
Spending Affordability Briefing

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

November 9, 2021

General Fund Revenues: Fiscal 2021
(\$ in Millions)

	Fiscal 2020		Fiscal 2021			Fiscal 2020-2021 Percent Change	
	<u>Actual</u>	<u>Estimate</u>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$10,699	\$10,802	\$11,705	\$903	8.4%	1.0%	9.4%
Corporate Income Tax	1,052	1,139	1,462	323	28.4%	8.3%	39.0%
Sales and Use Tax	4,635	4,591	4,988	397	8.6%	-0.9%	7.6%
State Lottery	549	627	632	5	0.8%	14.3%	15.2%
Other	1,700	1,620	1,686	66	4.1%	-4.7%	-0.8%
Ongoing General Funds	\$18,634	\$18,779	\$20,472	\$1,694	9.0%	0.8%	9.9%
Total General Funds	\$18,634	\$19,120	\$20,831	\$1,711	8.9%	2.6%	11.8%
Selected Special Funds for Education							
Sales Tax	\$231	\$560	\$423	-\$136	-24.4%	141.9%	83.0%
Casinos	397	512	531	20	3.9%	28.9%	33.9%
Corporate Filing Fees	n/a	50	84	34	67.4%	n/a	n/a
<i>Sales Tax – Blueprint Fund</i>		<i>\$560</i>	<i>\$423</i>	<i>-\$136</i>			
<i>Estimated Underdistribution</i>			<i>88</i>				
		<i>\$560</i>	<i>\$511</i>	<i>-\$49</i>			

Source: Office of the Comptroller; Board of Revenue Estimates

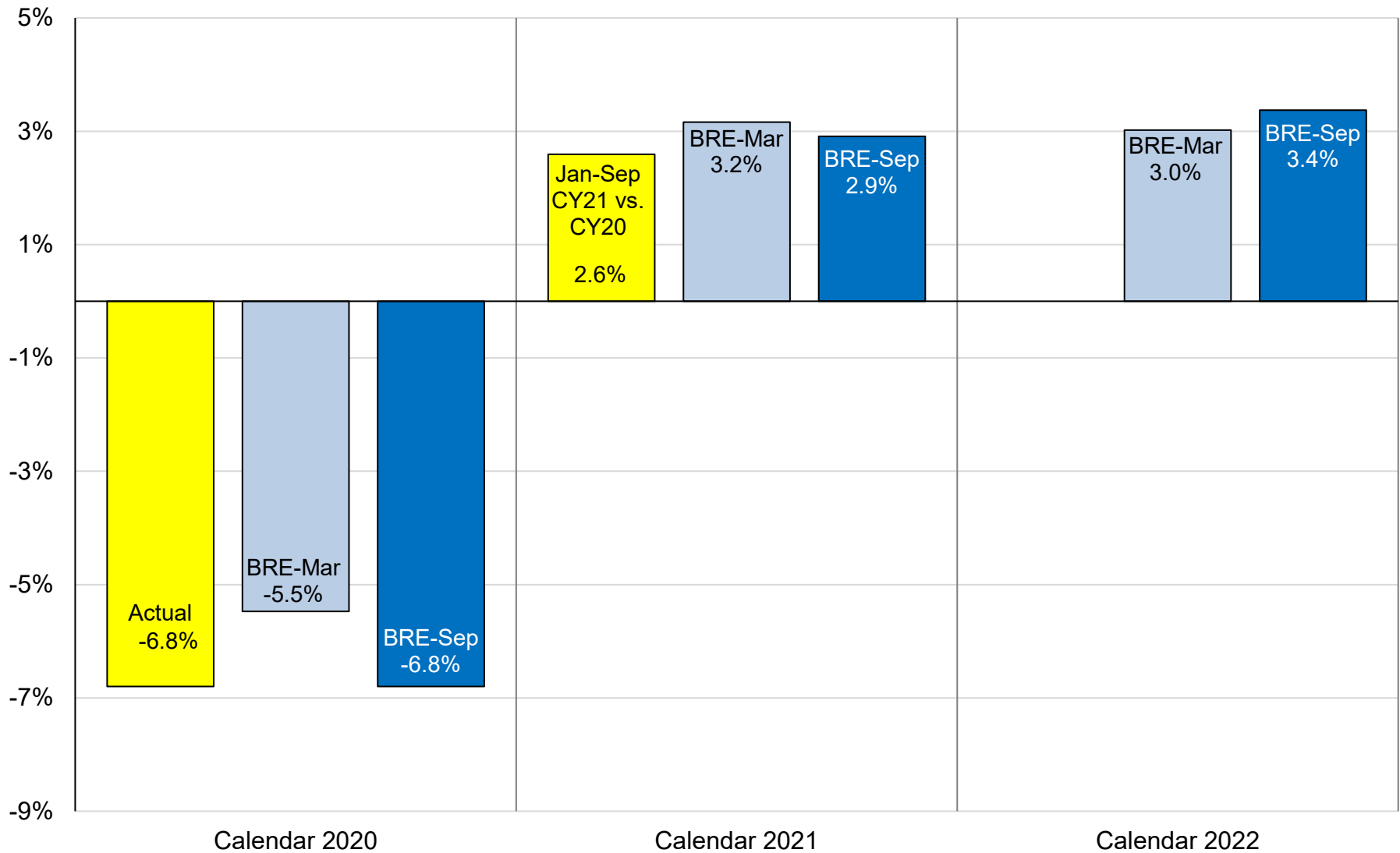
General Fund Revenue Forecast (\$ in Millions)

	Fiscal 2021 <u>Actual</u>	Fiscal 2022 Estimate <u>March</u> <u>September</u> <u>\$ Diff.</u>			Percent Change vs. <u>Fiscal 2021</u>	Fiscal 2023 <u>Estimate</u>	Percent Change vs. <u>Fiscal 2022</u>
Personal Income Tax	\$11,705	\$11,401	\$11,797	\$396	0.8%	\$12,634	7.1%
Corporate Income Tax	1,462	1,249	1,446	197	-1.1%	1,556	7.6%
Sales and Use Tax	4,988	5,003	5,283	281	5.9%	5,520	4.5%
State Lottery	632	592	641	49	1.5%	651	1.6%
Other	1,686	1,937	2,009	72	19.2%	1,985	-1.2%
Ongoing General Funds*	\$20,472	\$20,181	\$21,176	\$995	3.4%	\$22,346	5.5%
Volatility Adjustment	n/a	-\$80	-\$80	\$0	n/a	-\$100	25.0%
One-time Revenue	\$359	n/a	n/a	n/a	n/a	n/a	n/a
Total General Funds	\$20,831	\$20,101	\$21,096	\$995	1.3%	\$22,246	5.5%
Selected Special Funds for Education							
Sales Tax	\$423	\$593	\$671	\$78	58.5%	\$611	-9.0%
Casinos	531	512	561	49	5.5%	571	1.8%
Sales Tax – Blueprint Fund							
Baseline Transfer		\$593	\$583	-\$10			
Catch-up for Underdistribution in Fiscal 2021			88				
Total Fiscal 2022 Transfer		\$593	\$671	\$78			

* The Budget Reconciliation and Financing Act of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, ongoing general fund revenue growth in fiscal 2022 would be about 2.0% over fiscal 2021.

Source: Board of Revenue Estimates

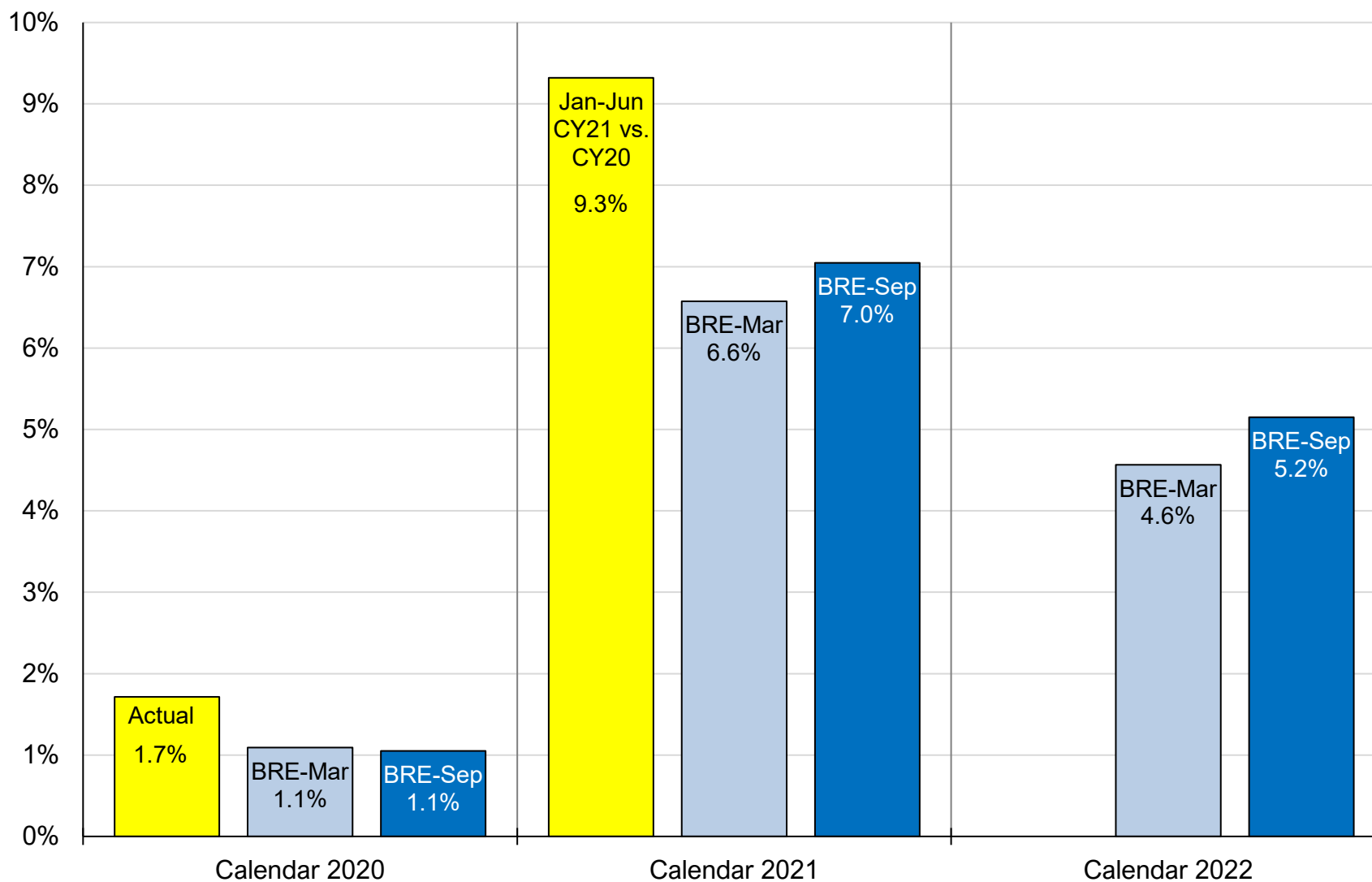
Employment: Year-over-year Percent Change



BRE: Board of Revenue Estimates

Source: U.S. Department of Labor, Bureau of Labor Statistics (historical data); Board of Revenue Estimates (forecasts)

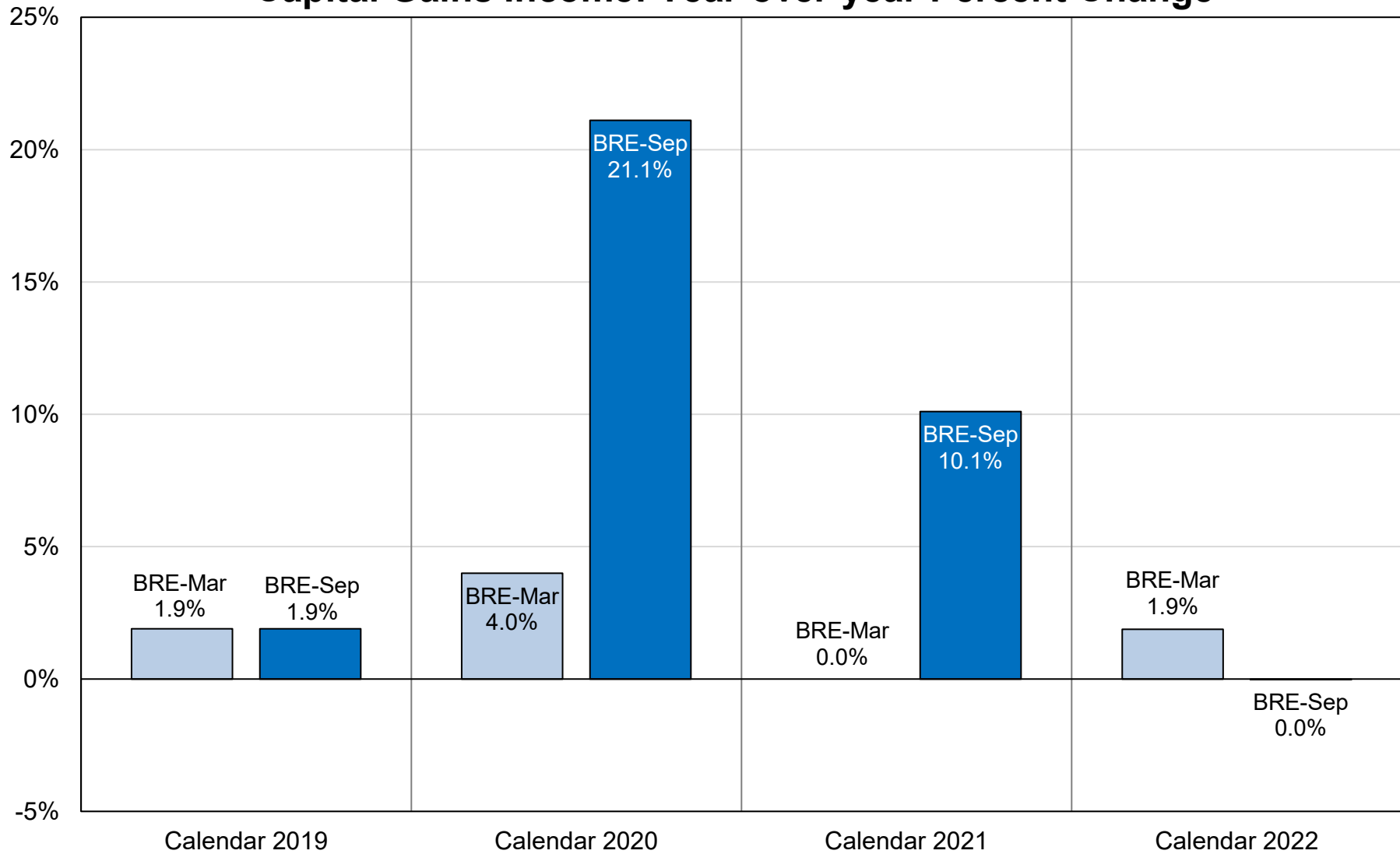
Wage and Salary Income: Year-over-year Percent Change



BRE: Board of Revenue Estimates

Source: U.S. Department of Commerce, Bureau of Economic Analysis (historical data); Board of Revenue Estimates (forecasts)

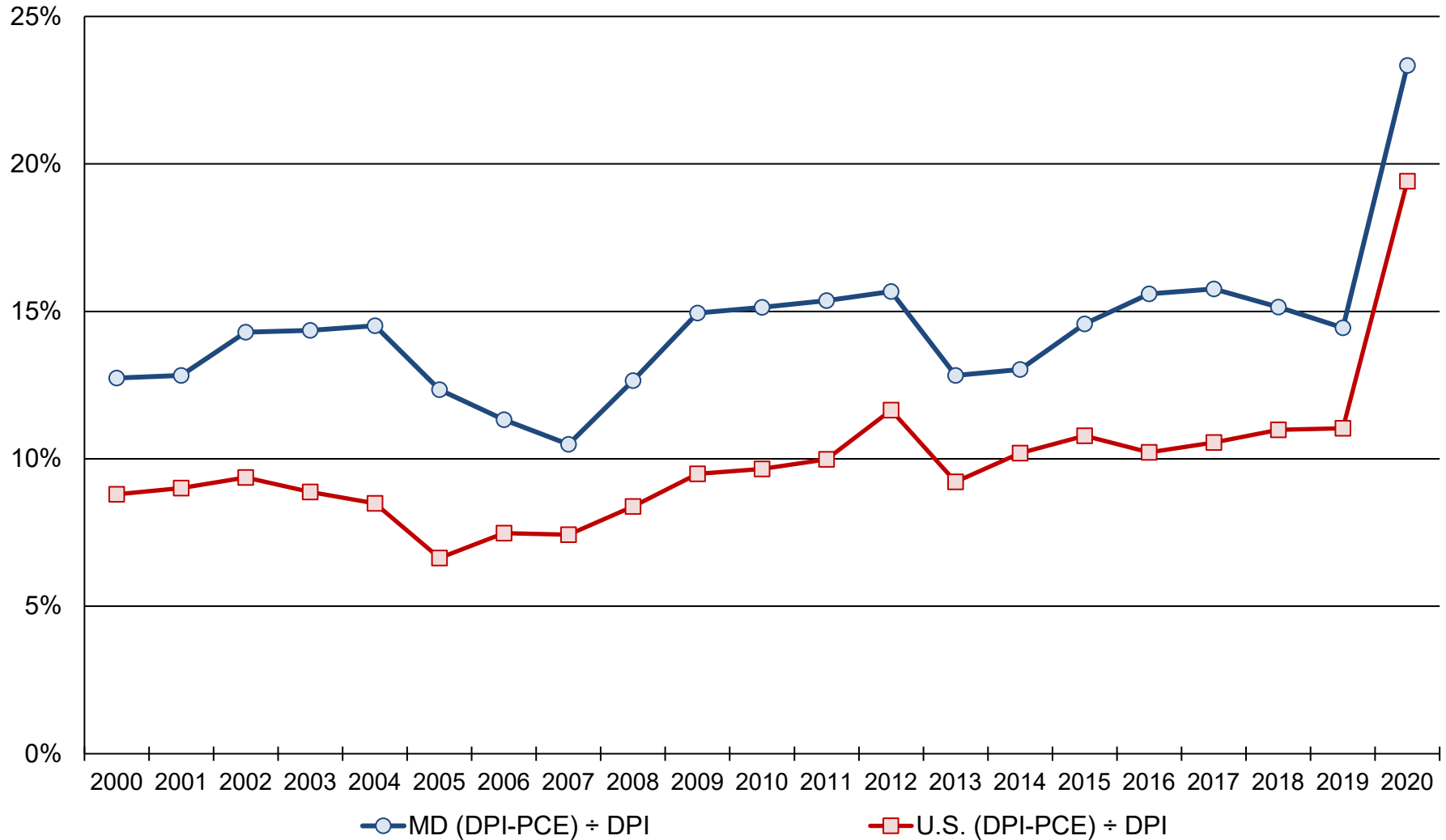
Capital Gains Income: Year-over-year Percent Change



