Spending Affordability Committee

2016 Interim Report

Annapolis, Maryland
December 2016

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Roger Manno
Senate Chair

Ben Barnes
House Chair

MARYLAND GENERAL ASSEMBLY

Spending Affordability Committee

December 13, 2016

The Honorable Lawrence J. Hogan, Jr.
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor Hogan:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2016 interim. These recommendations were adopted by the committee at its meeting on December 13, 2016. 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 2018 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,

Delegate Ben Barnes
Presiding Chair

Senator Roger Manno
Senate Chair

Enclosure

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Legislative Services Building · 90 State Circle · Annapolis, Maryland 21401-1991

Roger Manno
Senate Chair

Ben Barnes
House Chair

Maryland General Assembly

Spending Affordability Committee

December 13, 2016

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

Dear Colleagues:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2016 interim. These recommendations were adopted by the committee at its meeting on December 13, 2016. 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.

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Maryland General Assembly
Spending Affordability Committee
2016 Interim
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Senator Roger Manno, Senate Chair

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Committee Staff

Rebecca J. Ruff
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Contents

2016 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes 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 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. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since its inception 34 years ago, the recommendation of the committee has been adhered to by the legislature in all but one year. More recently, efforts to close the structural budget gap had been the focus of the committee's recommendations. After working diligently for several years to resolve the structural deficit and restore the State economy following the Great Recession, estimates at the close of the 2016 session projected full resolution of the State's structural imbalance. However, slower than anticipated economic growth and increases in operating spending have contributed to the return of the structural imbalance.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.7% and 7.6%. The unprecedented increases under the Bridge to Excellence in Public Schools Act raised spending as a percentage of income during the period of 2004 to 2008. By 2009, the ratio reached 7.5%, the highest level since 1991, in part, due to falling income. Conversely, rising income and reduced State spending caused the ratio to drop to 7.2% in 2010; the rate has fluctuated between 7.3% and 7.5% since.

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

Economy

Since the recession ended, Maryland has generally underperformed relative to the nation as a whole, with employment growth below the United States in each year from 2011 to 2015. Maryland's recovery from the recession was derailed as the federal budget reductions of recent years, along with the government shutdown in fall 2013, had a significant impact on the economy. Inflation-adjusted wage income per worker fell in Maryland for three years in a row (2011 to 2013) and grew 0.8% in 2014. The economy improved in 2015 with employment growth of 1.5%, the strongest since 2005. The real wage per worker was up 3.0% in 2015 due, in part, to extraordinarily low inflation. The data available for 2016 shows employment growth of 1.8%, but alternate measures of the labor market suggest the increase is similar to the 1.5% gain in 2015. Wage income grew 3.5% in the first half of 2016 and the real wage per worker was up just 0.5%.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since December 2015. BRE revised the economic outlook largely in line with recent performance. Employment growth for 2016 was revised up from 1.3% to 1.9%, but BRE did not alter the forecast of employment in future years. The projection for personal income growth was lowered a full percentage point in 2016, from 4.7% to 3.7%, and reduced in 2017 from 5.1% to 4.4%. In December 2016, BRE reduced the expected increase in 2016 employment to 1.6% in light of alternate measures of the labor market. Personal income growth was further reduced to 3.3% in 2016 and 4.0% in 2017.

Revenues

Fiscal 2016 general fund revenues were below the estimate by $250 million, or 1.5%. General fund revenues totaled $16.2 billion in fiscal 2016, an increase of 1.7% over fiscal 2015. The underattainment was due almost entirely to the personal income tax. General fund personal income tax revenues were below the estimate by $262 million and grew 2.1% over fiscal 2015.

Fiscal 2017 general fund revenues through October are up 1.2% over fiscal 2016. In September, BRE lowered their estimate for fiscal 2017 general fund revenues by $365.0 million or 2.1%. The personal income tax estimate was revised down by $307.0 million. In December, BRE reduced the general fund estimate for fiscal 2017 by $13.8 million in light of the revised economic assumptions and the year-to-date performance which includes a large increase in corporate income tax refunds. BRE's fiscal 2017 estimate also now includes a transfer of $47.4 million from the local income tax reserve account to the General Fund reflecting over funding of the account as of the end of fiscal 2016. BRE lowered their general fund revenue estimate for fiscal 2018 by $24.5 million.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2016, the committee is currently projecting an ending general fund deficit of $209.4 million at the close of fiscal 2017. This projected deficit reflects revenue write-downs, November 2, 2016 Board of

Public Works (BPW) reductions, anticipated reversions based on the Administration's decisions concerning funds withheld by the legislature in the fiscal 2017 budget, and anticipated spending shortfalls requiring fiscal 2017 general fund deficiency appropriations of $234.2 million. Major areas that are expected to require deficiency funding include: Medicaid, based on the impact of both a mid-year calendar 2016 as well as calendar 2017 Managed Care Organization (MCO) rate increase plus higher than anticipated spending on substance use disorder treatment; the Developmental Disabilities Administration based on a recent federal audit disallowance of previously claimed federal funds; projected underattainment of federal funds in the Department of Human Resources; and the impact of a revision of the federal reimbursement methodology in the Maryland State Department of Education's child care subsidy program.

After considering the impact of BPW reductions on fiscal 2017 and 2018, the baseline estimate for fiscal 2018 projects general fund growth of 2.9% when capital and reserve fund appropriations are included, resulting in an ending general fund deficit of $544.1 million. General fund budget growth includes $419.6 million for entitlements, mandated formulas, and other ongoing requirements. By far, the largest increase is in the Medicaid program which is estimated to see general fund growth of $427.4 million. This growth is driven by MCO rate increases, the assumption by the State of a larger share of the costs for the Affordable Care Act expansion population, rate increases for other providers, and modestly higher enrollment levels. Growth in Medicaid and other ongoing requirements are moderated by lower general fund expenditures on teacher and librarian retirement payments and debt service for example.

In terms of State agency spending, the baseline assumes $373.3 million in general fund growth. In fiscal 2018, personnel costs, excluding higher education, account for $90.4 million of this growth. The baseline assumes a 1% general salary increase for fiscal 2018 effective July 1, 2017, with a general fund cost of $21.3 million plus regular increment increases totaling $51.2 million. Health insurance and employee retirement costs grow relatively little from fiscal 2017, $14.1 million and $3.8 million, respectively. Other significant State agency costs include: general fund support for the University System of Maryland to cover growth in base costs not supported by tuition and Higher Education Investment Fund revenue ($71.1 million); rate increases and placement costs in the Developmental Disabilities Administration ($39.9 million); the impact of 2016 legislation ($44.9 million); costs supported by fiscal 2017 deficiencies that carry over into fiscal 2018 ($38.7 million); and accounting for the one-time impact of many of the November BPW reductions ($25.4 million).

The committee projects that the State will close fiscal 2018 with a balance of $1,059.3 million in the Rainy Day Fund, which represents 6.2% of general fund revenues. The statutorily mandated appropriation for fiscal 2018 will be $50 million. It should be noted that the baseline also assumes that the level of the unappropriated general fund balance at the close of fiscal 2016 will result in a $50 million fiscal 2018 appropriation to the Dedicated Purpose Account to be subsequently transferred to the pension fund as provided for in the Budget Reconciliation and Financing Act of 2015.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2017 session:

1. Operating Budget Spending Limit and Sustainability

The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. In five of the last seven years, the recommendation of the committee focused on closing the sizeable structural deficit that had been generated by extraordinary fiscal issues – plummeting revenues, substantial short-term federal assistance, and extensive reliance on one-time budget balancing actions. During those years, the traditional establishment of a growth limit was replaced with recommendations to reduce the structural deficit by a specified amount.

The significant efforts undertaken since fiscal 2011 to close the structural imbalance combined with favorable revenue projections resulted in the elimination of the spending gap one year ahead of the schedule set in fiscal 2015 and created a projected structural surplus for the near future. As such, the committee's recommendation for operating budget spending during the 2016 session returned to the more traditional method for maintaining spending affordability for the upcoming session, limiting growth in the budget in line with average anticipated growth in personal income for calendar 2016 and 2017 (4.85%).

Despite a favorable fiscal outlook at the close of the 2016 session, slower than anticipated economic growth has resulted in the downward revision of general fund revenues and a sizeable structural imbalance for fiscal 2018 and subsequent years. Current projections indicate a structural deficit totaling $377 million in fiscal 2018, growing to nearly $1.5 billion by fiscal 2022. Ongoing operating spending growth is projected to outpace revenue growth by 1.4 percentage points annually.

As such, the committee recommends that the budget as submitted by the Governor and as approved by the General Assembly shall reduce the structural deficit for fiscal 2018 by at least 50% leaving a structural gap of no more than $189 million.

The committee further recommends that the Administration prepare a detailed report with specific proposals for achieving structural balance in fiscal 2019. The report should specify actions to the program level. The report should be submitted to the Spending Affordability Committee, the House Appropriations Committee, and the Senate Budget and Taxation Committee no later than July 1, 2017.

2. Fund Balances

A. Rainy Day Fund

In addition to its general fund recommendations, the committee recommends a prudent use of the Revenue Stabilization Account ("Rainy Day" Fund) to address general fund needs. The committee projects a Rainy Day Fund balance totaling $998.6 million at the end of fiscal 2017, which is 6.0% of ongoing general fund revenues. Statutes require that the Governor include an appropriation of at least $50.0 million if the Rainy Day Fund balance is less than 7.5% of general fund revenues. This appropriation, as well as interest earnings, is expected to increase the fiscal 2018 balance to $1,059.3 million. **The committee recommends that the balance in the Rainy Day Fund be maintained at 5.0% of estimated revenue and authorizes the use of any funds above that balance to address imminent cash shortfalls in fiscal 2017 and 2018.**

B. General Fund Balance

The committee recognizes that general fund revenues are volatile, which can result in actual revenues underperforming compared to estimated revenues. Underperforming revenues could result in end-of-year budget deficits. This necessitates continued attentiveness to maintaining alignment between spending and ongoing revenues. **Therefore, the committee recommends a minimum ending balance of at least $100 million in the General Fund for fiscal 2018.**

3. Revenue Volatility

Since Maryland's economy is affected by the ups and downs of the business cycle, revenue volatility is unavoidable. The committee is concerned that ongoing spending may be supported by unstable revenues that will not be realized during recessions. Minimizing reliance on unstable revenue sources can help soften the impact of recessions and avoid building unsustainable ongoing spending into the budget during economic booms.

In recent years, states such as California, Colorado, Florida, Massachusetts, Michigan, Missouri, and Virginia have adopted or considered changes to their forecasting and budgetary practices to reduce their vulnerability to revenue volatility. Generally, these approaches focus on the most volatile aspects of the personal income tax, such as capital gains. Virginia has taken an approach that focuses on nonwithholding income tax revenue, rather than capital gains specifically. Virginia puts a cap, referred to as a collar, on nonwithholding income tax revenue to limit the nonwithholding estimate as a share of estimated total general fund revenues.

A recent review of Maryland's revenue structure, conducted jointly by the Department of Legislative Services (DLS), the Department of Budget and Management (DBM), and BRE of the State Comptroller's Office, determined that nonwithholding personal income tax revenues are extremely volatile and difficult to accurately forecast. After a thorough evaluation of the strategies adopted by other states to address revenue volatility, DBM, DLS, and BRE recommended that the State consider limiting estimated revenues from nonwithholding income tax revenues. This can be accomplished by placing a cap, or collar, on the amount of nonwithholding income tax revenues assumed during the budget process. The cap would limit nonwithholding revenues to their share of total general fund revenues over the 10 most recently completed fiscal years. If revenues exceed this cap, amounts in excess of the cap will not be appropriated in the upcoming budget. Advantages of this approach include encouraging savings at the height of the business cycle, promoting structural balance by constraining the amount of unstable revenues supporting ongoing spending, and softening the impact of a recession by limiting the State's reliance on a volatile revenue source.

The collar approach will periodically generate surpluses of nonwithholding personal income tax revenues. Such a surplus could be applied against any shortfall should other general fund revenues underperform. Additionally, since the revenues are one-time, the surpluses could support one-time appropriations to increase the balance in the Rainy Day Fund, fund pay-as-you-go capital projects, and reduce unfunded liabilities.

The Spending Affordability Committee recommends that the appropriate committees consider legislation to mitigate the impact of revenue volatility on the State budget.

4. Capital Budget

A. General Obligation Debt

In its 2016 report, the Capital Debt Affordability Committee (CDAC) recommended limiting general obligation (GO) bond authorizations to $995 million each year through fiscal 2026. This is consistent with the recommendation made by CDAC in its 2015 report with the purpose of slowing the growth in debt service costs and preserving additional debt capacity for the future.

CDAC's recommendation is advisory and the committee is not bound by the recommendation. In recent years for instance, debt limits recommended by the committee have differed from limits recommended by CDAC. In 2013, CDAC recommended increasing the out-year authorizations by $75 million annually, but the committee recommended that out-year authorizations not be increased. In 2014, the committee recommended that the authorizations in the upcoming session's capital budget bill be $75 million less than the level recommended by CDAC in September 2014. In 2015, the committee recommended increasing the 2016 session authorization by $60 million more than CDAC's recommendation but the capital bill passed by the General Assembly kept the authorization level at the lower CDAC recommendation.

The committee supports CDAC's debt affordability criteria, which limits debt service to 8% of State revenues and debt outstanding to 4% of State personal income. The committee also supports the objective to slow the growth in debt service costs and reduce the debt service to revenue ratio. The committee is concerned, however, that CDAC's recommendation to freeze authorizations through fiscal 2026 will reduce the purchasing power of the capital program. It is estimated that construction inflation at 2% per annum will diminish the purchasing power by a total of $191 million from fiscal 2018 through 2022.

CDAC's objective can be achieved without substantially eroding the purchasing power of the capital program. In its 2015 report, the committee recommended increasing the fiscal 2016 authorization, which totaled $1,045 million, by 1% annually through the planning period. This 1% annual growth rate would equate to an authorization level of $1,065 million for the 2017 session. This moderate growth rate limits increases in GO bond authorizations to projected State property tax revenue increases. Since general funds and other State revenues are projected to increase at an annual rate in excess of 1%, this reduces the ratio of debt service to revenues in the out-years.

The committee recommends the authorization of $1,065 million in new GO bonds for the 2017 session. In addition, for planning purposes, out-year annual authorizations should be limited to 1% growth, so that capital spending does not increase at a greater rate than State property tax revenues, which is the primary revenue source supporting debt service. The proposed limit keeps the State well within CDAC's debt affordability criteria.

B. Higher Education Debt

The University System of Maryland intends to issue up to $32.0 million in academic debt for fiscal 2018. This is $7.5 million more than was authorized for fiscal 2017 but is consistent with the amount programmed in the 2016 *Capital Improvement Program* for fiscal 2018. 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 2018. **The committee concurs in the recommendation of CDAC that $32.0 million in new academic revenue bonds may be authorized at the 2017 session for the University System of Maryland.**

5. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. Position ceilings, voluntary separation programs, and cost containment actions have resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 80,323 at the start of fiscal 2017. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 49,992 in fiscal 2017. Over 4,200 positions have been added in higher education during this period.

In recent years, there has been a substantial increase in vacant positions and vacancy rates in Executive Branch agencies, despite cost containment actions to reduce vacant positions. Vacancies increased by 645 positions over the course of a year, from 4,422 positions in October 2015 to 5,067 positions in October 2016 (increasing the vacancy rate from 8.7% to 10.0%, respectively). The committee is concerned that a significant number of these vacancies are again within agencies that have been historically identified as chronically understaffed and are responsible for providing public safety and health-related services for the State.

The committee finds that, given the State's fiscal condition, 80,323 positions are appropriate for the delivery of State services. The fiscal 2018 budget should not exceed this maximum number of positions across all functions (including the Executive, Legislative, and Judicial branches, and higher education). Agencies should make maximum use of existing vacant positions to address staffing needs. The Governor should use the budget and his authority to abolish and create positions to reallocate personnel resources as necessary to address service needs. Layoffs should be avoided as sufficient opportunities for savings should exist within the existing State workforce authorization.

Additionally, the committee recommends that language be included in the fiscal 2018 budget requiring the Governor to conduct a thorough and statewide evaluation of the causes underlying the chronic staffing issues plaguing State agencies and make recommendations for strategies to improve the hiring and retention of State employees, including the potential need to increase starting salaries and offer retention bonuses for certain critical positions.

Prior Recommendations and Legislative Action on the Operating Budget
($ in Millions)

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth**	**Amount**
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[1]	6.90%	803.0	6.87%	800.0
2001[2]	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[3]	6.70%	1,037.1	6.69%	1,036.3
2006[3]	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[4]	0.70%	145.7	0.19%	39.2
2010[4]	0.00%	0.0	-3.00%	-626.9
2011	Reduce FY 2012 structural deficit by 33⅓%		36.90%/46.00%[5]	
2012	Reduce FY 2013 structural deficit by 50.0%		50.60%	
2013	Reduce FY 2014 structural deficit by $200.0 million			-211.2
2014	4.00%	937.8	2.76%	646.4
	Reduce FY 2015 structural deficit by $125.0 million			-126.1
2015	Reduce FY 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1.184.2	4.55%	1,111.2

[1]2000 legislative action does not reflect $266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because it had not previously been available to the State. The 2000 growth rate, including CRF dollars, was 9.16%.

[2]Methodology revised effective with the 2001 session.

[3]The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

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

[5]Spending reduction/total reduction.

Part 1

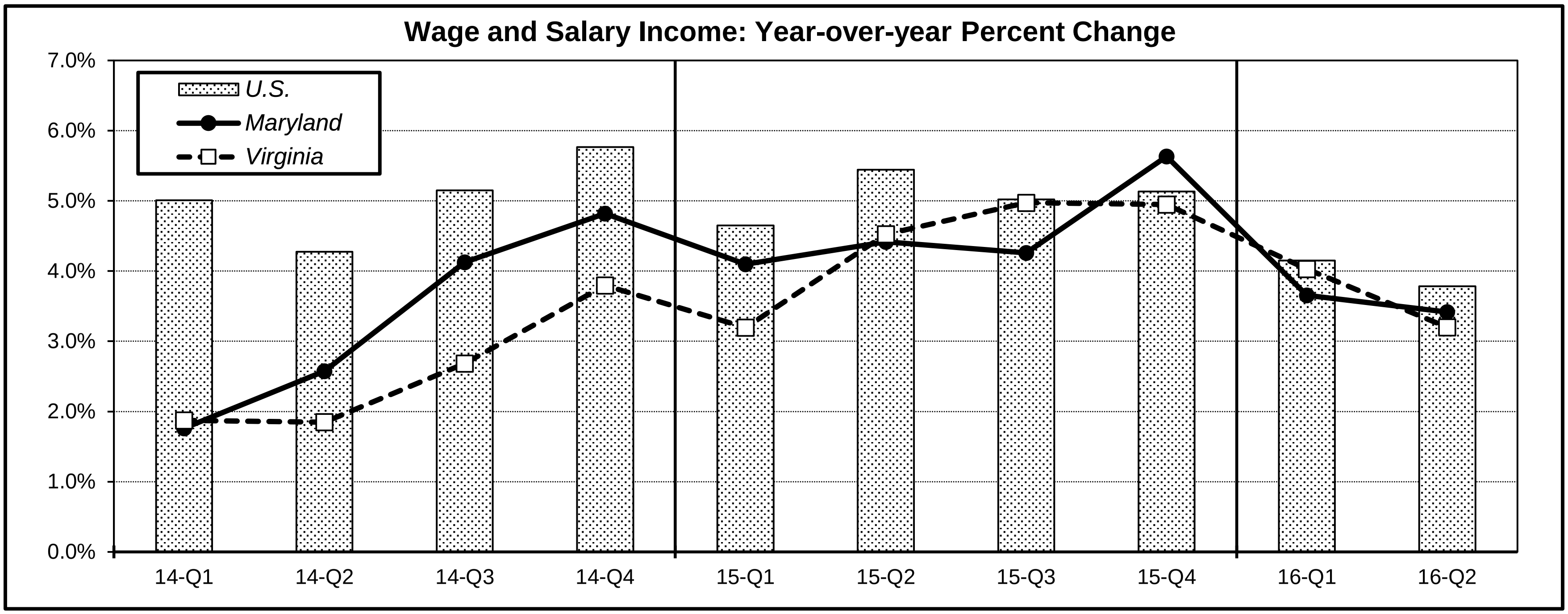
Economic Outlook

Maryland Economic Performance
Year-over-year Percent Change

Month-Year	Employment CES	Employment QCEW	Unemployment Rate	Initial UI Claims	Existing Home Sales	Median Home Price	Vehicle Sales
Jan-16	1.7%	1.8%	4.8%	3.0%	14.2%	4.8%	-8.1%
Feb-16	1.6%	1.6%	4.7%	-2.3%	21.2%	1.3%	12.2%
Mar-16	2.5%	2.0%	4.7%	-2.6%	6.6%	2.3%	17.0%
Apr-16	2.2%		4.6%	-3.0%	13.8%	5.2%	0.0%
May-16	1.7%		4.5%	20.8%	15.6%	2.6%	11.5%
Jun-16	2.2%		4.3%	-2.6%	10.8%	3.8%	16.1%
Jul-16	2.3%		4.3%	0.3%	-0.7%	3.6%	-5.1%
Aug-16	1.7%		4.3%	15.2%	12.1%	4.1%	10.3%
Sep-16	1.6%		4.2%	6.4%	6.3%	3.8%	0.3%

CES: Current Establishment Survey; QCEW: Quarterly Census of Employment and Wages; UI: unemployment insurance

Note: The unemployment rate is based on seasonally adjusted data. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Analytics.



