
Fiscal Overview

**Presented to the
New Members of the Maryland General Assembly**

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

December 3, 2014

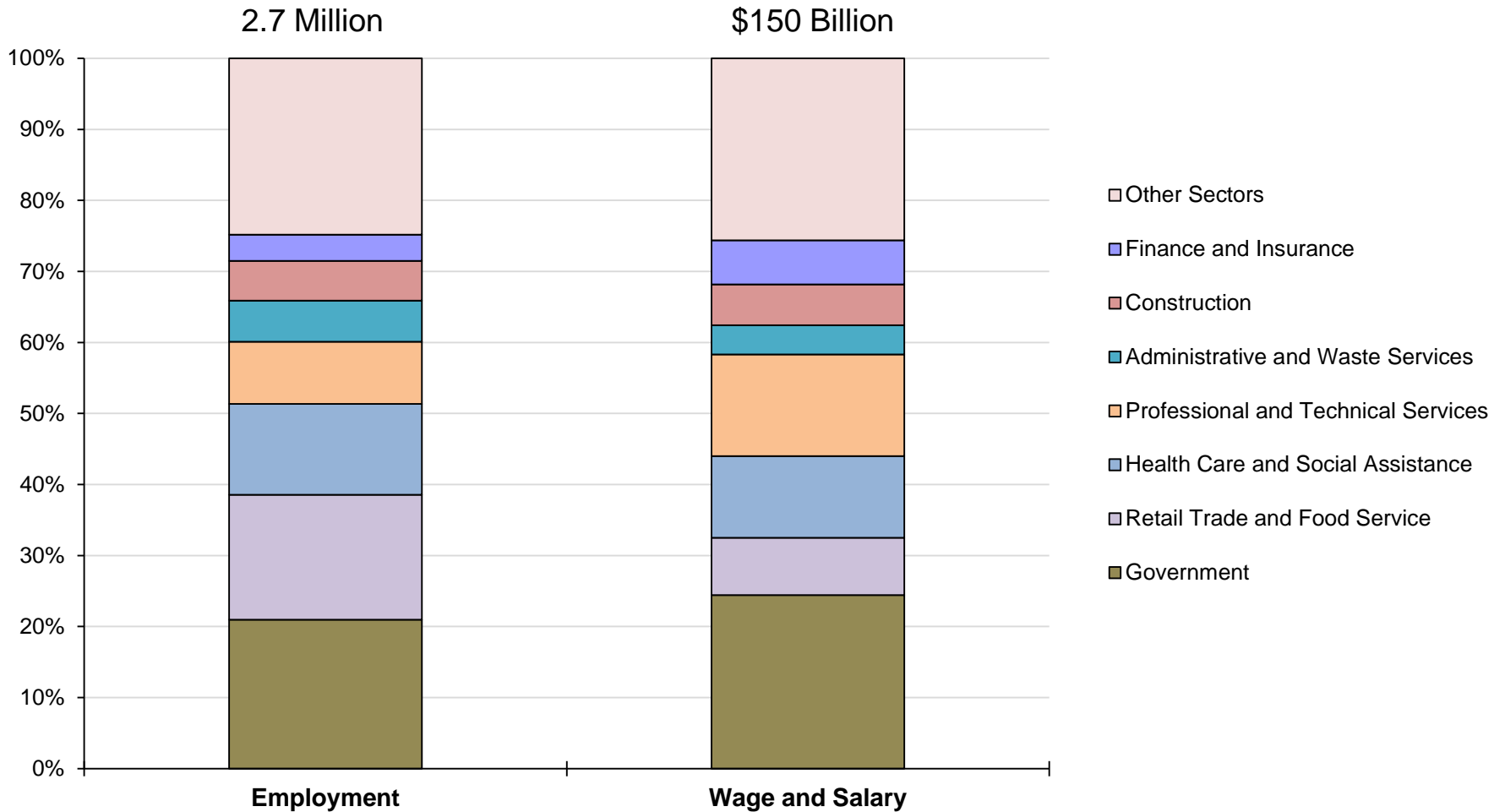
To Be Covered Today

- **Overview of State Economy**
- **Overview of Fiscal Structure**
- **Maryland Budget Process**
- **Fiscal 2016 and Related Fiscal Issues**

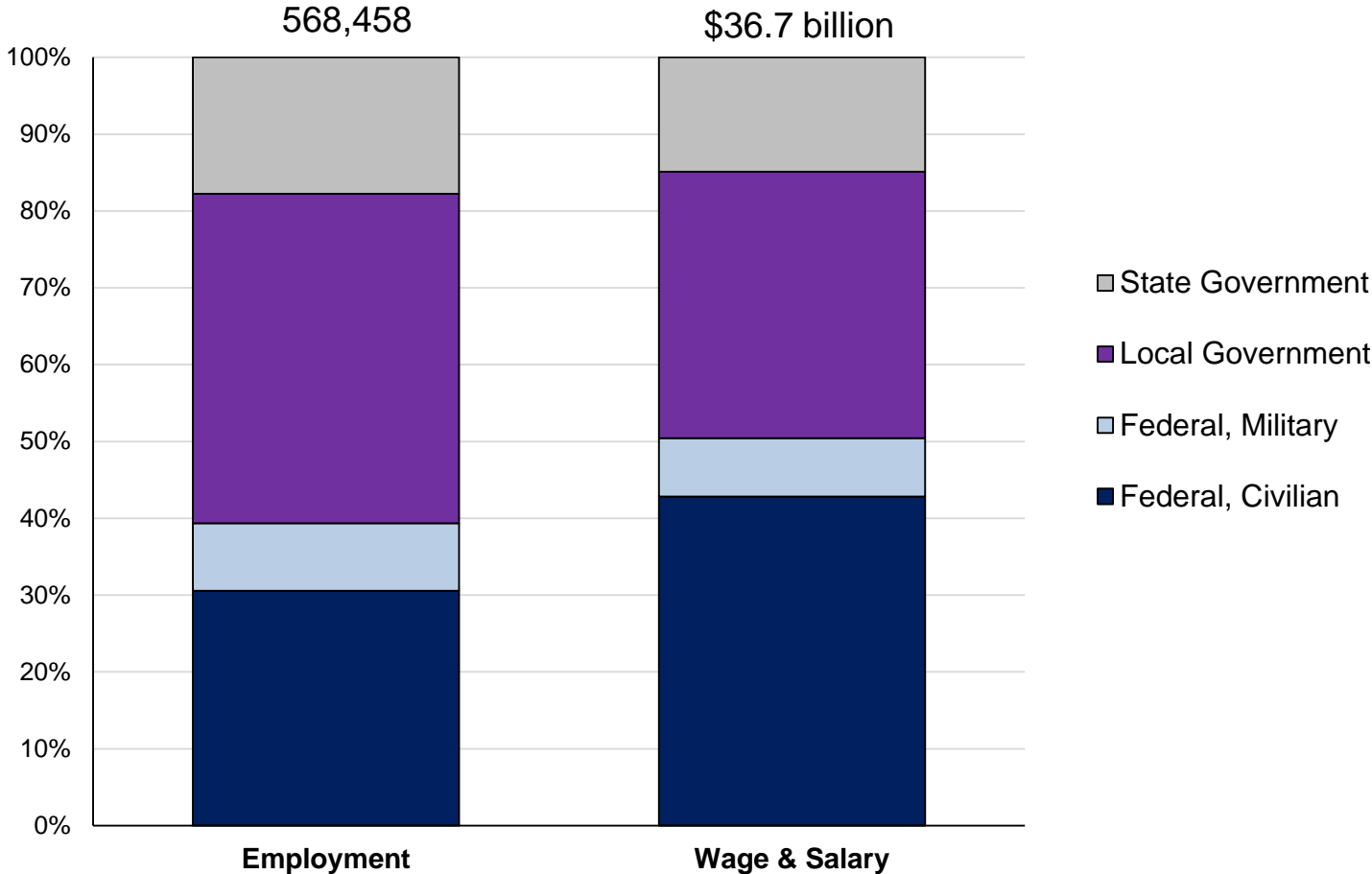
Maryland's Economy



Employment and Pay 2013



Government Employment and Pay 2013



Maryland Agriculture

Market Value of Agricultural Products Sold (\$1,000)

		Rank
Total Value	\$2,271,397	36
Value of Crops Including Nursery and Greenhouse	\$1,050,557	35
Value of Livestock, Poultry, and Their Products	\$1,220,840	37

Top Crop Item (Acres)

Soybeans for Beans

Top Livestock Inventory Items

Broilers and Chickens (7th in U.S.)

Net Cash Farm Income of Operation (\$1,000)

\$477,002

Average Per Farm (\$)

\$38,920

Number of Farms with Sales Over \$500,000

1,215

Principal Operators by Primary Occupation:

Farming

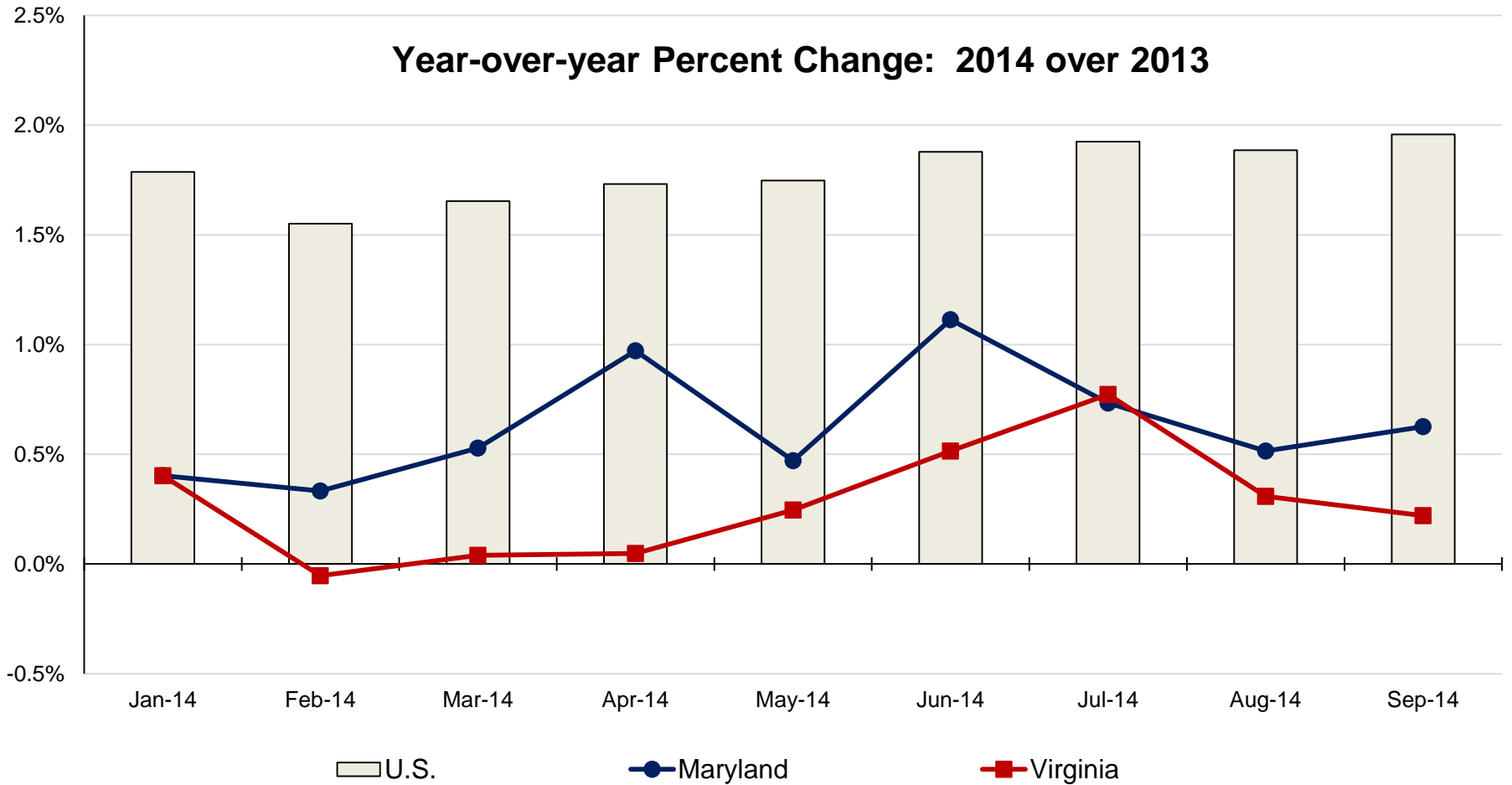
5,996

Other

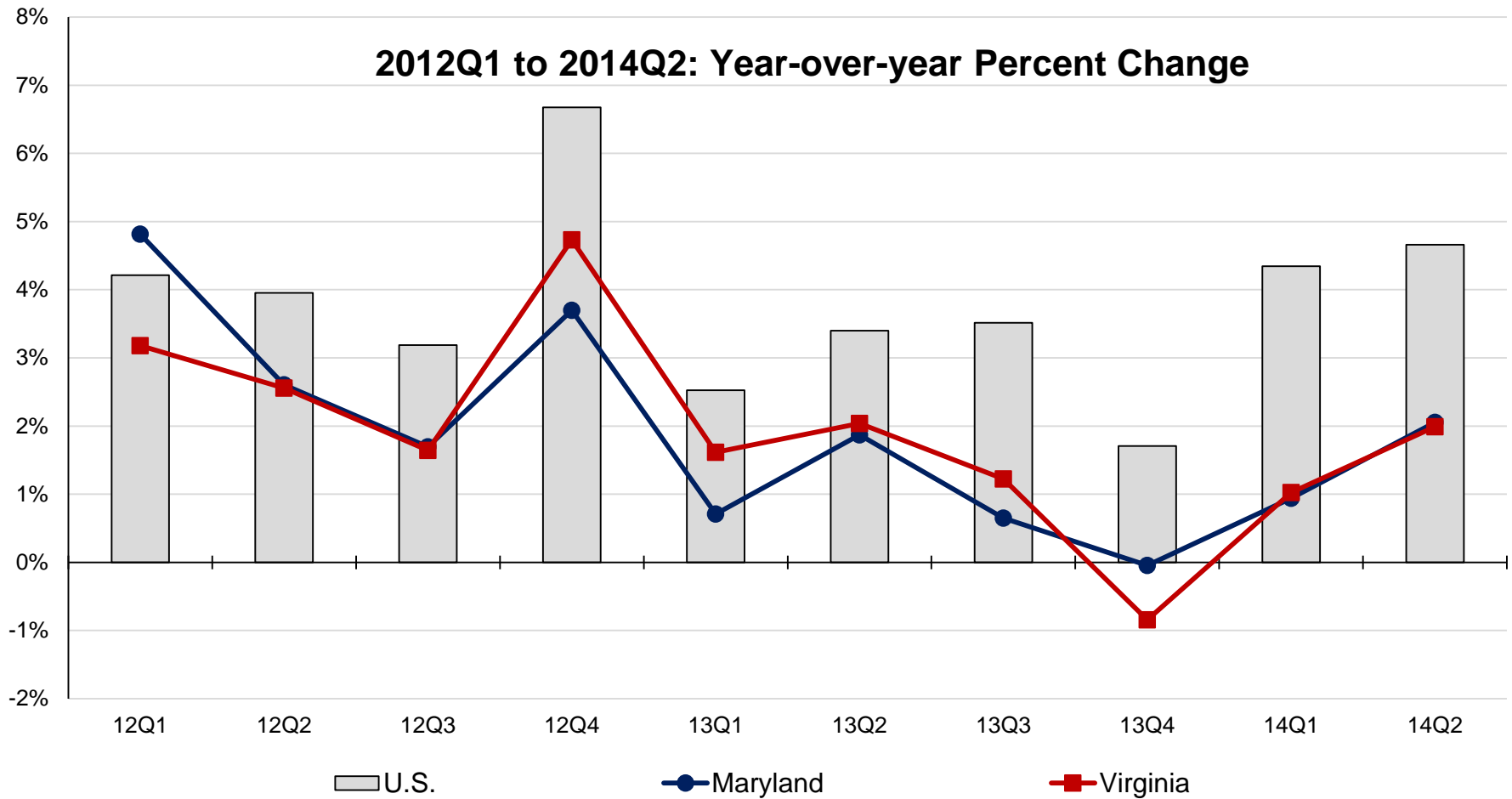
6,260

12,256

Payroll Employment

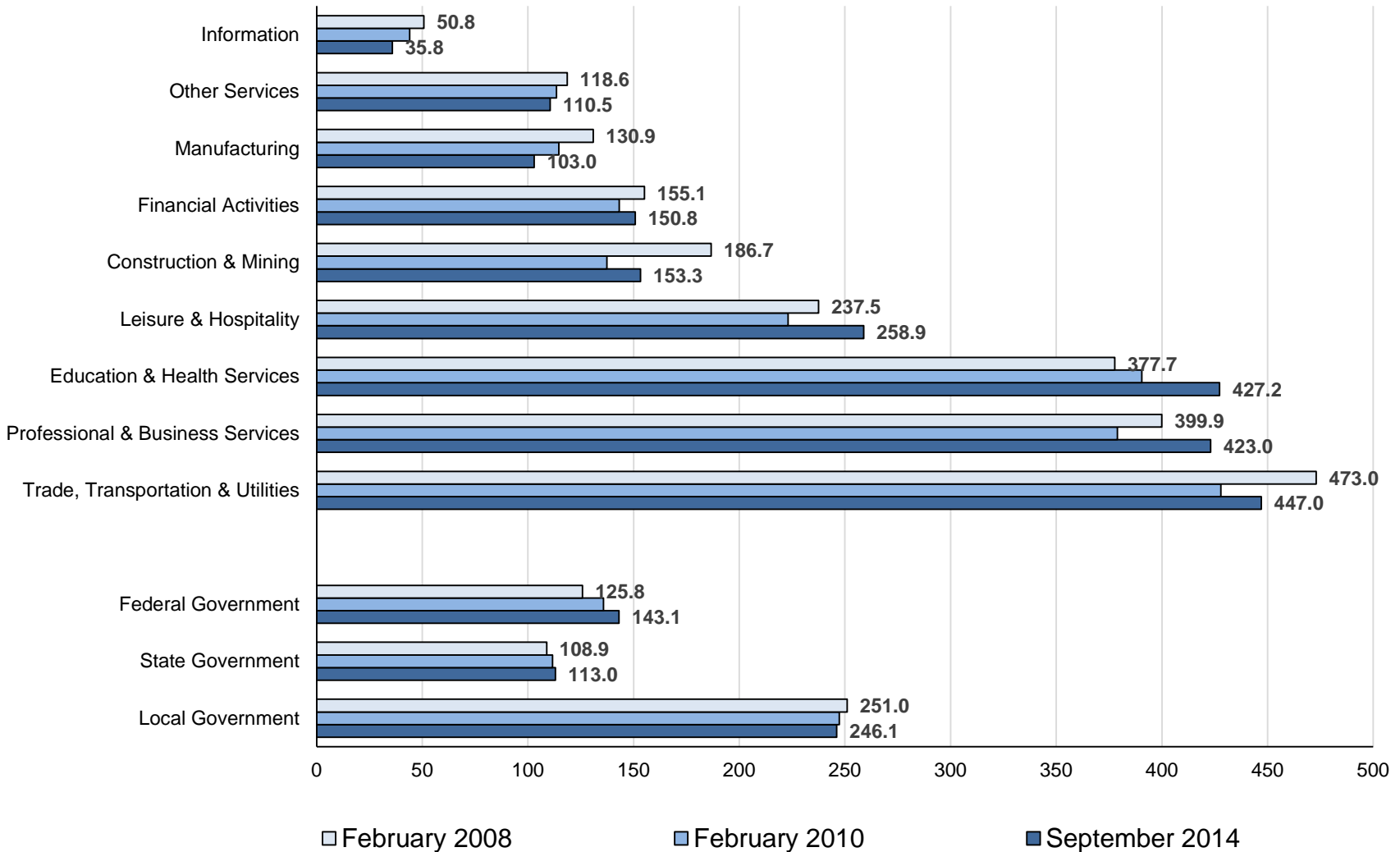


Wage and Salary Income