BRE: Board of Revenue Estimates

Source: Board of Revenue Estimates

Disposable Personal Income (DPI) Less Personal Consumption Expenditures (PCE) As a Share of Disposable Personal Income: Calendar 2000 to 2020

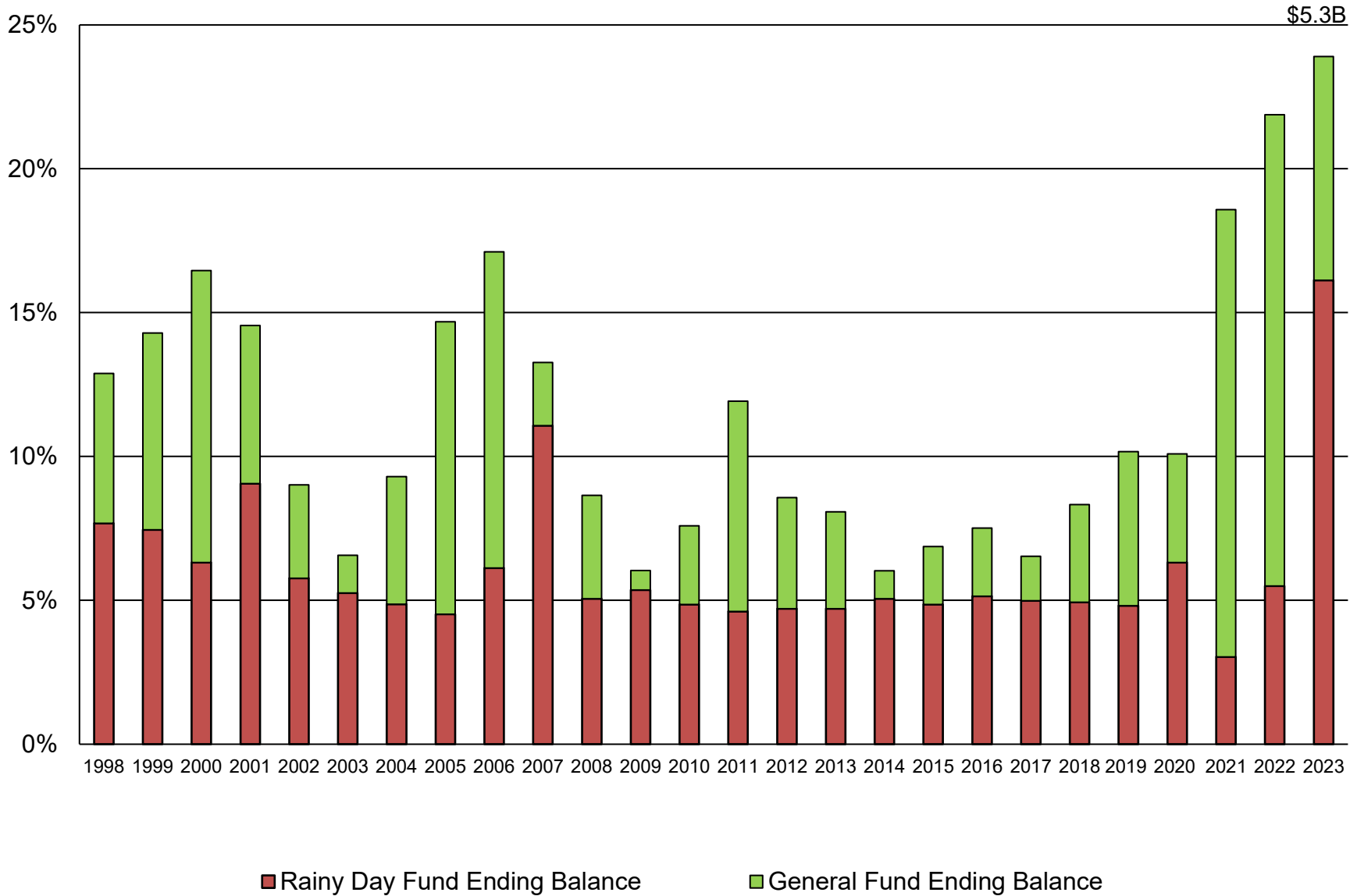


Source: U.S. Department of Commerce, Bureau of Economic Analysis

General Fund: End-of-year Balances
Fiscal 2021-2023
(\$ in Millions)

	2021 <u>Actual</u>	2022 <u>Working</u>	2023 <u>Baseline</u>
Funds Available			
Total Funds Available	\$21,904	\$24,363	\$25,888
Total Spending	18,665	20,769	24,148
Cash Balance/(Shortfall)	\$3,239	\$3,594	\$1,740
Structural Balance (Ongoing Revenues Less Ongoing Spending)	\$1,795	\$807	\$769
Ratio (Ongoing Revenues/Ongoing Operating Costs)	109.5%	104.0%	103.6%
Estimated Rainy Day Fund Balance – June 30	\$631	\$1,160	\$3,587
Available Cash Balance (General Funds + Rainy Day Fund Above 5%)	\$2,829	\$3,700	\$4,215

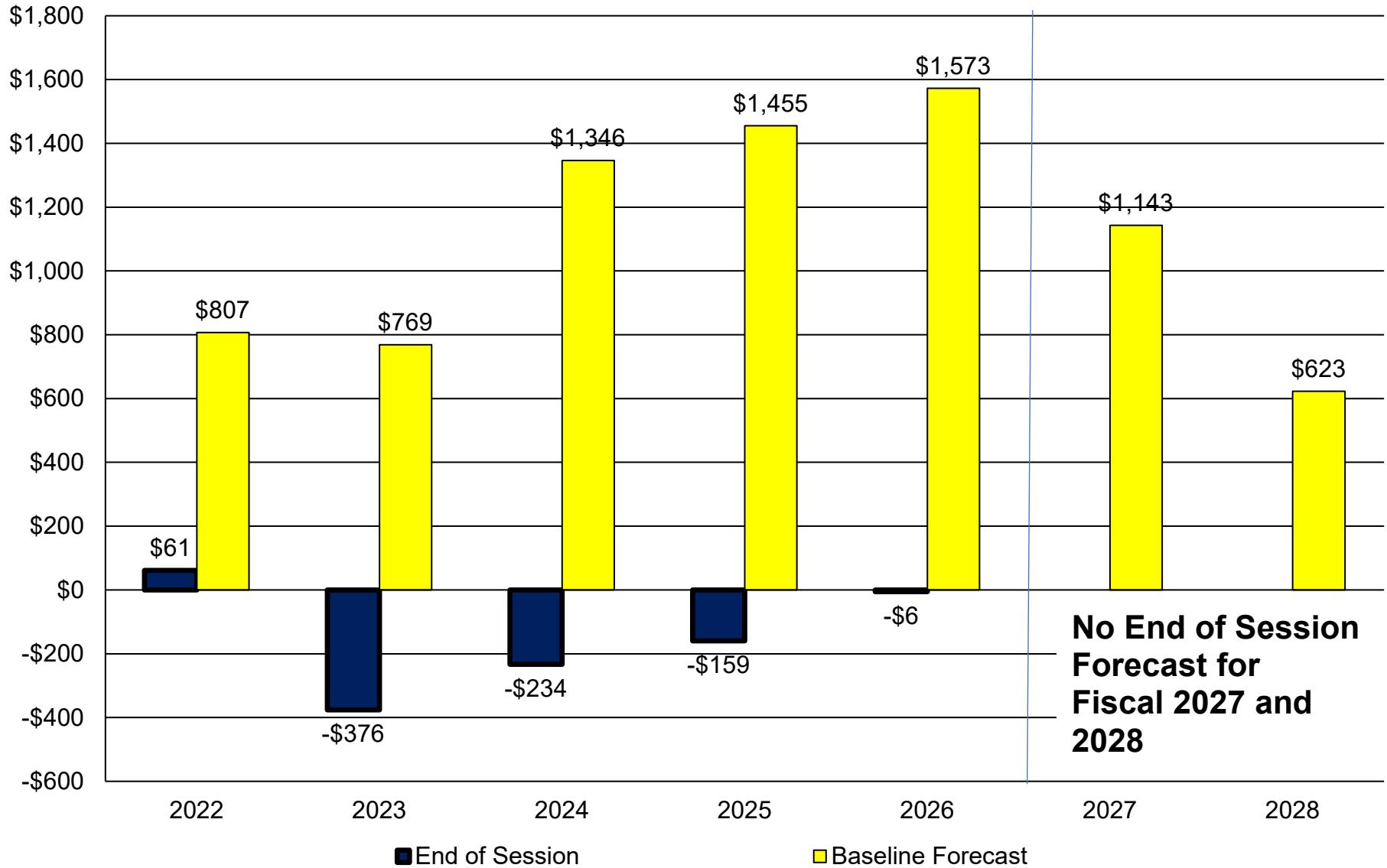
Total Cash Balances as a Percent of General Fund Revenues Fiscal 1998-2023



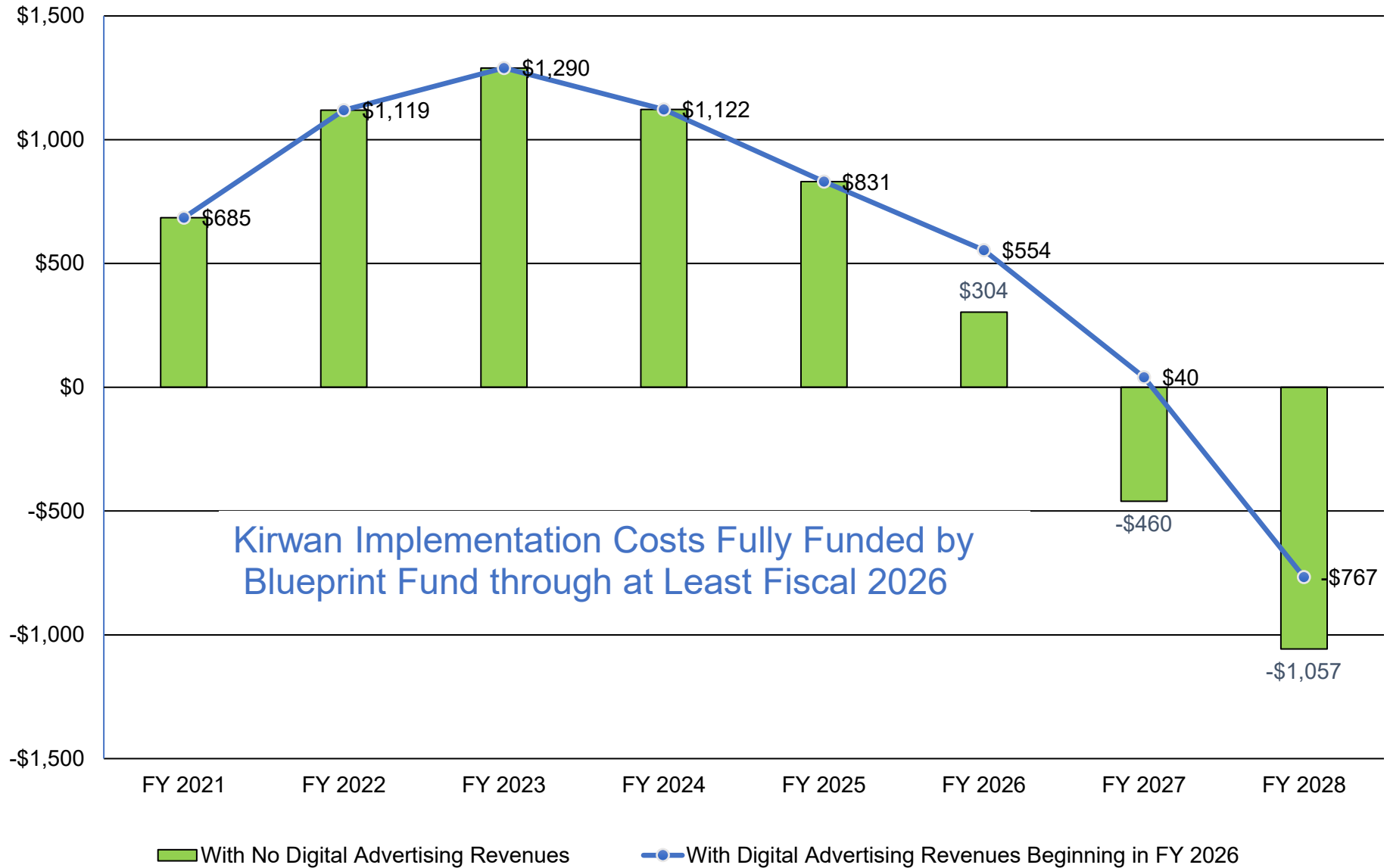
Structural Budget Outlook

Fiscal 2022-2028

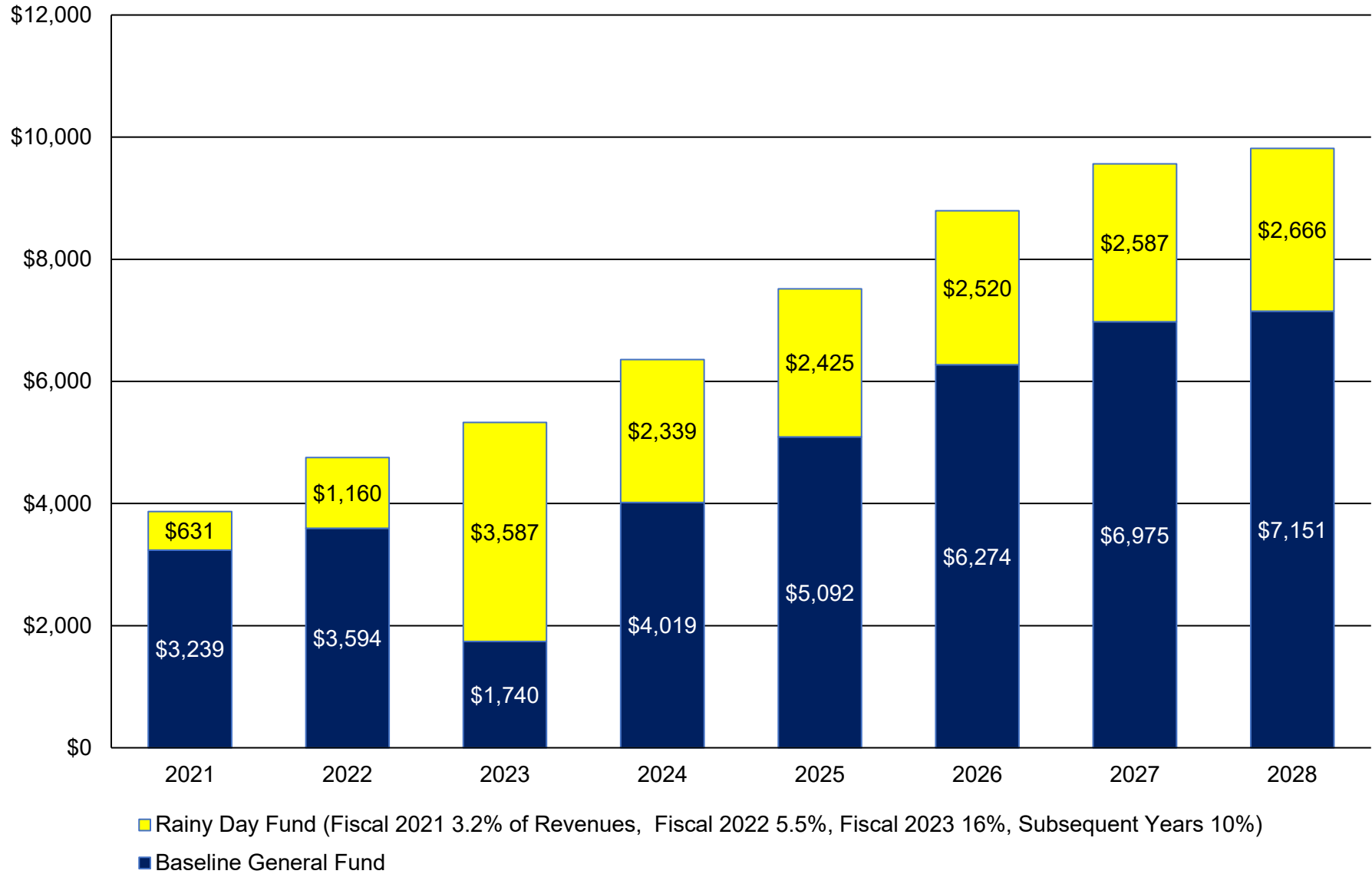
(\$ in Millions)



Blueprint Fund Closing Balance with and without Digital Advertising Revenues **Fiscal 2021-2028** **(\$ in Millions)**



Estimated End-of-year Cash Balances **Fiscal 2021-2028** **(\$ in Millions)**



Key Baseline Budget Assumptions

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- 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.
 - Enhanced Medicaid match will expire after March 2022.
 - The Behavioral Health Administration continues with the reconciliation process for the estimated payments, recovering \$110 million in total funds over fiscal 2022 and 2023.
 - K-12 enrollment is projected to increase to estimates developed prepandemic; however, actual enrollment will not be known until December 1, 2021, when the Maryland State Department of Education is required to release the official enrollment counts for the current school year.
 - Entitlement caseload trends reflect current experience and are aligned with economic assumptions underpinning the official Board of Revenue Estimates (BRE) revenue forecast.
 - Medicaid and related caseloads assume the end of the requirement for continuous enrollment in Medicaid in March 2022, and recertifications beginning in April 2022, with initial phase-in lasting 12 months.
 - Other public assistance caseloads are assumed to begin recertifications in January 2022, after the end of current waivers allowing for extensions of recertifications in December 2021.
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Caseload Assumptions Fiscal 2021-2023

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>% Change 2022-2023</u>
Pupil Enrollment*	874,268	854,564	887,001	3.8%
Medicaid/Maryland Children's Health Program	1,528,346	1,633,044	1,522,664	-6.8%
Temporary Cash Assistance	62,552	54,863	51,027	-7.0%
Foster Care/Adoption/Guardianship	10,992	11,610	11,577	-0.3%
Adult Prison Population	17,920	17,000	16,500	-2.9%

* Data for fiscal 2021 and 2022 reflect actual full-time enrollments. Fiscal 2023 enrollment is an estimate based on projections developed for Chapter 36 of 2021.