Maryland Employment and Wage Growth by Industry

	Employment: Percent Change Jan-Jun			Wages: Percent Change Jan-Jun			2015	2015	2015
	2015	2016	Improved?	2015	2016	Improved?	% Emp.	% Wage	Avg. Wage
Total	1.5%	1.9%	Y	4.6%	3.5%		100%	100%	$59,873
Private Sector	1.9%	2.4%	Y	5.0%	4.2%		81%	77%	$57,036
Construction	3.0%	5.7%	Y	6.1%	10.1%	Y	6%	6%	62,625
Educational Services	1.0%	3.9%	Y	3.6%	4.0%	Y	3%	2%	47,444
Manufacturing	0.8%	2.9%	Y	4.4%	0.9%		4%	5%	74,795
Other Services*	2.0%	2.8%	Y	3.8%	3.9%	Y	4%	4%	50,361
Professional Services*	0.9%	3.0%	Y	2.8%	4.6%	Y	10%	16%	96,885
Recreation, Hotels, Restaurants	3.1%	4.4%	Y	7.3%	6.6%		10%	4%	24,932
Retail Trade	0.7%	1.3%	Y	5.5%	4.5%		11%	6%	31,591
Admin/Support/Waste Services	2.5%	0.3%		7.4%	5.8%		6%	4%	42,362
Finance, Insurance, and Real Estate	1.3%	1.3%		5.1%	1.6%		6%	8%	87,687
Health Care and Social Assistance	2.2%	1.3%		6.5%	3.5%		13%	12%	53,217
Information	-1.6%	-2.6%		-0.4%	0.7%	Y	1%	2%	86,183
Transportation and Utilities	5.3%	3.2%		8.8%	6.6%		3%	3%	60,942
Wholesale Trade	1.4%	1.0%		4.0%	0.5%		3%	4%	80,131
Federal Government	0.7%	1.3%	Y	3.8%	3.9%	Y	5%	11%	117,111 **
State and Local Government	-0.3%	-0.6%		3.6%	-0.5%		13%	12%	53,978

* Other Services includes personal, laundry, and repair and maintenance services along with membership organizations. Professional Services includes Professional, Scientific, and Technical Services plus Management of Companies.

** The average wage for the federal government is overstated because while the wage data includes an estimate of wages at classified agencies, the employment data excludes the jobs at those agencies. Both the employment and wage data excludes the uniformed military.

Source: Bureau of Labor Statistics; U.S. Department of Labor; Bureau of Economic Analysis; U.S. Department of Commerce

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar	Employment		Personal Income*	
Year	Dec. 2015	Sep. 2016	Dec. 2015	Sep. 2016
2013	0.9%	0.9%	-0.2%	-0.6%
2014	0.9%	0.9%	3.8%	3.4%
2015	1.5%	1.5%	4.2%	4.1%
2016E	1.3%	1.9%	4.6%	3.7%
2017E	1.0%	1.0%	5.1%	4.4%
2018E	0.8%	0.8%	4.5%	4.6%
2019E	0.5%	0.5%	4.2%	4.2%

Calendar	Wage and Salary Income		Average Wage	
Year	Dec. 2015	Sep. 2016	Dec. 2015	Sep. 2016
2013	0.8%	0.8%	-0.1%	-0.1%
2014	3.4%	3.3%	2.4%	2.4%
2015	3.9%	4.6%	2.4%	3.1%
2016E	4.2%	4.0%	2.9%	2.1%
2017E	4.1%	3.9%	3.1%	2.9%
2018E	4.0%	4.0%	3.2%	3.2%
2019E	3.8%	3.8%	3.2%	3.2%

Calendar	Dividends, Interest, and Rent		Taxable Capital Gains Income**	
Year	Dec. 2015	Sep. 2016	Dec. 2015	Sep. 2016
2013	-2.0%	-2.5%	-15.6%	-15.6%
2014	4.3%	5.9%	24.5%	43.0%
2015	4.7%	3.5%	0.0%	-15.0%
2016E	6.8%	3.0%	1.3%	0.0%
2017E	8.9%	5.2%	3.8%	0.0%
2018E	6.9%	7.5%	6.9%	0.0%
2019E	5.5%	6.0%	6.0%	0.0%

* The payroll tax holiday expired in calendar 2013 depressing growth in total personal income for that year. Total personal income growth in calendar 2013 was about 0.3%, excluding the impact of the tax holiday expiration.

** The calender 2014 figure is an estimate for December 2015, and calendar 2015 figures are estimates for both December 2015 and September 2016.

Part 2

General Fund Revenues

Fiscal 2016 General Fund Revenues
($ in Millions)

Source	FY 2015 Actual	Fiscal 2016 Estimate[1]	Fiscal 2016 Actual	Fiscal 2016 $ Diff.	Fiscal 2016 % Diff.	FY 2015-2016 % Change Estimated	FY 2015-2016 % Change Actual
Personal Income Tax	$8,346.1	$8,779.1	$8,517.6	-$261.5	-3.0%	5.2%	2.1%
Sales and Use Tax	4,350.7	4,449.7	4,444.5	-5.2	-0.1%	2.3%	2.2%
State Lottery	506.5	520.4	529.8	9.4	1.8%	2.7%	4.6%
Corporate Income Tax	777.3	866.6	874.5	7.8	0.9%	11.5%	12.5%
Business Franchise Taxes	225.7	230.4	222.0	-8.4	-3.7%	2.1%	-1.7%
Insurance Premiums Tax [2]	316.1	297.6	287.4	-10.2	-3.4%	-5.8%	-9.1%
Estate and Inheritance Taxes	243.4	251.1	261.9	10.8	4.3%	3.2%	7.6%
Tobacco Tax	391.5	392.4	395.3	2.9	0.7%	0.2%	1.0%
Alcohol Beverages Tax	31.3	31.5	31.9	0.4	1.4%	0.7%	2.0%
Motor Vehicle Fuel Tax [3]	5.0	4.6	4.6	0.0	0.0%	-7.5%	-7.5%
District Courts	77.7	77.7	72.3	-5.4	-6.9%	0.0%	-6.9%
Clerks of the Court	34.4	37.6	34.2	-3.3	-8.9%	9.1%	-0.7%
Hospital Patient Recoveries	65.2	59.7	57.5	-2.2	-3.7%	-8.4%	-11.8%
Interest on Investments	10.7	11.0	15.0	4.0	36.4%	2.7%	40.1%
Miscellaneous	396.7	323.3	334.1	10.9	3.4%	-18.5%	-15.8%
Subtotal	***$15,778.4***	***$16,332.7***	***$16,082.6***	***-$250.1***	***-1.5%***	***3.5%***	***1.9%***
Transfer Tax [4]	$144.2	$115.4	$115.4	$0.0	0.0%	-20.0%	-20.0%
Total Revenues	**$15,922.6**	**$16,448.1**	**$16,198.0**	**-$250.1**	**-1.5%**	**3.3%**	**1.7%**

[1] From the Board of Revenue Estimates, March 2016, with adjustments for action at the 2016 legislative session.

[2] The distribution of insurance premium tax revenue to the Maryland Health Benefit Exchange increased from $13.0 million in fiscal 2015 to $32.8 million in fiscal 2016 as required by the Maryland Health Progress Act of 2013 (Chapter 159). Revenues before the distribution were down 2.7% in fiscal 2016.

[3] The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) diverted $5.0 million in motor fuel tax revenue to the General Fund that would otherwise have gone to the Chesapeake Bay 2010 Fund for fiscal 2012 through 2015 and $4.6 million in fiscal 2016.

[4] The BRFA of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2014 (Chapter 464) increased the distribution in fiscal 2015 by $69.1 million. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by $37.7 million.

Note: Chapter 50 of 2015 required the Comptroller's Office to conduct a tax amnesty program from September 1, 2015, to October 30, 2015. Fiscal 2016 general fund revenues include approximately $23.2 million from the tax amnesty, $11.8 million more than expected.

Source: Board of Revenue Estimates

Maryland State and Local Personal Income Tax
($ in Millions)

	TY 2014 Jan 2014 to Sep 2015	TY 2015 Jan 2015 to Sep 2016	% Chng.
Withholding	$11,988	$12,510	4.4%
Estimated	1,903	2,021	6.2%
Subtotal	***$13,891***	***$14,532***	***4.6%***
Payments with Returns	1,464	1,416	-3.2%
Refunds [(1)]	2,202	2,389	8.5%
Net Receipts	$13,154	$13,559	3.1%

TY: tax year

[(1)] TY 2014 excludes Wynne refunds, but TY 2015 would include refunds due to the use of the out-of-state tax credit against the local income tax. Refund data is not available by tax year so it is assumed that refunds in calendar 2016 are for TY 2015 and refunds in calendar 2015 were for TY 2014.

	TY 2015 Jan 2015 to Jun 2015	TY 2016 Jan 2015 to Jun 2016	% Chng.
Withholding	$6,095	$6,169	1.2%
Estimated	709	703	-0.8%
Subtotal	***$6,803***	***$6,872***	***1.0%***

	TY 2015 Jul 2015 to Sep 2015	TY 2016 Jul 2016 to Sep 2016	% Chng.
Withholding	$2,528	$2,741	8.4%
Estimated	397	495	24.4%
Subtotal	***$2,925***	***$3,235***	***10.6%***

	TY 2015 Jan 2015 to Sep 2015	TY 2016 Jan 2016 to Sep 2016	% Chng.
Withholding	$8,623	$8,910	3.3%
Estimated	1,106	1,198	8.2%
Subtotal	***$9,729***	***$10,107***	***3.9%***

Source: Comptroller of Maryland

Fiscal 2017 General Fund Revenues
($ in Millions)

Source	FY 2016	FY 2017	$ Difference	% Difference	Full-year Estimated Growth Rate
	Fiscal Year through October				
Personal Income Tax	$2,282.5	$2,393.8	$111.3	4.9%	5.2%
Sales and Use Tax [1]	1,117.2	1,151.0	33.7	3.0%	2.9%
State Lottery	156.1	150.9	-5.2	-3.3%	-3.2%
Corporate Income Tax	210.0	158.8	-51.2	-24.4%	-2.4%
Business Franchise Taxes	46.6	44.3	-2.3	-5.0%	2.0%
Insurance Premiums Tax	78.8	68.3	-10.5	-13.3%	2.6%
Estate and Inheritance Taxes	81.4	75.2	-6.2	-7.6%	-20.7%
Tobacco Tax	112.5	112.5	0.1	0.0%	-0.5%
Alcohol Beverages Tax	8.1	8.2	0.1	1.2%	1.4%
District Courts	29.7	26.5	-3.2	-10.7%	-0.6%
Clerks of the Court	19.0	17.8	-1.2	-6.2%	8.0%
Interest and Miscellaneous [2]	52.0	37.8	-14.2	-27.3%	-1.7%
Total Revenues	**$4,193.8**	**$4,245.1**	**$51.3**	**1.2%**	**3.0%**

- Fiscal 2017 personal income tax revenues were up 11.5% at the end of September but growth is now 4.9% as of the end of October. This was expected as timing issues were artificially inflating revenue growth in the first three months of fiscal 2017.
- Income tax estimated payments through October are below year ago levels by 3.8%. As of the end of September estimated payment had been up 24% because a significant amount of revenue that is normally booked in September was delayed and reported in October last year (fiscal 2016). The year-over-year comparison is now more consistent.
- Income tax witholding growth remains quite good although it slipped from 8.4% at the end of September to 6.8% as of the end of October. The strong growth in withholding is due in part to the split of July withholding between the amount accrued back to June (fiscal 2016) and the amount booked in fiscal 2017. The accrual was very low resulting in significantly more revenue than normal falling in July, contributing to the large year-over-year increase.

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

(2) Includes interest on investments; hospital patient recovery revenues from Medicare, insurance, and sponsors; general fund motor fuel tax revenue in fiscal 2016 and other miscellaneous revenues.

Source: Comptroller of Maryland; State Lottery and Gaming Control Agency

Maryland General Fund Revenue Forecast
($ in Millions)

Source	FY 2016 Actual	FY 2017 Estimate Sep.	FY 2017 Estimate Dec.	FY 2017 Estimate Difference	% Change over FY16	FY 2018 Estimate Sep.	FY 2018 Estimate Dec.	FY 2018 Estimate Difference	% Change over FY17
Personal Income Tax	$8,517.6	$8,963.5	$8,991.4	$27.8	5.6%	$9,370.4	$9,389.6	$19.2	4.4%
Sales and Use Tax	4,444.5	4,574.8	4,592.6	17.8	3.3%	4,725.3	4,741.2	15.9	3.2%
State Lottery [1]	529.8	512.7	492.3	-20.4	-7.1%	523.9	505.2	-18.7	2.6%
Corporate Income Tax [2]	874.5	853.4	771.6	-81.8	-11.8%	898.2	830.1	-68.1	7.6%
Business Franchise Taxes	222.0	226.4	223.5	-2.9	0.7%	193.1	227.3	34.2	1.7%
Insurance Premiums Tax	287.4	294.8	294.8	0.0	2.6%	304.6	304.6	0.0	3.3%
Estate and Inheritance Taxes	261.9	207.8	206.7	-1.1	-21.1%	184.8	184.5	-0.3	-10.7%
Tobacco Tax	395.3	393.5	393.8	0.3	-0.4%	391.9	392.2	0.3	-0.4%
Alcohol Beverages Tax	31.9	32.4	32.9	0.6	3.1%	32.8	33.4	0.5	1.3%
Motor Vehicle Fuel Tax [3]	4.6	0.0	0.0	0.0	-100.0%	0.0	0.0	0.0	n.a.
District Courts	72.3	71.9	70.3	-1.6	-2.9%	71.9	70.2	-1.6	0.0%
Clerks of the Court	34.2	36.9	36.9	0.0	8.0%	36.2	36.4	0.2	-1.5%
Hospital Patient Recoveries	57.5	58.3	57.8	-0.6	0.5%	58.3	58.3	-0.1	0.9%
Interest on Investments	15.0	20.0	20.0	0.0	33.3%	35.0	35.0	0.0	75.0%
Miscellaneous	334.1	326.0	326.5	0.5	-2.3%	332.4	326.3	-6.0	-0.1%
Subtotal	***$16,082.6***	***$16,572.4***	***$16,511.1***	***-$61.2***	***2.7%***	***$17,158.8***	***$17,134.3***	***-$24.5***	***3.8%***
Transfer Tax [4]	$115.4	$62.8	$62.8	$0.0	-45.6%	$46.0	$46.0	$0.0	-26.7%
GAAP transfer [5]	0.0	0.0	47.4	47.4	n.a.	0.0	0.0	0.0	-100.0%
Total Revenues	**$16,198.0**	**$16,635.2**	**$16,621.3**	**-$13.8**	**2.6%**	**$17,204.8**	**$17,180.3**	**-$24.5**	**3.4%**

(1) Fiscal 2017 and 2018 reflect a distribution of $1.0 million to the horse racing special fund required by the Maryland International and Preakness Stakes Incentive Act of 2016 (Chapter 727).

(2) The Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397) set the Transportation Trust Fund's share of the corporate income tax at 9.5% of net receipts (excluding the first 15.15%) in fiscal 2013, 19.5% in fiscal 2014 to 2016 and 17.2% for fiscal 2017 and beyond. Adjusted for this law change, baseline general fund corporate income tax revenues are expected to fall 13.9% in fiscal 2017.

(3) The BRFA of 2011 diverted $5.0 million in motor fuel tax revenue to the General Fund that would otherwise have gone to the Chesapeake Bay 2010 Fund for fiscal 2012 through 2015 and $4.6 million in fiscal 2016.

(4) The BRFA of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by $37.7 million. Chapter 10 of the 2016 session reduced the distribution in fiscal 2017 by $20.0 million and in fiscal 2018 by $40.0 million.

(5) The Comptroller's annual analysis of the local income tax reserve account determined the account was over-funded at the end of fiscal 2016 by $47.4 million.

GAAP: general accepted accounting principles

Source: Board of Revenue Estimates

Gaming Program
Revenues and Impact on the Education Trust Fund
($ in Millions)

Video Lottery Terminals

	FY 2016			FY 2017*			FY 2018
	Estimate	**Actual**	**Difference**	**Mar. Est.**	**Sep. Est.**	**Difference**	**Estimate**
Education Trust Fund	$312.9	$322.0	$9.2	$382.8	$376.3	-$6.5	$452.3
Casino Operators	295.6	304.3	8.7	408.4	402.2	-6.2	523.4
Local Impact Grants	38.6	39.7	1.1	50.2	49.2	-0.9	61.7
Small, Minority, and Women-owned Businesses	10.5	10.8	0.3	13.7	13.4	-0.3	16.8
Purse Dedication	48.7	50.1	1.4	58.0	57.0	-1.0	67.1
Race Tracks Facility Renewal Account	6.8	7.0	0.2	8.9	8.7	-0.2	11.0
State Lottery Agency	7.6	7.8	0.2	9.7	9.6	-0.1	11.9
Total Gross Revenues	**$720.6**	**$741.7**	**$21.0**	**$931.6**	**$916.4**	**-$15.2**	**$1,144.3**

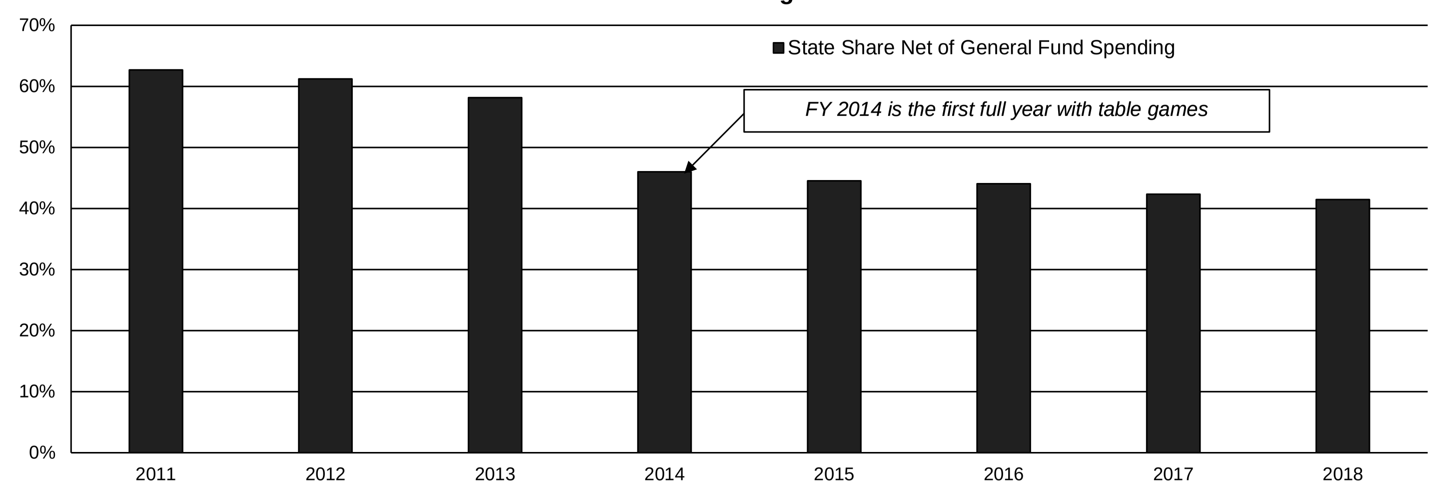
Table Games

	FY 2016			FY 2017*			FY 2018
	Estimate	**Actual**	**Difference**	**Mar. Est.**	**Sep. Est.**	**Difference**	**Estimate**
Education Trust Fund	$75.0	$80.5	$5.4	$76.0	$86.4	$10.4	$94.0
Casino Operators	300.1	321.8	21.8	355.0	406.5	51.6	501.3
Local Impact Grants	0.0	0.0	0.0	12.7	15.2	2.5	31.3
Total Gross Revenues	**$375.1**	**$402.3**	**$27.2**	**$443.7**	**$508.2**	**$64.5**	**$626.6**

* The Board of Revenue Estimates' forecast assumes the Prince George's County facility will open in January 2017.