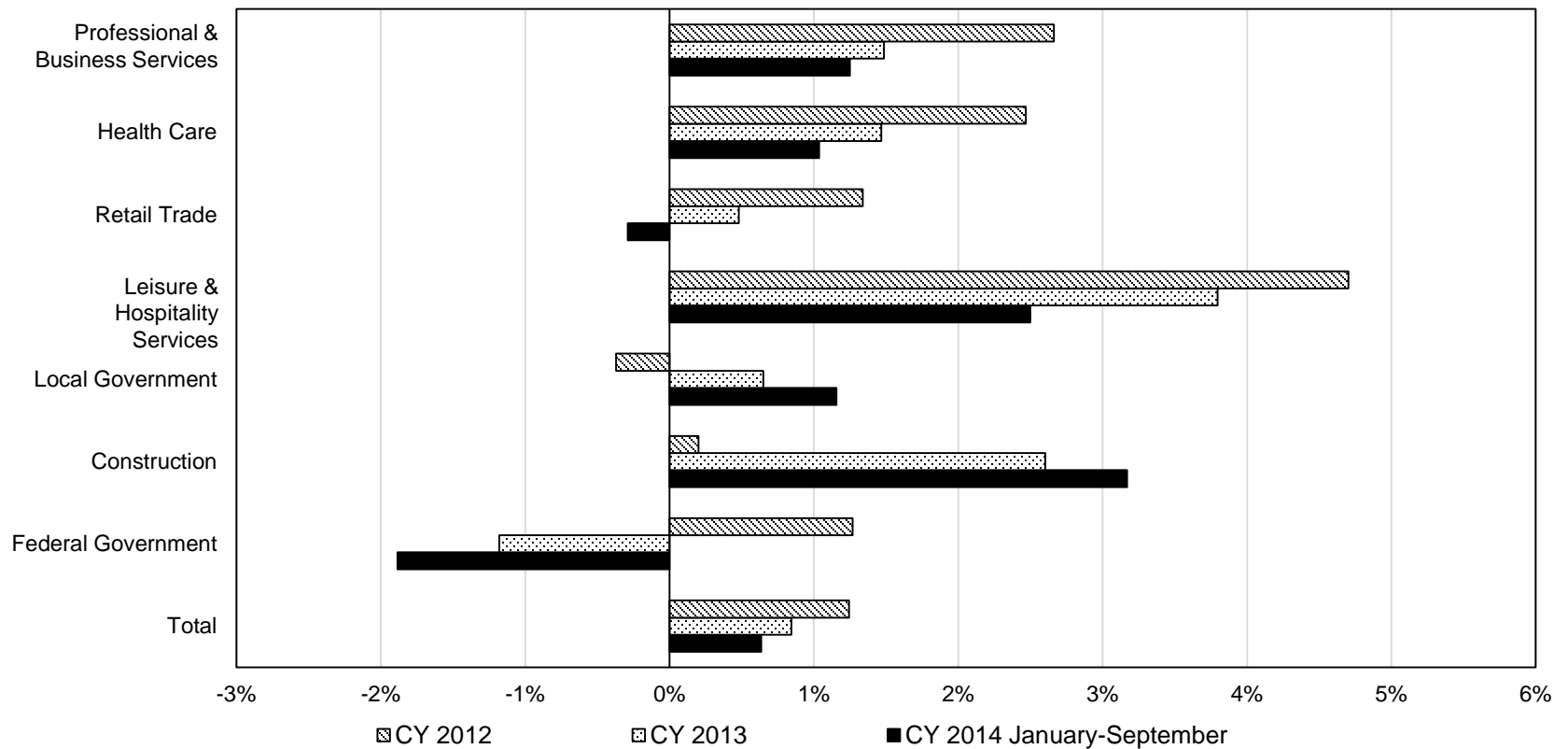
Maryland Employment by Industry

Jobs in Thousands



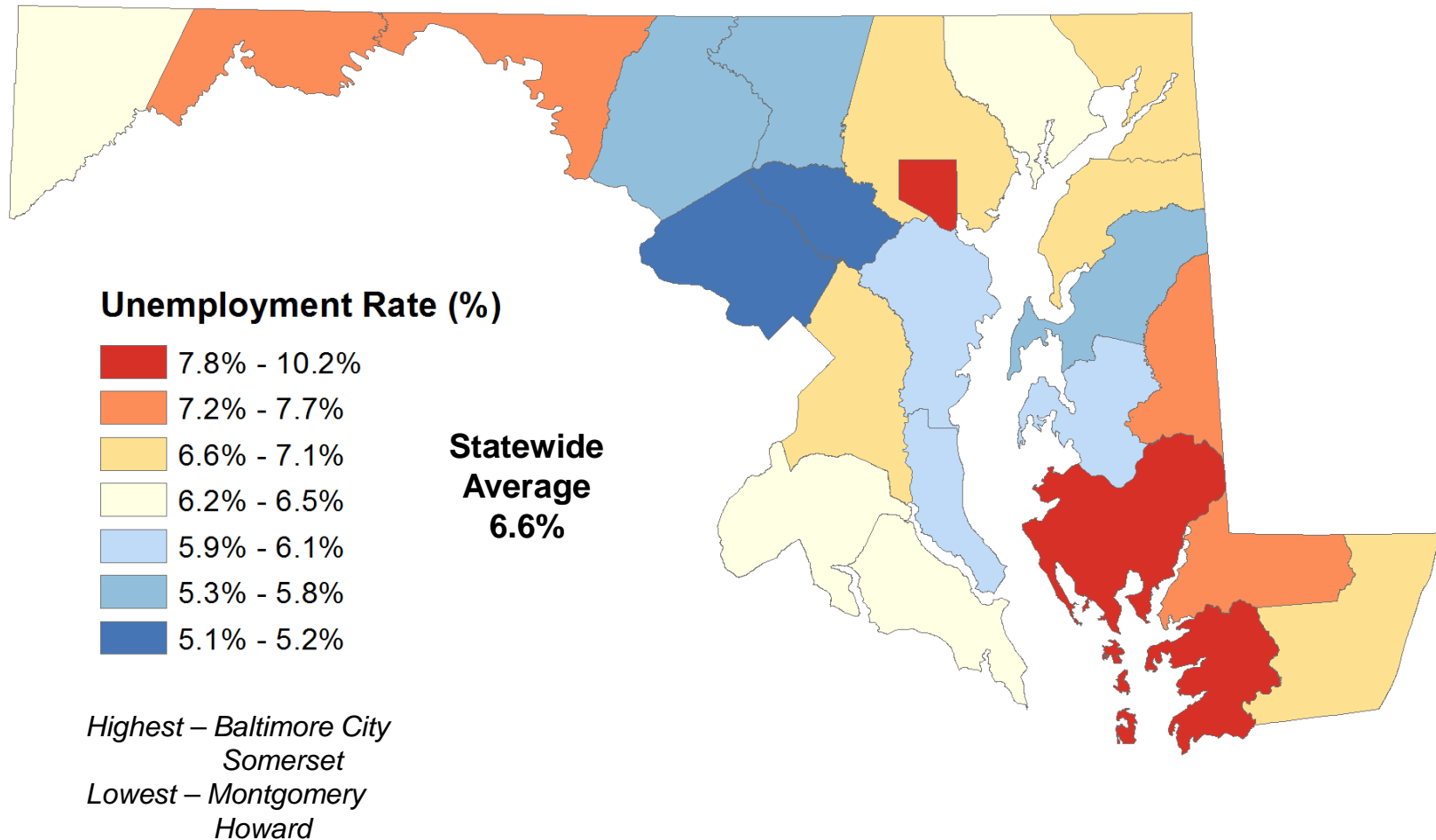
Change in Maryland Payroll Employment by Major Industry