- \$250 million of American Rescue Plan Act (ARPA) funds are substituted for general funds in fiscal 2022. The resulting State savings backfill the savings lost by federal ARPA guidance prohibiting the planned use of federal funds to pay for the Governor's fall 2020 economic recovery initiative.
- Required appropriation to the Rainy Day Fund in fiscal 2023 totals \$2.4 billion, resulting in a balance of 16% of general fund revenues. No transfer from the Rainy Day Fund balance is assumed in fiscal 2023 as the budget is balanced without a transfer.
- Personnel assumptions include:
 - 2% general salary increase effective July 2022 funded for all State employees.
 - Merit increase for fiscal 2023.
 - \$500 bonus paid out January 1, 2022, and 1% general salary increase effective April 1, 2022, for certain bargaining units and exempt and nonrepresented employees (which were conditional on revenues exceeding BRE estimates by certain amounts).
 - 14% increase in employee and retiree health insurance costs for fiscal 2023 and a one-time deficiency appropriation (\$60.9 million general funds) in fiscal 2022 due to higher than expected fiscal 2021 expenses.
 - Funding is included to fill about 1,700 of the 5,600 currently vacant Executive Branch positions.
- Major inflation assumptions include natural gas (3.2%), medicine/drugs at State facilities (8.5%), utilities/electricity (2.8%), food (10.0%), gas and oil (5.0%), and postage (-1.3%).

Analysis of Vacancies and Turnover Rate
Executive Branch, Excluding Higher Education
Fiscal 2022 Working Appropriation Compared to October 2021 Vacancies

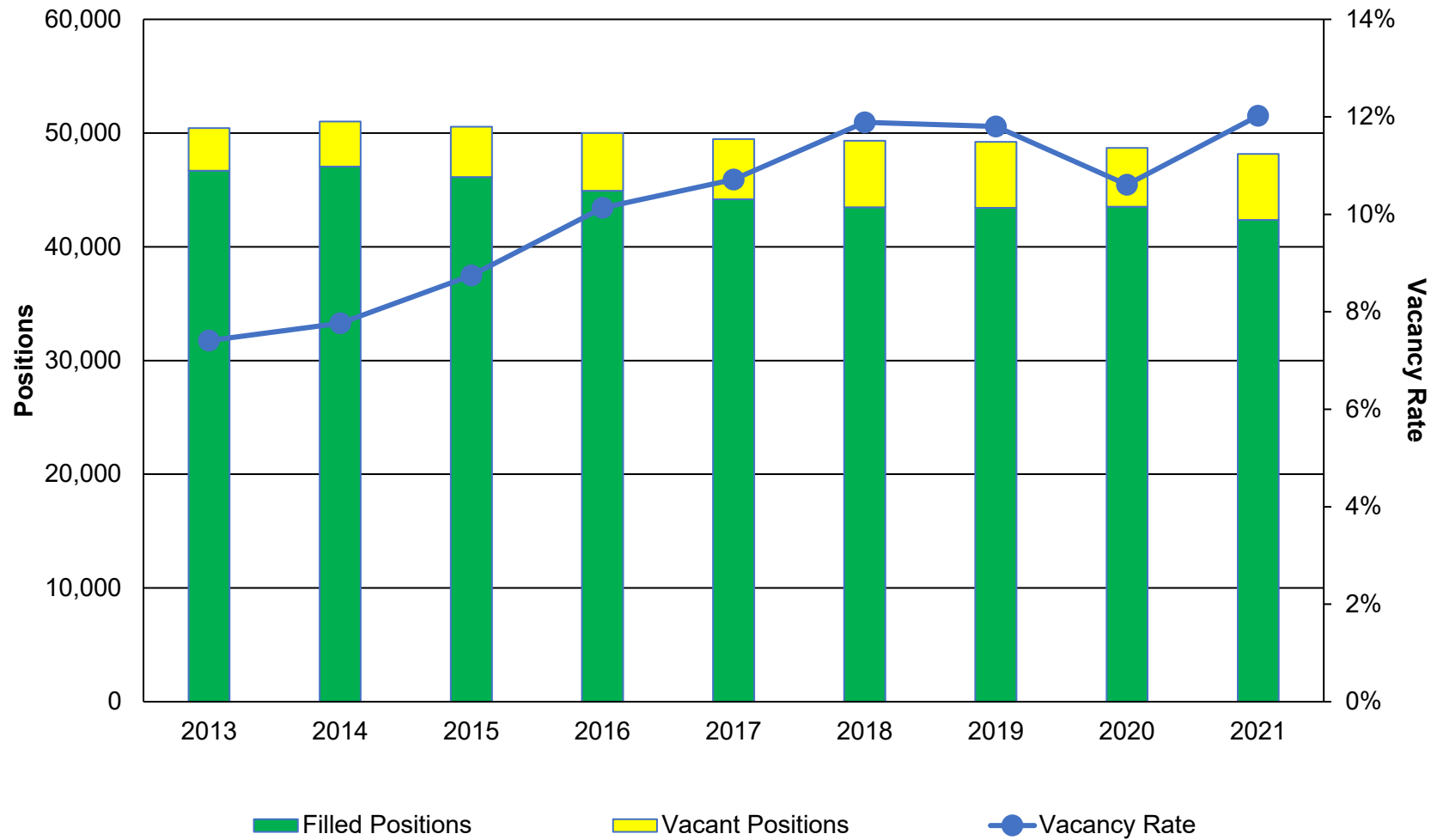
<u>Department/Service Area</u>	<u>Positions</u>	<u>Budgeted Turnover Rate</u>	<u>Vacancies to Meet Turnover</u>	<u>October Vacancies</u>	<u>Vacancies Above (or Below) Turnover</u>	<u>October Vacancy Rate</u>
Largest Six State Agencies						
Public Safety and Correctional Services	9,253	12.2%	1,130	1,244	114	13.4%
Human Services	5,991	7.2%	429	809	380	13.5%
Health	6,373	8.8%	564	768	205	12.1%
Police and Fire Marshal	2,484	7.2%	178	321	143	12.9%
Juvenile Services	1,979	6.6%	131	241	110	12.2%
Transportation	9,058	5.3%	481	677	195	7.5%
Subtotal	35,137	7.2%	2,913	4,060	1,147	11.6%
Other Executive						
Legal (Excluding Judiciary)	1,459	8.2%	119	169	50	11.6%
Executive and Administrative Control	1,579	5.3%	84	176	92	11.1%
Financial and Revenue Administration	2,060	7.3%	151	260	109	12.6%
Budget and Management and DoIT	498	6.3%	31	62	31	12.5%
Retirement	188	6.5%	12	26	14	13.8%
General Services	649	8.0%	52	68	16	10.5%
Natural Resources	1,352	5.8%	78	151	72	11.1%
Agriculture	412	6.1%	25	68	43	16.5%
Labor	1,355	7.3%	98	145	46	10.7%
MSDE and Other Education	1,972	7.1%	141	297	157	15.1%
Housing and Community Development	333	6.0%	20	15	-5	4.5%
Commerce	188	7.3%	14	18	4	9.6%
Environment	880	7.0%	62	82	20	9.3%
Subtotal	12,925	6.9%	887	1,536	649	11.9%
Executive Branch Subtotal	48,063	7.8%	3,800	5,597	1,796	11.6%

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

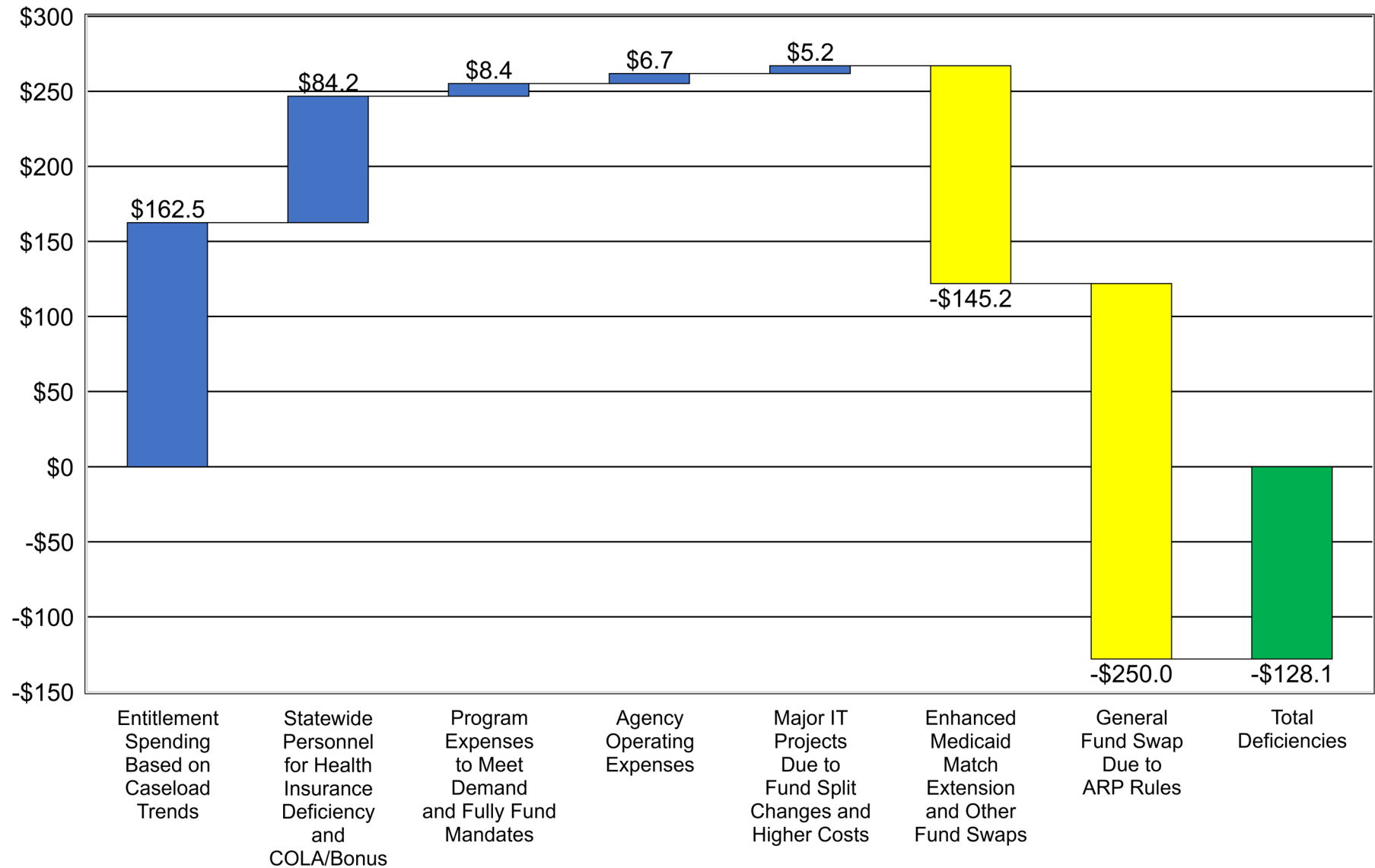
Source: Department of Budget and Management; Department of Legislative Services

Executive Branch Vacancy Rate, Vacant Positions, and Filled Positions Calendar 2013-2021



Note: For October of each year, excluding Higher Education

Anticipated General Fund Deficiencies and Reversions **Reduce Spending by \$128.1 Million** (\$ in Millions)

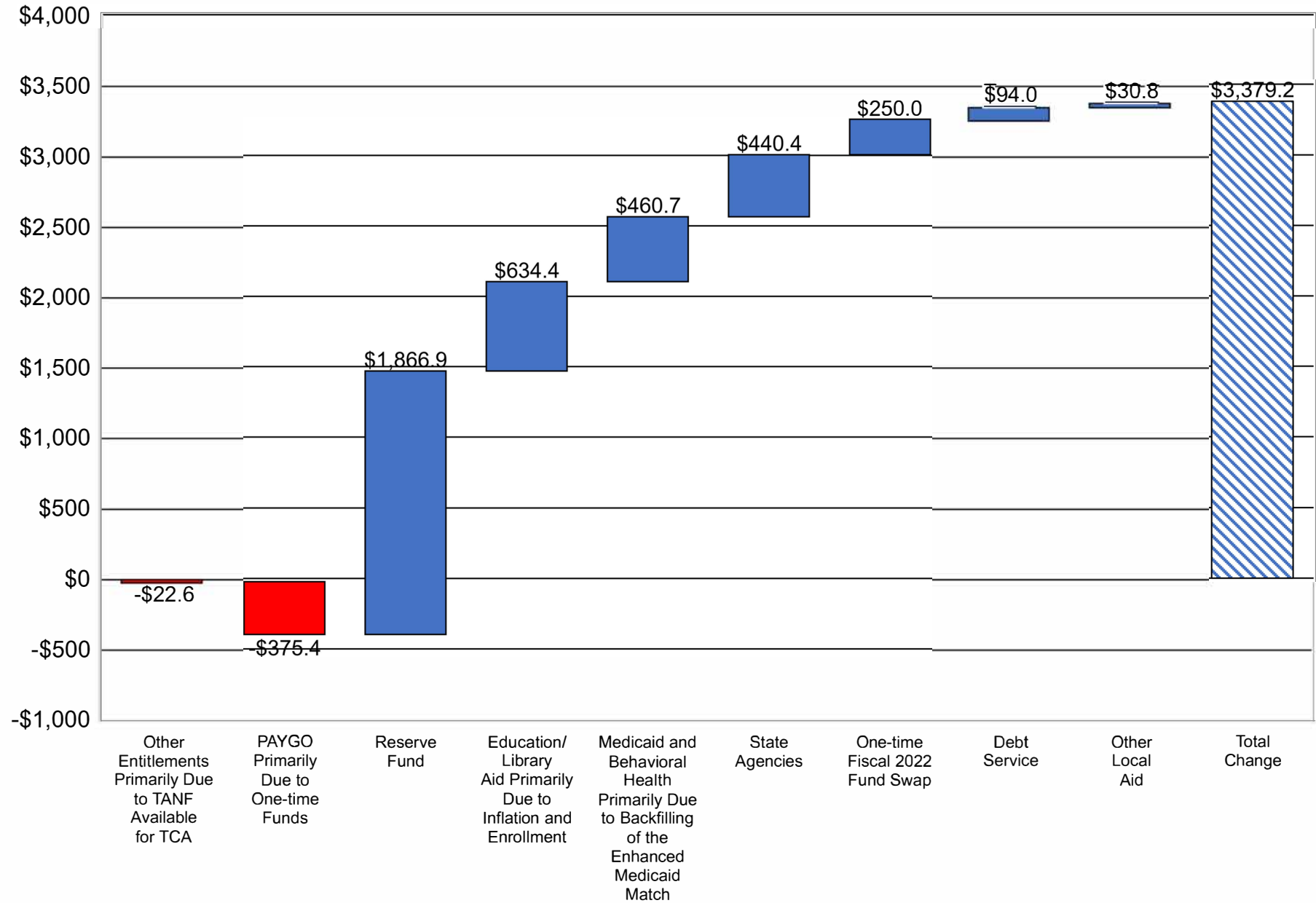


ARP: American Rescue Plan

COLA: cost-of-living adjustment

IT: information technology

Components of General Fund Growth in Fiscal 2023 Baseline (\$ in Millions)

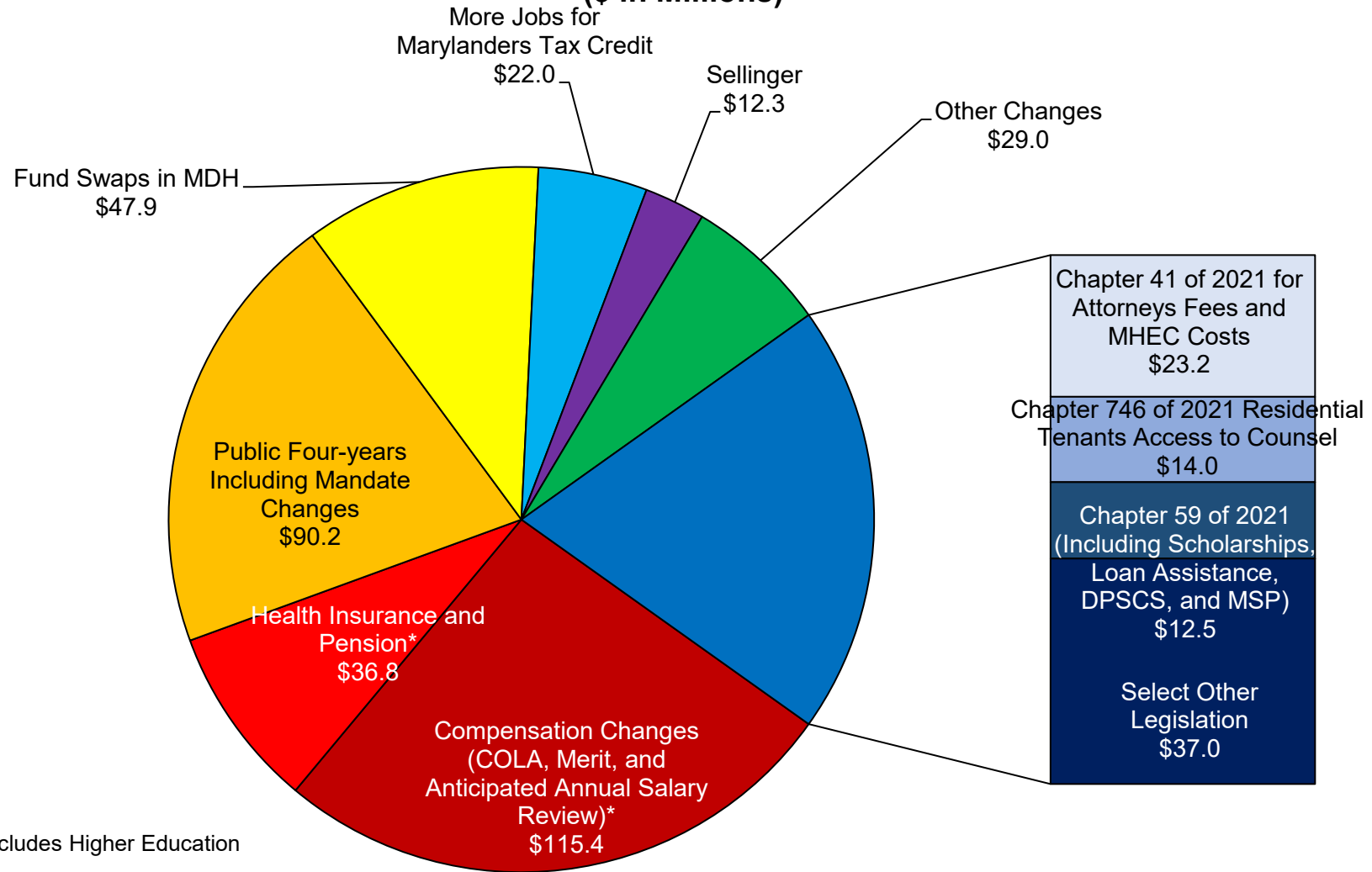


PAYGO: pay-as-you-go

TANF: Temporary Assistance for Needy Families

TCA: Temporary Cash Assistance

Components of General Fund Growth in State Agency Operations (\$ in Millions)