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates

Share of Total Gross Revenues Going to State: Fiscal 2011 to 2018



Note: Total gross revenues includes video lottery terminal and, starting in fiscal 2013, table game revenue. The share going to the State is equal to the total less the amount that is retained by the casino operators netted against the general fund spending to support the program. General fund spending dropped between fiscal 2014 and 2016 as the Hollywood Casino Perryville and Maryland LIVE facilities took over ownership of the video lottery terminal machines.

Part 3

Revenue Volatility

Revenue Volatility Workgroup Findings

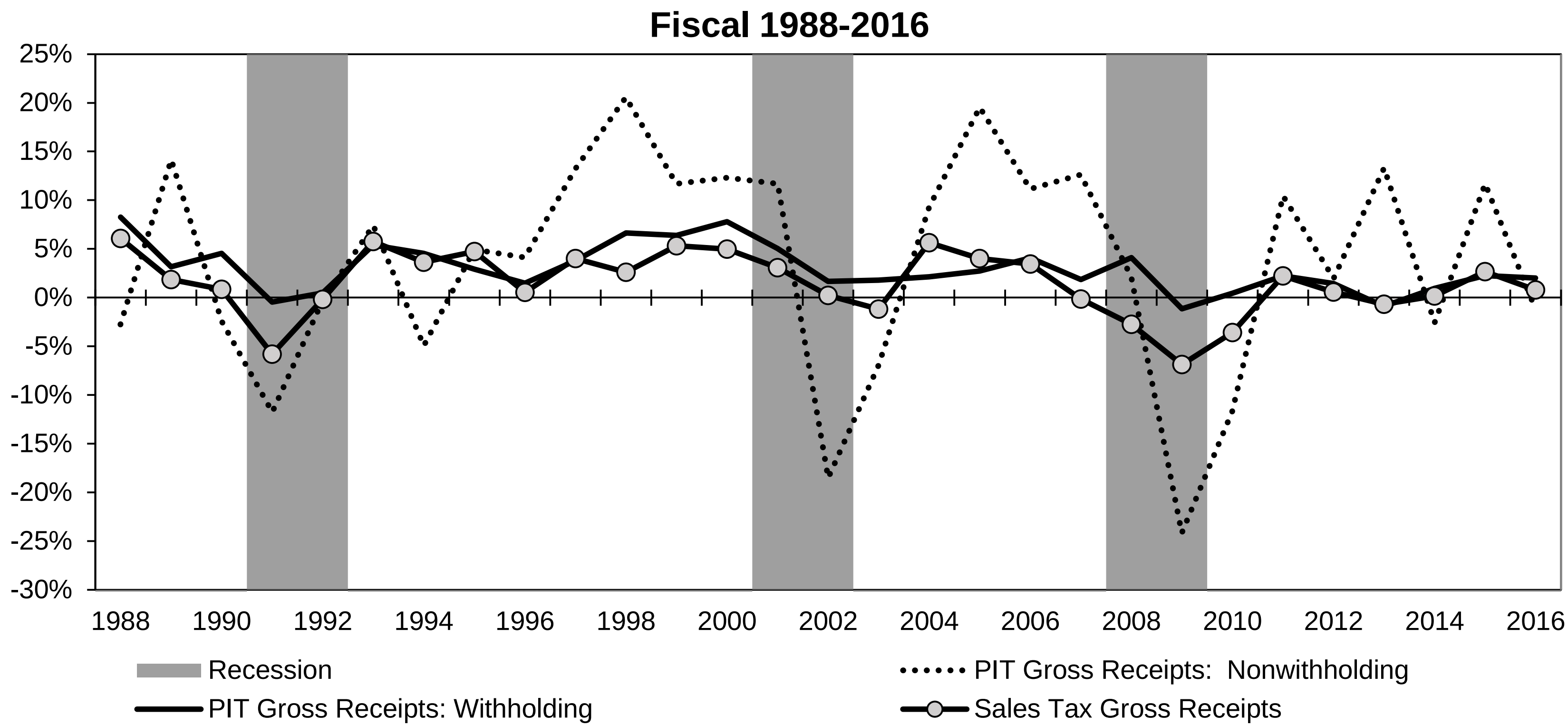
- The *Joint Chairmen's Report* required the Department of Legislative Services, the Department of Budget and Management, and the Comptroller's Office to study Maryland's revenue structure and recommend strategies for reducing volatility

- Staff from three agencies identified areas of volatility and examined strategies employed by other states to minimize volatility

- The workgroup identified nonwithholding income tax revenues (revenues from estimated payments and taxes paid with the return) as extremely volatile and difficult to forecast

- The volatility is in part due to the concentration of capital gains among a very small number of taxpayers

Income and Sales Taxes
Year-over-year Percent Change



PIT: State and local personal income tax

Note: Revenues have been adjusted for major law changes and inflation.

Source: Comptroller of Maryland

Maryland Taxable Capital Gains Income

Income Tax Class	Tax Year 2010 Returns	Tax Year 2010 Share of Capital Gains Income	Tax Year 2011 Returns	Tax Year 2011 Share of Capital Gains Income	Tax Year 2012 Returns	Tax Year 2012 Share of Capital Gains Income	Tax Year 2013 Returns	Tax Year 2013 Share of Capital Gains Income
Top 0.1%	2,538	49.7%	2,577	54.0%	2,611	48.8%	2,690	35.7%
>0.1% and <=1%	22,851	23.3%	23,198	20.5%	23,501	23.5%	24,213	20.4%
>1% and <=5%	101,556	11.5%	103,102	10.5%	104,452	11.8%	107,615	16.1%
>5% and <=10%	126,945	4.0%	128,878	3.6%	130,564	3.9%	134,518	6.9%
>10% and <=25%	380,835	4.1%	386,632	4.0%	391,693	4.1%	403,554	8.0%
>25% and <=50%	634,725	2.1%	644,388	2.4%	652,821	2.5%	672,590	4.8%
>50% and <=75%	634,725	0.8%	644,387	1.1%	652,821	1.6%	672,590	2.9%
>75% and <=100%	634,726	4.5%	644,388	3.8%	652,821	3.9%	672,591	5.1%
	2,538,901	**100.0%**	**2,577,550**	**100.0%**	**2,611,284**	**100.0%**	**2,690,361**	**100.0%**
Top 1%		73.0%		74.5%		72.3%		56.1%
Top 1% Share of Maryland Net State Tax		20.3%		20.4%		23.2%		20.2%

Note: Data includes full-year Maryland residents only. The class is defined by net Maryland income tax.

Source: Comptroller of Maryland

Recommendations

- Apply a cap to the estimate of nonwithholding revenues assumed in the budget process

- The cap should reflect the average share of nonwithholding revenues to total general fund revenues over the most recent 10-year period (*i.e.*, if nonwithholding revenues represent 15% of total general fund revenues over the last decade, then the revenue estimate for next year for nonwithholding is capped at 15% of general fund revenues)

- Estimated nonwithholding amounts in excess of cap should not be appropriated

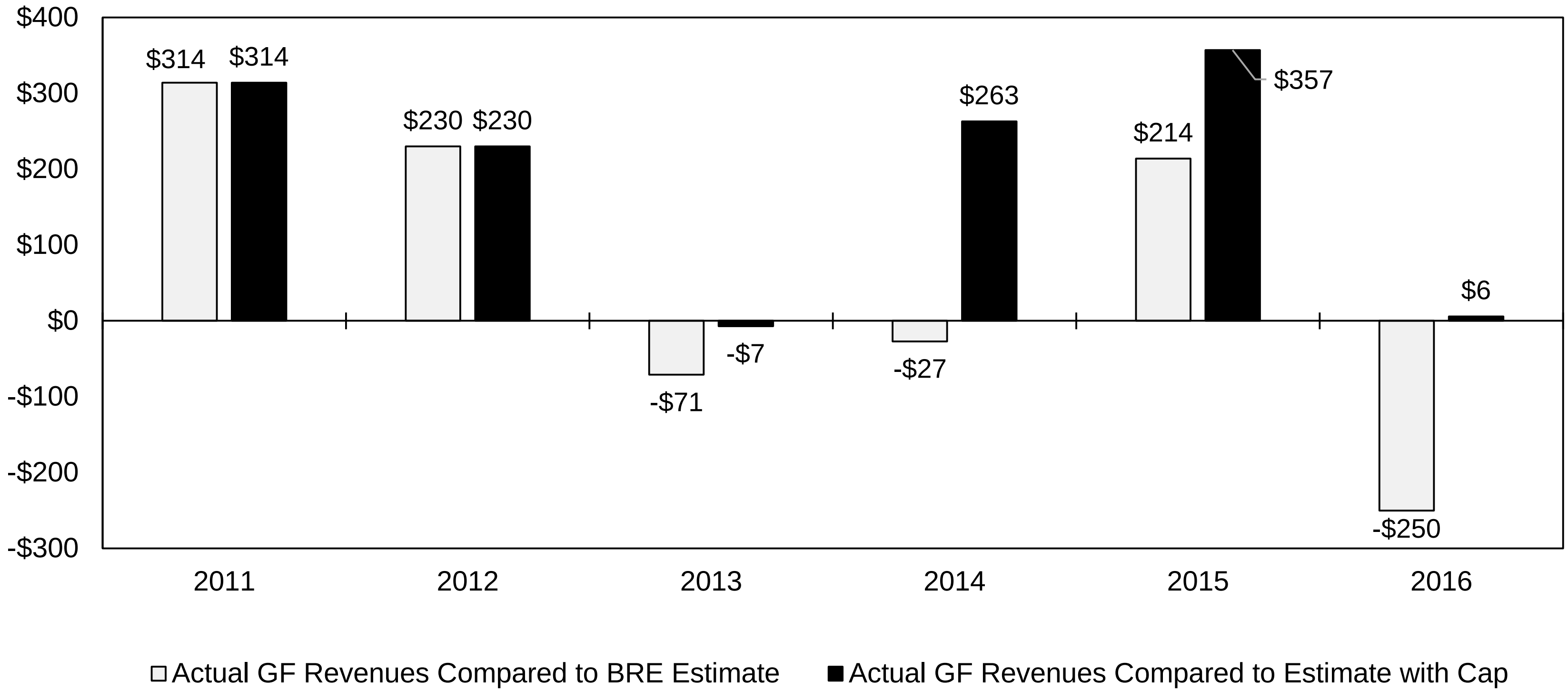
- Revenues captured by the cap at closeout should be utilized to increase Rainy Day Fund balance to 10% of general fund revenues (currently at about 6%), avoid debt by supporting pay-as-you-go projects, and address unfunded retiree health and workers' compensation liabilities

Advantages of Proposal

- Encourages savings at peak of business cycle
  - In years that revenues are increasing at unsustainable levels, the cap reduces the available revenues and spending while setting aside additional funds for reserves, one-time capital projects, and reducing unfunded liabilities
- Promotes long-term structural balance
  - Cap constrains amount of unsustainable revenue built into ongoing spending
- Softens impact of recession by limiting reliance on volatile revenue source
- Accumulates adequate balance in Rainy Day Fund to mitigate the immediate impact of a recession while still retaining balance of 5% of revenues to help maintain AAA bond rating
  - Reluctance to reduce balance below 5% threshold and small balance in excess of 5% has diminished utility of fund in responding to economic downturns
  - At outset of each of the last three recessions, revenues have fallen short of the estimate for both the current and subsequent fiscal year by at least 4%

Impact of Cap on Closeout

Fiscal 2011-2016
($ in Millions)



BRE: Board of Revenue Estimates
GF: General Fund

Source: Department of Legislative Services

Part 4

General Fund Budget and Forecast

"Current as of December 13, 2016"

General Fund: Recent History and Outlook
Fiscal 2016-2018
($ in Millions)

	2016 Actual	2017 Working	2018 Baseline
Funds Available			
Ongoing Revenues	$16,216	$16,604	$17,212
Balances and Transfers	325	399	0
One-time Federal Aid	0	0	0
One-time Generally Accepted Accounting Principles Transfer	0	47	0
Short-term Revenues	0	0	0
Total Funds Available	**$16,541**	**$17,050**	**$17,212**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$16,249	$17,033	$17,590
One-time Spending	41	46	20
One-time Spending/Reductions	-236	-118	0
Pay-as-you-go Capital	17	63	47
Appropriations to Reserve Fund	85	235	100
Total Spending	**$16,156**	**$17,260**	**$17,756**
Cash Balance/Shortfall	**$385**	**-$209**	**-$544**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**-$33**	**-$429**	**-$377**
Ratio (Ongoing Revenues/Operating Costs)	**99.8%**	**97.5%**	**97.9%**
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$50	$235	$50
Transfers to General Fund	0	0	0
Estimated Rainy Day Fund Balance – June 30	**$832**	**$999**	**$1,059**
Total Cash (Rainy Day Fund and General Fund Balance)	**$1,217**	**$789**	**$515**
Rainy Day Fund Balance In Excess of 5%	**$22**	**$167**	**$199**

Fiscal 2017 Fund Balance Reconciliation
($ in Millions)

Estimated Ending Fund Balance (July 2016)	**$363.3**
Revenues	
Fiscal 2016 Closeout	-$250.5
BRE Revisions (September and December 2016)	-426.3
GAAP Adjustment	47.4
Tax Credit Reimbursements/Other	27.3
Subtotal	***-$602.0***
Spending	
Fiscal 2016 Closeout Reversions	$83.7
Targeted Fiscal 2017 Reversions	97.5
BPW Withdrawn Appropriations (November 2016)	82.3
Estimated Fiscal 2017 Deficiencies	-234.2
Subtotal	***$29.3***
Estimated Closing Fund Balance (December 2016)	**-$209.4**

BPW: Board of Public Works
BRE: Board of Revenue Estimates
GAAP: generally accepted accounting principles

Potential Fiscal 2017 General Fund Deficiencies
($ in Millions)

Medicaid: Fiscal 2016 behavioral health costs carried into fiscal 2017 primarily for substance use disorder services ($10.7 million); and fiscal 2017 deficiencies ($114.1 million).	$124.9
Long-term Liabilities: Developmental Disabilities Administration federal fund audit disallowance for residential habilitation services ($30.3 million) and Department of Human Resources (DHR) Temporary Assistance for Needy Families shortfall ($9.8 million).	$40.1
DHR: Underattainment of federal funds throughout the department based on the most recent actuals.	$32.8
Other Operating Expenses: Fiscal 2016 costs carried into fiscal 2017 ($6.9 million) and fiscal 2017 deficiencies ($8.6 million).	$15.5
Maryland State Department of Education: Child care subsidy costs based on revised federal reimbursement methodology.	$12.2
Public Safety and Correctional Services: Cell phone managed access system ($6.7 million) and State Law Enforcement Officers Labor Alliance collective bargaining costs ($1.0 million).	$7.7
Behavioral Health Administration: Service costs for the uninsured.	$3.5
Impact of 2016 Legislation	$3.0
Anticipated Fiscal 2017 Savings: Developmental Disabilities Administration lower program costs based on most recent actuals ($5.6 million).	-$5.6
Total Deficiencies	**$234.2**

Fiscal 2018 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions.

- Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.

- Major inflation assumptions include natural gas (6.7%), gas/oil (6.1%), medical care and medicine/drugs at State facilities (3.4%), utilities/electricity (2.8%), postage (2.6%), and food (2.3%).

- Employee compensation costs include:

  - a general salary increase of 1.0% effective July 2017, and funding for employee increments on the regular July-January schedule;

  - employee and retiree health insurance inflation (4.3%); and

  - employee retirement costs (0.4%).

- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

Caseload Assumptions

	FY 2016	FY 2017	FY 2018	% Change FY 2017-2018
Pupil Enrollment*	842,229	845,861	853,173	0.9%
Medicaid	853,863	899,028	916,410	1.9%
Children's Health	134,931	148,424	152,877	3.0%
Expansion under Affordable Care Act	233,128	282,084	290,547	3.0%
Temporary Cash Assistance	56,115	51,649	48,950	-5.2%
Foster Care/Adoption/Guardianship	13,410	13,238	13,068	-1.3%
Adult Prison Population	20,576	20,642	20,642	0.0%

* Data for fiscal 2016, 2017, and 2018 reflect September 2014, September 2015, and September 2016 (est.) full-time equivalent enrollments.

State Expenditures – General Funds
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Adj. Leg. Appropriation	FY 2018 Baseline	FY 2017 to FY 2018 $ Change	FY 2017 to FY 2018 % Change
Debt Service	$252.4	$283.0	$231.0	-$52.0	-18.4%
County/Municipal	254.7	261.1	278.1	17.0	6.5%
Community Colleges	297.5	314.3	321.0	6.7	2.1%
Education/Libraries	5,827.5	5,925.6	5,952.3	26.7	0.5%
Health	45.7	49.5	53.4	3.9	7.9%
Aid to Local Governments	***$6,425.3***	***$6,550.6***	***$6,604.8***	***$54.2***	***0.8%***
Foster Care Payments	$185.2	$177.8	$182.8	$5.0	2.8%
Assistance Payments	61.9	64.5	53.1	-11.4	-17.6%
Medical Assistance	2,646.4	2,905.6	3,333.1	427.4	14.7%
Property Tax Credits	81.5	82.3	78.7	-3.6	-4.4%
Entitlements	***$2,974.9***	***$3,230.2***	***$3,647.7***	***$417.4***	***12.9%***
Health	$1,316.3	1,377.3	$1,453.0	$75.7	5.5%
Human Resources	359.0	382.2	414.8	32.6	8.5%
Children's Cabinet Interagency Fund	22.5	16.6	19.7	3.1	18.7%
Juvenile Services	272.5	276.4	286.6	10.2	3.7%
Public Safety/Police	1,479.2	1,525.9	1,580.0	54.1	3.5%
Higher Education	1,348.9	1,406.7	1,495.5	88.7	6.3%
Other Education	411.5	420.6	466.4	45.7	10.9%
Agriculture/Natural Res./Environment	113.4	122.9	130.8	7.9	6.4%
Other Executive Agencies	673.3	674.5	710.3	35.8	5.3%
Judiciary	452.9	481.7	500.4	18.7	3.9%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
State Agencies	***$6,534.0***	***$6,774.0***	***$7,147.3***	***$373.3***	***5.5%***
Anticipated Deficiencies [1]	$41.3	$234.2	$0.0	-$234.2	n/a
Total Operating	**$16,227.9**	**$17,072.0**	**$17,630.7**	**$558.7**	***3.3%***
Capital [2]	$26.5	$72.1	$55.6	-$16.5	-22.8%
Subtotal	***$16,254.4***	***$17,144.1***	***$17,686.4***	***$542.3***	***3.2%***
Reserve Funds	$72.5	$155.4	$100.0	-$55.4	-35.6%
Appropriations	**$16,326.9**	**$17,299.5**	**$17,786.4**	**$486.9**	***2.8%***
Reversions	-$87.0	-$39.8	-$30.0	$9.8	-24.6%
Grand Total	**$16,239.9**	**$17,259.7**	**$17,756.4**	**$496.7**	***2.9%***

[1] Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

[2] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes $207.3 million in deficiencies and $371.6 million in targeted reversions. The fiscal 2017 adjusted legislative appropriation reflects language restrictions of $137.6 million of which $49.6 million is expected to be spent by the Governor for a net anticipated reversion of $88.0 million. It also reflects actions taken by the Board of Public Works in November 2016 which reduced general fund spending by $82.3 million and increased reversions by $9.8 million.