Year-over-year Percent Change

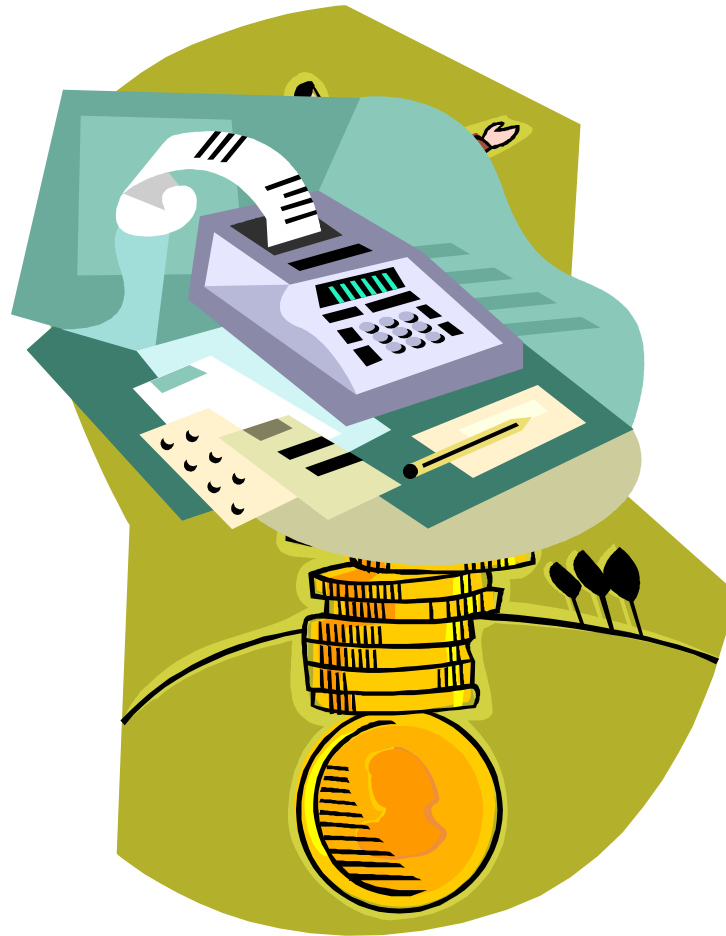


Maryland Unemployment by County

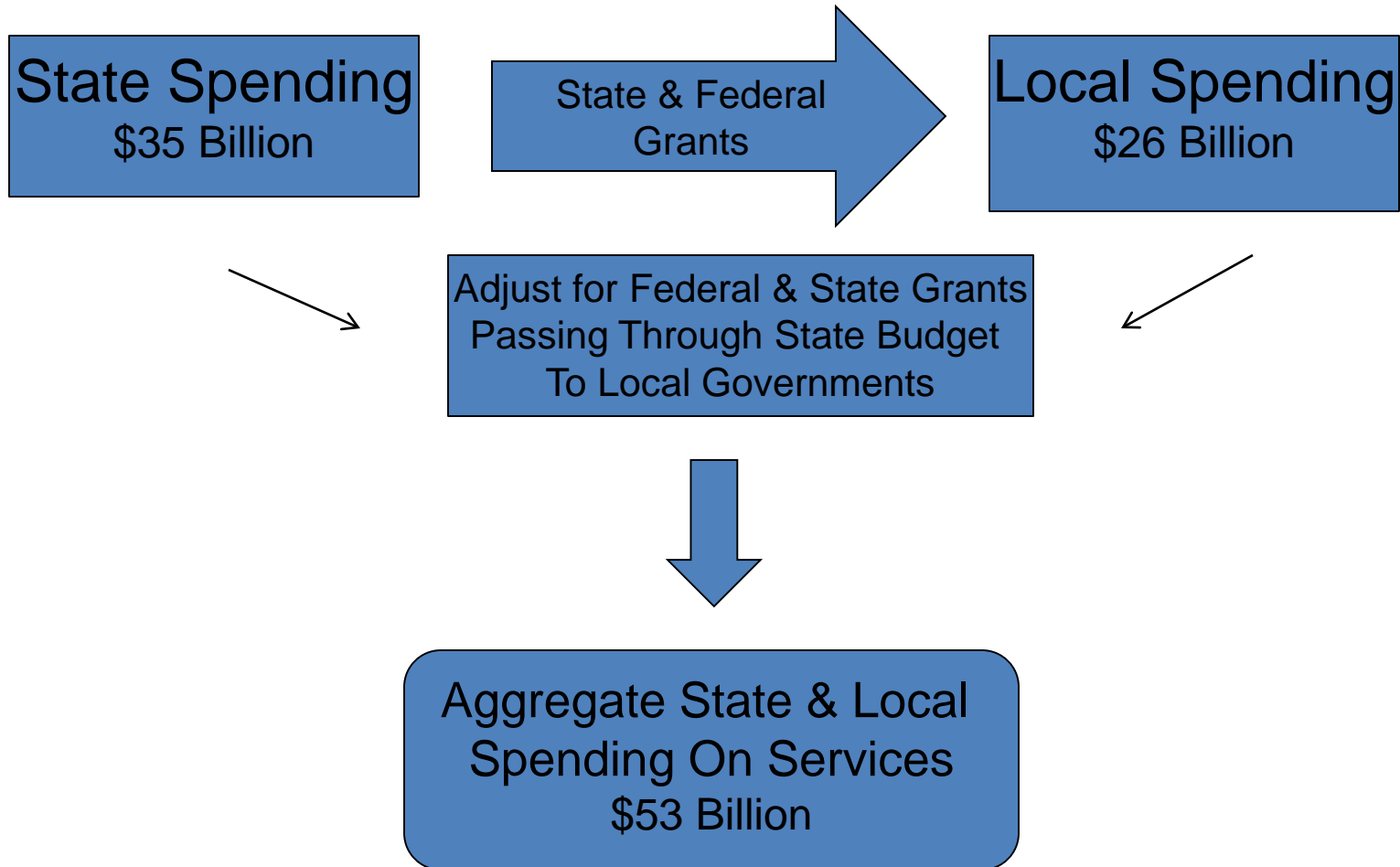
August 2014



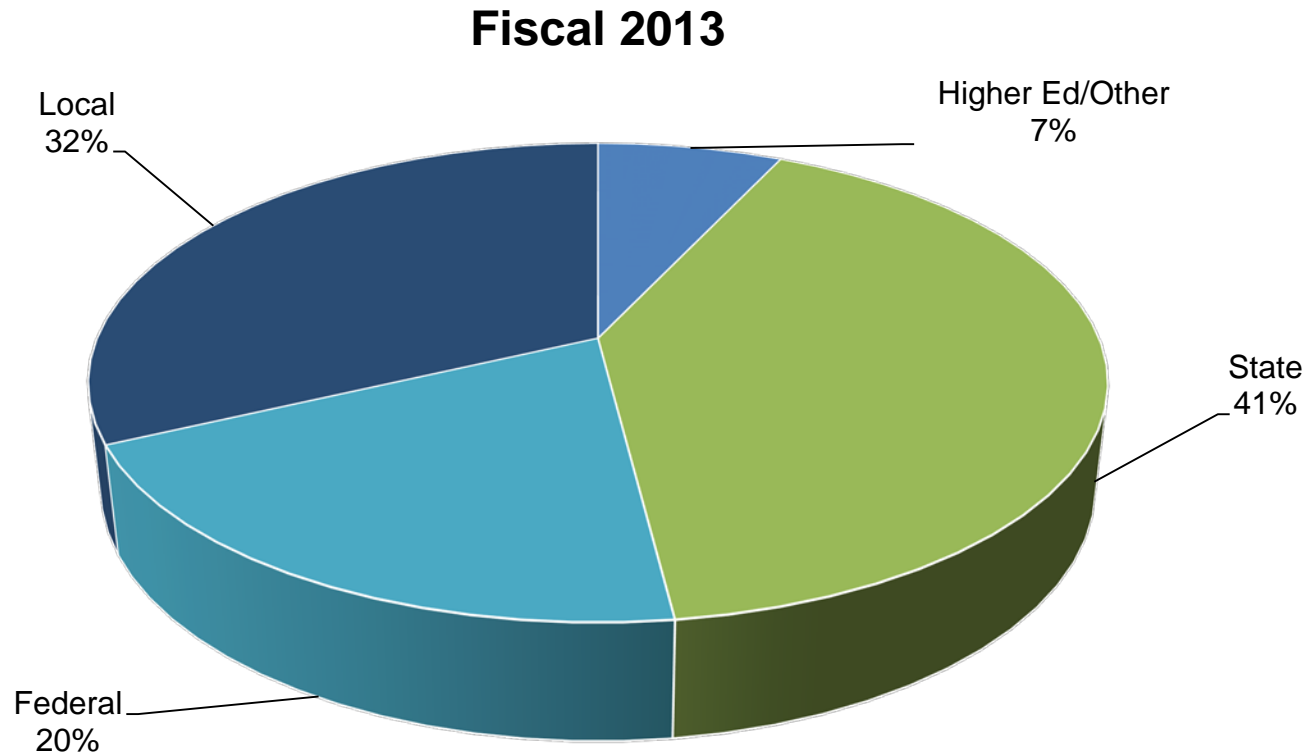
Maryland's Fiscal Structure



Estimated \$53 Billion Expended On Government Services in Fiscal 2013



State and Local Governments Provide Nearly 75% of Funding for Public Services



Total Spending on Services – \$53 Billion

State May Provide Significant Funding But Many Key Services Provided at Local Level

Services Primarily Provided by State

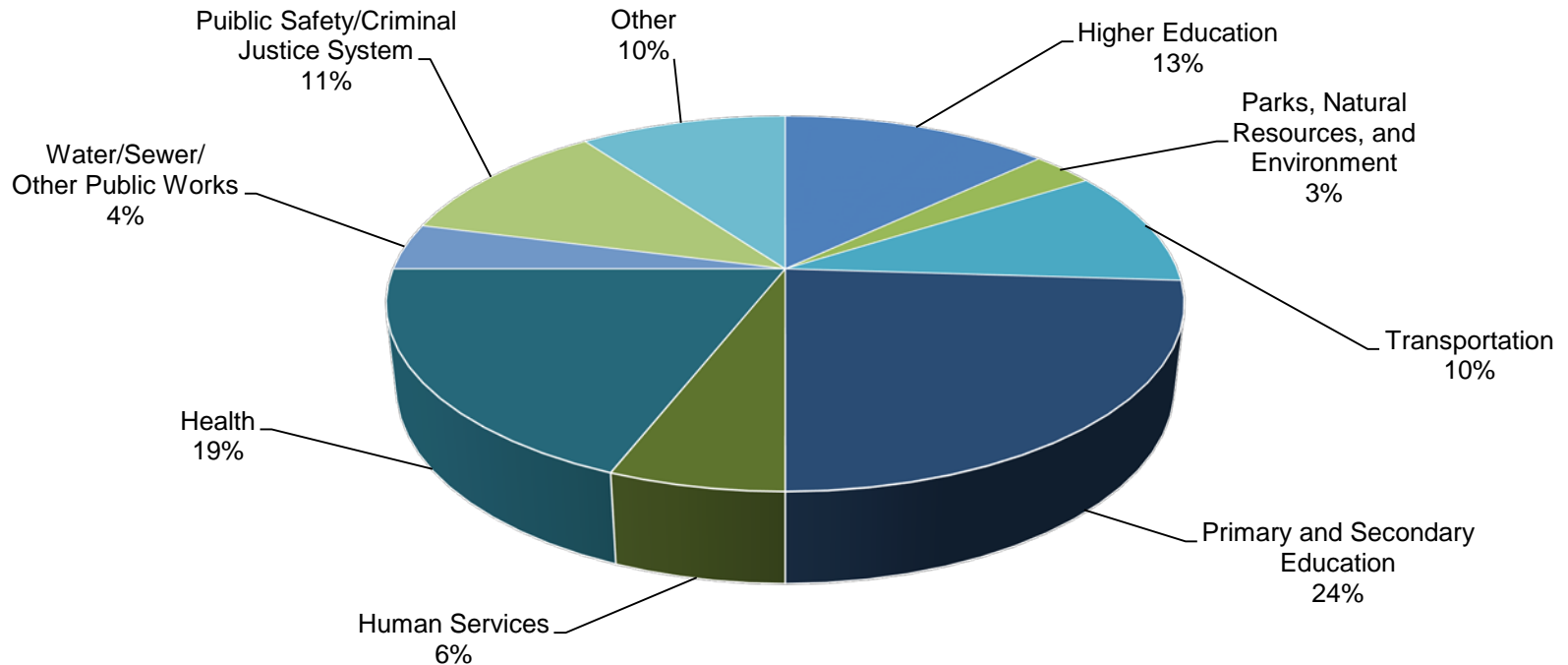
- Public Higher Education
- Insurance for Poor (Medicaid)
- Services for Developmentally Disabled and Mentally Ill
- Public Assistance
- Foster Care
- Juvenile Services
- Long-term Incarceration
- State Roads/Toll Facilities
- Baltimore Area Mass Transit
- Environmental Regulation
- Business Regulation

Services Primarily Provided by Local Entity

- Primary and Secondary Education
- Community Colleges
- Public Libraries
- Fire Protection
- Police Protection
- Short-term Incarceration
- Local Roads
- Washington Area Mass Transit
- Water, Sewer, and Refuse Disposal