COLA: cost-of-living adjustment

DPSCS: Department of Public Safety and Correctional Services

MDH: Maryland Department of Health

MHEC: Maryland Higher Education Commission

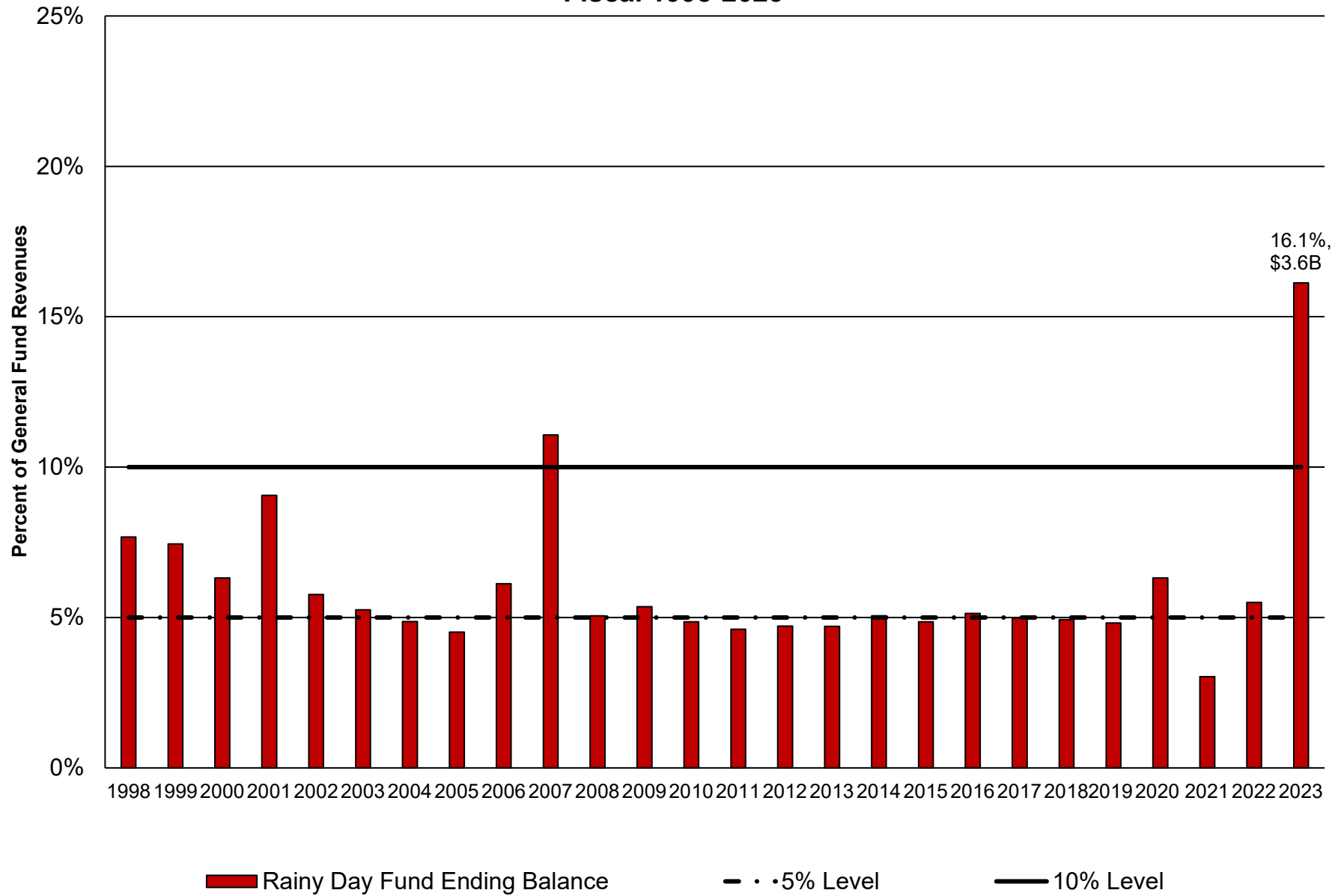
MSP: Maryland State Police

Potential Uses of Cash Balance
(\$ in Millions)

	<u>Use</u>	<u>One-time Strategy</u>	<u>Ongoing Strategy</u>
Rainy Day Fund – Raise Balance to 10%	\$1,054	\$1,054	
Unfunded Liabilities			
Retiree Health	\$16,000		\$400 million annually for actuarially required amount
Local Income Tax Reserve	739	370	\$25 million annually for 15 years
Workers' Compensation	331	166	
Deferred Maintenance and Facilities Renewal			
State Parks	\$80	\$80	
Department of General Services Facilities	220	220	
Higher Education Institutions	800	200	
Information Technology Needs/Cybersecurity			
To Be Determined		\$150	
Capital/Debt Service			
No Bond Premium to Pay Debt Service	\$77	\$77	
PAYGO to Fund Capital Overcommitments	125	125	
PAYGO to Fund Unexpected Inflation	50	50	
Total Potential Uses		\$2,492	

PAYGO: pay-as-you-go

Rainy Day Fund Balance Fiscal 1998-2023



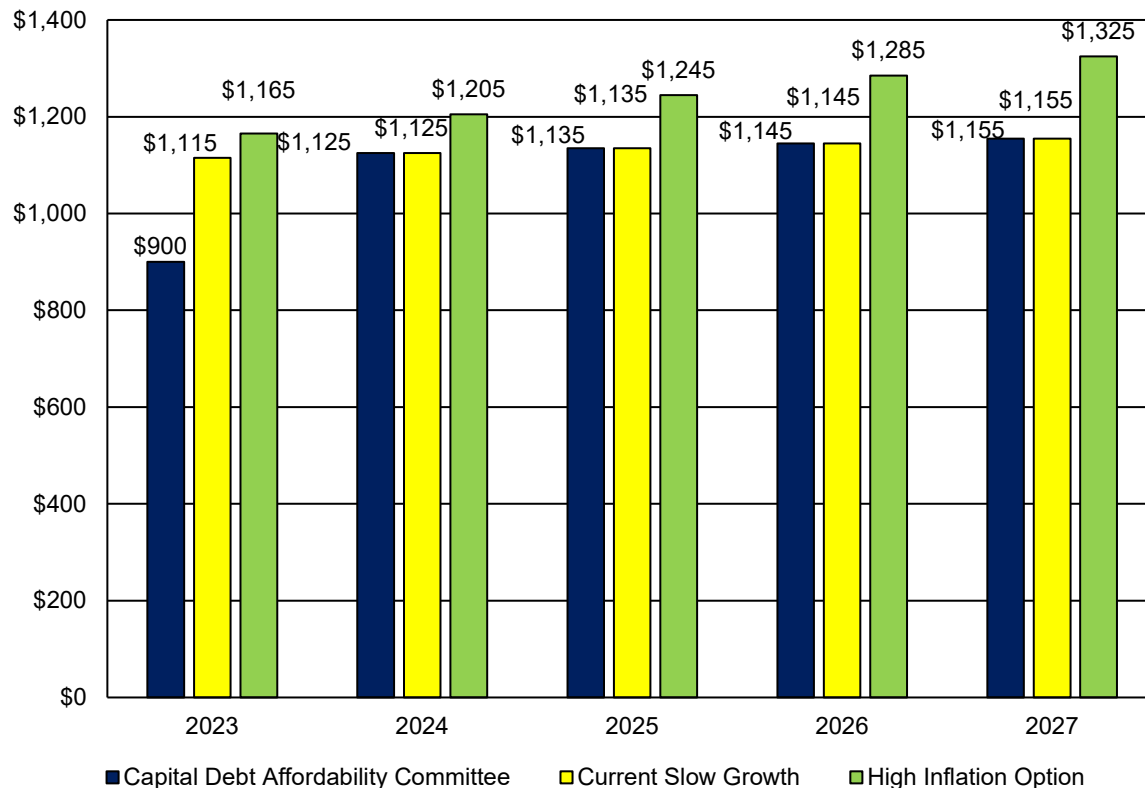
Policies Governing the Use of the Rainy Day Fund

- Best practices and advice from rating agencies suggest states are better positioned when there is an established policy on when and how reserves can be used
 - Maryland is one of six states with no legal conditions for when funds should be withdrawn
- What is a proper fund balance?
 - The Department of Legislative Services recommends maintaining a balance equal to 10% of general fund revenues
 - Historically, revenues in first two years of a recession have fallen short of the estimate by about 10%
 - The State has generally avoided drawing the balance below 5%
 - Maintaining a balance of 10% would provide sufficient funding to cover about half the short-term impact of a typical recession while still maintaining a balance of 5% in the Rainy Day Fund
 - Fiscal 2023 projected Rainy Day Fund ending balance estimated to be \$1.4 billion in excess of 10%
- When and how can reserves be used?
 - Use of reserves should be tied to downward revisions in the General Fund forecast
 - Funds should be withdrawn in increments and not be used up at once, so there will continue to be a buffer in the next fiscal year.

State Debt Policy – Authorization Options

- The Capital Debt Affordability Committee (CDAC) develops State debt policy. CDAC has two affordability criteria:
 - State debt service cannot exceed 8% of State revenues; and
 - State debt outstanding cannot exceed 4% of personal income.
- The fiscal 2022 capital budget is \$1,105 million in general obligation (GO) bonds. Increases in State debt have been limited to 1% by the Spending Affordability Committee (SAC) since calendar 2015. Last year, SAC and CDAC planned for a \$1,115 million authorization in fiscal 2023.

Debt Authorization Options Fiscal 2023-2027 (\$ in Millions)



Source: Capital Debt Affordability Committee; Department of Legislative Services

State Debt Policy – Affordability Ratios and Costs

Debt Outstanding Affordability Ratio Fiscal 2023-2027

<u>Fiscal Year</u>	<u>CDAC Recommendation</u>	<u>Current Modest Growth Policy</u>	<u>Higher Capital Project Inflation Option</u>
2023	3.10%	3.12%	3.12%
2024	3.00%	3.02%	3.04%
2025	2.85%	2.88%	2.91%
2026	2.74%	2.78%	2.82%
2027	2.64%	2.68%	2.74%

Debt Service Affordability Ratio Fiscal 2023-2027

<u>Fiscal Year</u>	<u>CDAC Recommendation</u>	<u>Current Modest Growth Policy</u>	<u>Higher Capital Project Inflation Option</u>
2023	7.00%	7.01%	7.01%
2024	6.73%	6.75%	6.75%
2025	6.70%	6.72%	6.73%
2026	6.56%	6.60%	6.62%
2027	6.42%	6.47%	6.52%

Debt Service Costs Fiscal 2023-2027

<u>Fiscal Year</u>	<u>Current Modest Growth Policy</u>	<u>CDAC Recommendation Savings</u>	<u>Higher Inflation Costs</u>
2023	\$1,417.7	-\$0.8	\$0.3
2024	1,450.8	-4.1	2.5
2025	1,483.0	-6.5	12.9
2026	1,524.5	-12.2	36.3
2027	1,517.3	-16.8	83.1

Source: State Treasurer's Office; Bureau of Revenue Estimates; Department of Legislative Services

State Debt Policy – Bond Premiums

- Recent bond issuances have sold at a premium, which means that bond proceeds exceed the par value of the bond. The State has used these premiums to pay debt service costs and support additional capital projects.
- Based on current interest rates, trends in coupon rates, and the anticipated par value of bonds issued in fiscal 2023, the Department of Legislative Services (DLS) estimates premiums totaling \$202 million, which support:
 - \$125 million for a capital grant to the Washington Metropolitan Area Transit Authority; and
 - \$77 million to pay debt service costs.
- Using proceeds from borrowing to pay the debt service is not efficient. A more efficient approach would resize the bond sale to account for the availability of bond premiums which in turn reduces future debt service payments.
 - Increasing general fund appropriations by \$77 million in fiscal 2023 is sufficient to resize the bonds and reduce out-year debt service payments.
 - Since the bond sale is expected to generate more proceeds than the par value of the bonds, resizing the sale reduces the par value less than the reduction in premiums. DLS projects that reducing the par value of the March 2023 sale by \$66 million reduces proceeds by \$77 million.
 - Savings from resizing total \$93 million from fiscal 2024 to 2039.
- An alternative to resizing would be to dedicate 100% of bond premiums to capital projects.
- **Given the State's strong financial position, DLS recommends that the State appropriate general funds to reduce the State's reliance on premiums to pay debt service costs.**

Capital Program

Capital Debt Affordability Committee Recommends Increased Use of General Fund PAYGO

- The State's strong cash position and projected structural general fund surplus allows for greater use of general fund pay-as-you-go (PAYGO) to support the capital program, but the lower debt limit, capital mandates included in the general fund forecast, preauthorized projects not programmed in the *Capital Improvement Program* (CIP), and rising construction costs for projects bid in calendar 2021 and 2022 would require upward of \$545 million of general fund PAYGO before any expansion of the capital program could take place.
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Estimated Fiscal 2023 General Fund PAYGO Needed at CDAC Recommended GO Bond Authorization Levels (\$ in Millions)

	<u>2023</u>
Lower CDAC Recommended GO Bond Authorization Levels	\$215.0
Current General Fund PAYGO Forecast (including \$24.7 million in the Dedicated Purpose Account for POS Replacement and \$42 million for WMATA grants)	155.0
Preauthorizations Above What Is Programmed in 2021 CIP	125.0
Estimated Amount Needed to Address Impact of Construction Cost Increase for Projects in Various Stages of Contracting	50.0
General Fund PAYGO	\$545.0

CDAC: Capital Debt Affordability Committee

CIP: *Capital Improvement Program*

GO: general obligation

PAYGO: pay-as-you-go

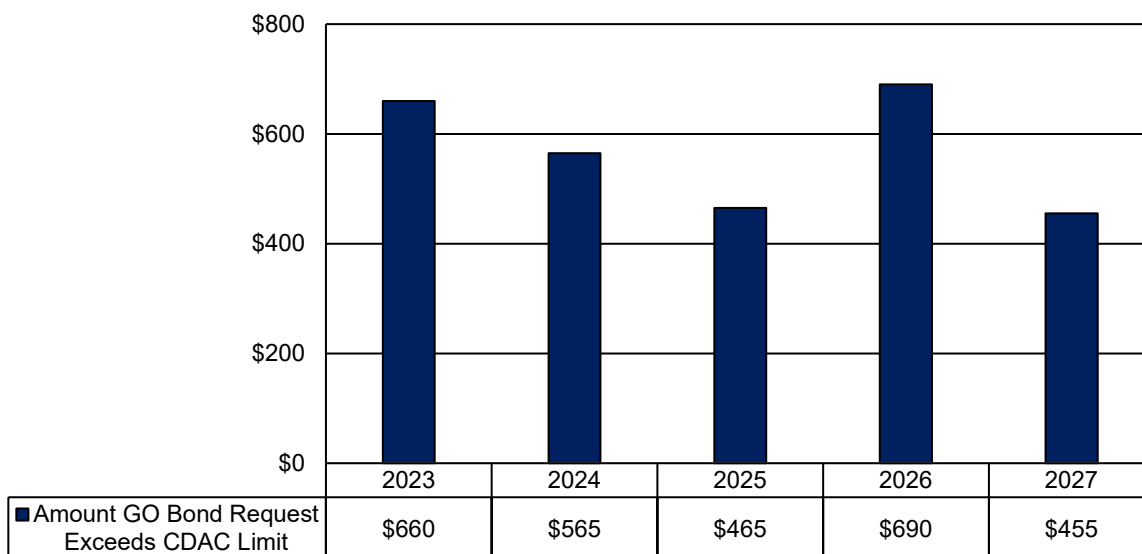
POS: Program Open Space

WMATA: Washington Metropolitan Area Transit Authority

Source: 2021 *Capital Improvement Program*; Department of Legislative Services

- General obligation (GO) bond authorization levels are insufficient to accommodate all agency requests. The lower authorization level recommended by CDAC would increase this disparity. Through fiscal 2027, agency requests exceed programmed GO bond levels by \$2.8 billion of which 70% is comprised of public school construction and higher education requests.

GO Bond Requests Exceed Recommended Authorization Levels Fiscal 2023-2027 (\$ in Millions)



CDAC: Capital Debt Affordability Committee
GO: general obligation

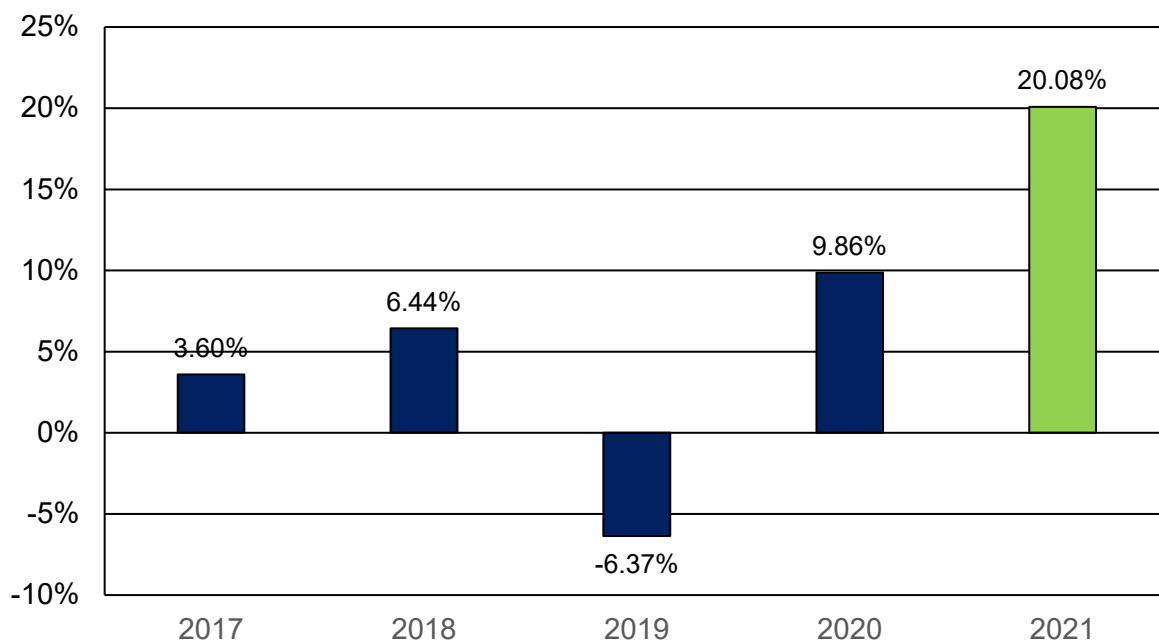
Source: Department of Legislative Services

- The budget surplus is an opportunity to bridge the gap between authorization levels and agency requests. It is also an opportunity to make strategic capital investments including:
 - **Facility Renewal:** Multi-year investment in addressing the backlog of facility renewal projects estimated in excess of \$200 million and \$800 million, respectively, at Department of General Services and University System of Maryland managed facilities.
 - This includes investments in the tools that produce data-driven facility assessments, and investments in facility management systems and facilities management positions.
- **Enhanced State Park Investments:** The State Park Investment Commission is working on a number of recommendations to improve the system of State parks. This will require a sustained multi-year effort to enhance investments in State park facilities, including an estimated \$80 million backlog of facility renewal.