State Expenditures – State Funds
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Adj. Leg. Appropriation	FY 2018 Baseline	FY 2017 to FY 2018 $ Change	FY 2017 to FY 2018 % Change
Debt Service	$1,402.0	$1,485.6	$1,581.0	$95.4	6.4%
County/Municipal	534.7	603.2	667.9	64.7	10.7%
Community Colleges	297.5	314.3	321.0	6.7	2.1%
Education/Libraries	6,215.4	6,384.5	6,518.4	133.9	2.1%
Health	45.7	49.5	53.4	3.9	7.9%
Aid to Local Governments	***$7,093.2***	***$7,351.4***	***$7,560.7***	***$209.2***	***2.8%***
Foster Care Payments	$190.1	$180.0	$187.1	$7.1	3.9%
Assistance Payments	78.5	77.8	64.4	-13.4	-17.2%
Medical Assistance	3,644.9	3,852.4	4,283.5	431.1	11.2%
Property Tax Credits	81.5	82.3	78.7	-3.6	-4.4%
Entitlements	***$3,994.9***	***$4,192.6***	***$4,613.8***	***$421.2***	***10.0%***
Health	$1,804.7	$1,895.3	$1,926.8	$31.6	1.7%
Human Resources	449.6	480.3	515.4	35.1	7.3%
Children’s Cabinet Interagency Fund	22.5	16.6	19.7	3.1	18.7%
Juvenile Services	277.4	280.3	290.4	10.2	3.6%
Public Safety/Police	1,700.9	1,750.7	1,810.0	59.3	3.4%
Higher Education	5,557.1	5,696.9	5,852.5	155.6	2.7%
Other Education	471.5	487.5	533.1	45.6	9.4%
Transportation	1,766.1	1,807.2	1,913.8	106.6	5.9%
Agriculture/Natural Res./Environment	366.7	402.4	430.0	27.7	6.9%
Other Executive Agencies	1,360.7	1,375.7	1,393.2	17.5	1.3%
Judiciary	517.6	541.0	558.1	17.1	3.2%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
State Agencies	***$14,379.2***	***$14,822.9***	***$15,332.9***	***$510.0***	***3.4%***
Anticipated Deficiencies [1]	$35.9	$244.4	$0.0	-$244.4	-100.0%
Total Operating	**$26,905.2**	**$28,096.8**	**$29,088.3**	**$991.5**	***3.5%***
Capital [2]	$1,861.2	$2,036.6	$2,127.6	$91.0	4.5%
– Transportation	1,580.3	1,650.8	1,760.5	109.6	6.6%
– Environment	193.7	220.1	164.0	-56.1	-25.5%
– Other	87.1	165.7	203.1	37.5	22.6%
Subtotal	***$28,766.3***	***$30,133.4***	***$31,215.9***	***$1,082.5***	***3.6%***
Reserve Funds	$72.5	$155.4	$100.0	-$55.4	-35.6%
Appropriations	**$28,838.8**	**$30,288.7**	**$31,315.9**	**$1,027.1**	***3.4%***
Reversions	-$87.0	-$39.8	-$30.0	$9.8	-24.6%
Grand Total	**$28,751.8**	**$30,249.0**	**$31,285.9**	**$1,036.9**	***3.4%***

[1] Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

[2] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes $200.5 million in deficiencies and $371.6 million in targeted reversions. The fiscal 2017 adjusted legislative appropriation reflects language restrictions of $170.1 million of which $76.6 million is expected to be spent by the Governor for a net anticipated reversion of $93.5 million. It also reflects actions taken by the Board of Public Works in November 2016 which reduced general fund spending by $83.3 million and increased reversions by $9.8 million.

Components of General Fund Budget Change
($ in Millions)

Summary of Budget Growth Compared to Legislative Appropriation	Dollars	Share of Growth
Ongoing Requirements/Entitlements	$419.6	52.9%
State Agency Costs	373.3	47.1%
Growth in Operating Budget, Including Anticipated Deficiencies	**$792.9**	
Pay-as-you-go (PAYGO)	-$16.5	
Appropriation to Reserve Fund	-55.4	
Total Baseline Increase in State Expenditures	**$721.0**	
Deficiency Appropriations	-$234.2	
Total	**$486.9**	

Ongoing Requirements/Entitlements	
Impact of 2016 Legislation	
Chapter 740 – Teacher Induction, Retention, and Advancement	$8.2
Chapter 32 – Public Schools Opportunities Advancement	7.5
Chapter 738 – Additional Disparity Grant	5.3
Chapter 33 – Next Generation Scholars	4.9
Chapter 683 – Preschool Development Grants	3.7
Chapter 714 – Enoch Pratt Free Library	3.0
Chapter 696 – Food Stamp State Supplement	2.9
Chapter 516 – Internet Crimes Against Children Task Force	2.0
Chapter 549 – Regional, State, and County Library Funding	0.8
Chapter 519 – Community Law Enforcement Fund	0.5
Chapter 681 – Robotics Grant	0.3
Other Changes	
Medical Assistance	$427.4
One-time local teacher retirement offset	20.0
Disparity Grant Formula	9.5
Education Aid Formulas	8.8
Community College Formula Plus Miscellaneous Grants	6.7
Foster Care Payments – Caseload trends versus appropriation ($2.2 million) and provider rate increase ($2.8 million)	5.0
Local Health Department Funding	3.9
Library Aid Formulas	1.2
Other Aid	-0.4
Property Tax Credit Programs	-3.6
Assistance Payments – Declining enrollment trends	-14.3
Teachers and Librarians Retirement Payments	-31.7
Debt Service – Available bond premiums reduce need for general funds to supplement property tax revenues	-52.0
State Agency Costs	
Statewide Personnel Expenses (Excluding Higher Education)	
Merit Pay (increments) Including Fiscal 2017 Annualization	$51.2
General Salary Increase (1.0%)	21.3
Health Insurance	14.1
Employee Retirement	3.8

Components of Budget Change (cont.)

Impact of 2016 Legislation	
Chapter 13 – Prince George's County Regional Medical Center	$15.0
Chapter 25 – University of Maryland Strategic Partnership	10.0
Chapter 515 – Justice Reinvestment Act (including 104 full-time equivalent (FTE) regular positions)	6.3
Chapter 10 – Grant for Next Generation Farmland Acquisition Program	5.0
Chapter 689 – State matching contribution under the College Affordability Act	5.0
Chapter 654 – Maryland Corps Program	1.8
Chapter 713 – Morgan State University Office of Technology transfer	1.0
Chapter 91 – New judges and associated staff (12 FTE regular positions)	0.9
Significant Fiscal 2017 Deficiencies Carried Over into Fiscal 2018	$38.7
Offset of One-time November 2016 Board of Public Works Actions	$25.4
Other Major Agency Programmatic and Operating Expenses	
University System of Maryland – General funds required to cover growth in base costs not provided for through tuition and Higher Education Investment Fund (HEIF) revenue	$71.1
Developmental Disabilities Administration – Mandated 3.5% provider rate increase ($20.5 million), fiscal 2018 expansion ($10.1 million), and annualization of fiscal 2017 expansion ($9.2 million)	39.9
Maryland State Department of Education – Additional child care subsidies based on change in federal authorization	9.5
Major Information Technology Projects	8.3
Maryland Higher Education Commission – Educational Excellence Awards	5.6
Sellinger Formula for Aid to Private Colleges and Universities	5.4
Subcabinet Fund Competitive Funding	3.1
Archives – Lower special fund support for land records	3.0
Department of Natural Resources – Park Service mandated funding	1.9
Behavioral Health Administration – Behavioral health services for the uninsured	1.8
Morgan State University – General funds required to cover growth in base costs not provided for through tuition and HEIF revenue	1.4
Department of State Police – Backfill of Section 20 reduction	1.1
Department of Juvenile Services – Provider rate increase	1.0
Department for Public Safety and Correctional Services – Cell Phone Managed Access maintenance	1.0
Maryland School for the Deaf Formula Adjustment	0.9
St. Mary's College of Maryland – Elimination of one-time grant	-1.1
Baltimore City Convention Center Operating Subsidy	-1.2
Rural Maryland Council – Elimination of one-time grant	-2.0
General Fund Support for Video Lottery Terminal operations	-2.3
Department of Health and Mental Hygiene – Removal of privatization contracts	-3.7
Enterprise Budget System costs	-6.3
Other	35.5
Reserve Fund and PAYGO	
Impact of 2016 Legislation	
PAYGO – Chapter 29 – Baltimore Regional Neighborhood Initiative	$12.0
PAYGO – Chapter 31 – Seed Community Development Anchor Institution Fund	5.0
PAYGO – Chapter 30 – Strategic Demolition and Smart Growth Impact Fund (increase over fiscal 2017)	4.1
PAYGO – Chapters 698/699 – Shelter and Transitional Housing Facilities Grant	3.0
Other Changes	
PAYGO – Reduction of one-time PAYGO funding ($46.2 million) and other changes ($1.4 million)	-$40.6
Rebuild of reserve fund to fund $50.0 million for the Rainy Day Fund per statute and $50.0 million pension sweeper	-55.4
Total	**$721.0**

General Fund Budget Outlook
Fiscal 2017-2022
($ in Millions)

	FY 2017 Work. App	FY 2018 Baseline	FY 2019 Est.	FY 2020 Est.	FY 2021 Est.	FY 2022 Est.	% Average Annual Change
Revenues							
Opening Fund Balance	$385	$0	$0	$0	$0	$0	
One-time Revenues/Legislation	62	0	0	0	0	0	
Subtotal One-time Revenue	***$446***	***$0***	***$0***	***$0***	***$0***	***$0***	
Ongoing Revenues	$16,604	$17,212	$17,767	$18,411	$19,089	$19,818	
Subtotal Ongoing Revenue	***$16,604***	***$17,212***	***$17,767***	***$18,411***	***$19,089***	***$19,818***	**3.6%**
Total Revenues & Fund Balance	**$17,050**	**$17,212**	**$17,767**	**$18,411**	**$19,089**	**$19,818**	**3.6%**
Ongoing Spending							
Operating Spending	$17,487	$18,117	$19,123	$20,043	$21,028	$21,915	
Education Trust Fund[1]	-463	-566	-554	-562	-570	-579	
Multi-year Commitments	9	39	24	14	14	9	
Subtotal Ongoing Spending	***$17,033***	***$17,590***	***$18,594***	***$19,495***	***$20,471***	***$21,344***	**5.0%**
One-time Spending							
PAYGO Capital	$53	$47	$93	$67	$93	$21	
One-time Reductions	-100	0	0	0	0	0	
Legislation/One-time Adjustments/Swaps	38	20	0	0	0	0	
Appropriation to Reserve Fund	235	100	50	50	83	83	
Subtotal One-time Spending	***$227***	***$167***	***$143***	***$117***	***$176***	***$104***	
Total Spending	**$17,260**	**$17,756**	**$18,736**	**$19,612**	**$20,647**	**$21,449**	**4.8%**
Ending Balance	**-$209**	**-$544**	**-$969**	**-$1,201**	**-$1,558**	**-$1,631**	
Rainy Day Fund Balance	$998	$1,059	$1,120	$1,187	$1,256	$1,333	
Balance over 5% of GF Revenues	168	198	231	267	302	341.7	
As % of GF Revenues	6.01%	6.15%	6.30%	6.45%	6.58%	6.72%	
Structural Balance	**-$429**	**-$377**	**-$827**	**-$1,084**	**-$1,382**	**-$1,527**	

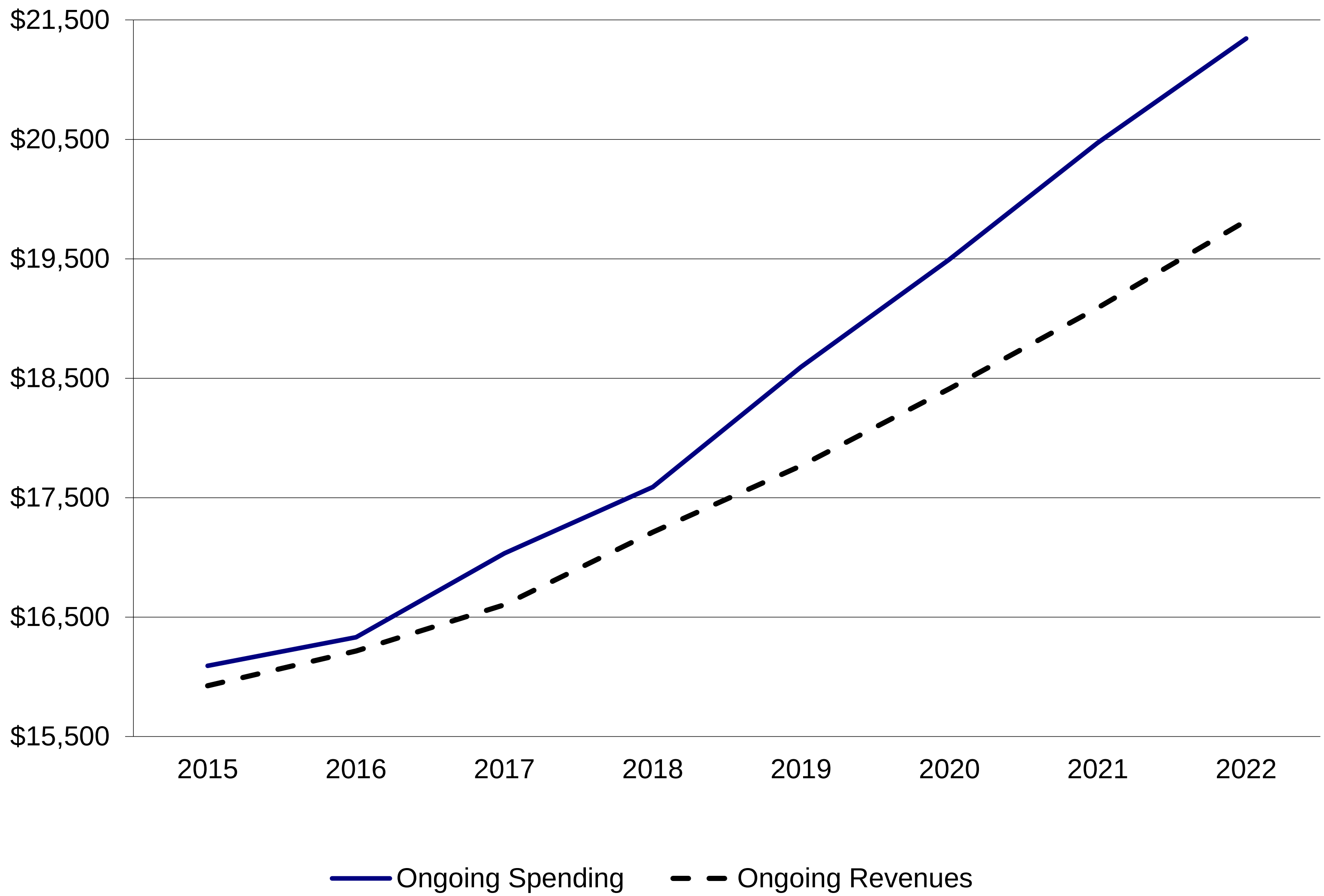
GF: General Fund
PAYGO: pay-as-you-go

[1]Education Trust Fund is supported by revenues from video lottery terminals and table games.

"Current as of December 13, 2016"

The Structural Shortfall Grows to $1.5 Billion by Fiscal 2022

Fiscal 2015-2022
($ in Millions)

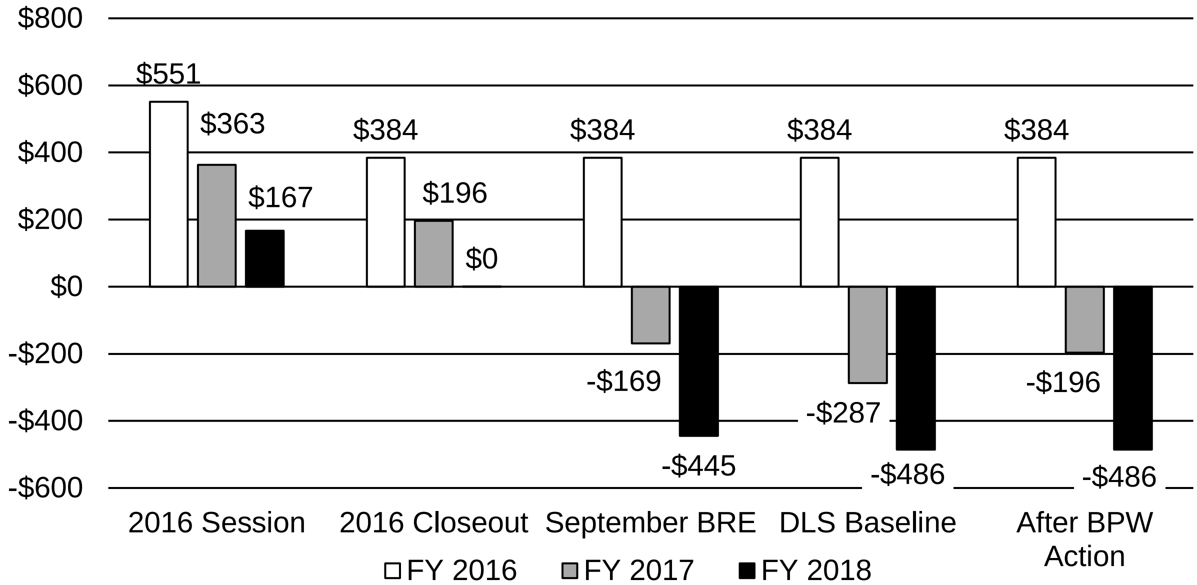


The Structural Problem

Forecast Annual Increase Fiscal 2018-2022

Operating Spending	5.00%
Ongoing Revenues	3.60%
Growth Gap	1.40%
Annual Budget Gap	$270 Million

Evolution of a Problem
($ in Millions)



Revenue Write-down Exacerbates Structural Deficit

	Fiscal 2018	Fiscal 2021
Structural Gap at Close of Session (DLS 6/16)	**-$30**	**-$519**
BRE Revenue Revisions (BRE 9/16)	-413	-527
DLS Spending Revisions (DLS 10/16)	104	-151
Savings from BPW Reductions (11/16)		18
Revised Structural Gap (DLS 10/16)	**-$339**	**-$1,179**
	DLS Estimate June 2016	**DLS Estimate October 2016**
Average Annual Growth Fiscal 2018 to 2021		
Revenues	3.8%	3.7%
Ongoing Spending	4.6%	5.1%
Gap	**-0.8%**	**-1.4%**

BPW: Board of Public Works
BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

Part 5

Local Government Assistance

State Aid by Governmental Entity

Amount and Percent of Total

State Funds

($ in Millions)

	FY 2018 State Aid Amount	% of Total
Public Schools	$6,426.2	85.2%
County/Municipal	667.9	8.8%
Community Colleges	321.0	4.3%
Libraries	78.3	1.0%
Local Health	53.4	0.7%
Total	**$7,546.8**	**100.0%**