State and Local Spending on Government Services in Maryland

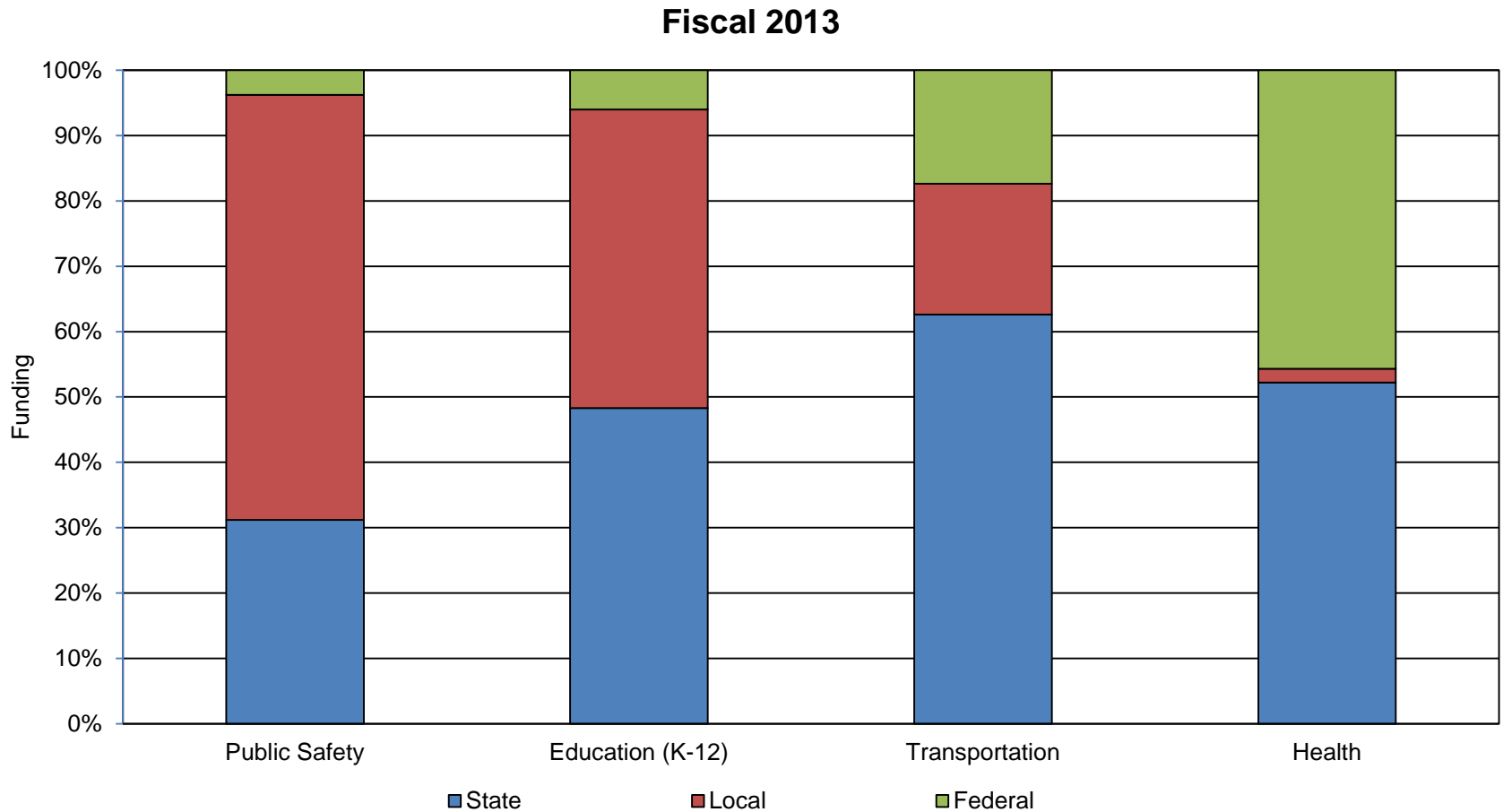
Fiscal 2013



Total Spending on Services – \$53 Billion

Includes spending funded by State, local, federal, and other revenues.

State, Local, Federal Shares of Funding for Selected Services

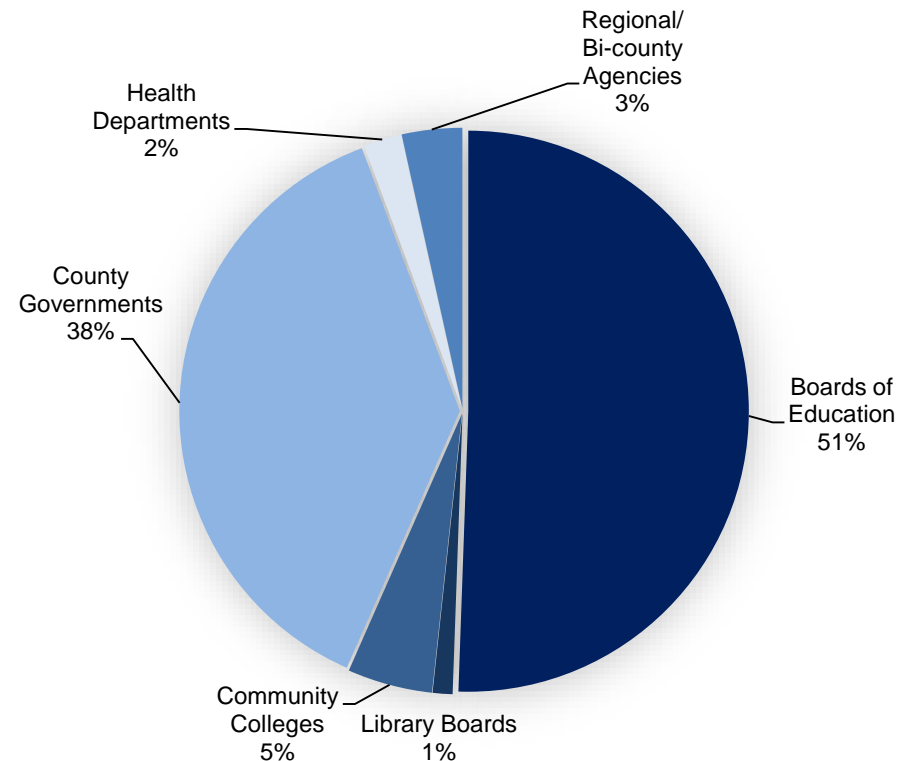


County Level Services Provided by Various Governmental Units

Types of Governmental Units at the County Level

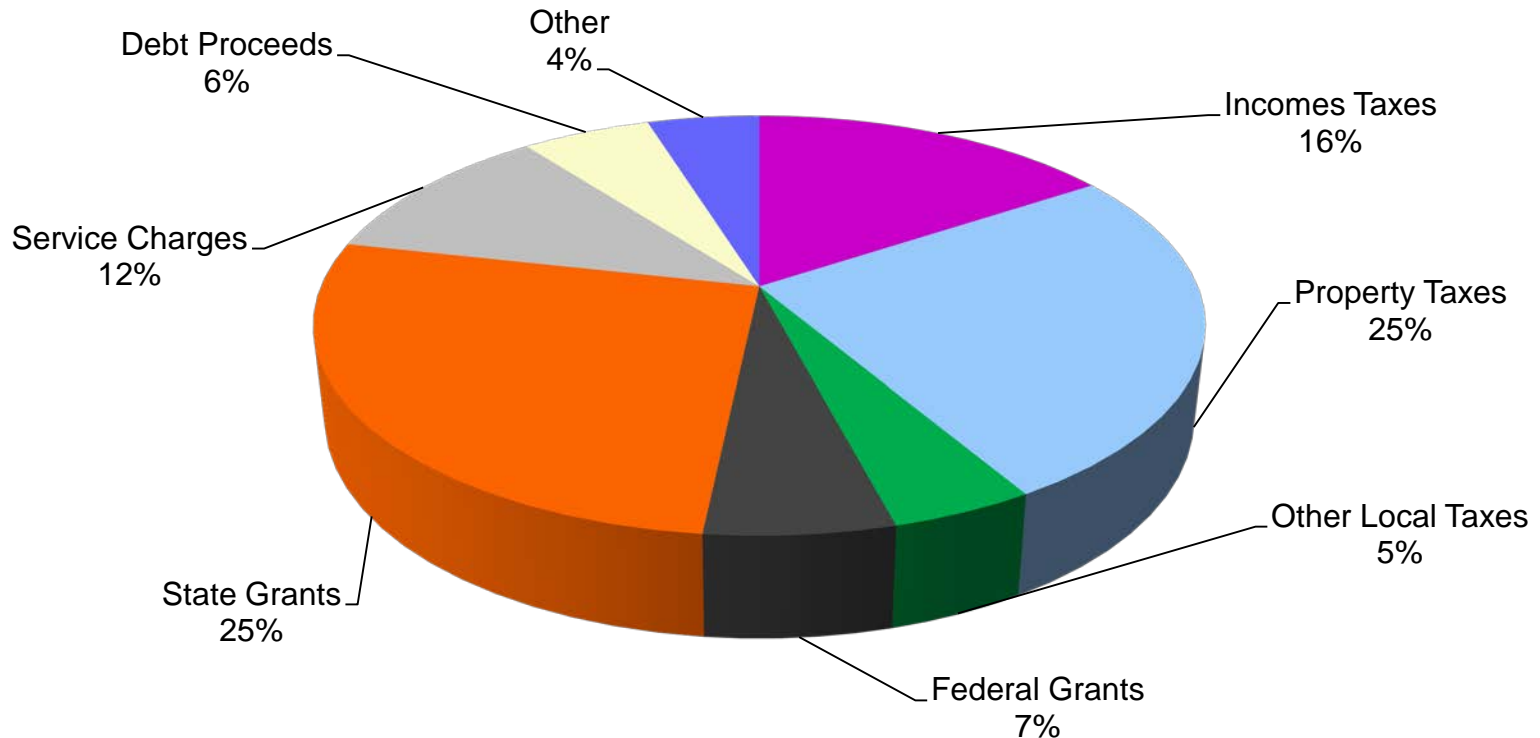
- County Governments
- Boards of Education
- Library Boards
- Community Colleges
- Health Departments
- Regional/Bi-county Agencies

Share of County Expenditures Fiscal 2013



Maryland Local Governments Sources of Revenue

Fiscal 2013



Includes revenues received by counties, municipalities, school boards, community colleges, and libraries.