Impact of Construction Inflation on Bond Authorization Levels

- **COVID-19 Impact on Construction Price Inputs:** The pandemic has seriously disrupted the construction material supply chain. Prices for materials and labor used in construction increased 9.9% in calendar 2020 and an additional 20% from January 2021 through September 2021.
 - **State-owned Projects:** This could add as much as \$50 million in costs above what is programmed for projects scheduled to be bid in fiscal 2023.
 - **Grant and Loan Programs:** The impact on grant and loan programs, including the Public School Construction Program, means that less can be done with the level of funds currently programmed in the CIP.
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**Building Cost Index Escalation
Baltimore Region
Calendar 2017-2021**



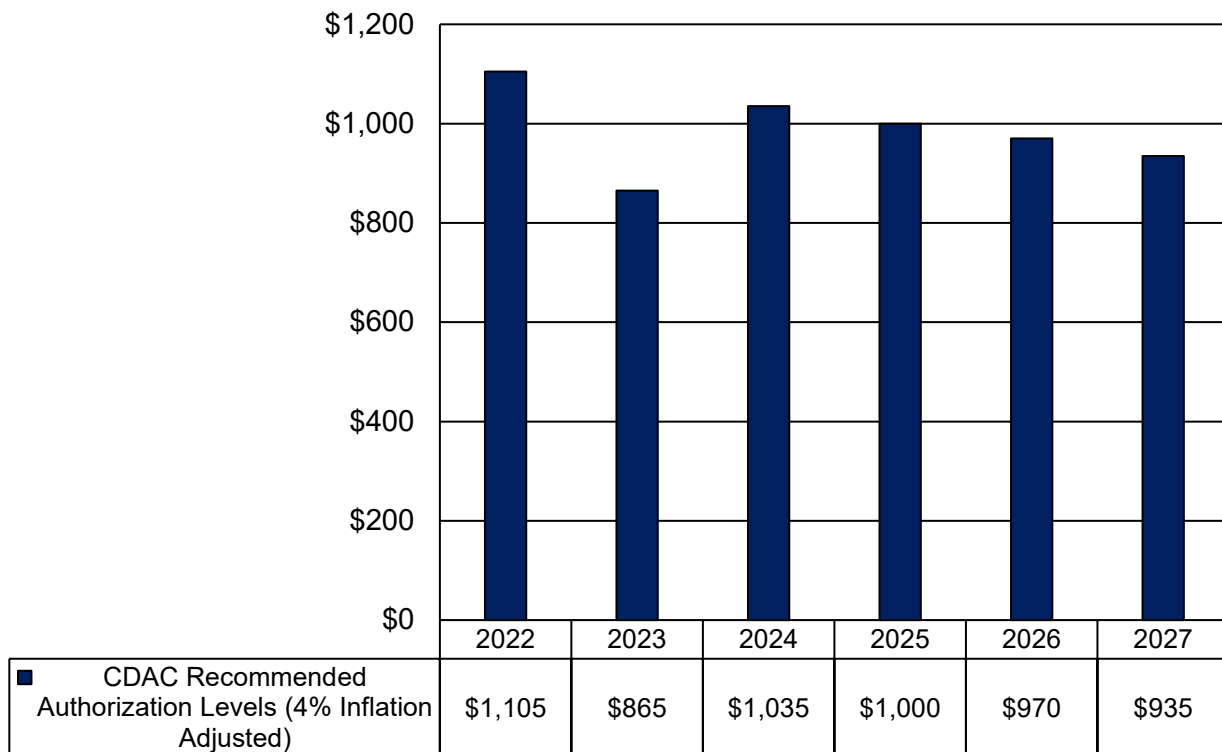
Source: Engineering News-Record Building and Construction Cost Indexes – City Cost Index Baltimore City

- **Impact of Construction Inflation on Bond Authorization Levels:** Funding levels as programmed are not keeping pace with rising construction costs. GO bond authorization levels are programmed to increase 1% annually. However, year-over-year construction inflation has increased at an average annual rate of

5.0% since the beginning of calendar 2017, excluding the unprecedented 20% increase through calendar 2021.

- The State should also consider increasing the balance of funds available in the Construction Contingency Fund (CCF) as a hedge against rising construction costs. The CCF fund balance is capped at 1.25% of the current year's GO bond authorization level, which equates to \$13.9 million compared to the current available balance of \$6.2 million.

CDAC Recommended Authorization Levels – Inflation Adjusted Fiscal 2022-2027 (\$ in Millions)



CDAC: Capital Debt Affordability Committee

Source: Engineering News-Record Building Cost Index

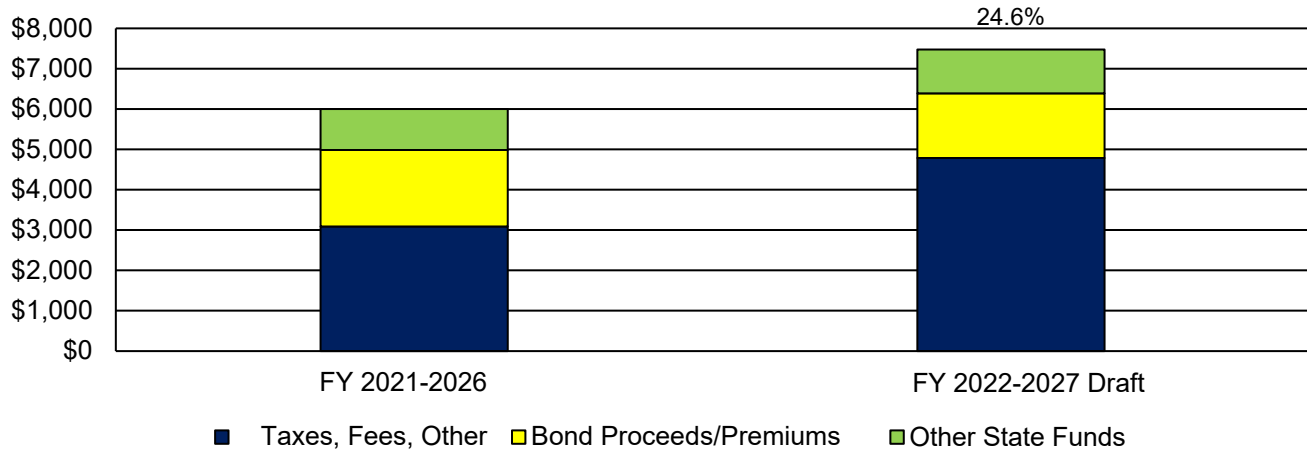
Transportation Trust Fund Forecast Comparison
Fiscal 2021-2026 v. Fiscal 2022-2027 Six-year Totals
(\$ in Millions)

	<u>MDOT</u> <u>2021-2026</u>	<u>MDOT</u> <u>2022-2027</u>	<u>Diff.</u>	<u>DLS</u> <u>2022-2027</u>	<u>Diff.</u>
Revenues					
Taxes and Fees	\$18,418	\$19,476	\$1,057	\$19,570	\$94
Operating and Other Revenues	2,944	3,012	68	3,012	0
Federal Operating Assistance	645	645	0	645	0
Federal Stimulus Bond	148	888	740	888	0
Proceeds and Premiums	1,900	1,605	-295	1,669	64
Change in Fund Balance	85	32	-53	250	218
Total Revenues	\$24,140	\$25,658	\$1,517	\$26,034	\$377
Expenditures					
Debt Service	\$2,712	\$2,772	\$60	\$2,779	\$6
Operating Budget	14,474	14,520	46	14,659	139
Deductions to Other Agencies	479	494	16	494	0
Highway User Revenues Grant	1,417	1,403	-14	1,407	4
State Capital Program	5,059	6,468	1,409	6,696	227
Total Expenditures	\$24,140	\$25,658	\$1,517	\$26,034	\$377

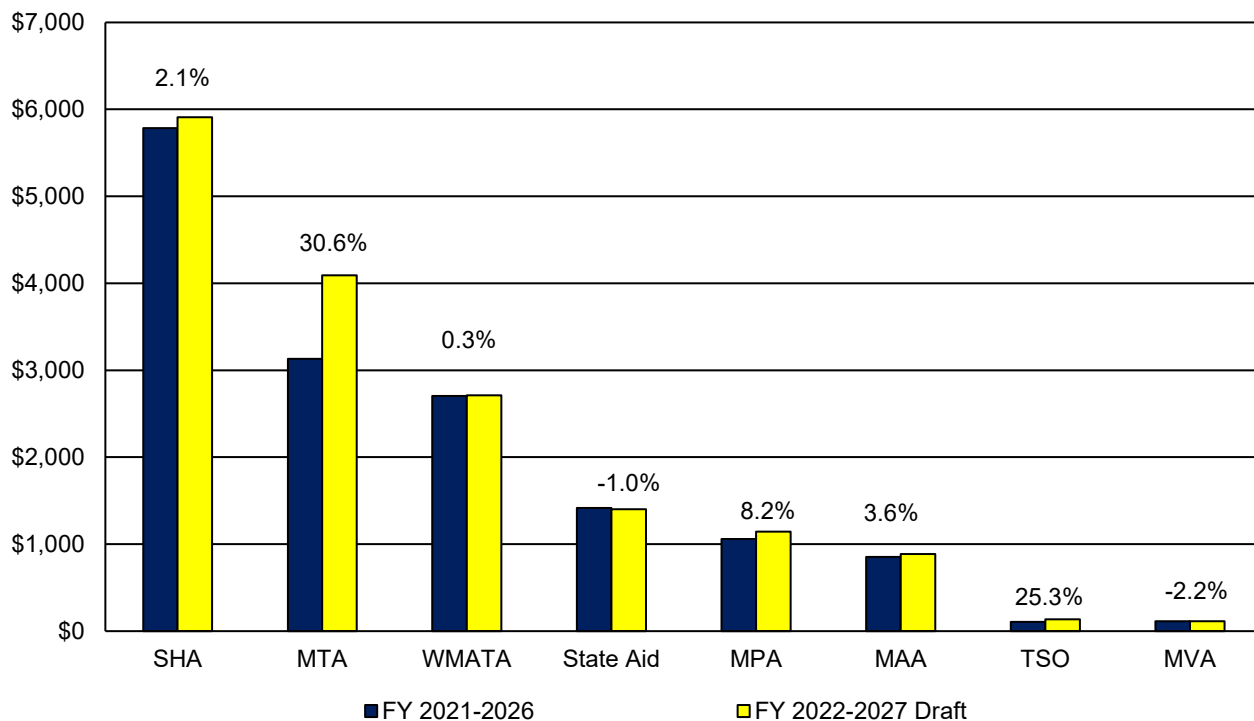
- Federal stimulus aid accounts for nearly half the increase in revenues in the Maryland Department of Transportation (MDOT) draft 2022-2027 forecast compared to the prior six-year forecast
- Use of debt to support the capital program is lower in the draft forecast due to debt service coverage ratios approaching minimum acceptable levels
- Compared to the MDOT draft forecast, the Department of Legislative Services forecast
 - Reflects a higher change in fund balance based on the actual fiscal 2021 closeout balance
 - Projects slightly higher revenue attainment
 - Projects slightly higher operating costs
 - Includes more capital spending supported in part by additional debt that may be issued due to higher starting fund balance and revenues

Consolidated Transportation Programs Fiscal 2021-2026 v. Fiscal 2022-2027 Draft Six-year Funding and Percent Change Between Programs

State Funds



Total Funding by Mode



MAA: Maryland Aviation Administration
MPA: Maryland Port Administration
MTA: Maryland Transit Administration
MVA: Motor Vehicle Administration

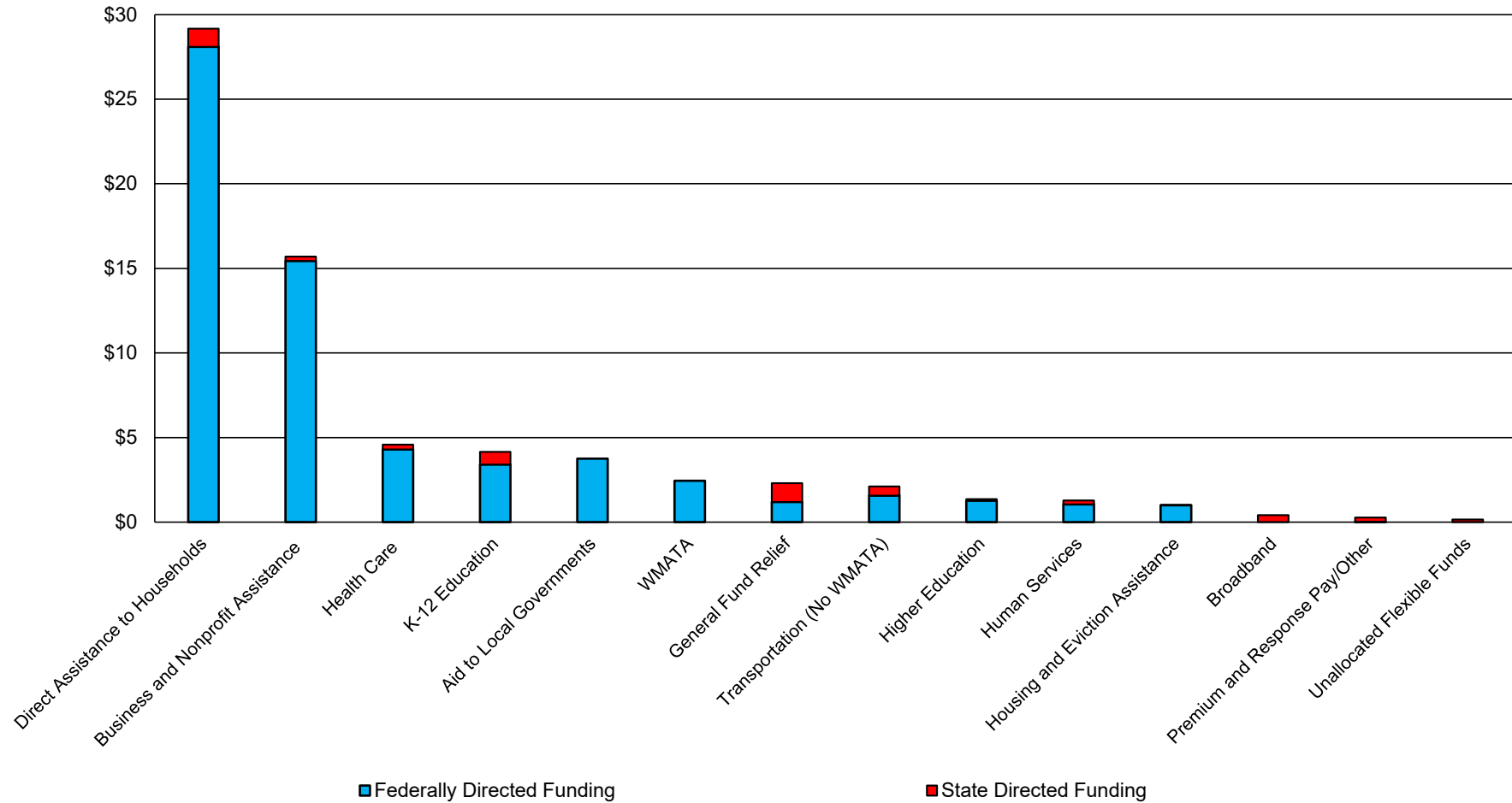
SHA: State Highway Administration
TSO: The Secretary's Office
WMATA: Washington Metropolitan Area Transit Authority

Infrastructure Investment and Jobs Act Provides at Least \$2.9 Billion In New Funds for Maryland over Five Years

<u>Program</u>	<u>Amount</u>	<u>Notes</u>
Roads and Bridges	\$1.3 billion	Actual amount could vary significantly depending on the State's success attaining competitive grants
Transit	\$0.25 billion	Competitive grants for new and expanded service could substantially boost this amount. The Act also reauthorizes a \$150 million annual grant (not included in \$250 million total) for the Washington Metropolitan Area Transit Authority for 10 years.
Airport and Port	\$0.1 billion	The Port Administration expects to receive \$25 million to \$50 million, while the Aviation Administration estimates to receive at least \$100 million.
Clean Water and Lead Pipe Replacement	\$0.8 billion	Most of the money flows through existing revolving loan funds, but about half of money is available as grants/loan forgiveness. The Department of Legislative Services estimates about \$230 million is earmarked for lead pipe replacement.
Chesapeake Bay	\$0.2 billion	Earmark for health of Bay. The State will not have unilateral control of the funds.
Broadband	\$0.1 billion	Minimum amount for the State is \$100 million. Remaining funds to be allocated through not yet developed formula. Funds are also allocated to the Federal Communications Commission to provide a \$30 per month subsidy to low-income households with more than one million Marylanders expected to qualify.
Other	\$0.1 billion to \$0.3 billion	Includes funds for weatherization, electric vehicle charging infrastructure, energy programs, road safety activities, and cybersecurity. About half of funds will come from road safety grants.

Appendices

Appendix 1 **Federal COVID-19 Response Funding Exceeds \$68 Billion** **(\$ in Billions)**



WMATA: Washington Metropolitan Area Transit Authority

Appendix 2
Substantial Amounts of Federal COVID Relief Funding Not Yet in Budget
(\$ in Millions)

10 Largest Sources of Funds Not Yet Added to Budget

State Fiscal Recovery Fund*	\$956.2
K-12 Education Stabilization Fund	758.4
Federal Transit-formula Grants	537.8
Epidemiology and Laboratory Capacity for Infectious Diseases	337.3
Emergency Rental Assistance	317.7
Homeowner Assistance Fund	248.6
Child Care and Development Block Grant	242.5
Public Assistance Grants	202.9
Capital Projects	171.2
Coronavirus Relief Fund (COVID)	168.1

*Includes \$149 million not yet committed to a purpose, \$537 million for transportation that is included in the draft Consolidated Transportation Plan, \$250 million that will replace general fund spending, \$100 million for broadband, \$50 million reserved for COVID health expenses, and \$41 million for various other programs.