Change in State Aid

State Funds

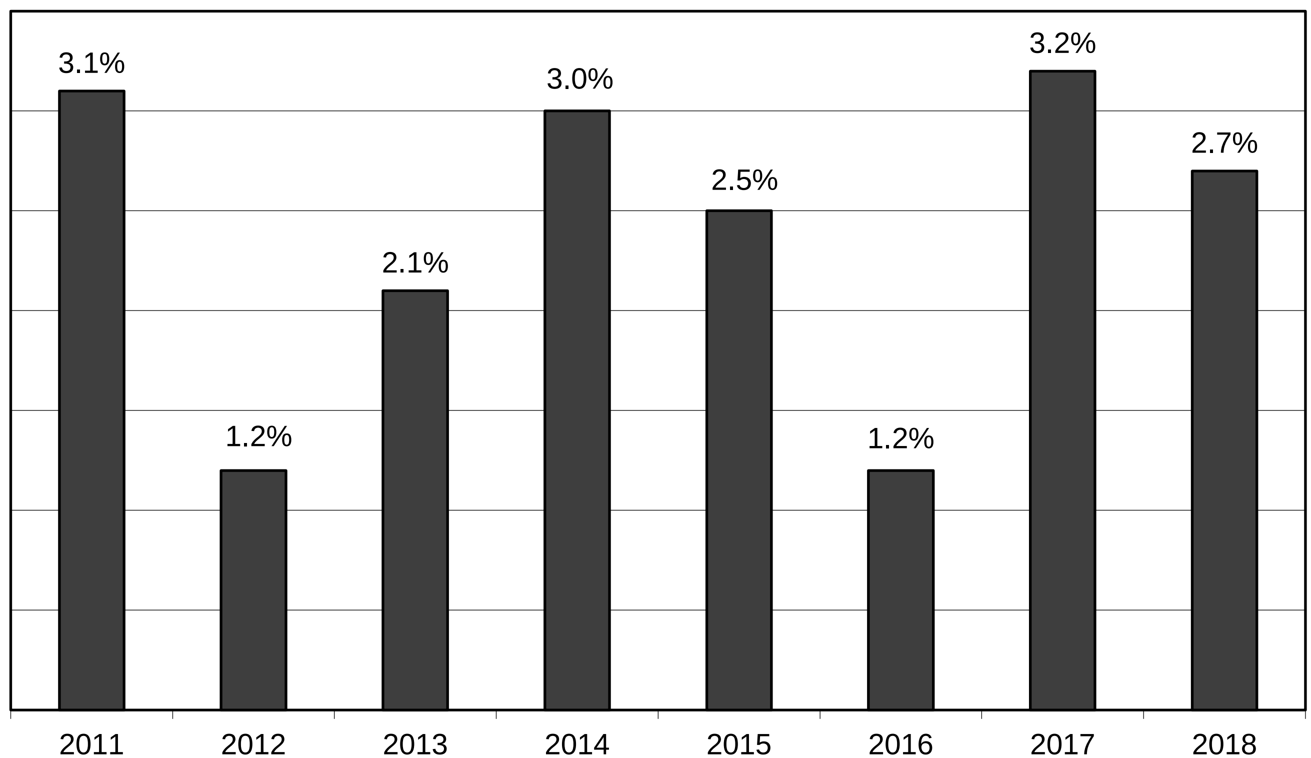
($ in Millions)

	FY 2018 Aid Change	% Change
Public Schools	$116.0	1.8%
County/Municipal	64.7	10.7%
Community Colleges	6.7	2.1%
Libraries	4.3	5.7%
Local Health	3.9	7.9%
Total	**$195.5**	**2.7%**

State Aid by Major Programs
Fiscal 2016-2018
State Funds
($ in Millions)

	FY 2016	FY 2017	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
Public Schools					
Foundation Program	$2,947.1	$2,962.0	$3,006.3	$44.3	1.5%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	68.1	136.9	139.1	2.2	1.6%
Net Taxable Income Education Grants	23.8	39.7	50.9	11.2	28.2%
Foundation – Special Grants	0.1	19.4	0.0	-19.4	-100.0%
Compensatory Aid	1,305.1	1,309.1	1,362.2	53.1	4.1%
Student Transportation	266.2	270.8	275.7	4.9	1.8%
Special Education – Formula Aid	276.0	279.6	283.8	4.2	1.5%
Special Education – Nonpublic Placements	130.5	126.6	126.1	-0.5	-0.4%
Limited English Proficiency Grants	217.2	227.0	246.1	19.1	8.4%
Guaranteed Tax Base	53.8	54.5	52.1	-2.4	-4.5%
Aging Schools Program	6.1	0.0	6.1	6.1	
Head Start/Pre-kindergarten	6.1	6.1	9.8	3.7	60.2%
Other Education Programs	74.4	64.5	85.1	20.6	31.9%
Subtotal Direct Aid	***$5,421.1***	***$5,543.0***	***$5,689.8***	***$146.9***	***2.6%***
Retirement Payments	$729.3	$767.3	$736.4	-$30.9	-4.0%
Total Public School Aid	**$6,150.4**	**$6,310.2**	**$6,426.2**	**$116.0**	**1.8%**
Libraries					
Library Aid Formula	$35.4	$36.4	$40.7	$4.3	11.9%
State Library Network	16.6	17.0	17.7	0.7	4.1%
Subtotal Direct Aid	***$52.0***	***$53.4***	***$58.4***	***$5.0***	***9.4%***
Retirement Payments	$19.7	$20.7	$19.9	-$0.8	-3.7%
Total Library Aid	**$71.7**	**$74.0**	**$78.3**	**$4.3**	**5.7%**
Community Colleges					
Community College Formula	$222.7	$234.4	$242.3	$7.9	3.4%
Other Programs	31.4	33.5	34.0	0.5	1.6%
Subtotal Direct Aid	***$254.1***	***$267.9***	***$276.3***	***$8.4***	***3.2%***
Retirement Payments	$42.0	$46.5	$44.7	-$1.8	-3.8%
Total Community College Aid	**$296.1**	**$314.3**	**$321.0**	**$6.7**	**2.1%**
Local Health Grants	**$45.7**	**$49.5**	**$53.4**	**$3.9**	**7.9%**
County/Municipal Aid					
Transportation	$201.5	$209.6	$212.0	$2.3	1.1%
Public Safety	117.9	126.7	129.9	3.2	2.6%
Program Open Space	23.5	27.2	40.7	13.5	49.7%
Disparity Grant	129.8	132.8	147.7	14.9	11.2%
Gaming Impact Grants	38.6	62.9	93.0	30.2	48.0%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	17.4	16.3	16.9	0.6	3.8%
Total County/Municipal Aid	**$556.3**	**$603.2**	**$667.9**	**$64.7**	**10.7%**
Total State Aid	**$7,120.2**	**$7,351.2**	**$7,546.8**	**$195.5**	**2.7%**

Annual Change in State Aid to Local Governments
Fiscal 2011-2018



Part 6

Capital Program

State Debt Policy

Capital Debt Affordability Committee Recommends Decreasing Authorizations

- The Capital Debt Affordability Committee (CDAC) reviews State debt policy each year and issues a recommendation for the following legislative session by October 1. CDAC voting members are the State Treasurer, Comptroller, Secretary of Budget and Management, Secretary of Transportation, and an individual appointed by the Governor. The chairs of the Senate Budget and Taxation and House Appropriations capital budget committees are also on the committee.

- CDAC recommends authorizing $995 million in general obligation (GO) bonds for the fiscal 2018 capital program. For planning purposes, the committee also recommends maintaining annual expenditures at $995 million through fiscal 2026.

State Debt Is within Affordability Ratios

- CDAC's policy is that State tax-supported debt outstanding should not exceed 4.0% of Maryland personal income, and State tax-supported debt service payments should not exceed 8.0% of State revenues.

- The proposed level of GO bond authorizations are affordable. However, the State is closer to breaching these ratios than it was one year ago. The debt ratio and revenues are inversely related. Recent write-downs of general fund revenues increased the debt service ratio so that it peaks at 7.78%.

State Affordability Ratios
Fiscal 2017-2022

Fiscal Year	Debt Outstanding not to Exceed 4% of Personal Income	Debt Service not to Exceed 8% of Revenues
2017	3.54%	7.58%
2018	3.50%	7.78%
2019	3.43%	7.78%
2020	3.32%	7.59%
2021	3.20%	7.53%
2022	3.08%	7.54%

State Debt Policy (cont.)

Annuity Bond Fund Forecast
Fiscal 2017-2022
($ in Millions)

	2017	2018	2019	2020	2021	2022
Special Fund Revenues						
State Property Tax Receipts	$780	$799	$808	$816	$825	$834
Bond Sale Premiums[1]	50	49	3	0	0	0
Other Revenues	3	3	3	3	3	3
Prior Year Balance	209	151	1	1	1	1
Subtotal Special Fund Revenues	***$1,042***	***$1,002***	***$816***	***$821***	***$829***	***$838***
General Funds	$283	$231	$477	$501	$515	$544
Transfer Tax Special Funds	7	7	7	7	7	7
Federal Funds	11	11	11	11	10	9
Total Revenues	**$1,343**	**$1,251**	**$1,311**	**$1,340**	**$1,361**	**$1,399**
Debt Service Expenditures	**$1,192**	**$1,250**	**$1,310**	**$1,339**	**$1,359**	**$1,397**
ABF End-of-year Fund Balance	**$151**	**$1**	**$1**	**$1**	**$1**	**$1**

ABF: Annuity Bond Fund

[1]Estimated bond sale premiums total $49.7 million in March 2017, $25.5 million in summer 2017, $23.1 million in March 2018, and $3.0 million in summer 2018.

Source: Department of Legislative Services, October 2016

- From fiscal 2017 to 2022, total debt service costs increase 3.2% annually. State property tax revenues increase 1.4% annually.

- Fiscal 2018 begins with a $151 million fund balance, which can be used to reduce the general fund appropriation.

- From fiscal 2019 to 2022, general fund appropriations are expected to increase 4.5% annually.

- If interest rates remain low throughout the forecast period, the Department of Legislative Services projects that the bond sales would generate upwards of $90 million in premiums per year, which offsets the general fund appropriation correspondingly.

State Debt Policy (cont.)

Effect of Increasing Authorizations by 1% Annually
($ in Millions)

Fiscal Year	Authorization	Additional Debt Service	Debt Service to Revenues	Debt Outstanding to Personal Income
2017	$995	$0	7.58%	3.54%
2018	1,005	0	7.78%	3.51%
2019	1,015	0	7.78%	3.44%
2020	1,025	1	7.60%	3.33%
2021	1,035	2	7.54%	3.22%
2022	1,045	4	7.55%	3.11%

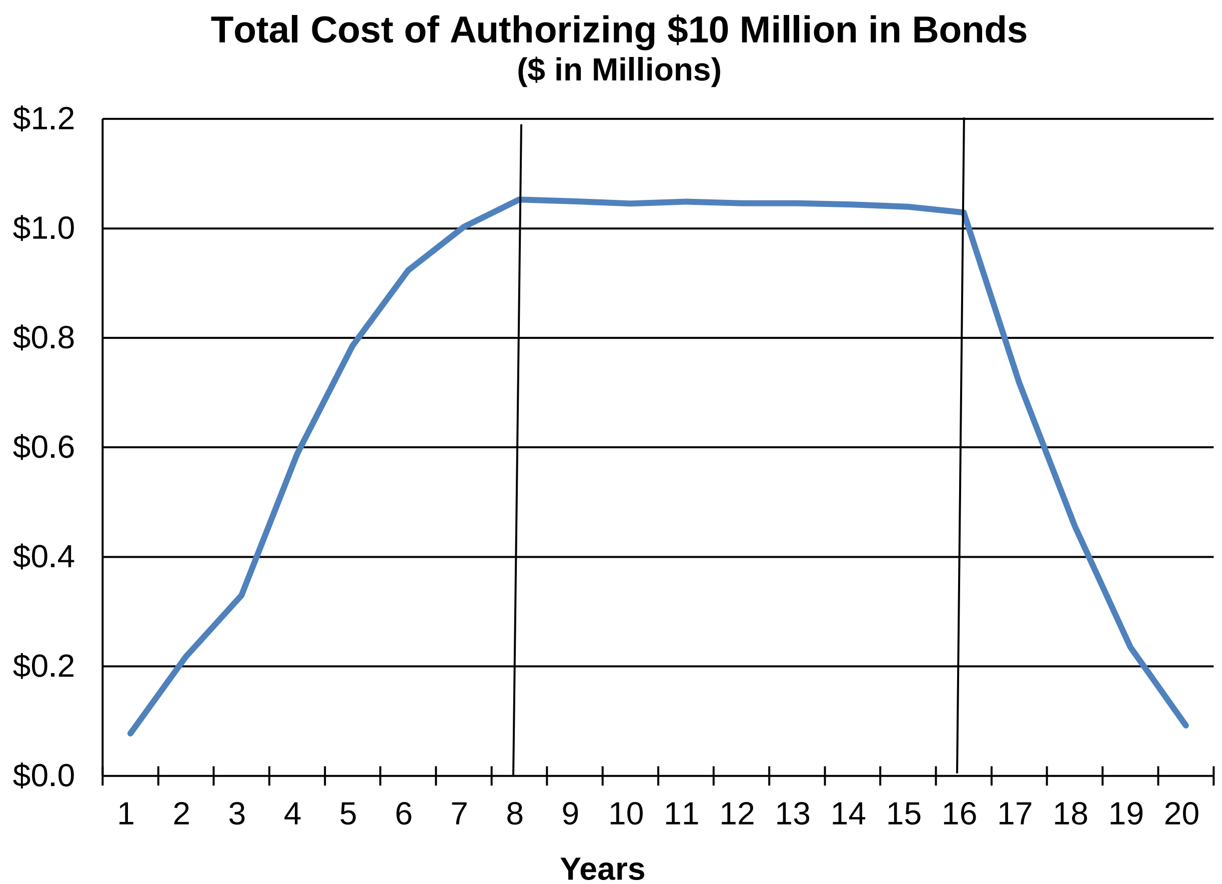
Effect of Increasing Authorizations to 2015 SAC Level
($ in Millions)

Fiscal Year	Authorization	Additional Debt Service	Debt Service to Revenues	Debt Outstanding to Personal Income
2017	$995	$0	7.58%	3.54%
2018	1,065	1	7.78%	3.51%
2019	1,075	2	7.78%	3.45%
2020	1,085	5	7.61%	3.35%
2021	1,095	9	7.57%	3.25%
2022	1,105	16	7.60%	3.15%

SAC: Spending Affordability Committee

- State property tax revenues are projected to increase 1.4% annually in the Annuity Bond Fund forecast.

State Debt Policy (cont.)



- Debt service costs peak at $1.05 million in the eighth year and remain at about $1.0 million until the costs begin declining in the seventeenth year.

- The slow increase in debt service costs is attributable to:

  - State policy to pay only debt service in the first two years after bonds are issued; and

  - State policy to issue bonds when the cash flow is needed, so that all bonds are not issued in the first year after the authorization. CDAC assumes that 31% of bonds are issued in the first year, 25% in the second year, 20% are issued in the third year, 15% are issued in the fourth year, and 9% are issued in the fifth year.

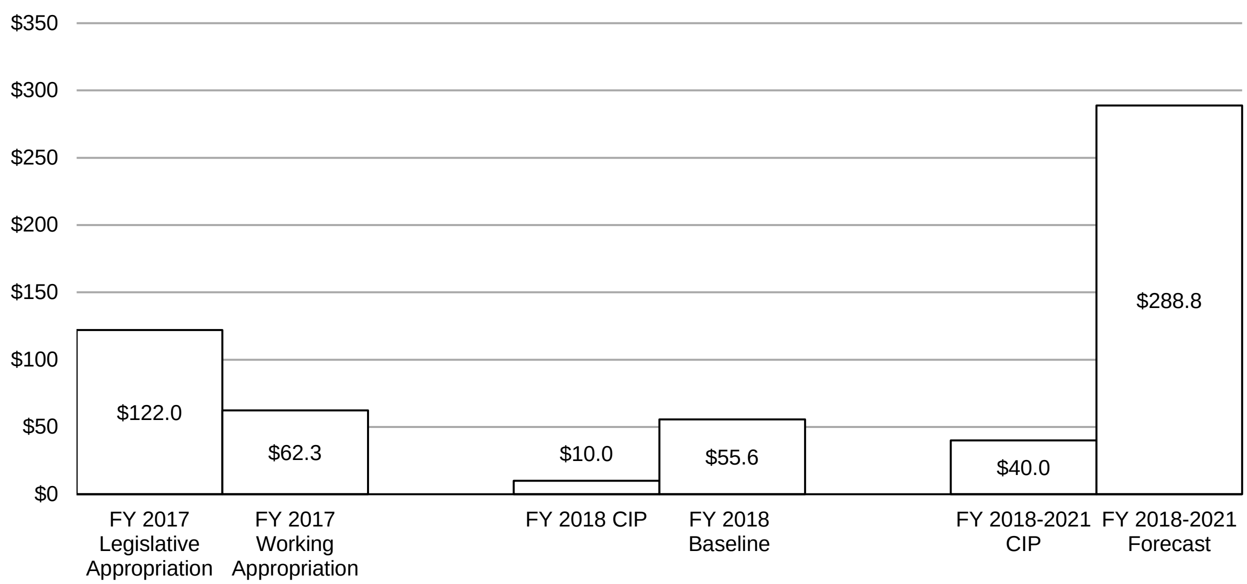
General Fund Pay-as-you-go Outlook

- The Board of Public Works (BPW) approved reductions and the Administration's decision to not appropriate general funds restricted in the State Reserve Fund reduce general fund support for the fiscal 2017 capital program from $122.0 million to $62.3 million.

- Commitments made in the 2016 session are forecasted to require significantly more general fund pay-as-you-go (PAYGO) than currently programmed for fiscal 2018 and through the planning period covered by the 2016 Capital Improvement Program (CIP).

- The Board of Revenue Estimates (BRE) recent downward revision in general fund revenue estimates for fiscal 2017 and 2018 could constrain general fund support of the capital program in the near term. To the extent that general obligation (GO) bonds are considered a source of replacement funds for fiscal 2017 reductions and future commitment, this presents another pressure on the already strained GO bond portion of the capital program.

General Fund PAYGO
Fiscal 2017 Legislative Appropriation and Working Appropriation; Fiscal 2018 Baseline and Fiscal 2018 CIP; Fiscal 2018-2021 CIP and Forecast
($ in Millions)



CIP: *Capital Improvement Program*
PAYGO: pay-as-you-go

Note: The fiscal 2017 legislative and working appropriations reflect new general obligation bond authorizations.

Source: 2016 capital budget bill; 2016 CIP; Department of Legislative Services general fund forecast and fiscal 2018 baseline budget

- **Restricted State Reserve Fund General Fund PAYGO:** At the 2016 session, the legislature restricted $42.9 million available in the State Reserve Fund to be used only to fund specified capital programs and projects in fiscal 2017. Shortly after the conclusion of the 2016 session, the Administration announced that the restricted funds would not be appropriated. At the time, the Administration advised that a portion of the withheld funds would be replaced but provided no detail as to the timing or fund source.

Status of Restricted PAYGO General Funds in Reserve Fund
Fiscal 2017
($ in Millions)

Program	Fiscal 2017 General Assembly	Fiscal 2017 Governor	Fiscal 2018 Replacement Governor
BPW: Facilities Renewal Program	$15.000	$0	$15.000
DoIT: Public Safety Communication System	9.190	0	9.190
DPSCS: Demolition of Baltimore City Correctional Complex	6.581	0	0
MSDE: Aging Schools Program	6.109	0	0
MDA: Agricultural Cost Share Program	6.000	0	6.000
Total	**$42.880**	**$0**	**$30.190**

BPW: Board of Public Works
DoIT: Department of Information Technology
DPSCS: Department of Public Safety and Correctional Services
MDA: Maryland Department of Agriculture
MSDE: Maryland State Department of Education
PAYGO: pay-as-you-go

Note: The Administration advised that $30.2 million would be made available as replacement funds but no detail has been provided concerning the timing or fund source. To the extent the recent Board of Revenue Estimates downward revision in general fund revenue estimates for fiscal 2017 and 2018 constrains the use of general funds to support the capital program, general obligation bonds could be a source of replacement funds.

Source: Department of Budget and Management

- **BPW's November 2016 Action Reduces Fiscal 2017 General Fund PAYGO:** The general fund portion of the fiscal 2017 capital program is also reduced by $16.8 million, consisting of $7.0 million from the Department of Housing and Community Development and a $9.8 million reversion from the Maryland Department of the Environment (MDE). The Administration indicates that it plans to replace only the MDE general fund reduction with taxable GO bonds in the capital budget submitted at the 2017 session.