Maryland State Budget

Sources of Revenue

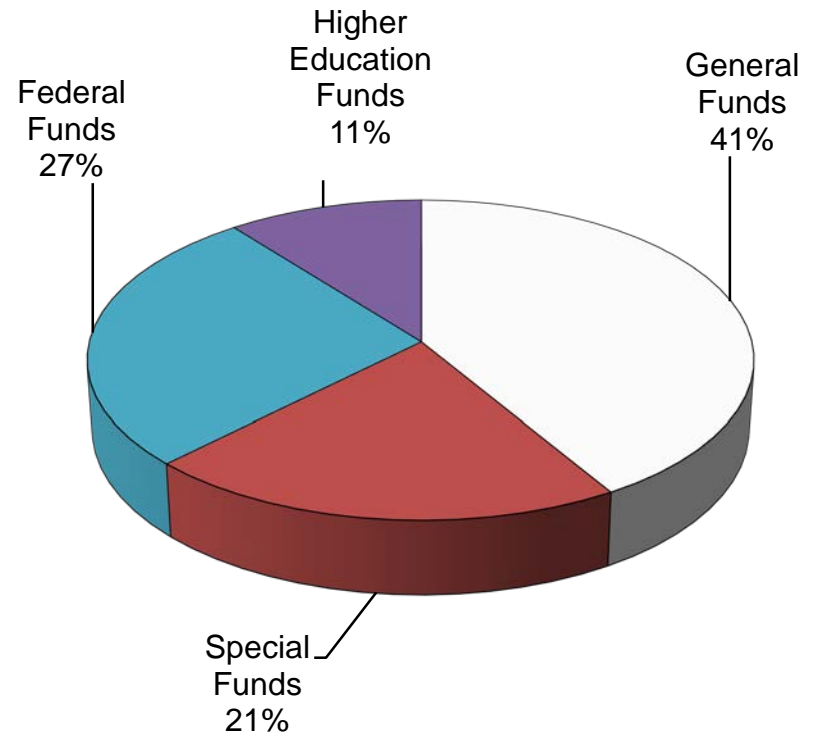
- **General Funds** – Primarily revenues from broad-based taxes not dedicated to a specific purpose
- **Dedicated Funds** – Other State revenues, primarily from taxes and fees, dedicated to specific purposes; higher education and transportation revenues account for over two-thirds of these funds
- **Federal Funds** – Revenues from the federal government for specific purposes

Maryland State Budget Allocation by Fund

Fund Types and Primary Sources

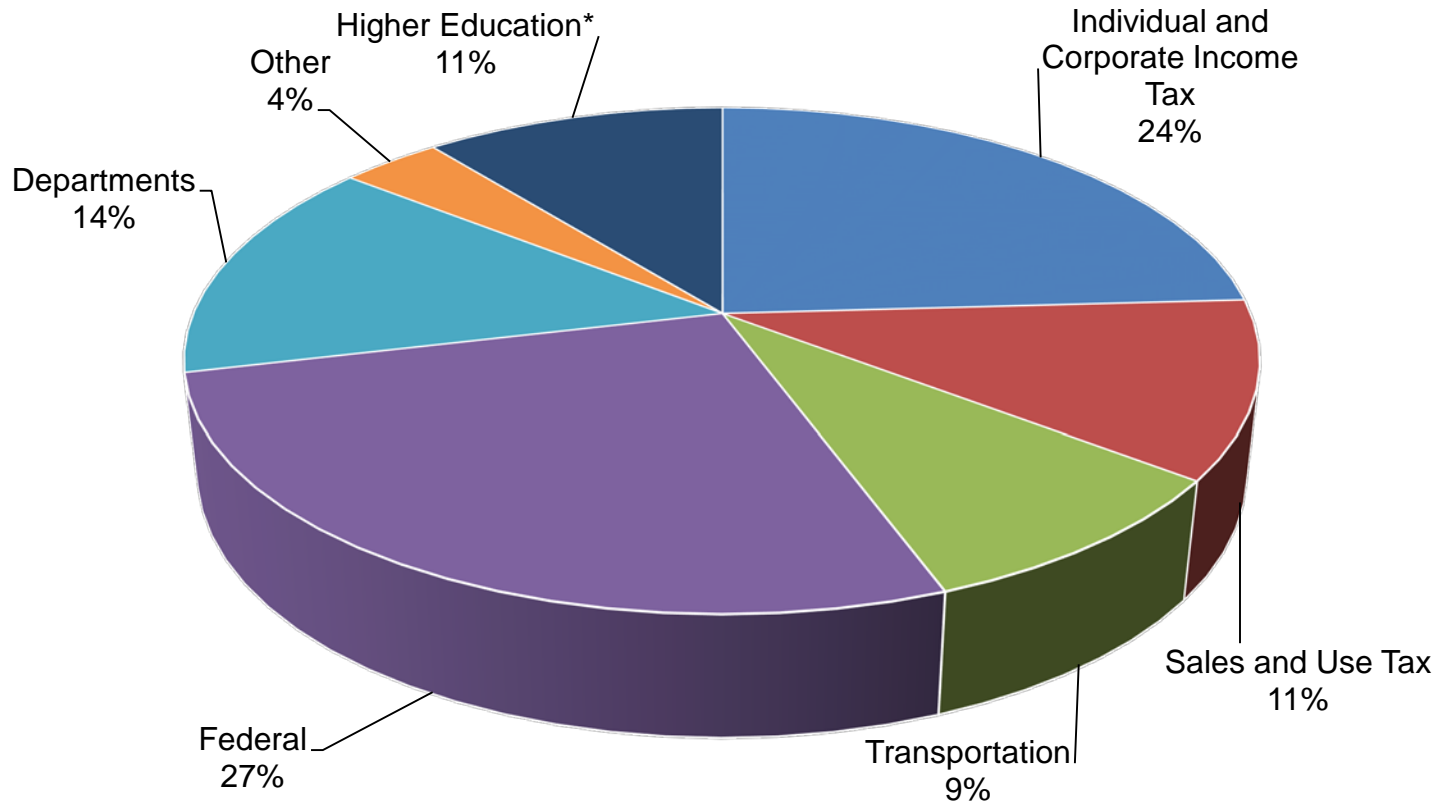
- General Funds
 - Income and sales tax
- Special Funds
 - Program, licensing fees, and transportation taxes
- Federal Funds
 - Medicaid match, program grants, and other entitlement funding
- Higher Education Funds
 - Tuition and fees, research contracts, and grants

Fiscal 2015 Total Revenues



Major State Revenue Sources All Funds

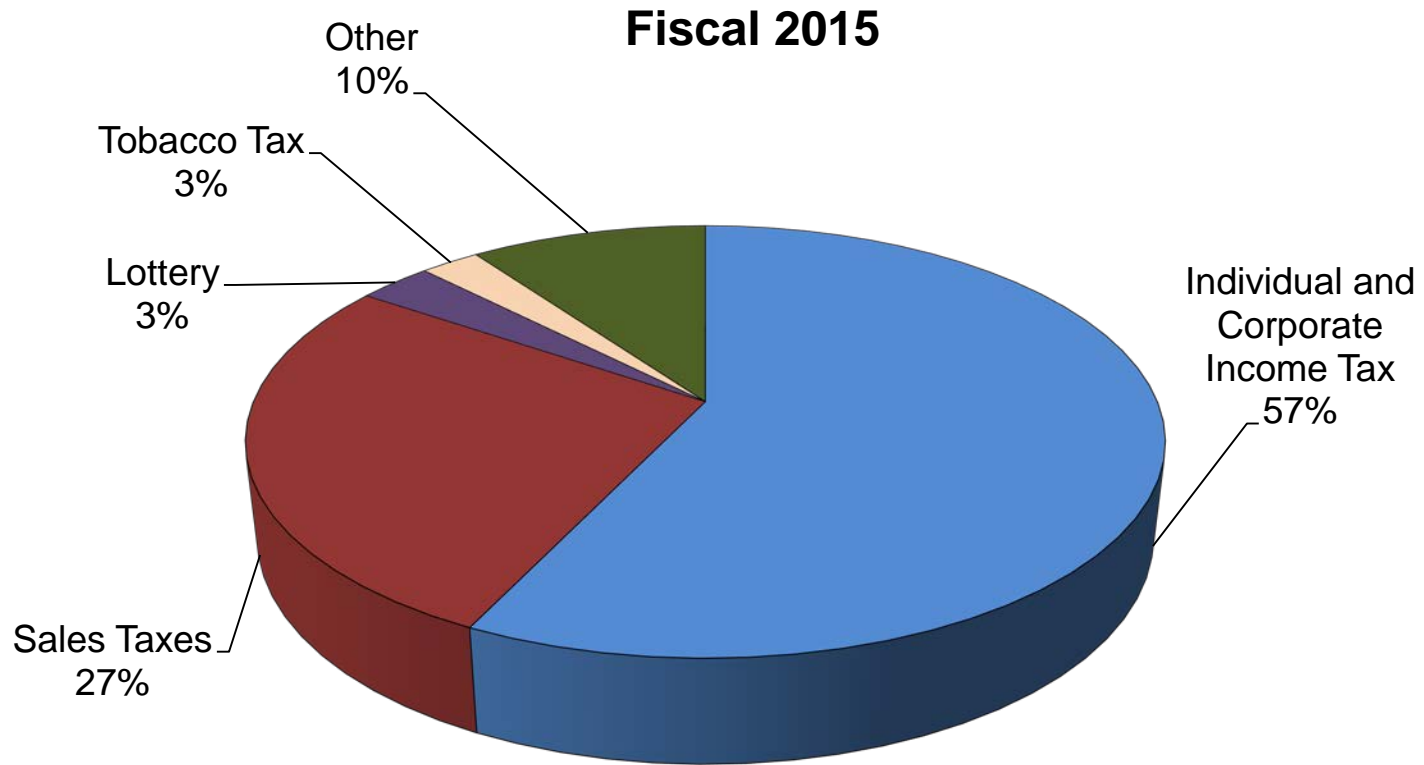
Fiscal 2015



*Excludes general funds

Total Budget – \$38.9 Billion

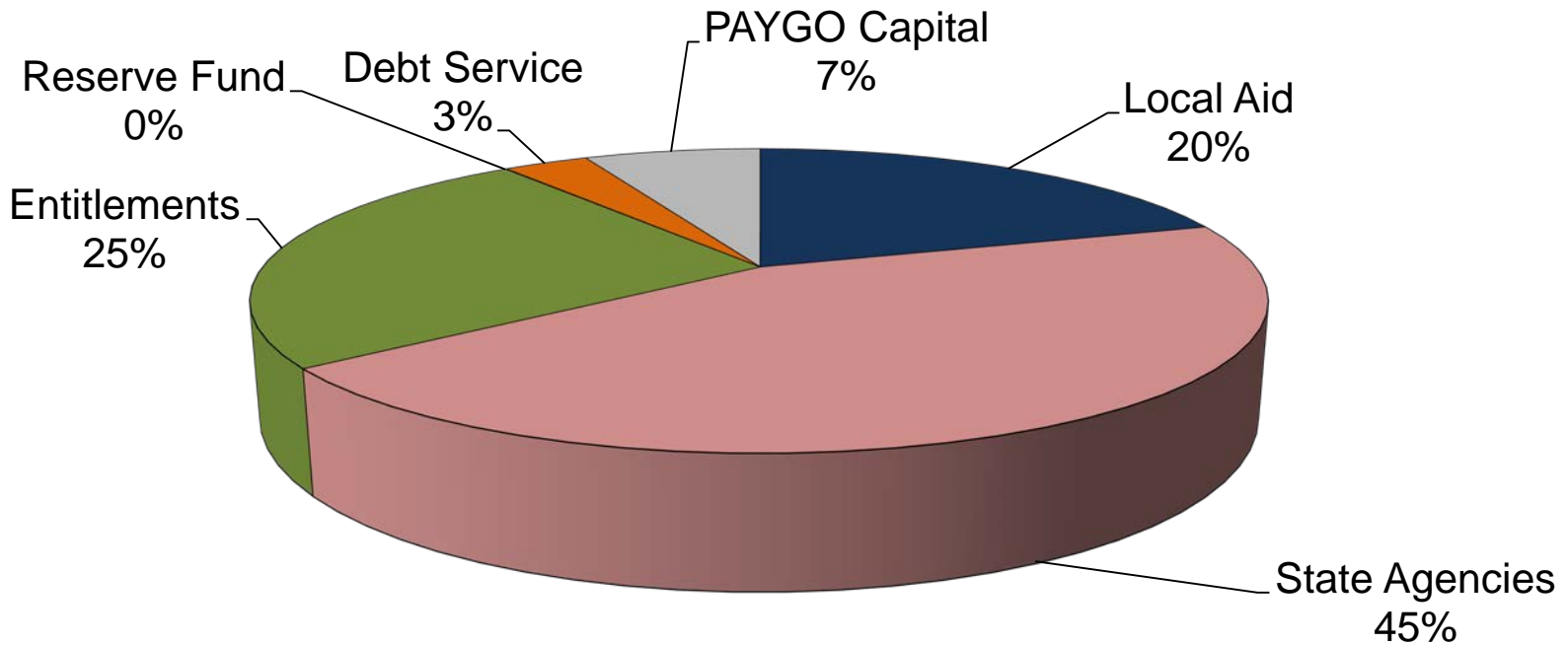
Income and Sales Taxes Account for 85% of General Funds