Appendix 3
Planned Uses of American Rescue Plan Act State Fiscal Recovery Funds and Capital Funds

	<u>End of Session</u>	<u>Now</u>	<u>Difference</u>
Available			
State Fiscal Recovery Fund	\$3,726	\$3,717	-\$9
Capital Funding	169	169	0
	\$3,895	\$3,886	-\$9
Spending			
Programmatic Initiatives			
Unemployment Trust Fund	\$1,100	\$1,000	-\$100
Transportation	500	537	37
Broadband	300	400	100
Response Pay for Essential Workers	100	100	0
School HVAC/Ventilation	80	80	0
Employment Training/Apprenticeships	75	75	0
COVID-19 Health Cost Reserve		50	50
Continue \$100 Per Month Increase in Cash Assistance Grants through December 31, 2021	46	46	0
Blueprint Fiscal 2023 Learning Loss Planned Spending	46	46	0
Temporary Nursing Home Rate Increase	26	26	0
Project Restore		25	25
Fund Costs of HB 606 – Utility Bill Assistance	20	20	0
Victims of Crime Assistance		20	20
Expand Telework for State Employees	10	10	0
Other Legislative Priorities	18	18	0
Administrative Support		15	15
Other New Administration Initiatives		6	6
Fiscal Responsibility			
General Fund Relief	840	662	-178 ⁽¹⁾
Blueprint Fund Relief	431	431	0 ⁽²⁾
Temporary Assistance for Needy Families Relief	140	140	0
Strategic Energy Investment Fund Relief	30	30	0
Reserved for Potential Penalty for Reducing Taxes (after March 3, 2021)	133	0	-133
Unallocated		149	149
	\$3,895	\$3,886	-\$9

(1) \$177.8 million of stimulus payments authorized by the RELIEF Act do not qualify for American Rescue Plan Act (ARPA) funds. State will fund with Coronavirus Relief Fund. \$250 million of Governor's Economic Relief Initiative spending also does not qualify, and the Department of Budget and Management will offset impact by using State Fiscal Recovery Funds (SFRF) to support other general fund expenses.

(2) \$174.8 million of the Education Trust Fund shortfall from prior years is not eligible for direct reimbursement as spending occurred prior to enactment of the ARPA. However, the ability to use ARPA funds to cover general revenue losses should allow the SFRF to indirectly cover the shortfall.

Appendix 4
State Expenditures – General Funds
Fiscal 2021-2023
(\$ in Millions)

Category	FY 2021 Working Appropriation	FY 2022 Adjusted Appropriation	FY 2023 Baseline	\$ Change 2022 to 2023	% Change
Debt Service	\$131.0	\$260.0	\$354.0	\$94.0	36.2%
County/Municipal	\$314.4	\$312.5	\$321.4	\$8.9	2.9%
Community Colleges	330.8	371.5	386.6	15.1	4.1%
Education/Libraries	6,617.0	6,590.7	7,225.1	634.4	9.6%
Health	34.4	48.3	55.1	6.8	14.0%
Aid to Local Governments	\$7,296.6	\$7,323.0	\$7,988.3	\$665.2	9.1%
Foster Care Payments	\$206.2	\$230.9	\$239.8	\$8.9	3.9%
Assistance Payments	127.7	81.3	49.8	-31.5	-38.8%
Medical Assistance	3,118.5	4,084.0	4,544.7	460.7	11.3%
Property Tax Credits	96.3	93.7	93.7	0.0	0.0%
Entitlements	\$3,548.8	\$4,489.9	\$4,928.0	\$438.1	9.8%
Health	\$1,944.0	\$1,692.8	\$1,834.5	\$141.7	8.4%
Human Services	368.4	389.7	405.7	16.0	4.1%
Juvenile Services	244.9	250.7	288.0	37.2	14.8%
Public Safety/Police	1,435.7	1,530.4	1,668.7	138.3	9.0%
Higher Education	1,557.5	1,581.8	1,671.9	90.2	5.7%
Other Education	491.2	541.1	585.1	43.9	8.1%
Agriculture/Natural Res./Environment	130.7	154.5	162.4	7.9	5.1%
Other Executive Agencies	913.3	1,013.7	934.4	-79.3	-7.8%
Judiciary	558.6	589.3	629.3	40.0	6.8%
Legislative	103.7	105.5	110.0	4.5	4.3%
State Agencies	\$7,747.9	\$7,849.5	\$8,289.9	\$440.4	5.6%
Total Operating	\$18,724.3	\$19,922.4	\$21,560.1	\$1,637.7	8.2%
Capital ⁽¹⁾	\$68.2	\$461.4	\$86.0	-\$375.4	-81.4%
Subtotal	\$18,792.5	\$20,383.9	\$21,646.1	\$1,262.3	6.2%
Reserve Funds	\$114.0	\$669.6	\$2,536.6	\$1,866.9	278.8%
Appropriations	\$18,906.5	\$21,053.5	\$24,182.7	\$3,129.2	14.9%
Reversions	-\$56.5	-\$285.0	-\$35.0	\$250.0	-87.7%
Grand Total	\$18,850.0	\$20,768.5	\$24,147.7	\$3,379.2	16.3%

⁽¹⁾ Includes the Historic Revitalization Tax Credit Reserve Fund.

Note: The fiscal 2021 working appropriation reflects \$28.4 million in targeted reversions and \$173.4 million in reductions to be replaced with federal fund. The fiscal 2022 adjusted appropriation is the legislative appropriation plus estimated deficiencies of \$121.9 million.

Appendix 5
State Expenditures – Special and Higher Education Funds*
Fiscal 2021-2023
(\$ in Millions)

<u>Category</u>	<u>FY 2021 Working Appropriation</u>	<u>FY 2022 Adjusted Appropriation</u>	<u>FY 2023 Baseline</u>	<u>\$ Change 2022 to 2023</u>	<u>% Change</u>
Debt Service	\$1,618.9	\$1,574.3	\$1,539.1	-\$35.2	-2.2%
County/Municipal	\$432.6	\$451.7	\$467.6	\$15.9	3.5%
Community Colleges	8.8	0.0	0.0	0.0	n/a
Education/Libraries	675.3	805.3	903.0	97.7	12.1%
Health	0.0	0.0	0.0	0.0	n/a
<i>Aid to Local Governments</i>	<i>\$1,116.7</i>	<i>\$1,257.0</i>	<i>\$1,370.6</i>	<i>\$113.6</i>	<i>9.0%</i>
Foster Care Payments	\$3.3	\$3.0	\$3.0	\$0.0	0.0%
Assistance Payments	33.4	13.5	13.5	0.0	0.0%
Medical Assistance	1,025.6	833.7	726.6	-107.2	-12.9%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<i>Entitlements</i>	<i>\$1,062.3</i>	<i>\$850.2</i>	<i>\$743.0</i>	<i>-\$107.2</i>	<i>-12.6%</i>
Health	\$674.5	\$465.2	\$490.1	\$24.8	5.3%
Human Services	87.1	94.7	105.9	11.2	11.8%
Juvenile Services	3.3	3.4	3.6	0.2	7.2%
Public Safety/Police	284.5	321.7	338.2	16.5	5.1%
Higher Education	4,976.4	4,857.9	5,094.9	237.0	4.9%
Other Education	80.8	107.9	185.3	77.4	71.7%
Transportation	1,967.1	1,519.1	1,825.3	306.2	20.2%
Agriculture/Natural Res./Environment	303.3	280.3	332.2	51.9	18.5%
Other Executive Agencies	1,273.0	859.0	1,016.3	157.4	18.3%
Judiciary	72.7	67.7	69.3	1.6	2.4%
<i>State Agencies</i>	<i>\$9,722.8</i>	<i>\$8,577.1</i>	<i>\$9,461.1</i>	<i>\$884.1</i>	<i>10.3%</i>
Total Operating	\$13,520.7	\$12,258.6	\$13,113.9	\$855.3	7.0%
Capital	\$1,577.8	\$1,474.7	\$1,784.1	\$309.5	21.0%
Transportation	1,130.5	982.0	1,098.1	116.1	11.8%
Environment	216.4	259.8	214.5	-45.3	-17.4%
Other	230.9	232.8	471.5	238.7	102.5%
<i>Subtotal</i>	<i>\$15,098.5</i>	<i>\$13,733.2</i>	<i>\$14,898.0</i>	<i>\$1,164.8</i>	<i>8.5%</i>
Reserve Funds	\$0.0	\$0.0	\$125.0	125.0	n/a
Grand Total	\$15,098.5	\$13,733.2	\$15,023.0	\$1,289.8	9.4%

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

Note: The fiscal 2021 working appropriation reflects \$0.8 million in targeted reversions, \$210.4 million in additional spending due to fund swaps, and \$336 million in spending authorized by budget amendment pursuant to Chapter 39 of 2021 (The RELIEF Act). It excludes \$40 million that double counts general fund spending. The fiscal 2022 adjusted appropriation is the legislative appropriation excluding \$10 million that double counts general fund spending. It includes \$105.9 million of additional special fund spending due to funding swaps, a supplementary appropriation of \$14.3 million from HB 940 of 2021 and estimated deficiencies of -\$449.7 million.

Appendix 6
State Expenditures – State Funds
Fiscal 2021-2023
(\$ in Millions)

<u>Category</u>	<u>FY 2021 Working Appropriation</u>	<u>FY 2022 Adjusted Appropriation</u>	<u>FY 2023 Baseline</u>	<u>\$ Change 2022 to 2023</u>	<u>% Change</u>
Debt Service	\$1,749.9	\$1,834.3	\$1,893.1	\$58.8	3.2%
County/Municipal	\$747.0	\$764.2	\$789.0	\$24.8	3.3%
Community Colleges	339.6	371.5	386.6	15.1	4.1%
Education/Libraries	7,292.3	7,396.0	8,128.1	732.1	9.9%
Health	34.4	48.3	55.1	6.8	14.0%
<i>Aid to Local Governments</i>	<i>\$8,413.3</i>	<i>\$8,580.0</i>	<i>\$9,358.8</i>	<i>\$778.8</i>	<i>9.1%</i>
Foster Care Payments	\$209.5	\$233.8	\$242.8	\$8.9	3.8%
Assistance Payments	161.1	94.8	63.3	-31.5	-33.2%
Medical Assistance	4,144.1	4,917.7	5,271.2	353.5	7.2%
Property Tax Credits	96.3	93.7	93.7	0.0	0.0%
<i>Entitlements</i>	<i>\$4,611.1</i>	<i>\$5,340.1</i>	<i>\$5,671.0</i>	<i>\$330.9</i>	<i>6.2%</i>
Health	\$2,618.5	\$2,158.0	\$2,324.6	\$166.6	7.7%
Human Services	455.5	484.5	511.6	27.2	5.6%
Juvenile Services	248.2	254.1	291.6	37.5	14.7%
Public Safety/Police	1,720.3	1,852.1	2,006.9	154.7	8.4%
Higher Education	6,533.9	6,439.7	6,766.8	327.1	5.1%
Other Education	572.1	649.1	770.4	121.3	18.7%
Transportation	1,967.1	1,519.1	1,825.3	306.2	20.2%
Agriculture/Natural Res./Environment	433.9	434.8	494.6	59.8	13.8%
Other Executive Agencies	2,186.3	1,872.6	1,950.7	78.0	4.2%
Judiciary	631.3	657.0	698.7	41.6	6.3%
Legislative	103.7	105.5	110.0	4.5	4.3%
<i>State Agencies</i>	<i>\$17,470.7</i>	<i>\$16,426.6</i>	<i>\$17,751.1</i>	<i>\$1,324.5</i>	<i>8.1%</i>
Total Operating	\$32,245.0	\$32,181.0	\$34,674.0	\$2,493.0	7.7%
Capital ⁽¹⁾	\$1,645.9	\$1,936.1	\$1,870.1	-\$66.0	-3.4%
Transportation	1,130.5	982.0	1,098.1	116.1	11.8%
Environment	216.6	260.5	214.5	-46.0	-17.7%
Other	298.9	693.5	557.5	-136.0	-19.6%
<i>Subtotal</i>	<i>\$33,891.0</i>	<i>\$34,117.1</i>	<i>\$36,544.2</i>	<i>\$2,427.1</i>	<i>7.1%</i>
Reserve Funds	\$114.0	\$669.6	\$2,661.6	\$1,991.9	297.5%
Appropriations	\$34,005.0	\$34,786.7	\$39,205.7	\$4,419.0	12.7%
Reversions	-\$56.5	-\$285.0	-\$35.0	\$250.0	-87.7%
Grand Total	\$33,948.5	\$34,501.7	\$39,170.7	\$4,669.0	13.5%

⁽¹⁾ Includes the Historic Revitalization Tax Credit Reserve Fund.

Note: The fiscal 2021 appropriation reflects \$29.2 million in targeted reversions, \$173.4 million in general fund reductions to be replaced with federal funds, \$210.4 million in additional special fund spending due to funding swaps, and \$336.0 million in spending authorized by budget amendment pursuant to Chapter 39 of 2021 (The RELIEF Act). It excludes \$40 million that double counts other spending. The fiscal 2022 adjusted appropriation is the legislative appropriation excluding \$10 million that double counts other spending. It includes \$105.9 million of additional special fund spending due to funding swaps, a supplementary appropriation of \$14.3 million from HB 940 of 2021, and -\$327.8 million in estimated deficiencies.

Appendix 7
\$267 Million in Potential Fiscal 2022 General Fund Spending Is More Than Offset
By \$395 Million in Potential Savings and Reversions
(\$ in Millions)

Entitlement Spending Based on Caseload Trends: Behavioral Health to account for fiscal 2021 accruals (\$100.2 million); Behavioral Health due to increased need (\$81.4 million); Foster Care/Subsidized Adoption and Guardianships primarily due to federal fund availability and higher placement costs (\$20.6 million), partially offset by recoveries related to estimated payments in Behavioral Health (-\$18.0 million) and lower estimated costs of Temporary Cash Assistance, Temporary Disability Assistance Program due to lower estimated caseloads and Supplemental Nutrition Assistance Program Supplemental Benefit for Seniors due to extension of Emergency Allotments through October (-\$21.7 million)	\$162.5
Personnel Actions: Health Insurance costs due to higher than expected expenditures (\$60.9 million); 1% general salary increase effective April 1, 2022, and \$500 bonus on January 1, 2022, for certain bargaining units and non-represented employees due to revenues exceeding estimates by a certain amount (\$25.4 million), partially offset by overestimated statewide salary expenses (-\$2.0 million).	84.2
Program Expenses to Meet Demand and Fully Fund Mandates: More Jobs for Marylanders (\$13.5 million), 529 Plan (\$3.9 million); Violence Intervention and Prevention Program to meet mandate due to unavailable special funds (\$1.7 million); Payments for Erroneous Convictions (\$1.1 million); Maryland State Arts Council due to unfunded portion of mandate (\$1.0 million), partially offset by anticipated Developmental Disabilities Administration (DDA) underspending (-\$12.8 million).	8.4
Agency Operating Expenses: DDA audit disallowance (\$34.0 million); Overtime costs to align with experience in DDA (\$1.2 million); expenses associated with Crownsville Hospital (\$0.6 million); State Board of Elections costs related to settlement with National Federation for the Blind and costs of financing replacement pollbook printers (\$0.3 million); costs related to the implementation of SB 71 of 2021 for Department of General Services Police (\$0.3 million) partially offset by savings associated with vacancies in the Department of Public Safety and Correctional Services (-\$13.1 million), lower expected food costs due to lower average daily population and vacancy savings in DPSCS (-\$14.8 million), and support for interest payments for the Unemployment Insurance Trust Fund unneeded due to full repayment (-\$15.0 million).	6.7
Major Information Technology Projects: Interagency Committee on School Construction business process project due to higher than anticipated costs (\$4.0 million); State Board of Elections Pollbook Project due to announced change to a 50/50 State-Local Fund split (\$1.2 million).	5.2
Savings Due to Available Federal Funds: Enhanced Medicaid match available available for an additional 3 months (\$141.4 million), alter fund split based on Title X awards (\$3.0 million); Title IV-E Foster Care Funds available to support legal services for Children in Need of Assistance/Termination of Parental Rights in the Department of Human Services (\$0.8 million).	-145.2
Reversions: Replace general funds with American Rescue Plan Act (ARPA) funds. ARPA funds are available as plan to substitute funds in fiscal 2021 was prohibited by federal guidance.	-250.0
Total Deficiencies and Reversions	-\$128.1

Appendix 8

Summary of Baseline Budget Growth Compared to Adjusted Legislative Appropriation

Local Aid	\$665.2
State Agency Costs	440.4
Entitlements	438.1
Debt Service	94.0
Growth in Operating Budget, Including Anticipated Deficiencies	\$1,637.7
PAYGO	-\$375.4
Appropriation to Reserve Fund	1866.9
Reversions	250.0
Total Baseline Increase in State Expenditures	\$3,379.2
Ongoing Requirements/Entitlements	
Education and Library Aid Formulas and Other Grants	\$634.5
Medical Assistance Primarily Due to End of Enhancement Match and Rate Changes, Partially Offset by Enrollment Declines and Fiscal 2021 Costs Paid in Fiscal 2022 in Behavioral Health	460.7
Debt Service	94.0
Community College Formula and Other Grants	15.1
Foster Care Primarily Due to Placement Costs and Returning Closer to Prepandemic Levels of Placements	8.9
Local Health Department Formula and Backfilling Infrastructure Grant Funded with ARP in Fiscal 2022	6.8
Assistance Payments Due to Declining Caseloads and Available TANF	-31.5
Other Local Aid Primarily Due to Costs Related to Epollbook Major IT Project and Return to General Fund Spending for Revenue Equity Program	8.9
	\$1,197.4
State Agency Costs	
Statewide Personnel and Standard Inflation Adjustments	
Health Insurance (Excludes Higher Education)	\$73.6
2% General Salary Increase (Excludes Higher Education)	50.0
Merit Increase (Excludes Higher Education)	39.4
Annualization of 1% General Salary Increase for Certain Bargaining Units and Nonrepresented Employees (Includes Higher Education)	22.6
Anticipated Annual Salary Review Adjustments	8.0
Food Costs	3.4
Pension Costs Attributable to Rate Changes (Excludes Higher Education)	4.3
Utilities and Motor Fuel/oil	1.3
Contractual Employee General Salary Increase	1.3
Removing One-time Deficiency Appropriations for Bonuses for Certain Bargaining Units and Nonrepresented Employees and Health Insurance (Includes Higher Education)	-78.7
	\$125.2
Impact of Legislation	
Chapter 41 of 2021 for Attorney's Fees and Positions, Program Evaluation Costs, and Other Costs in MHEC	\$23.2
Chapter 746 of 2021 Residential Tenants Access to Counsel	14.0
Chapter 59 of 2021 Loan Assistance Repayment Program for Police Officers (\$1.5 million), Police Officers Scholarship Program, DPSCS Costs (\$1.0 million), and MSP (\$1.5 million)	12.5
TEDCO: Chapter 415 of 2021 (\$4.0 million), Chapter 180 of 2021 (\$1.5 million), and Chapter 825 of 2021 (\$1.3 million)	6.8

Impact of Legislation (cont.)