Status of Withdrawn Fiscal 2017 General Fund PAYGO
($ in Millions)

Program	Fiscal 2017 General Assembly	Fiscal 2017 Governor	Fiscal 2018 Replacement Governor
DHCD: Neighborhood Business Development Program	$3.400	$2.900	$0
DHCD: Community Legacy Program	3.905	2.905	0
DHCD: Rental Housing Program	10.000	9.000	0
DHCD: Housing Programs	8.500	7.600	0
DHCD: Special Loan Programs	2.100	0	0
DHCD: Partnership Rental Housing Program	6.000	5.000	0
DHCD: Housing and Building Energy Program	1.000	.500	0
MDE: Water Quality Revolving Loan Program	6.792	0	6.792
MDE: Drinking Water Revolving Loan Program	3.003	0	3.003

DHCD: Department of Housing and Community Development
MDE: Maryland Department of the Environment
PAYGO: pay-as-you-go

Source: Department of Budget and Management

- **General Fund PAYGO Forecast – Commitments Exceed Programmed Resources:** General fund PAYGO commitments made in the 2016 session would require $55.6 million in fiscal 2018 compared to the $10.0 million currently programmed in the 2016 CIP. From an out-year perspective, these same commitments would require a total of $288.9 million through fiscal 2021 while only $40.0 million is currently programmed.

General Fund PAYGO CIP Compared to Forecast
Fiscal 2018-2021
($ in Millions)

Program	**2018-2021 CIP**	**2018-2021 Forecast**
MDP: Sustainable Communities Tax Credit	$36.000	$36.000
DNR: Program Open Space – Transfer Tax Repayment		114.722
DHCD: Neighborhood Revitalization (CORE)		54.125
DHCD: Baltimore Regional Neighborhood Initiative		48.000
DHCD: Seed Community Development Anchor Institution Fund		20.000
DHCD: Shelter and Transitional Housing Program		12.000
MDE: Hazardous Substance Cleanup Program	4.000	4.000
Total	**$40.000**	**$288.847**

CIP: *Capital Improvement Program*
DHCD: Departmen of Housing and Community Development
DNR: Department of Natural Resources
MDE: Maryland Department of the Environment
MDP: Maryland Department of Planning
PAYGO: pay-as-you-go

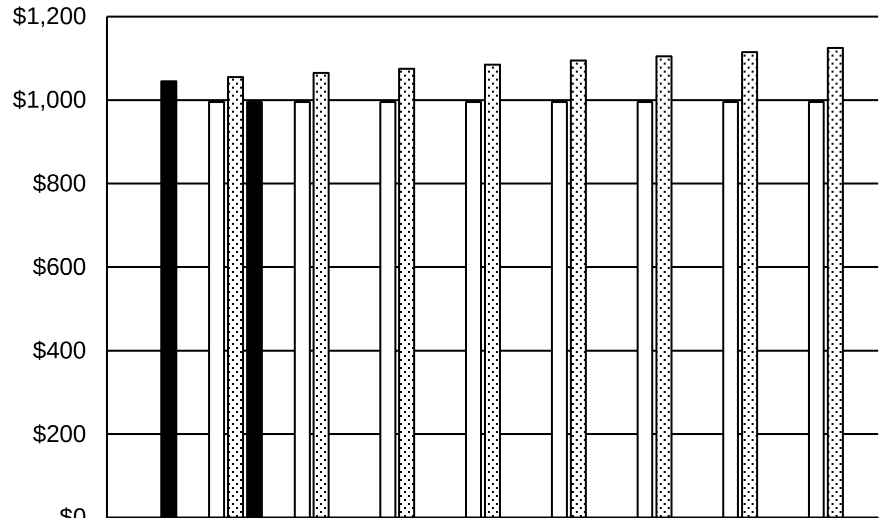
Note: The Department of Legislative Services general fund forecast assumes that general funds would be used to meet the new commitments made in the 2016 session consistent with information provided by the Administration in the 2016 session and with legislation establishing each mandate in the 2016 session. Each item is a candidate for general obligation bond funding to the extent general funds to support the capital progam are constrained.

Source: Department of Legislative Services general fund forecast and fiscal 2018 baseline budget estimate

The Capital Debt Affordability Committee Recommends Keeping New GO Bond Authorizations at $995 Million

The October 2016 Capital Debt Affordability Committee's (CDAC) recommendation would keep new GO authorizations at $995 million annually through the planning period and continues the policy of scaled back annual authorizations. The 2015 Spending Affordability Committee (SAC) recommendation, recognizing the need to address the increasing reliance on general funds for debt service, established a limit on new GO bond authorizations that increased by 1% on a year-over-year basis. This moderate growth rate limits increases in GO bond authorizations to projected State property tax revenue increases. Since general funds and other State revenues are projected to increase at an annual rate in excess of 1%, the SAC recommendation reduces the ratio of debt service to revenues in the out-years.

2015 and 2016 CDAC and 2015 SAC Recommended GO Bond Authorization Levels
Fiscal 2016-2024
($ in Millions)



	2016	2017	2018	2019	2020	2021	2022	2023	2024
CDAC Recommendation 2015 and 2016		$995	$995	$995	$995	$995	$995	$995	$995
SAC 2015		$1,055	$1,065	$1,075	$1,085	$1,095	$1,105	$1,115	$1,125
FY 2016 and 2017 Legislative Authorization	$1,045	$995							

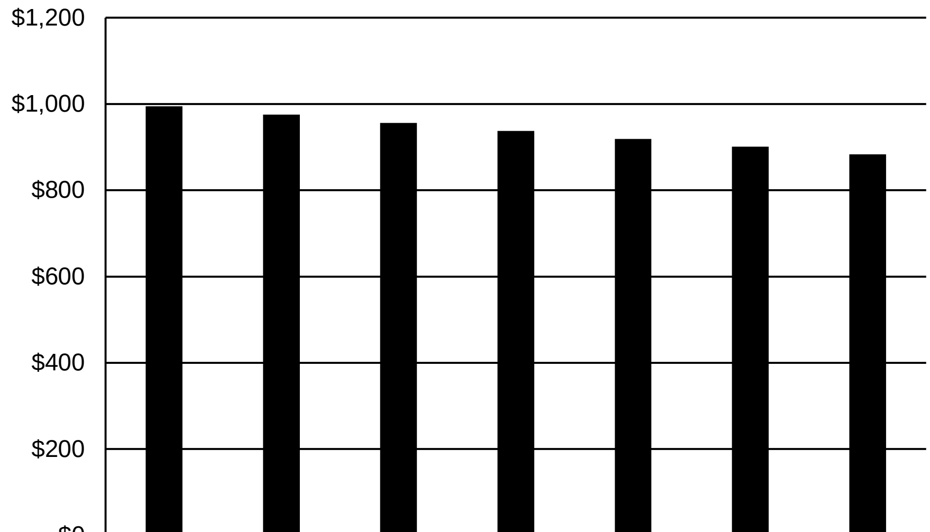
CDAC: Capital Debt Affordability Committee
GO: general obligation
SAC: Spending Affordability Committee

Source: 2015 and 2016 CDAC report; 2015 SAC report

- CDAC's 2016 recommendation does not include the customary 3% annual inflation adjustment. Without annual adjustments to account for the effects of inflation in the construction market, CDAC's proposed level of annual out-year authorization is diminished.

CDAC Proposed New GO Bond Authorization Levels – Inflation Adjusted

Fiscal 2018-2024
($ in Millions)



	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Inflation Adjusted (2% annual)	$995.0	$975.5	$956.4	$937.6	$919.2	$901.2	$883.5

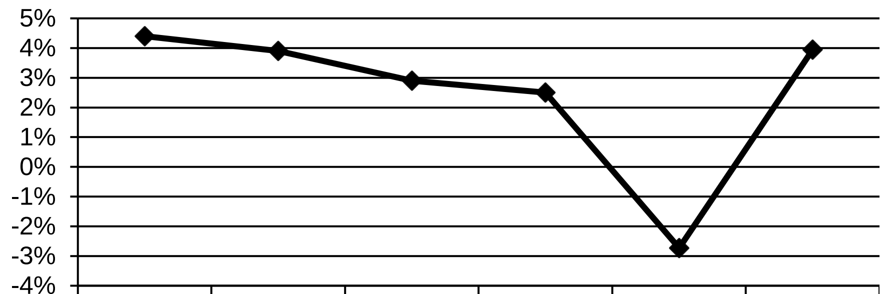
CDAC: Capital Debt Affordability Committee
GO: general obligation

Note: CDAC policy of 3% annual growth in new GO bond authorizations reflects policy of 2% construction inflation and 1% population growth.

Source: 2016 CDAC report

- Year-over-year construction inflation ranged from 4.4% in calendar 2011 to 2.5% in calendar 2014. This measure declined precipitously to negative 2.73% in calendar 2015 attributed to a sharp decline in crude oil prices. Through September 2016, a tight construction labor market and wage increases brought about a steady increase of 3.95% relative to calendar 2015 measures. Overall, from calendar 2011 through the first nine months of 2016, regional construction inflation has increased at an average annual rate of 1.9%.

Annual Construction Cost Inflation Calendar 2011-2016



	2011	2012	2013	2014	2015	2016
Regional Building Cost Index Baltimore	4.40%	3.90%	2.90%	2.50%	-2.73%	3.95%

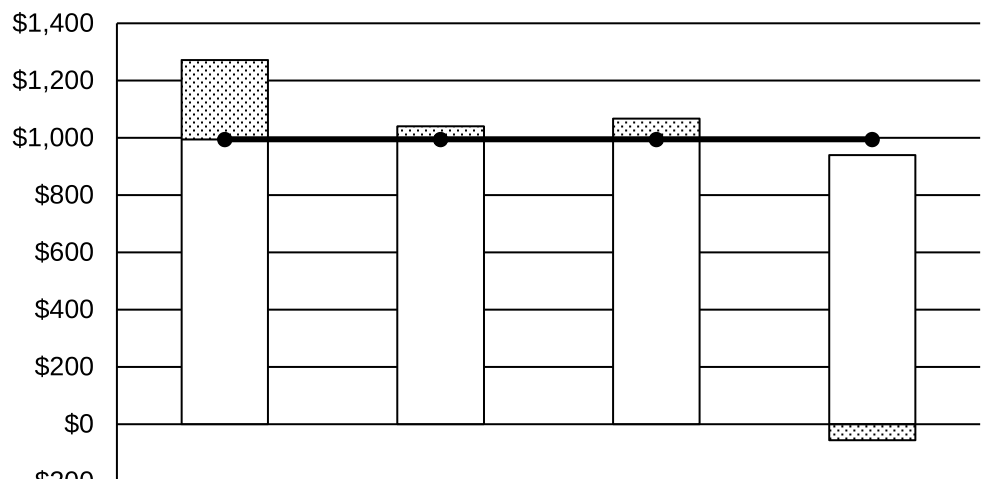
Source: Engineering News-Record Building and Construction Cost Indexes – City Cost Index Baltimore City

CDAC Recommended GO Bond Authorization Levels Are Insufficient to Meet the Commitments and Provide a Source of Replacement Funds

Capital commitments made in the 2016 session and other commitments that would use GO bonds as a source of replacement funds for withdrawn fiscal 2017 PAYGO general funds exceed the levels of GO bonds currently programmed and recommended in the forecast period covered by the 2016 CIP.

GO Bond Commitments Made in 2016 Session Exceed Programmed Authorization Levels

Fiscal 2018-2021
($ in Millions)



	FY 2018	FY 2019	FY 2020	FY 2021
Other Commitments	$276.7	$45.7	$72.6	-$56.3
CIP 2015	$994.5	$994.8	$994.9	$939.4
CDAC 2016	$995.0	$995.0	$995.0	$995.0

CDAC: Capital Debt Affordability Committee
CIP: *Capital Improvement Program*
GO: general obligation

Source: 2016 CIP; 2016 Capital Budget Bill

- **Commitments Exceed Programmed GO Bond Authorization Levels:** These additional commitments include mandates established through legislation, capital programs and projects accelerated by the Administration and the General Assembly, preauthorization of projects not already included in the CIP, expressions of legislative intent through budget language, and replacement funds for BPW withdrawn appropriations. The impact these commitments could have on the fiscal 2018 capital budget depends upon how the Administration intends to treat each individual item but the estimated impact is approximately $276.6 million above what the CIP could accommodate in fiscal 2018 under the $995.0 million limit recommended by CDAC. This delta increases to a total of $338.6 million through fiscal 2021, the planning period covered by the 2016 CIP. Approximately $332.3 million in fiscal 2018 and a total of $627.5 million through fiscal 2021 would be needed above programmed GO bond authorization levels should GO bonds be used as a source of replacement funds for withdrawn fiscal 2017 PAYGO general funds and commitments made in the 2016 session forecasted to require the use of general funds.

Commitments Made in 2016 Session Exceed Programmed General Obligation Bond Authorization Levels
Fiscal 2018-2021
($ in Thousands)

	FY 2018	FY 2019	FY 2020	FY 2021
Projects Accelerated/Deferred	$148,190	-$51,500	-$31,200	-$111,300
Projects Preauthorized	27,200	30,400	48,800	0
Bond Replacement BPW Reductions and Reserve Fund	30,795	0	0	0
Mandates	20,000	28,000	20,000	20,000
Expressions of Intent	23,750	23,750	20,000	20,000
Legislative and Administrative Local Initiatives	26,725	15,000	15,000	15,000
Subtotal	***$276,660***	***$45,650***	***$72,600***	***-$56,300***
Potential Bond Replacement for General Fund PAYGO	$55,625	$79,500	$51,000	$102,772
Total	**$332,285**	**$125,150**	**$123,600**	**$46,472**

BPW: Board of Public Works
PAYGO: pay-as-you-go

Note: Estimated out-year funding impacts for accelerated projects assume that items will be funded in useable phases such that no gaps exist in estimated project delivery timelines. Estimates for deferred projects reflect one-year deferral and funding in useable phases such that no gaps exist in the timing of funding and project delivery.

Source: 2016 *Capital Improvement Program*; Department of Legislative Services

Part 7

Transportation

Transportation Trust Fund Forecast Comparison
Fiscal 2016-2021 v. Fiscal 2017-2022 Six-year Totals
($ in Millions)

	MDOT Final 2016-2021	MDOT Draft 2017-2022	Final-Draft Variance	DLS 2017-2022	MDOT/DLS Variance
Revenues					
Taxes and Fees					
Motor Vehicle Fuel Taxes	$7,424	$7,018	-$406	$6,785	-$233
Titling Taxes	5,423	5,545	122	5,557	12
Sales Tax – Rental Vehicles	207	215	9	215	0
Corporate Income Tax	1,051	1,066	15	1,066	0
Registration Fees	2,322	2,378	56	2,378	0
Miscellaneous Motor Vehicle Fees	1,835	1,864	29	1,864	0
Subtotal – Taxes and Fees	***$18,262***	***$18,086***	***-$175***	***$17,865***	***-$221***
Other Revenues					
Operating Revenues	$2,851	$2,820	-$31	$2,820	$0
Federal Operating Assistance	582	582	0	582	0
Bond Proceeds/Premiums	3,470	3,665	195	2,735	-930
Other	526	488	-38	488	0
Change in Fund Balance	119	-12	-131	-24	-12
Subtotal – Other Revenues	***$7,548***	***$7,543***	***-$5***	***$6,601***	***-$942***
Total Revenues	**$25,810**	**$25,629**	**-$180**	**$24,467**	**-$1,163**
Expenditures					
Debt Service	$2,014	$2,351	$337	$2,181	-$171
Operating Budget	12,085	12,539	454	13,127	588
Deductions to Other Agencies	406	415	9	415	0
HUR and Local Grants	1,844	1,857	13	1,847	-10
State Capital Program	9,461	8,467	-994	6,897	-1,569
Total Expenditures	**$25,810**	**$25,629**	***-$181***	**$24,467**	***-$1,163***

DLS: Department of Legislative Services
HUR: Highway User Revenues
MDOT: Maryland Department of Transportation

Transportation Trust Fund Forecast (cont.)

Observations

- The six-year State capital program in the Maryland Department of Transportation (MDOT) draft fiscal 2017-2022 Transportation Trust Fund (TTF) forecast is $994 million lower than its prior year six-year program. Lower estimated motor fuel tax revenue is only partially offset by increases in other revenue estimates and higher bond issuances with revenue down $180 million between the two forecasts. Additional spending, particularly for debt service ($337 million) and departmental operations ($454 million), is the primary cause of the reduction in the capital program.

- The Department of Legislative Services (DLS) fiscal 2017-2022 TTF forecast indicates that the State capital program in the MDOT draft forecast is still oversubscribed by $1.6 billion caused by the following:

  - Additional spending for departmental operations accounts for $588 million of the reduction. The DLS forecast inflates out-year operational spending by the five-year average annual rate of increase through fiscal 2016. The budget committees instructed MDOT to use the five-year rate of change in its out-year operating projections but it chose not to do so;

  - Lower motor fuel tax revenues account for a further $233 million of the reduction to the capital program. The largest difference between DLS and MDOT in this area is the estimate of the number of gallons that will be sold during the forecast period; and

  - Bond issuances in the DLS forecast are $930 million less than in the MDOT forecast. The reduction is necessary to maintain the net income to debt service coverage ratio of 2.5 that MDOT has adopted as its administrative policy (bond covenants require a minimum of 2.0 coverage.) If legislation is enacted increasing the amount of Highway User Revenues going to local governments, additional reductions to planned bond issuances will need to be made in order to maintain the minimum debt service coverage ratio.

Draft Consolidated Transportation Program

- The draft fiscal 2017 to 2022 *Consolidated Transportation Program* (CTP) reflects $1.3 billion less in capital spending over the six-year period compared to the previous six-year plan. This results from the lower revenues and higher spending discussed previously.

Comparison of Six-year Capital Spending by Fund Source

Fiscal 2016-2022
($ in Millions)

	2016-2021 CTP	Draft 2017-2022 CTP	Change	% Change
Special Funds	$9,535.1	$8,397.3	-$1,137.8	-11.9%
Federal Funds	4,956.5	4,968.1	11.6	0.2%
Other Funds*	1,213.8	1,080.4	-133.4	-11.0%
Total Funds	**$15,705.4**	**$14,445.8**	**-$1,259.6**	**-8.0%**

CTP: *Consolidated Transportation Program*

*Other Funds include funds from customer and passenger facility charges and certain types of federal aid that do not pass through the Transportation Trust Fund.

Source: Maryland Department of Transportation 2016-2021 final CTP, 2017-2022 draft CTP

- Just over 60% of the reduction is in State Highways with most of the reductions occurring in the categories of major projects (-$332.7 million) and system preservation (-$375.9 million). This represents a 9.1% decrease in highway spending compared with the prior year six-year program. Even with the reductions, State highway capital spending accounts for almost 53.0% of the six-year program.

Draft Consolidated Transportation Program (cont.)

Comparison of Six-year Capital Spending by Mode

Fiscal 2016-2022
($ in Millions)

	2016-2021 CTP	Draft 2017-2022 CTP	Change	% Change
Administration	$334.0	$246.3	-$87.7	-26.3%
WMATA	1,581.3	1,583.8	2.5	0.2%
State Highways	8,363.6	7,606.1	-757.5	-9.1%
Port	909.1	852.0	-57.1	-6.3%
Motor Vehicle	133.8	125.1	-8.7	-6.5%
Mass Transit	3,744.1	3,620.4	-123.7	-3.3%
Airport	639.0	412.2	-226.8	-35.5%
Total	**$15,704.9**	**$14,445.9**	**-$1,259.0**	**-8.0%**

CTP: *Consolidated Transportation Program*
WMATA: Washington Metropolitan Area Transit Authority

Source: Maryland Department of Transportation 2016-2021 final CTP, 2017-2022 draft CTP

- The largest decrease on a percentage basis occurs in the Maryland Aviation Administration, which sees a 35.5% decrease in its six-year program due to the completion of several large projects located at the Baltimore-Washington International Thurgood Marshall Airport, such as the connector between concourses D and E and the Runway Safety Area, Standards, and Pavement Improvements (Phases 2 through 4).

- Although the Maryland Department of Transportation has reserved $761 million in the draft Transportation Trust Fund forecast to increase the amount of Highway User Revenues going to local governments, the draft CTP does not show these funds as capital spending. It is unclear how the Administration plans to implement its proposed increase in local transportation aid.