Total Revenue – \$16.1 Billion

Allocation of State Budget All Funds

Fiscal 2015



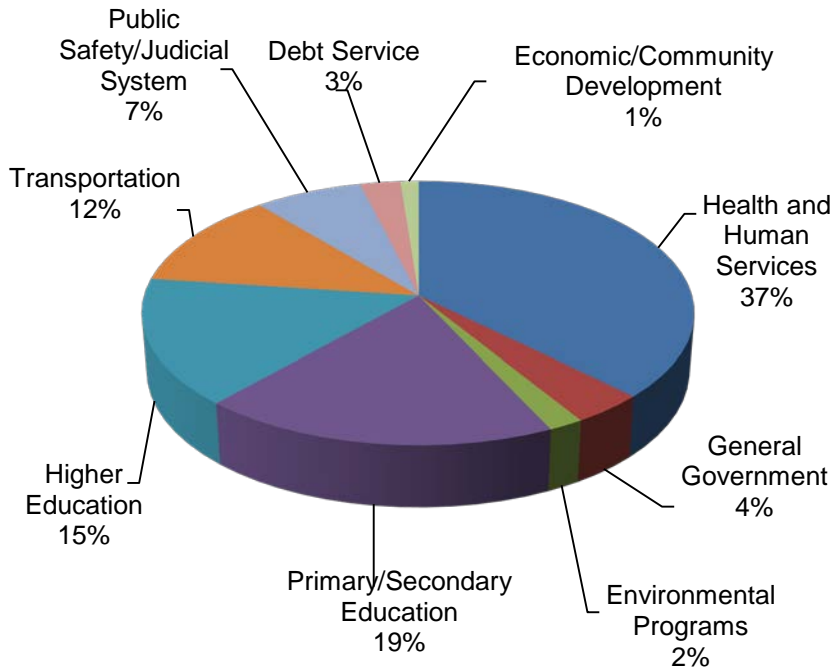
Total Budget – \$38.9 Billion

PAYGO: pay-as-you-go

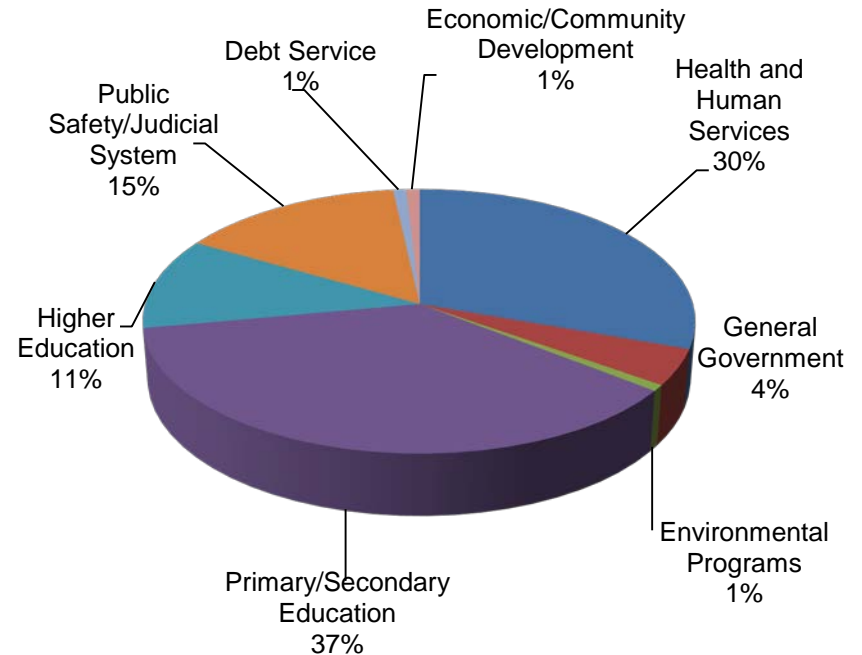
State Spending By Purpose

Fiscal 2015

State Spending
All Funds \$39 Billion

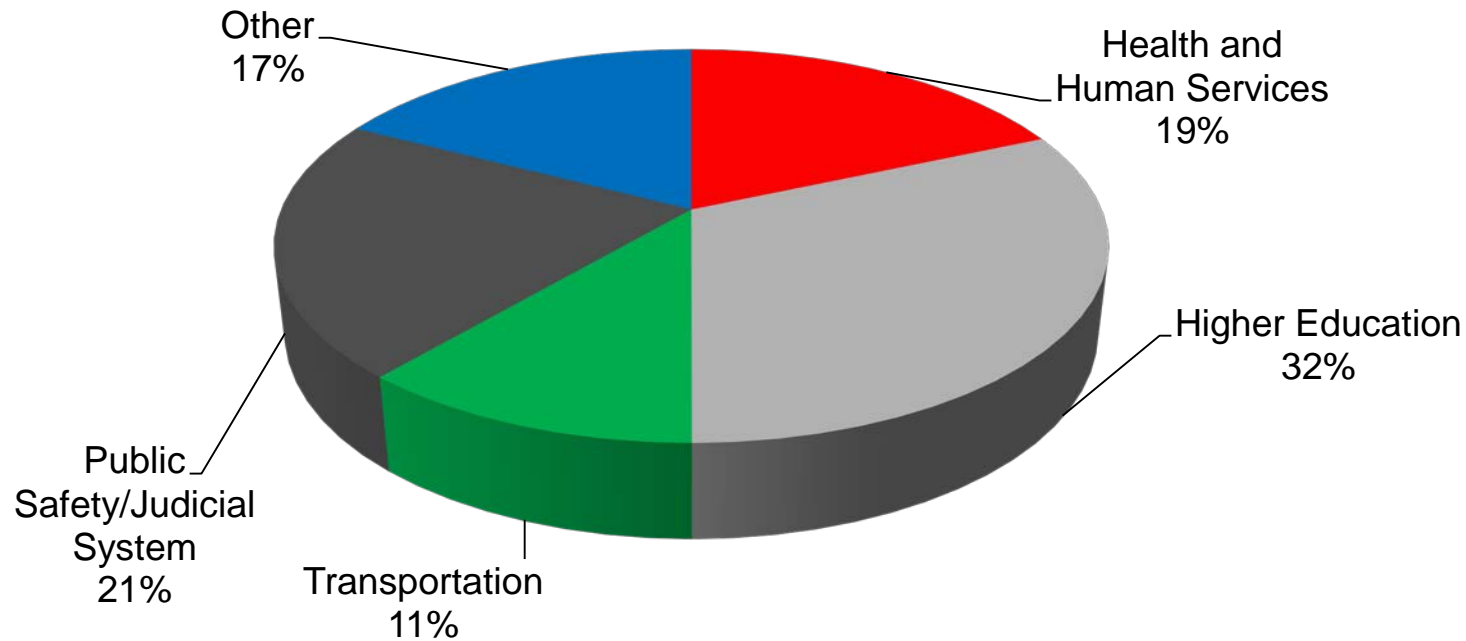


State Spending
General Funds \$16 Billion



Maryland State Workforce By Service Area

Fiscal 2015

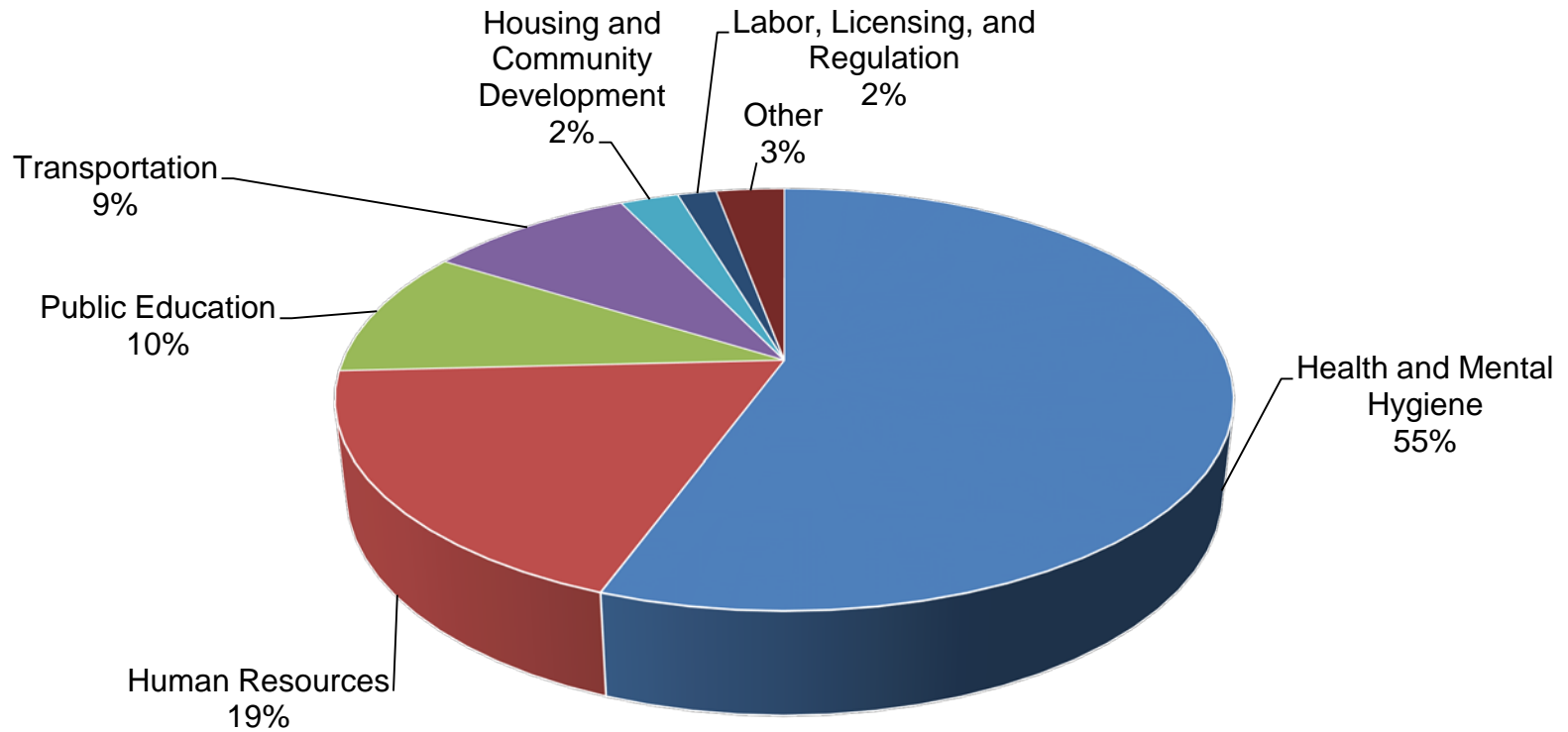


Total Regular FTE Positions – 81,075

FTE: Full-time equivalent

