane Irene on September 16, 2011. A disaster declaration provides for reimbursement of 75% of eligible costs for not only response but also debris removal and for the repair or replacement of hurricane-damaged public facilities. This disaster declaration was declared for State and local governments in Baltimore City and Baltimore, Calvert, Caroline, Cecil, Charles, Dorchester, Harford, Kent, Queen Anne’s, St. Mary’s, Somerset, Talbot, Wicomico, and Worcester counties.

A presidential disaster declaration was declared on October 5, 2011, as a result of Tropical Storm Lee. This declaration provides for reimbursement of 75% of eligible costs for hurricane-related damage to public facilities. This disaster declaration was issued for State and local governments and public services in Anne Arundel, Baltimore, Cecil, Charles, Harford, Howard, and Prince George’s counties.

The Federal Emergency Management Agency (FEMA) has established a virtual joint field office at MEMA headquarters to assist the State with these emergency and disaster declarations. FEMA public assistance coordination teams are stationed in five locations throughout the State to assist the government agencies and public organizations in writing project worksheet reimbursement grants. It is estimated that this effort will continue through spring 2012, and that the majority of reimbursement payments will be processed by mid-summer. **Exhibit 6** shows the total amount and status of project worksheets and eligible costs related to the 2011 summer storms.

Exhibit 6
Status of Federal Aid Reimbursements

<u>Event</u>	<u>Project Worksheets</u>		<u>Eligible Costs</u>	
	<u>Approved</u>	<u>Estimated Total</u>	<u>Approved</u>	<u>Estimated Total</u>
Hurricane Irene	229	820	\$5,161,692	\$25,709,188
Tropical Storm Lee	37	324	859,499	33,813,920
Irene and Lee Total	266	1,144	\$6,021,190	\$59,523,108

Source: Military Department

Current and Prior Year Budgets

Current and Prior Year Budgets Military Department (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2011					
Legislative Appropriation	\$12,767	\$12,799	\$49,435	\$0	\$75,001
Deficiency Appropriation	255	0	0	0	255
Budget Amendments	0	827	84,206	0	85,032
Reversions and Cancellations	0	-1,467	-374	0	-1,840
Actual Expenditures	\$13,023	\$12,160	\$133,267	\$0	\$158,449
Fiscal 2012					
Legislative Appropriation	\$11,433	\$12,799	\$50,290	\$0	\$74,522
Budget Amendments	109	0	133	0	242
Working Appropriation	\$11,541	\$12,799	\$50,423	\$0	\$74,764

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

Fiscal 2011

In fiscal 2011, the total budget for the department increased by \$83.4 million. Two deficiency appropriations resulted in a net general fund increase of \$255,243. One deficiency appropriation reduced funds for the Freestate Challenge Academy by \$140,000 due to changes in the State and federal cost-share arrangement. A second deficiency appropriation increased funding by \$395,243 to cover snow emergency costs not covered by FEMA.

The special fund appropriation increased by \$826,904 due to one budget amendment that provided funds for armory facility repair and maintenance. There was a \$1.5 million special fund cancellation at the end of fiscal 2011 due to actual VCAF expenditures (loans) being less than the appropriation. The department advises that the amount of loans executed on an annual basis varies and is difficult to predict.

Four federal fund budget amendments transferred a total of \$84.2 million to the department. Three of these amendments, totaling \$68.2 million, transferred money from FEMA to cover costs associated with snow removal resulting from the blizzards of 2009 and 2010. The department also received \$16.0 million in homeland security funds via budget amendment for NGB and MEMA. There was a \$373,646 federal fund cancellation at the end of fiscal 2011 due to actual MEMA federal grant expenditures (*e.g.*, public assistance) being less than the appropriation; the department advises that estimating disaster claims is inherently difficult.

Fiscal 2012

The fiscal 2012 working appropriation is \$241,776 greater than the legislative appropriation due to the receipt of general and federal funds for the one-time \$750 bonus paid to State employees.

**Object/Fund Difference Report
Military Department**

<u>Object/Fund</u>	<u>FY 11 Actual</u>	<u>FY 12 Working Appropriation</u>	<u>FY 13 Allowance</u>	<u>FY 12 - FY 13 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	343.50	336.50	328.50	-8.00	-2.4%
02 Contractual	49.50	17.00	17.00	0.00	0%
Total Positions	393.00	353.50	345.50	-8.00	-2.3%
Objects					
01 Salaries and Wages	\$ 19,524,063	\$ 20,674,046	\$ 20,285,510	-\$ 388,536	-1.9%
02 Technical and Spec. Fees	1,874,657	700,767	708,852	8,085	1.2%
03 Communication	727,815	439,621	444,202	4,581	1.0%
04 Travel	111,842	16,456	7,156	-9,300	-56.5%
06 Fuel and Utilities	3,786,826	3,087,527	4,299,951	1,212,424	39.3%
07 Motor Vehicles	313,858	263,944	262,436	-1,508	-0.6%
08 Contractual Services	6,778,506	3,117,987	3,643,103	525,116	16.8%
09 Supplies and Materials	1,593,513	646,533	600,551	-45,982	-7.1%
10 Equipment – Replacement	215,749	110,548	100,548	-10,000	-9.0%
11 Equipment – Additional	3,759	34,682	34,682	0	0%
12 Grants, Subsidies, and Contributions	121,753,569	41,465,768	41,268,892	-196,876	-0.5%
13 Fixed Charges	236,916	292,943	312,212	19,269	6.6%
14 Land and Structures	1,527,722	3,912,910	3,912,910	0	0%
Total Objects	\$ 158,448,795	\$ 74,763,732	\$ 75,881,005	\$ 1,117,273	1.5%
Funds					
01 General Fund	\$ 13,022,615	\$ 11,541,130	\$ 11,988,429	\$ 447,299	3.9%
03 Special Fund	12,159,639	12,799,267	12,999,267	200,000	1.6%
05 Federal Fund	133,266,541	50,423,335	50,893,309	469,974	0.9%
Total Funds	\$ 158,448,795	\$ 74,763,732	\$ 75,881,005	\$ 1,117,273	1.5%

Note: The fiscal 2012 appropriation does not include deficiencies.

**Fiscal Summary
Military Department**

<u>Program/Unit</u>	<u>FY 11 Actual</u>	<u>FY 12 Wrk Approp</u>	<u>FY 13 Allowance</u>	<u>Change</u>	<u>FY 12 - FY 13 % Change</u>
01 Administrative Headquarters	\$ 3,199,472	\$ 2,889,884	\$ 2,852,186	-\$ 37,698	-1.3%
02 Air Operations and Maintenance	5,006,407	4,810,371	4,841,797	31,426	0.7%
03 Army Operations and Maintenance	13,365,656	10,804,914	11,973,335	1,168,421	10.8%
05 State Operations	5,174,626	5,491,809	5,296,898	-194,911	-3.5%
06 Maryland Emergency Management Agency	131,702,634	50,766,754	50,916,789	150,035	0.3%
Total Expenditures	\$ 158,448,795	\$ 74,763,732	\$ 75,881,005	\$ 1,117,273	1.5%
General Fund	\$ 13,022,615	\$ 11,541,130	\$ 11,988,429	\$ 447,299	3.9%
Special Fund	12,159,639	12,799,267	12,999,267	200,000	1.6%
Federal Fund	133,266,541	50,423,335	50,893,309	469,974	0.9%
Total Appropriations	\$ 158,448,795	\$ 74,763,732	\$ 75,881,005	\$ 1,117,273	1.5%

Note: The fiscal 2012 appropriation does not include deficiencies.