Part 8

State Employment and Employee Benefits

Regular Full-time Equivalent Positions Changes
Fiscal 2015 Actual to Fiscal 2018 Baseline

Department/Service Area	2015 Actual	2016 Working	2017 Working*	2018 Baseline	2017-2018 Change
Health and Human Services					
Health and Mental Hygiene	6,330	6,353	6,183	6,186	3
Human Resources	6,465	6,360	6,265	6,286	21
Juvenile Services	2,055	2,055	1,999	1,999	0
Subtotal	***14,850***	***14,768***	***14,447***	***14,471***	***24***
Public Safety					
Public Safety and Correctional Services	11,068	11,025	10,956	11,073	117
Police and Fire Marshal	2,438	2,438	2,436	2,436	0
Subtotal	***13,506***	***13,463***	***13,392***	***13,509***	***117***
Transportation	**9,086**	**9,126**	**9,108**	**9,120**	**13**
Other Executive					
Legal (Excluding Judiciary)	1,488	1,501	1,473	1,478	5
Executive and Administrative Control	1,633	1,626	1,577	1,583	6
Financial and Revenue Administration	2,103	2,119	2,107	2,107	0
Budget and Management and DoIT	446	460	484	484	0
Retirement	205	213	210	210	0
General Services	578	578	582	582	0
Natural Resources	1,294	1,321	1,326	1,327	1
Agriculture	381	380	366	367	1
Labor, Licensing, and Regulation	1,604	1,603	1,528	1,531	3
MSDE and Other Education	1,938	1,940	1,957	1,963	6
Housing and Community Development	337	337	330	330	0
Commerce	217	208	194	194	0
Environment	936	939	913	913	0
Subtotal	***13,158***	***13,223***	***13,046***	***13,067***	***22***
Executive Branch Subtotal	***50,599***	***50,579***	***49,992***	***50,167***	***175***
Higher Education	**25,516**	**25,632**	**25,906**	**25,906**	**0**
Executive and Higher Education Subtotal	***76,115***	***76,211***	***75,899***	***76,074***	***175***
Judiciary	**3,733**	**3,914**	**3,951**	**3,966**	**15**
Legislature	**749**	**749**	**749**	**749**	**0**
Total	**80,597**	**80,874**	**80,598**	**80,788**	**190**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

*Fiscal 2017 Working Appropriation reflects changes in higher education positions due to Board of Public Works action, and the creation and abolishment of positions due to flex authority of the institutions.

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

Analysis of Vacancies and Turnover Rate
Fiscal 2017 Legislative Appropriation Compared to October 2016 Vacancies

Department/Service Area	Positions	Turnover Rate	Vacancies to Meet Turnover	Vacancies	Vacancies Above (or Below) Turnover
Health and Human Services					
Health and Mental Hygiene	6,183	6.8%	422	594	171
Human Resources	6,265	7.1%	443	524	81
Juvenile Services	1,999	7.2%	144	229	85
Subtotal	***14,447***	***7.0%***	***1,009***	***1,347***	***337***
Public Safety					
Public Safety and Correctional Services	10,956	4.7%	520	1,492	973
Police and Fire Marshal	2,436	4.2%	102	318	216
Subtotal	***13,392***	***4.6%***	***622***	***1,810***	***1,189***
Transportation	**9,108**	**4.3%**	**390**	***682***	***291***
Other Executive					
Legal (Excluding Judiciary)	1,473	5.4%	80	109	29
Executive and Administrative Control	1,577	4.7%	74	169	95
Financial and Revenue Administration	2,107	5.5%	116	224	108
Budget and Management and DoIT	484	3.5%	17	47	30
Retirement	210	5.0%	11	18	7
General Services	582	6.5%	38	59	21
Natural Resources	1,326	3.3%	44	98	54
Agriculture	366	6.6%	24	24	0
Labor, Licensing, and Regulation	1,528	3.7%	56	170	114
MSDE and Other Education	1,957	5.8%	114	170	56
Housing and Community Development	330	5.6%	18	30	12
Commerce	194	4.9%	10	24	14
Environment	913	7.0%	64	88	23
Subtotal	***13,046***	***5.1%***	***666***	***1,229***	***563***
Executive Branch Total	**49,992**	**5.3%**	**2,687**	**5,067**	**2,380**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

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

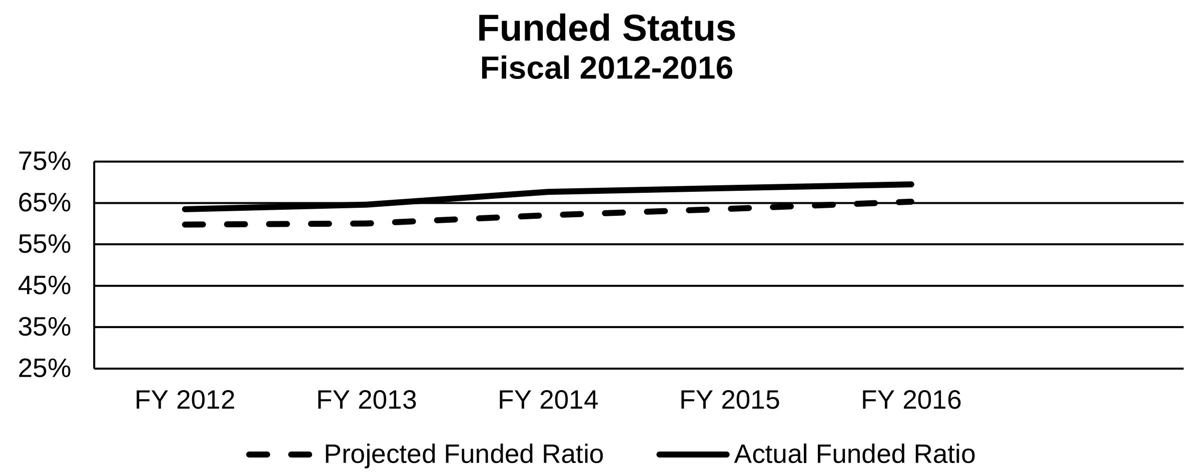
Employee and Retiree Health Insurance Account
Fiscal 2015-2018
($ in Millions)

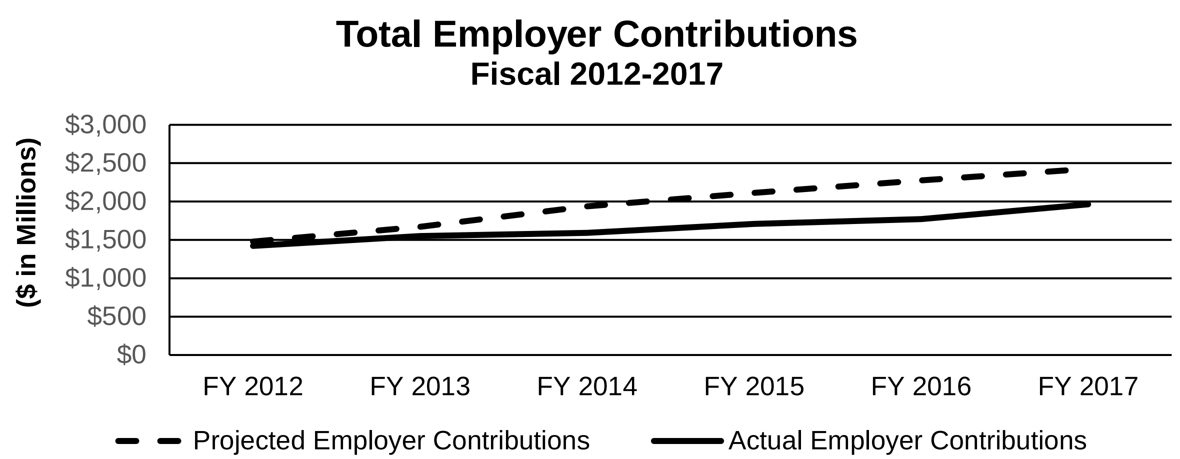
	2015 Actual	2016 Actual	2017 Working	2018 Baseline
Beginning Balance	**$215.4**	**$60.0**	**$149.4**	**$161.2**
Expenditures				
DBM Personnel Administrative Cost	$19.0	$14.6	$17.5	$17.5
Payments of Claims				
Medical	$906.3	$947.0	$992.4	$1,039.7
Rx	463.4	520.0	586.6	661.7
Dental	46.9	46.7	46.8	46.8
New Positions	0.0	0.0	0.0	4.6
Payments to Providers	**$1,416.7**	**$1,513.8**	**$1,625.7**	**$1,752.8**
Percent Growth in Payments	7.9%	6.9%	7.4%	7.8%
Receipts				
State Agencies	$958.5	$1,236.9	$1,264.5	$1,318.9
Employee Contributions	162.0	185.5	193.4	201.7
Retiree Contributions	78.4	91.4	93.1	97.2
Rx Rebates, Recoveries, and Other	81.4	104.0	104.0	104.0
Total Receipts	**$1,280.3**	**$1,617.8**	**$1,655.0**	**$1,721.7**
Percent Growth in Receipts	2.6%	26.4%	2.3%	4.0%
Ending Balance	**$60.0**	**$149.4**	**$161.2**	**$112.6**
Incurred But Not Received	**-$105.5**	**-$105.5**	**-$103.0**	**-$103.0**
Reserve for Future Provider Payments	**-$45.5**	**$43.9**	**$58.2**	**$9.6**

DBM: Department of Budget and Management
Rx: prescription drug

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

State Retirement and Pension System
Actual Performance Compared to Post-reform Estimate





- The funded ratio for the State Retirement and Pension System has remained consistently higher than was projected when pension reform was enacted in 2011, despite employer contributions being lower than was projected at the time.

- Although investment performance was favorable immediately after the reforms were adopted, the average annual investment return over the past five years has been below the 7.55% assumed rate of return, and, therefore, does not explain the favorable outcomes.

State Retirement and Pension System (cont.)

- Slow growth in liabilities has been largely responsible for favorable outcomes:
  - Rapid turnover in system membership has resulted in nearly one-third (29%) of teachers and employees being in the reformed pension plan;
  - Low inflation has kept cost-of-living adjustments very low (*e.g.*, 0.1% in 2016); and
  - Salary base is not growing at the expected rate of 3.2% (0.8% from 2015 to 2016).

Funding Status and Contribution Update
($ in Millions)

	Funding Status as of June 30			
	FY 2014	**FY 2015**	**FY 2016**	**FY 2015-16 % Change**
Actuarial Liabilities	$58,027	$61,414	$62,751	2.2%
Actuarial Value of Assets	39,277	42,154	43,630	3.5%
Unfunded Actuarial Liabilities	**$18,750**	**$19,260**	**$19,121**	**-0.7%**
Funded Ratio	67.7%	68.6%	69.5%	

	Employer Contributions			
	FY 2016	**FY 2017**	**FY 2018***	**FY 2017-18 % Change**
Actuarial State Contribution	$1,440	$1,534	$1,548	
Supplemental Contributions	75	150	125	
Total State Contribution	**$1,515**	**$1,684**	**$1,673**	**-0.7%**
School Board Contributions	$255	$280	$280	
Total Contributions	**$1,770**	**$1,964**	**$1,953**	**-0.6%**

*Projected.

Note: Exhibit does not include assets and liabilities for participating governmental units.

Source: State Retirement Agency; Department of Legislative Services

State Retirement and Pension System (cont.)

- Liabilities are expected to continue to grow at a slow pace due to increasing retirement rates, low inflation, and fiscal constraints on salary growth.
- More than $2.0 billion in unrecognized investment losses will put increasing upward pressure on contribution rates over the next four years unless future performance helps offset those losses.

Five-year Recognition (Smoothing) of Actuarial Gains and Losses

Valuation Date as of June 30
($ in Millions)

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Actual Investment Return	2.7%	1.2%				
Actuarial Gain/(Loss)	-$2,243	-$2,926				
Amount Recognized:						
Current Year	-$449	-$585				
One Year Ago	525	-449	-$585			
Two Years Ago	198	525	-449	-$585		
Three Years Ago	-558	198	525	-449	-$585	
Four Years Ago	764	-558	198	525	-449	-$585
Net Recognized for Valuation	**$480**	**-$869**	**-$311**	**-$509**	**-$1,034**	**-$585**

Part 9

Supporting Material

"Current as of December 13, 2016"

Status of the General Fund
Fiscal 2017
($ in Millions)

Starting Balance		**$384.5**
Revenues		
BRE Estimated Revenue September 2016	$16,655.2	
BRE Revision December 2016	-61.2	
November 2016 Administration Assumptions	13.0	
Total		**$16,606.9**
Transfers		
Budgeted Tax Credits	$31.5	
GAAP Adjustment	47.4	
Program Open Space	-20.0	
Total		**$58.9**
Funds Available		**$17,050.3**
Spending		
Fiscal 2017 Working Appropriation	$17,235.6	
DLS Estimated Deficiencies	234.2	
November 2016 BPW Withdrawn Appropriations	-82.3	
Reversion of Fenced Off Items	-87.7	
Estimated Agency Reversions	-40.0	
Net Expenditures		**$17,259.7**
Ending Balance		**-$209.4**

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

Status of the General Fund
Fiscal 2018
($ in Millions)

Starting Balance		**$0.0**
Revenues		
BRE Estimated Revenue September 2016	$17,158.8	
BRE Revision December 2016	-24.5	
Total		**$17,134.3**
Transfers		
Budgeted Tax Credits	$31.9	
Program Open Space	46.0	
Total		**$78.0**
Funds Available		**$17,212.3**
Spending		
Fiscal 2018 DLS Baseline	$17,804.5	
Ongoing Impact of Nov 2016 BPW Action	-18.1	
Estimated Agency Reversions	-30.0	
Net Expenditures		**$17,756.4**
Ending Balance		**-$544.1**

BPW: Board of Public Works
BRE: Board of Revenue Estimates
DLS: Department of Legislative Services

State Reserve Fund Activity
Fiscal 2017 and 2018
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Balances 6/30/16	**$832.3**	**$1.8**	**$9.6**
Fiscal 2017 Appropriations	235.3	0.0	0.0
Information Technology Upgrades	0.0	-1.8	0.0
Excess Revenue/Transfers	-80.0	0.0	0.0
Ellicott City Flood Relief Assistance	0.0	0.0	-2.5
Interest and Other Net Revenues	10.9	0.0	0.0
Estimated Balances 6/30/17	**$998.6**	**$0.0**	**$7.1**
Fiscal 2018 Appropriations	50.0	50.0	0.0
Transfer to Pension Fund	0.0	-50.0	0.0
Interest and Other Net Revenues	10.7	0.0	0.0
Estimated Balances 6/30/18	**$1,059.3**	**$0.0**	**$7.1**
Percent of Revenues in Reserve	**6.2%**		

Note: The fiscal 2017 budget bill restricted approximately $80.0 million from within the Rainy Day Fund appropriation to fund other projects and programs. With the Administration's decision to not release those funds for the identified purposes, the restricted funds will revert to the General Fund at the close of fiscal 2017.

"Current as of December 13, 2016"

State Expenditures – All Funds

($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Adj. Leg. Appropriation	FY 2018 Baseline	FY 2017 to FY 2018 $ Change	FY 2017 to FY 2018 % Change
Debt Service	$1,413.5	$1,497.1	$1,592.5	$95.4	6.4%
County/Municipal	600.5	669.0	733.7	64.7	9.7%
Community Colleges	297.5	314.3	321.0	6.7	2.1%
Education/Libraries	7,063.0	7,321.2	7,455.1	133.9	1.8%
Health	50.2	54.0	57.9	3.9	7.2%
Aid to Local Governments	***$8,011.1***	***$8,358.5***	***$8,567.8***	***$209.2***	***2.5%***
Foster Care Payments	$288.7	$262.3	$265.2	$2.9	1.1%
Assistance Payments	1,338.0	1,333.4	1,274.6	-58.8	-4.4%
Medical Assistance	9,574.7	9,881.8	11,384.7	1,502.9	15.2%
Property Tax Credits	81.5	82.3	78.7	-3.6	-4.4%
Entitlements	***$11,282.9***	***$11,559.8***	***$13,003.2***	***$1,443.3***	***12.5%***
Health	$2,751.3	$2,872.0	$2,922.5	$50.6	1.8%
Human Resources	944.4	985.2	1,050.2	65.0	6.6%
Children's Cabinet Interagency Fund	22.5	16.6	19.7	3.1	18.7%
Juvenile Services	284.7	285.1	295.5	10.4	3.6%
Public Safety/Police	1,738.3	1,793.2	1,852.0	58.7	3.3%
Higher Education	5,557.1	5,696.9	5,852.5	155.6	2.7%
Other Education	717.5	741.7	791.8	50.1	6.8%
Transportation	1,862.6	1,904.4	2,012.3	107.8	5.7%
Agriculture/Natural Res./Environment	436.5	468.9	498.1	29.2	6.2%
Other Executive Agencies	1,932.3	1,989.9	2,003.8	13.9	0.7%
Judiciary	518.8	541.1	558.2	17.1	3.2%
Legislative	84.5	89.2	89.8	0.7	0.8%
Across-the-board Cuts	-0.2	0.0	0.0	0.0	n/a
State Agencies	***$16,850.5***	***$17,384.2***	***$17,946.5***	***$562.2***	***3.2%***
Anticipated Deficiencies [1]	$35.9	$1,133.4	$0.0	-$1,133.4	-100.0%
Total Operating	**$37,593.9**	**$39,933.1**	**$41,109.8**	**$1,176.8**	**2.9%**
Capital [2]	$2,671.5	$3,130.1	$3,138.1	$8.0	0.3%
– Transportation	2,285.8	2,671.2	2,673.2	2.0	0.1%
– Environment	238.6	264.4	209.2	-55.2	-20.9%
– Other	147.1	194.5	255.6	61.1	31.4%
Subtotal	***$40,265.4***	***$43,063.2***	***$44,247.9***	***$1,184.7***	***2.8%***
Reserve Funds	$72.5	$155.4	$100.0	-$55.4	-35.6%
Appropriations	**$40,337.9**	**$43,218.6**	**$44,347.9**	**$1,129.3**	**2.6%**
Reversions	-$87.0	-$39.8	-$30.0	$9.8	-24.6%
Grand Total	**$40,250.9**	**$43,178.8**	**$44,317.9**	**$1,139.1**	**2.6%**

[1] Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

[2] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2016 working appropriation includes $210.8 million in deficiencies and $371.6 million in targeted reversions. The fiscal 2017 adjusted legislative appropriation reflects language restrictions of $170.1 million of which $76.6 million is expected to be spent by the Governor for a net anticipated reversion of $93.5 million. It also reflects actions taken by the Board of Public Works in November 2016 which reduced general fund spending by $83.3 million and increased reversions by $9.8 million.

State Expenditures – Federal Funds
($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
Debt Service	$11.5	$11.5	$11.5	-$0.1	-0.5%
County/Municipal	65.9	65.9	65.9	0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	847.6	936.8	936.8	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
Aid to Local Governments	***$917.9***	***$1,007.1***	***$1,007.1***	***$0.0***	***0.0%***
Foster Care Payments	$98.7	$82.3	$78.1	-$4.2	-5.1%
Assistance Payments	1,259.5	1,255.6	1,210.1	-45.4	-3.6%
Medical Assistance	5,929.8	6,029.4	7,101.2	1,071.7	17.8%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$7,288.0***	***$7,367.3***	***$8,389.4***	***$1,022.1***	***13.9%***
Health	$946.6	$976.7	$995.7	$19.0	1.9%
Human Resources	494.9	504.9	534.8	29.9	5.9%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	7.4	4.8	5.0	0.2	4.3%
Public Safety/Police	37.4	42.5	41.9	-0.6	-1.4%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	246.0	254.2	258.7	4.5	1.8%
Transportation	96.6	97.2	98.5	1.3	1.3%
Agriculture/Natural Res./Environment	69.8	66.5	68.1	1.5	2.3%
Other Executive Agencies	571.6	614.2	610.6	-3.6	-0.6%
Judiciary	1.2	0.2	0.2	0.0	0.8%
State Agencies	***$2,471.3***	***$2,561.3***	***$2,613.6***	***$52.2***	***2.0%***
Anticipated Deficiencies	$0.0	$889.0	$0.0	-$889.0	-100.0%
Total Operating	**$10,688.7**	**$11,836.3**	**$12,021.6**	**$185.3**	**1.6%**
Capital	$810.4	$1,093.6	$1,010.5	-$83.1	-7.6%
– Transportation	705.5	1,020.4	912.8	-107.6	-10.5%
– Environment	44.9	44.3	44.2	-0.1	-0.2%
– Other	60.0	28.9	53.5	24.6	85.2%
Grand Total	**$11,499.1**	**$12,929.8**	**$13,032.0**	**$102.2**	**0.8%**

Note: The fiscal 2016 working appropriation includes $10.3 million in deficiencies.