DHCD: Chapter 702 and 703 of 2021 Redlining Appraisal Gap (\$4.2 million); Chapter 583 of 2021 Passive Housing Pilot Program (\$1.0 million)	5.2
MDH: Chapter 786 of 2021 Behavioral Health Services Matching Grant Program for Service Members and Veterans (\$2.5 million); Chapter 494 and 495 of 2021 Expand Thrive by Three Fund (\$1.1 million); Chapter 454 of 2018 office of Health Care Quality Positions	4.6
MSP: Chapter 60 of 2021 (\$2.6 million); Chapter 19 of 2021 (\$1.4 million)	4.0
Chapter 733 of 2021 Mandated Appropriation to Fair Campaign Financing Fund	4.0
Chapter 353 Hagerstown Multi-Use Sports and Events Facility Debt Service	3.8
Chapter 29 of 2021 Maryland Mental Health and Substance Use Disorder Registry and Referral System IT costs (\$1.9 million) and Related Position (\$0.8 million)	2.7
Chapter 20 of 2021 P.R.O.T.E.C.T Act in DPSCS (\$1.4 million); DJS (\$0.7 million)	2.1
Chapter 596 of 2021 Juvenile Justice Reform	2.0
Chapter 400 of 2021 MSDE Aid to Other Institutions	1.6
Chapter 17 of 2021 Violence Intervention and Prevention Program Mandate Increase	1.3
Chapter 40 of 2021 Child Tax Credit and Expansion of Earned Income Credit for Positions in Comptroller of Maryland	1.3
Chapter 696 of 2021 Teleworking	1.0
MHEC: Chapter 677 of 2021 Inmate Training (\$0.3 million); Chapter 580 of 2021 Hunger Free Campus Grants (\$0.2 million)	0.5
	\$90.6

Other Major Agency Programmatic and Operating Expenses

University System of Maryland and Morgan State University: General Fund Requirement to Cover Growth in Base Costs Not Provided for through Tuition and Higher Education Investment Fund Revenue (\$70.3 million) and Mandates Partially Offset by Cigarette Restitution Funds (\$36.1 million)	\$106.4
Backfilling Stimulus Funds for Certain Personnel Costs in MDH, Increased Costs and Provider Rate Increases in the Behavioral Health Administration, and the Enhanced Medicaid Match for DDA	44.4
MITDPF: Based on Anticipated Costs of Projects Partially offset by a One-time Deficiency Appropriation for an IAC Project	20.7
Commerce: More Jobs for Marylanders Tax Credit Reserve Fund	22.0
MDH: Mandated Provider Rate Increase for DDA (\$30.2 million); Fee-for-services Costs in BHA (\$4.0 million); Partially Offset by One-time Deficiency Appropriations Related to an Audit Disallowance and Anticipated Underspending in DDA (-\$21.4 million)	12.9
Sellinger Formula Growth	12.3
DGS: Critical Maintenance	5.4
Backfill Special Fund Balances Used to Support Costs in BHA Community Services (\$3.5 million) and DNR Fisheries and Research Development (\$1.8 million)	5.3
Maryland School for the Deaf	2.9
Maryland State Arts Council Formula Growth	2.5
MSDE: Autism Waiver	2.3
MHEC: Scholarships Based on 2% Tuition Growth	2.0
Maryland School for the Blind Formula Growth	1.8
SMCM: Formula Growth	1.7
DHS: Maryland Legal Services Program Due to Anticipated Availability of Title IV-E Foster Care Funds	-2.8
MSA: Baltimore Convention Center Operating Budget Subsidy Return to Prepandemic Levels (-\$1.6 million); Retirement of Debt for Hippodrome in Fiscal 2022 (-\$1.4 million)	-3.0
One-time Deficiency Appropriation for the 529 Plan	-3.9
One-time Costs for Montgomery College (-\$1.5 million), CIAA tournament and B&O Railroad Anniversary (-\$1.3 million), Electric Vehicle Infrastructure (-\$1.0 million), Oyster Seeding (-\$1.0 million), Scrap Tire Drop-off Days (-\$1.5 million)	-6.3
DPSCS: Vacancy Savings and Food Costs Due to Lower Average Daily Population (-\$0.8 million), Retention Longevity Pay Incentive Expected Payouts (-\$4.3 million), Partially Offset by Substance Use Disorder Treatment (\$5.0 million)	-0.1

Other Major Agency Programmatic and Operating Expenses (cont.)

Turnover and Other Agency Personnel and Operating Expenses	-1.7
	\$224.8

Reserve Fund and PAYGO

Reserve Fund: Rainy Day Fund Appropriation (\$1.89 billion); Dedicated Purpose Account (\$26.9 million), Partially Offset by One-time Dedicated Purpose Account Appropriation for State Center Relocation (-\$50.0 million)	\$1,866.9
IAC PAYGO: Healthy Schools Facility Fund to Meet Mandated Level from Built to Learn Act (\$40.0 Million) Partially Offset by Public School Safety Grant (-\$10.0 million) and Nonpublic School Safety Grant (-\$1.5 million), which are assumed to be funded with general obligation bonds in fiscal 2023	28.5
DHCD PAYGO: Primarily Due to Mandated Levels of Funding for Baltimore Regional Neighborhood Initiative (\$6.0 million); SEED Community Anchor Institution Fund (\$5.0 million); and National Capital Economic Development Fund (\$3.0 million)	14.0
MDP PAYGO: Historic Revitalization Tax Credit Due to Ch. 332 of 2021	5.0
Community College Facilities Fund	3.5
DNR PAYGO: Waterway Improvement Program (-\$1.35 million) and Critical Maintenance Program (-\$2.0 million)	-3.4
MDOT: One-time Grant to Prince George's County for Infrastructure Along Blue Line Corridor	-8.7
One-time Board of Public Works PAYGO	-414.6
	\$1,491.2

One-time Fund Swap Due to ARP Funds Not Being Available to Replace Fall 2020 Economic Recovery Initiative as Planned

\$250.0

Total **\$3,379.2**

ARP: American Rescue Plan
CIAA: Central Intercollegiate Athletic Administration
DDA: Developmental Disabilities Administration
DGS: Department of General Services
DHCD: Department of Housing and Community Development
DJS: Department of Juvenile Services
DPSCS: Department of Public Safety and Correctional Services
IAC: Interagency on Public School Construction
IT: information technology
MDH: Maryland Department of Health
MDOT: Maryland Department of Transportation
MHEC: Maryland Higher Education Commission
MITDPF: Major Information Technology Development Project Fund
MSA: Maryland Stadium Authority
MSP: Maryland State Police
P.R.O.T.E.C.T.: Public Resources Organizing to End Crime Together
PAYGO: pay-as-you-go
SMCM: St. Mary's College of Maryland
TANF: Temporary Assistance for Needy Families
TEDCO: Maryland Technology Development Corporation

Appendix 9
Baseline Position Changes
Fiscal 2021-2022

<u>Department/Service Area</u>	<u>2022 Leg Approp</u>	<u>2023 Baseline</u>	<u>2022-2023 Change</u>
Executive			
Juvenile Services	1,996	2,180	184
MSDE and Other Education	1,982	1,877	-106
Financial and Revenue Administration	2,075	2,128	53
Public Safety and Correctional Services	9,253	9,287	34
Police and Fire Marshal	2,484	2,517	33
Executive and Administrative Control	1,589	1,619	31
Legal (Excluding Judiciary)	1,484	1,498	14
Health	6,373	6,385	12
Other Executive	19,562	19,591	29
<i>Executive Subtotal</i>	46,798	47,082	255
Higher Education	27,092	27,566	474
Judiciary	4,068	4,068	0
Legislature	772	772	0
Total	78,730	79,488	757

Significant Changes Include:

- 474 new positions in Higher Education, added effective July 1, 2021
- Transfer of 173 positions in the Juvenile Services Education Program from MSDE to DJS
- 57.5 new positions for implementation of the Blueprint for Maryland's Future
- 46 new positions at the State Lottery and Gaming Commission for the implementation of sports betting
- 41 new positions for the implementation of the P.R.O.T.E.C.T Act
- 26 new positions in State Police for implementation of the body-worn camera program and staffing the Crime Plan and Law Enforcement Councils
- 10 new positions in OHCQ for the implementation of the Nursing Home Protection Act of 2018
- 10 new positions at MSDE headquarters for program evaluation (Chapter 41 of 2021)
- 9 new positions in Public Safety and 3 new positions in the Office of the Attorney General for implementation of the Police Accountability Act

DJS: Department of Juvenile Services

MSDE: Maryland State Department of Education

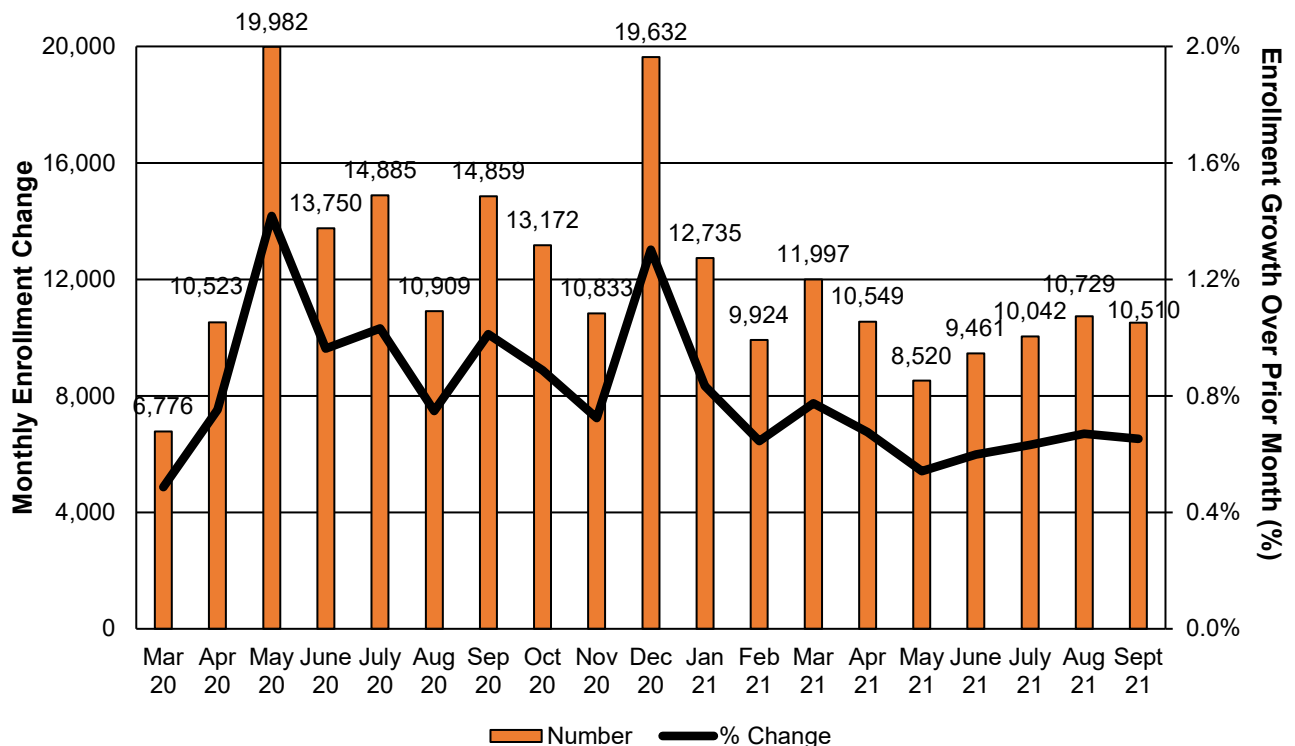
OHCQ: Office of Health Care Quality

P.R.O.T.E.C.T: Public Resources Organizing to End Crime Together

Appendix 10 Medicaid

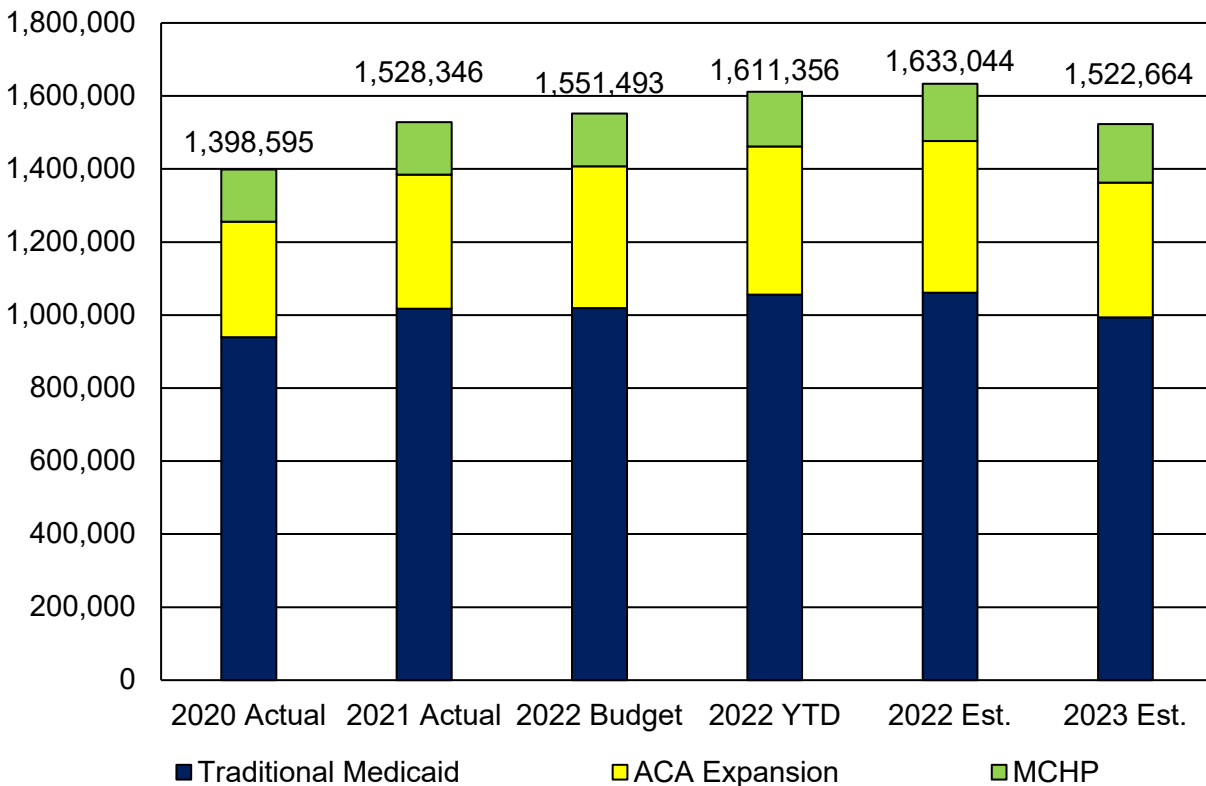
- Since the national declaration of the COVID-19 public health emergency (PHE) in March 2020, Medicaid monthly enrollment growth has been strong. This reflects both the economic impacts from the pandemic and the freeze on annual eligibility redeterminations (a condition for states to receive enhanced federal matching funds during the national PHE).
- Although the national PHE remains in effect, monthly enrollment growth has slowed slightly to a range of 8,520 to 11,997 enrollees beginning in February 2021 through September 2021.
- On October 15, 2021, the Secretary of the U.S. Department of Health and Human Services renewed the PHE so that it expires mid-January 2022. Enhanced federal matching funds are authorized through the last quarter in which the PHE ends, so the baseline assumes that Maryland will receive enhanced matching funds through March 31, 2022, and that eligibility redeterminations resume April 1, 2022.

Medicaid Enrollment – Month-over-month Change
March 2020 to September 2021



- Average monthly enrollment in fiscal 2022 and 2023 is expected to remain elevated compared to the pre-PHE level as pandemic recovery continues and the Maryland Department of Health (MDH) works through any backlogs in eligibility redeterminations.

Medicaid and MCHP Average Monthly Enrollment Fiscal 2020-2023 Estimate



ACA: Affordable Care Act
MCHP: Maryland Children's Health Program
YTD: year-to-date (as of September 2021)

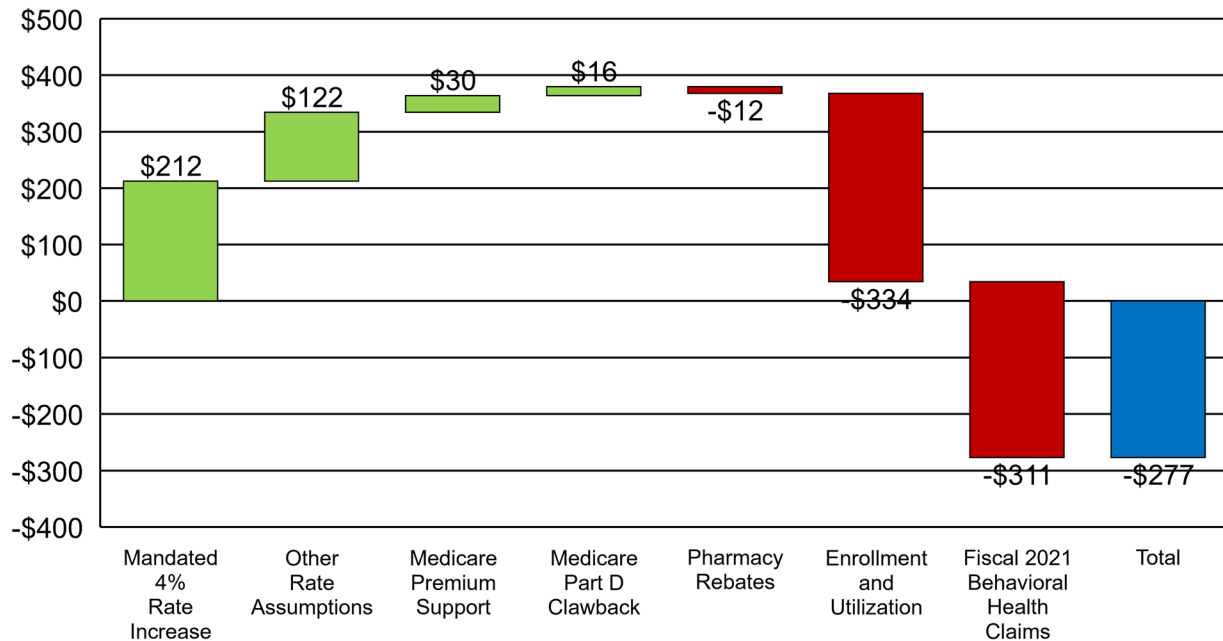
- Despite 4% provider rate increases adding \$212.3 million in total funds (required in Chapters 10 and 11 of 2019) and other rate increases adding \$122.0 million in total funds, declining enrollment resulting from the end of the national PHE almost fully offsets the growth in total expenditures in fiscal 2023.
- The baseline assumes that \$311.0 million in total funds will be spent on fiscal 2021 claims for behavioral health services carried forward to fiscal 2022, which further offsets provider rate increases and contributes to an overall 2.0% decline in fiscal 2023 total spending.