State Expenditures – Special and Higher Education Funds*

($ in Millions)

Category	FY 2016 Working Appropriation	FY 2017 Legislative Appropriation	FY 2018 Baseline	FY 2017-2018 $ Change	FY 2017-2018 % Change
Debt Service	$1,149.6	$1,202.6	$1,350.0	$147.4	12.3%
County/Municipal	280.0	342.0	389.8	47.7	14.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	387.9	458.8	566.1	107.2	23.4%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	***$667.9***	***$800.9***	***$955.8***	***$155.0***	***19.4%***
Foster Care Payments	$4.8	$2.2	$4.3	$2.1	94.1%
Assistance Payments	16.6	13.3	11.3	-2.0	-15.0%
Medical Assistance	998.5	946.8	950.5	3.7	0.4%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$1,020.0***	***$962.3***	***$966.1***	***$3.8***	***0.4%***
Health	$488.4	$518.0	$473.9	-$44.1	-8.5%
Human Resources	90.6	98.1	100.6	2.5	2.6%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.9	3.9	3.8	0.0	-1.2%
Public Safety/Police	221.7	224.8	230.0	5.2	2.3%
Higher Education	4,208.2	4,290.2	4,357.0	66.8	1.6%
Other Education	60.0	66.9	66.7	-0.1	-0.2%
Transportation	1,766.1	1,807.2	1,913.8	106.6	5.9%
Agriculture/Natural Res./Environment	253.3	279.5	299.3	19.8	7.1%
Other Executive Agencies	687.4	702.2	682.9	-19.3	-2.7%
Judiciary	64.7	59.3	57.7	-1.6	-2.7%
Legislative	0.0	0.0	0.0	0.0	n/a
Across-the-board Cuts	0.0	0.0	0.0	0.0	n/a
State Agencies	***$7,845.2***	***$8,049.9***	***$8,185.6***	***$135.7***	***1.7%***
Anticipated Deficiencies [1]	-$5.5	$10.2	$0.0	-$10.2	-100.0%
Total Operating	**$10,677.2**	**$11,025.8**	**$11,457.5**	**$431.8**	**3.9%**
Capital	$1,834.7	$1,964.5	$2,072.0	$107.5	5.5%
– Transportation	1,580.3	1,650.8	1,760.5	109.6	6.6%
– Environment	193.3	210.1	164.0	-46.1	-21.9%
– Other	61.0	103.6	147.5	44.0	42.4%
Grand Total	**$12,511.9**	**$12,990.2**	**$13,529.5**	**$539.3**	**4.2%**

[1] Anticipated deficiencies for fiscal 2017. Deficiencies in the fiscal 2016 working appropriation are for prior years.

* Includes higher education fund (current unrestricted and current restricted) net of general and special funds.

Note: The fiscal 2016 working appropriation reflects deficiencies of -$6.8 million. The fiscal 2017 legislative appropriation reflects language restrictions of $32.6 million of which $27.0 million is expected to be spent by the Governor for a net reduction of $5.6 million.

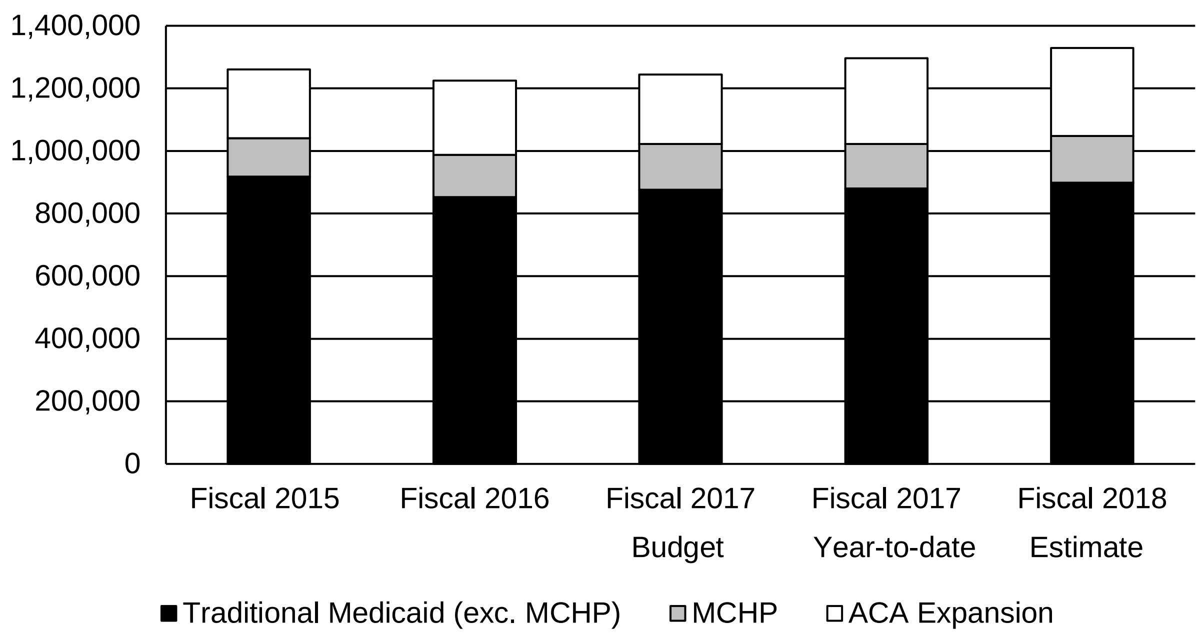
Increased Managed Care Organization Rates and Higher Behavioral Health Costs Drive a Projected Fiscal 2017 Medicaid Deficit and Growth in Fiscal 2018

- Medicaid's fiscal 2017 general fund deficiencies are estimated at $124.1 million.

- On the somatic health side, deficits are estimated at $93.4 million. The primary driver of this deficit is managed care organization (MCO) rates. Specifically, a mid-year increase of 3.7% brought the total calendar 2016 MCO rate increase to 11.0%. Calendar 2017 MCO rates are scheduled to grow at 1.1%. However, rates for the population groups for which the State has a greater financial responsibility increase by an estimated 4.7%.

- Behavioral health deficits total $30.7 million, $10.7 million attributed to fiscal 2016 and $20.0 million to fiscal 2017. These deficits are attributed to higher than anticipated expenditures for substance use disorder (SUD) treatment. Fiscal 2016 was the first full year of expenditures for SUD treatment under fee-for-service (FFS) rather than through MCOs.

Medicaid Enrollment Bounces Back from the Effects of Redeterminations in Fiscal 2016 However, the Budgetary Impact Is Modest
Fiscal 2015-2018



ACA: Affordable Care Act

MCHP: Maryland Children's Health Program

- Projected enrollment for fiscal 2017 is considerably higher than that budgeted for, reflecting a quicker than expected bounce-back in enrollment from the impact of redetermination. However, the fiscal impact of this growth is reduced because most of the growth is in enrollment categories for which the State share of payments is low. Further, enrollment in expensive eligibility categories (*e.g.*, disabled adults) has been revised down, and more enrollees are being served through MCOs rather than FFS, which tends to lower overall costs.

- Medicaid spending in fiscal 2018 is anticipated to grow by just under $1.5 billion, 14.7% over the fiscal 2017 legislative appropriation. Growth over the fiscal 2017 estimate is more modest, $464 million, or 4.2%. Most of the growth is in federal funds, reflecting both increased enrollment and service expenditures in eligibility groups with large federal support.

- General fund growth in fiscal 2018 is expected to be $388.7 million, or 13.3% above the legislative appropriation, or $273.0 million, or 9.0%, above the fiscal 2017 estimate.

Fiscal 2017 Deficiencies Add to an Increased Demand for General Fund Support in Fiscal 2018 Compared to Fiscal 2017 Appropriations
Fiscal 2016-2018
($ in Millions)

	2016	2017 Budget	2017 Est.	2018 Baseline
General Funds	$2,631.9	$2,926.5	$3,042.1	$3,315.2
Special Funds	1,001.9	946.8	948.3	950.5
Federal Funds	5,948.4	6,029.4	6,912.5	7,101.2
Reimbursable Funds	68.9	57.7	57.7	57.7
Total	**$9,651.1**	**$9,960.3**	**$10,960.6**	**$11,424.4**

Source: Department of Legislative Services

- Compared to the fiscal 2017 legislative appropriation, $113.4 million of the projected general fund growth in Medicaid in the fiscal 2018 baseline is due to fiscal 2017 deficiencies that carry over into fiscal 2018. Other key cost drivers include the full impact of the calendar 2017 MCO rate increase, the assumption of a 3.1% calendar 2018 MCO rate increase due to the expiration of a one-year moratorium on an insurer fee imposed under the Affordable Care Act (ACA), accommodating the first full fiscal year of the State's growing share of the costs associated with the ACA expansion population, modest rate increases for FFS providers, and accommodating projecting enrollment growth of 2.3%.

Commitments Exceed Programed Resources

	FY 2018	FY2019	FY2020	FY2021
Projects Accelerated/Deferred				
DoIT: Public Safety Communication System	$9.190			
Morgan State University: Student Services Support Building	13.700	$36.500	-$18.000	-$37.500
UMES: School of Pharmacy	3.700	27.800	34.800	-31.300
USM: Biomedical Sciences and Engineering Education Facility	88.000	6.000	-16.000	-122.500
UMBC: Interdisciplinary Life Science Building	50.000	6.500	-65.400	
Department of State Police: New Cumberland Barrack	4.300	-0.200	-4.600	
DPSCS: Demolition of Buildings at the Baltimore City Correctional Complex		16.900		
DPSCS: New Baltimore Justice Center	-20.700	-145.000	38.000	80.000
Subtotal	***$148.190***	***-$51.500***	***-$31.200***	***-$111.300***
Projects Preauthorized				
UMCP: New School of Public Affairs	$3.000	$17.000		
DHMH: Rosewood Environmental Abatement	10.000	5.000		
Coppin State University: Percy Julian Science Renovation	1.300	0.300	$19.400	
FSU: Education Professions and Health Sciences Center	2.400	-2.400	29.400	
Misc: Strathmore Hall Performing Arts Center	3.000	3.000		
Misc: Downtown Frederick Hotel and Conference Center	7.500	7.500		
Subtotal	***$27.200***	***$30.400***	***$48.800***	***$0.000***
Bond Replacement BPW Reductions and Reserve Fund				
BPW: Facilities Renewal Program	$15.000			
Maryland Department of Agriculture: Agricultural Cost Share Program	$6.000			
MDE: Water Quality Revolving Loan Program	6.792			
MDE: Drinking Water Revolving Loan Program	3.003			
Subtotal	***$30.795***	***$0.000***	***$0.000***	***$0.000***
Mandates				
PSCP: Supplemental Capital Grant for Local School Systems	$20.000	$20.000	$20.000	$20.000
Misc: Prince George's County Regional Hospital		8.000		
Subtotal	***$20.000***	***$28.000***	***$20.000***	***$20.000***
Expressions of Intent				
Misc: Sheppard Pratt at Elkridge	$3.750	$3.750		
MHEC: Community College Construction Grant Program	20.000	20.000	$20.000	$20.000
Subtotal	***$23.750***	***$23.750***	***$20.000***	***$20.000***
Legislative and Administrative Local Initiatives				
Legislative Bond Bills	$15.000	$15.000	$15.000	$15.000
Administrative Local Initiative	11.725			
Subtotal	***$26.725***	***$15.000***	***$15.000***	***$15.000***
Total	**$276.660**	**$45.650**	**$72.600**	**-$56.300**

BPW: Board of Public Works
DHMH: Department of Health and Mental Hygiene
DoIT: Department of Information Technology
DPSCS: Department of Public Safety and Correctional Services
FSU: Frostburg State University
MDE: Maryland Department of the Environment
MHEC: Maryland Higher Education Commission
PSCP: Public School Construction Program
UMBC: University of Maryland Baltimore County
UMCP: University of Maryland, College Park
UMES: University of Maryland Eastern Shore
USM: University System of Maryland

Note: Estimated out-year funding impacts for accelerated projects assume that items will be funded in useable phases such that no gaps exists in estimated project delivery timelines. Estimates for deferred projects reflect one-year deferral and funding in useable phases such that no gaps exists in the timing of funding and project delivery.

Transportation Trust Fund Closeout

Comparison of Fiscal 2016 Projected and Actual Revenues and Expenditures

($ in Millions)

	Projected 2016	Actual 2016	Variance
Starting Fund Balance	**$269**	**$269**	**$0**
Revenues			
Motor Fuel Taxes	$1,046	$1,018	-$28
Titling Taxes	855	860	5
Sales Tax – Rental Vehicles	31	31	0
Corporate Income, Registrations, and Misc. Motor Vehicle Administration Fees	845	864	19
Maryland Department of Transportation (MDOT) Operating Revenues (MD Aviation Admin., MD Port Admin., and MD Transit Admin.)	441	437	-4
Other Receipts and Adjustments	64	120	56
Bond Proceeds and Premiums	450	325	-125
Total Revenues	**$3,732**	**$3,655**	**-$77**
Uses of Funds			
MDOT Operating Expenditures	$1,766	$1,830	$64
MDOT Capital Expenditures	1,607	1,472	-135
MDOT Debt Service	264	259	-5
Highway User Revenues	176	177	1
Other Expenditures	63	60	-3
Total Expenditures	**$3,876**	**$3,798**	**-$78**
Ending Fund Balance	**$125**	**$126**	**$1**

- The fiscal 2016 ending fund balance of $126 million was just $1 million over the target ending balance.

- Overall, nonbond-related revenues exceeded projections by $48 million. Bond sales were $150 million below projections reflecting reduced cash flow needs and receipt of $25 million in bond premiums.

- Spending was a net of $78 million less than estimated. Increases related to winter maintenance, and other department operations were offset by decreased capital spending due to project cash flow needs; reduced highway system preservation funding to cover winter maintenance costs; and decreased special fund spending on the Purple Line due to spending federal funds first and delayed spending due to the legal challenge to the project.

Baseline Budget Position Changes Assumptions

Workload Adjustments

- A net of 275 positions are created in higher education in fiscal 2017. Using flex authority, the institutions created 445 new positions, converted 72 positions, and abolished 128 positions. In addition, the Board of Public Works abolished 101 positions in the University System of Maryland and 12 positions in Morgan State University on November 2, 2016.

- 15 positions for 6 judges and new staff at the Judiciary are added in fiscal 2018, consistent with the judges' certification of need plan.

- 2 positions in the Department of Planning for an Administrator and Horticulturalist for the Jefferson Patterson Park and Museum are added in fiscal 2018.

Positions Associated With Legislation

Positions Anticipated But Not Yet Created in Fiscal 2017

- 13 positions in the Department of Public Safety and Correctional Services (DPSCS) for the Maryland Police Training Standards Commission to carry out additional responsibilities required by the Public Safety and Policing Workgroup (Chapter 519 of 2016).

- 11 positions in the Department of Human Resources (DHR) to transfer all the functions, powers, and duties of the child support unit of the Carroll County State's Attorney's Office (Chapter 53 of 2016).

- 6.5 positions in the Motor Vehicle Administration to handle increased workload from the expansion of circumstances under which a participation in the Ignition Interlock System Program is required. This expansion requires 5.5 customer agents and 1.0 administrative support staff to facilitate new program participants (Chapter 512 of 2016).

- 6 positions in the Maryland Department of Transportation to hire additional staff needed to develop a project-based scoring system for transportation projects and use the system to evaluate major transportation projects; new staff includes 3 prioritization coordinators, 2 economic modelers, and 1 geographic information systems specialist (Chapter 36 of 2016).

Baseline Budget Position Changes Assumptions (cont.)

- 3 positions for the Department of Health and Mental Hygiene to develop and implement an outreach and education plan regarding mandatory registration of certain prescribers and all pharmacists with the Prescription Drug Monitoring Program by July 1, 2017; new staff includes a database specialist and 2 administrative officers, primarily to ensure data quality and enforce mandates (Chapter 147 of 2016).

- 2 positions in the Governor's Office of Minority Affairs to carry out expanded responsibilities for the Small Business Reserve Program, including developing and maintaining a directory of small business owners (Chapter 119 of 2016).

- 2 positions in the Governor's Office of Service and Volunteerism, within the Governor's Office of Community Initiatives, to support the Maryland Corps Program's Board of Directors (Chapter 654 of 2016).

- 2 positions in the Maryland Insurance Administration to monitor and enforce compliance of network directory requirements, which will be established by the Insurance Commissioner by December 31, 2017 (Chapter 309 of 2016).

- 1 position in the State Board of Elections to work with and process information received from agencies establishing electronic voter registration systems (Chapter 287 of 2016).

- 1 position in the Department of Natural Resources to hire a biologist to support a program to control the spread of black flies in the State (Chapters 584 and 585 of 2016).

- 0.5 position in the Maryland State Department of Education (MSDE) to hire a half-time specialist to research and develop a data collection system to determine the effectiveness of community partnered school behavioral health service programs (Chapters 213 and 214 of 2016).

Positions Assumed in Fiscal 2018

- 104 positions in DPSCS to implement various provisions of the Justice Reinvestment Act, including 84 positions in the Division of Correction for expanded inmate requirements, 14 positions in the Division of Parole and Probation to implement provisions to issue certificates of rehabilitation, and 6 positions in the Maryland Parole Commission to implement provisions for administrative release orders (Chapter 515 of 2016).

- 10 positions in DHR to transfer all the functions, powers, and duties of the child support unit of the Charles County State's Attorney's Office (legislation pending).

- 5 positions in the Office of the Attorney General to handle cases filed under the provisions of the Maryland False Claims Act (Chapters 165 of 2015).

- 4 positions at the Maryland Higher Education Commission to process and approve applications for a new tax credit for individuals who have incurred $20,000 or more in undergraduate student loan debt and have at least $5,000 in outstanding undergraduate debt (Chapters 689 and 690 of 2016).

- 1 position in the Maryland Department of Agriculture to hire an inspector to enforce new restrictions on the sale of neonicotinoid pesticides (Chapters 661 and 662 of 2016).

- 1 position in MSDE for an education program specialist to oversee the Next Generation Scholars of Maryland Program (formerly the College Readiness Outreach Program (Chapter 33 of 2016).

Contractual Full-time Equivalent Positions Changes
Fiscal 2015 Actual to Fiscal 2018 Baseline

Department/Service Area	2015 Actual	2016 Working	2017 Leg. Approp.	2018 Baseline	2017-2018 Change
Health and Human Services					
Health and Mental Hygiene	385	440	429	429	0
Human Resources	136	74	74	74	0
Juvenile Services	159	142	142	142	0
Subtotal	***680***	***656***	***645***	***645***	***0***
Public Safety					
Public Safety and Correctional Services	266	367	364	366	2
Police and Fire Marshal	28	70	66	66	0
Subtotal	***293***	***437***	***431***	***433***	***2***
Transportation	**40**	**41**	**41**	**49**	**8**
Other Executive					
Legal (Excluding Judiciary)	42	61	50	42	-8
Executive and Administrative Control	210	193	184	184	0
Financial and Revenue Administration	54	47	51	51	0
Budget and Management and DoIT	14	11	13	13	0
Retirement	16	10	10	10	0
General Services	24	25	24	24	0
Natural Resources	361	447	423	426	3
Agriculture	39	45	44	44	0
Labor, Licensing, and Regulation	191	290	144	145	1
MSDE and Other Education	295	295	271	272	1
Housing and Community Development	51	71	72	72	0
Commerce	18	18	20	20	0
Environment	28	60	41	41	0
Subtotal	***1,342***	***1,570***	***1,346***	***1,343***	***-3***
Executive Branch Subtotal	***2,356***	***2,704***	***2,462***	***2,469***	***7***
Higher Education	**7,006**	**6,568**	**6,650**	**6,650**	**0**
Executive and Higher Education Subtotal	***9,362***	***9,271***	***9,112***	***9,119***	***7***
Judiciary	**431**	**333**	**329**	**335**	**6**
Legislature	**0**	**0**	**0**	**0**	**0**
Total	**9,793**	**9,604**	**9,441**	**9,454**	**13**

DoIT: Department of Information Technology
MSDE: Maryland State Department of Education

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