Medical Care Programs Expenditures
Fiscal 2021-2023
(\$ Millions)

	<u>Actual</u> <u>2021</u>	<u>Adjusted</u> <u>2022</u>	<u>Estimate</u> <u>2023</u>	<u>\$ Change</u> <u>2022 Adj.-2023 Est.</u>	<u>% Change</u>
General Funds	\$3,190.9	\$3,983.8	\$4,544.7	\$560.9	14.1%
Special Funds	1,014.9	\$821.1	726.6	-94.5	-11.5%
Federal Funds	8,342.3	\$8,518.2	8,085.8	-432.4	-5.1%
Total	\$12,548.1	\$13,323.1	\$13,357.0	\$33.9	0.3%
Estimated Fiscal 2021 Behavioral Health Claims Paid in Fiscal 2022		\$311.0*			
Total with Behavioral Health Deficiency		\$13,634.1	\$13,357.0	-\$277.1	-2.0%

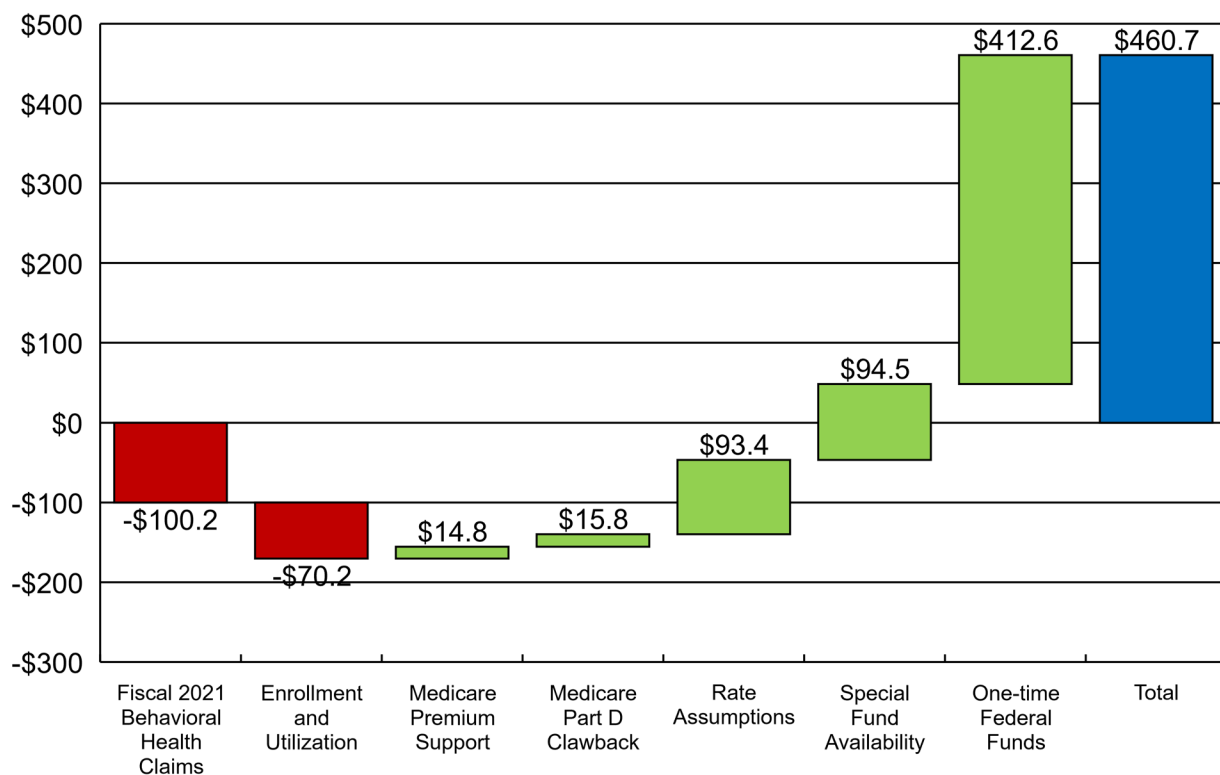
*Shown in total funds (\$100.2 million in general funds and \$210.8 million in federal funds).

**Declining Enrollment Following the Public Health Emergency and a
One-time Deficiency for Behavioral Health Services Drive Net
Reduction in Fiscal 2023 Total Fund Expenditures**
(\$ in Millions)



- General funds will backfill the 6.2% enhanced federal matching funds that MDH received while the national PHE was still in effect during the first three quarters of fiscal 2022. This is the largest driver of net general fund growth in fiscal 2023.
- A net reduction of \$94.5 million in special fund availability will also be backfilled with general funds in fiscal 2023 as the Budget Reconciliation and Financing Act of 2021 required \$100.0 million in special funds from the health insurance provider fee assessment be transferred to Medicaid in fiscal 2021 and 2022.

Replacing One-time Fiscal 2022 Funding Drives Fiscal 2023 General Fund Growth (\$ in Millions)



Appendix 11
State Aid by Governmental Entity
Amount and Percent of Total
(\$ in Millions)

	<u>FY 2023</u> <u>State Aid Amount</u>	<u>Percent</u> <u>of Total</u>
Public Schools	\$8,040.3	85.8%
County/Municipal	789.0	8.4%
Community Colleges	386.6	4.1%
Libraries	87.9	0.9%
Local Health	68.6	0.7%
Total	\$9,372.3	100.0%

Change in State Aid
(\$ in Millions)

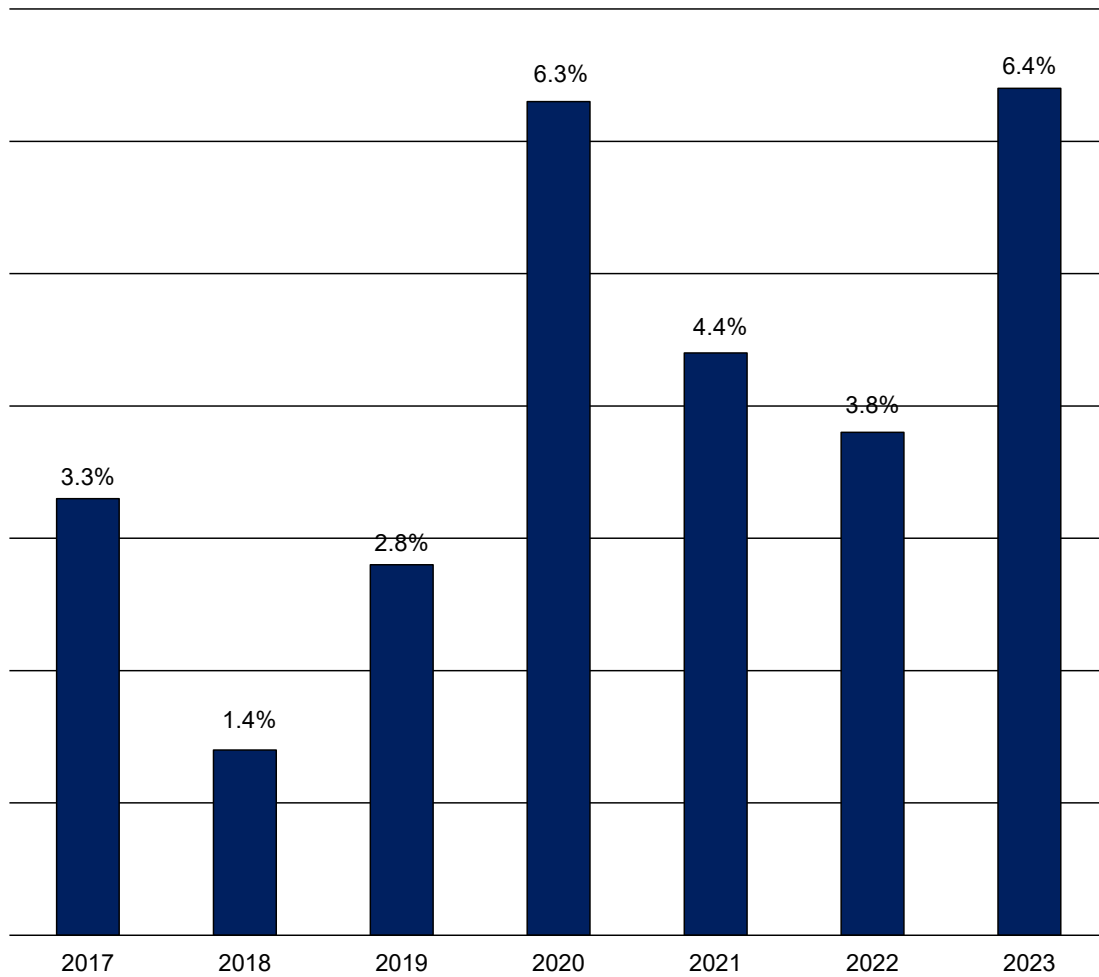
	<u>FY 2023</u> <u>Aid Change</u>	<u>Percent</u> <u>Change</u>
Public Schools	\$517.6	6.9%
County/Municipal	23.2	3.0%
Community Colleges	15.1	4.1%
Libraries	2.9	3.4%
Local Health	2.8	4.2%
Total	\$561.6	6.4%

Appendix 12
State Aid by Major Programs
Fiscal 2020-2023
(\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>Difference</u>	<u>Percent Difference</u>
Public Schools						
Foundation Programs	\$3,429.6	\$3,502.7	\$3,413.3	\$3,862.9	\$449.6	13.2%
Compensatory Aid	1,330.4	1,364.7	1,286.7	1,438.2	151.5	11.8%
English Language Learners Grant	311.1	348.2	334.3	419.7	85.4	25.5%
Special Education – Formula Aid	303.2	314.9	311.1	421.4	110.3	35.5%
Special Education – Nonpublic	116.0	123.9	127.0	131.3	4.3	3.4%
Student Transportation	303.0	310.2	288.1	347.1	59.0	20.5%
Guaranteed Tax Base	43.7	41.2	49.9	43.8	-6.0	-12.1%
Head Start/Pre-kindergarten	50.7	29.6	29.6	29.6	0.0	0.0%
Blueprint Programs	245.7	339.5	390.8	525.1	134.3	34.4%
Blueprint COVID Relief	0.0	45.0	211.6	0.0	-211.6	-100.0%
Blueprint Hold Harmless	0.0	0.0	209.4	0.0	-209.4	-100.0%
Other Education Programs	93.2	90.7	92.0	104.3	12.3	13.3%
Subtotal Direct Aid	\$6,226.6	\$6,510.7	\$6,743.7	\$7,323.3	\$579.6	8.6%
Retirement Payments	767.9	750.3	779.0	716.9	-62.0	-8.0%
Total Public School Aid	\$6,994.5	\$7,261.0	\$7,522.7	\$8,040.3	\$517.6	6.9%
Libraries						
Library Aid Formula	43.2	44.1	44.7	46.7	2.0	4.5%
State Library Network	19.1	19.5	19.8	20.5	0.8	3.9%
Subtotal Direct Aid	\$62.3	\$63.6	\$64.4	\$67.2	\$2.8	4.3%
Retirement Payments	20.7	20.2	20.5	20.6	0.2	0.8%
Total Library Aid	\$83.0	\$83.8	\$84.9	\$87.9	\$2.9	3.4%
Community Colleges						
Community College Formula	249.7	249.7	290.1	303.0	12.9	4.4%
Other Programs	35.0	44.5	35.5	36.6	1.2	3.3%
Subtotal Direct Aid	\$284.7	\$294.2	\$325.6	\$339.6	\$14.1	4.3%
Retirement Payments	45.6	45.4	46.0	47.0	1.0	2.2%
Total Community College Aid	\$330.3	\$339.6	\$371.5	\$386.6	\$15.1	4.1%
Local Health Grants	\$59.4	\$61.4	\$65.8	\$68.6	\$2.8	4.2%
County/Municipal Aid						
Transportation	242.9	242.6	259.9	276.4	16.5	6.3%
Public Safety	150.5	183.0	183.0	183.7	0.7	0.4%
Disparity Grant	146.2	163.3	158.2	159.4	1.2	0.8%
Gaming Impact Aid	67.5	92.2	96.7	98.4	1.7	1.7%
Other Grants	57.1	63.4	68.0	71.1	3.1	4.6%
Total County/Municipal Aid	\$664.1	\$744.4	\$765.8	\$789.0	\$23.2	3.0%
Total State Aid	\$8,131.4	\$8,490.2	\$8,810.7	\$9,372.3	\$561.6	6.4%

Source: Department of Legislative Services

Appendix 13
Annual Change in State Aid to Local Governments
Fiscal 2017-2023



Appendix 14

State Debt Policy – Debt Service Costs

- The Annuity Bond Fund (ABF) supports general obligation bond debt service costs. State property tax revenues are deposited into the ABF. General funds are required if there is a shortfall in dedicated revenues.
- The ABF forecast uses the authorizations planned by SAC, so the fiscal 2023 authorization is \$1,115 million.

Annuity Bond Fund Forecast Fiscal 2022-2027 (\$ in Millions)

	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>Annual % Change</u>
Special Fund Revenues							
State Property Tax Receipts	\$914	\$931	\$947	\$956	\$967	\$978	1.4%
Bond Sale Premiums ¹	296	202	149	61	0	0	-100.0%
Capital Authorizations ²	-223	-125	0	0	0	0	-100.0%
Other Revenues	3	3	3	3	3	3	0.0%
ABF Fund Balance							
Transferred from Prior Year	147	39	1	1	1	1	-60.7%
Subtotal Special Fund Revenues	\$1,137	\$1,049	\$1,099	\$1,021	\$971	\$982	-2.9%
General Funds	260	354	339	451	551	536	15.6%
Transfer Tax Special Funds	7	7	7	7	2	0	-100.0%
Federal Funds	10	8	7	5	2	1	-39.8%
Total Revenues	\$1,415	\$1,418	\$1,452	\$1,484	\$1,526	\$1,519	1.4%
Debt Service Expenditures	\$1,376	\$1,418	\$1,451	\$1,483	\$1,524	\$1,517	2.0%
End-of-year ABF Balance	\$39	\$1	\$1	\$1	\$1	\$1	

ABF: Annuity Bond Fund

¹ The forecast assumes that the State property tax rate remains at \$0.112 per \$100 of assessable base.

² Estimated bond sale premiums total \$127 million in March 2022, \$109 million in summer 2022, \$93 million in March 2023, \$79 million in summer 2023, \$70 million in March 2024, and \$61 million in summer 2024. Amounts available for debt service are less than the total premium on sales from March 2022 to March 2024. The premium estimated for the summer 2024 sale is less than capitalized interest.

Source: Department of Assessments and Taxation; State Treasurer's Office; Department of Legislative Services

Appendix 15
State Debt Policy – Recent Use of Premiums

Low Interest Rates and Demand for Higher Coupon Rates Have Generated Substantial Premiums in Recent Years

Uses of Bond Sale Premiums
Calendar 2020-2022
(\$ in Millions)

	Amount
Total Premiums from 2020 and 2021 Bond Sales	\$633
Winter 2022 Bond Sale Estimated Premium	127
<i>Subtotal Premium Revenue</i>	<i>\$760</i>
 Premiums Supporting Debt Service	 \$374
Capital Project Authorizations	359
<i>Subtotal Planned Uses of Premiums</i>	<i>\$733</i>
 Premium in Excess of Debt Service and Capital Authorizations	 \$28

Notes: Since 2019, premiums have ranged from \$92 million to \$180 million. Numbers may not sum to total due to rounding.

Source: State Treasurer's Office; Department of Budget and Management; Public Resources Advisory Group; Department of Legislative Services

Appendix 16

Information Technology and Cybersecurity Issues

- There has been underinvestment in cybersecurity. The focus has been getting systems operational and not enough attention has been paid to cybersecurity.
- Audits from the Office of Legislative Audits from 2015 to 2020 have identified the following vulnerabilities in State information technology (IT) systems:
 - 51 findings of personally identifiable information (PII) on State agency websites;
 - 143 findings of inadequate technical controls findings such as missing or outdated anti-malware, software not updated, firewall deficiencies, and intrusion detection prevention system problems; and
 - 60 findings of inadequate personnel controls such as inappropriate administration rights and excessive network access.
- The Department of Information Technology (DoIT) has received funding for cybersecurity audits. From these audits, areas to improve include:
 - IT asset management of hardware, software, and systems. This includes:
 - having an inventory, mapping organization communication and data flows, and prioritizing resources (including hardware, devices, software, and data); and
 - establishing cybersecurity roles and responsibilities for workforce and third parties (such as suppliers, customers, and partners);
 - develop and implement risk assessment and reduction activities; and
 - life cycle management to better manage risks and put in place plans and processes to mitigate risks, such as backups, incident response plans, and disaster recovery plans.

Information Technology and Cybersecurity Initiatives and Recommendations

- Specific initiatives have been implemented, such as:
 - DoIT received \$1 million from the Dedicated Purpose Account (DPA) to support a virtual private network (VPN):
 - This is now a pilot program supporting 350 users and will be expanded to support 12,000 users subscribed to DoIT's shared services enterprise support.
 - VPN uses various technologies, processes, and services to authenticate, authorize, and continuously validate users, which:
 - secures resources individually instead of relying on a single network boundary; and
 - adds security by putting each resource behind its own secure boundary.
 - Estimated cost to support all users is \$10 million.
 - Using third-party cloud services:
 - Cloud service can support databases, systems, and professional services.
 - Potential benefits of cloud services include lifecycle cost savings, improved security, scalability, disaster recovery, and automatic software updates.
 - The Maryland Department of Health is migrating databases to the cloud. The estimate cost of this is \$29 million.
- **Conclusions**
 - **Audits suggest that cybersecurity has been underfunded.**
 - **Legacy systems have cybersecurity risks.**
 - **Cloud services could be used to mitigate risks.**
 - **Administration should appropriate funds to put into the DPA to address these risks.**