Uses of Federal Funds

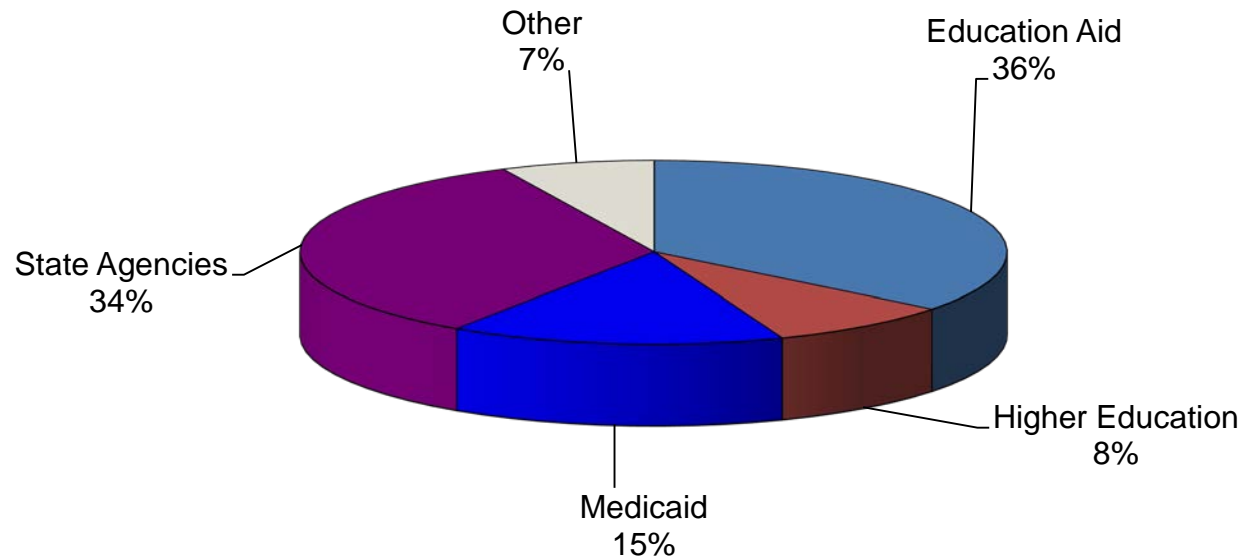
Fiscal 2015



\$10.5 Billion

Education Aid and Medicaid Account for Over Half of General Fund Budget

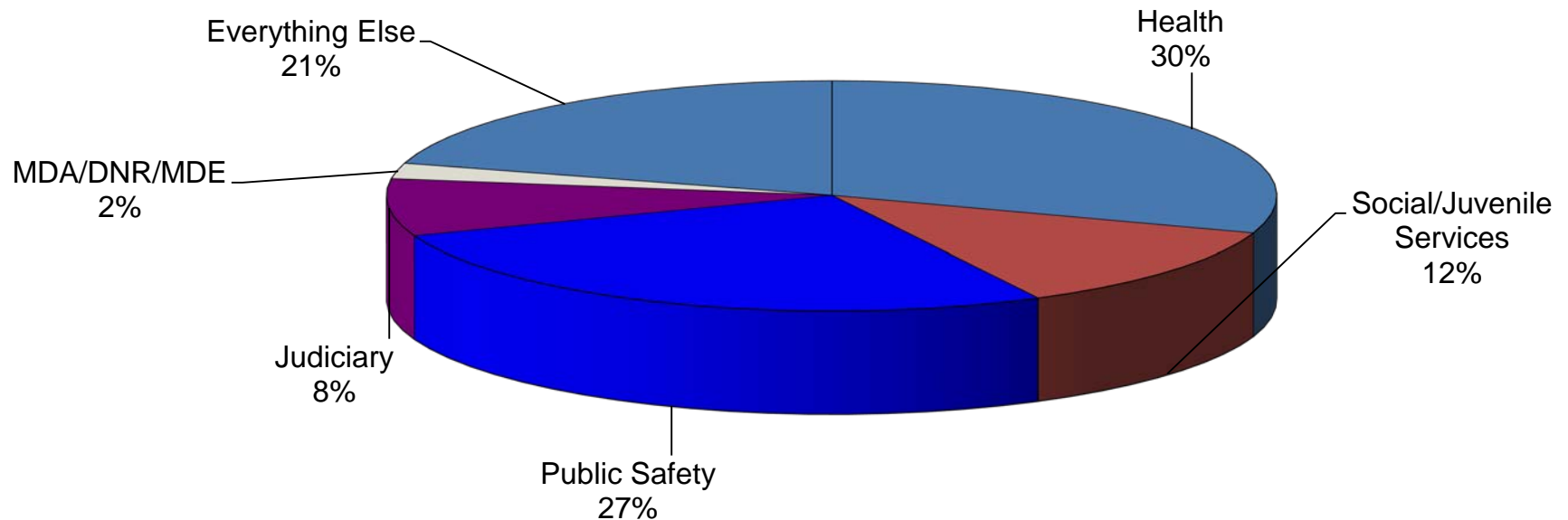
Fiscal 2015



Total General Fund – \$16.1 Billion

Health and Public Safety Account for Over Half of State Agency Spending

Fiscal 2015



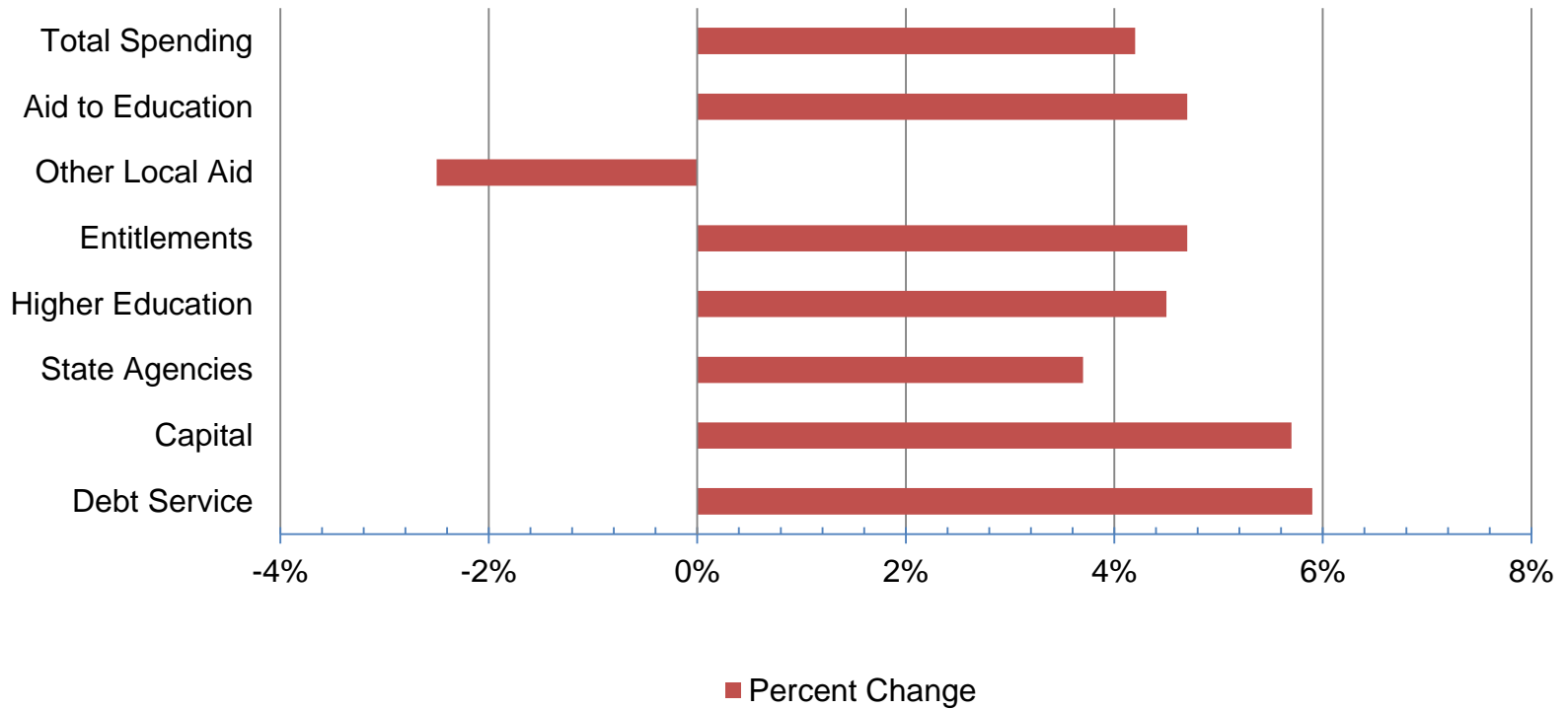
Total Agency Spending – \$5.4 Billion*

DNR: Department of Natural Resources
MDA: Maryland Department of Agriculture
MDE: Maryland Department of the Environment

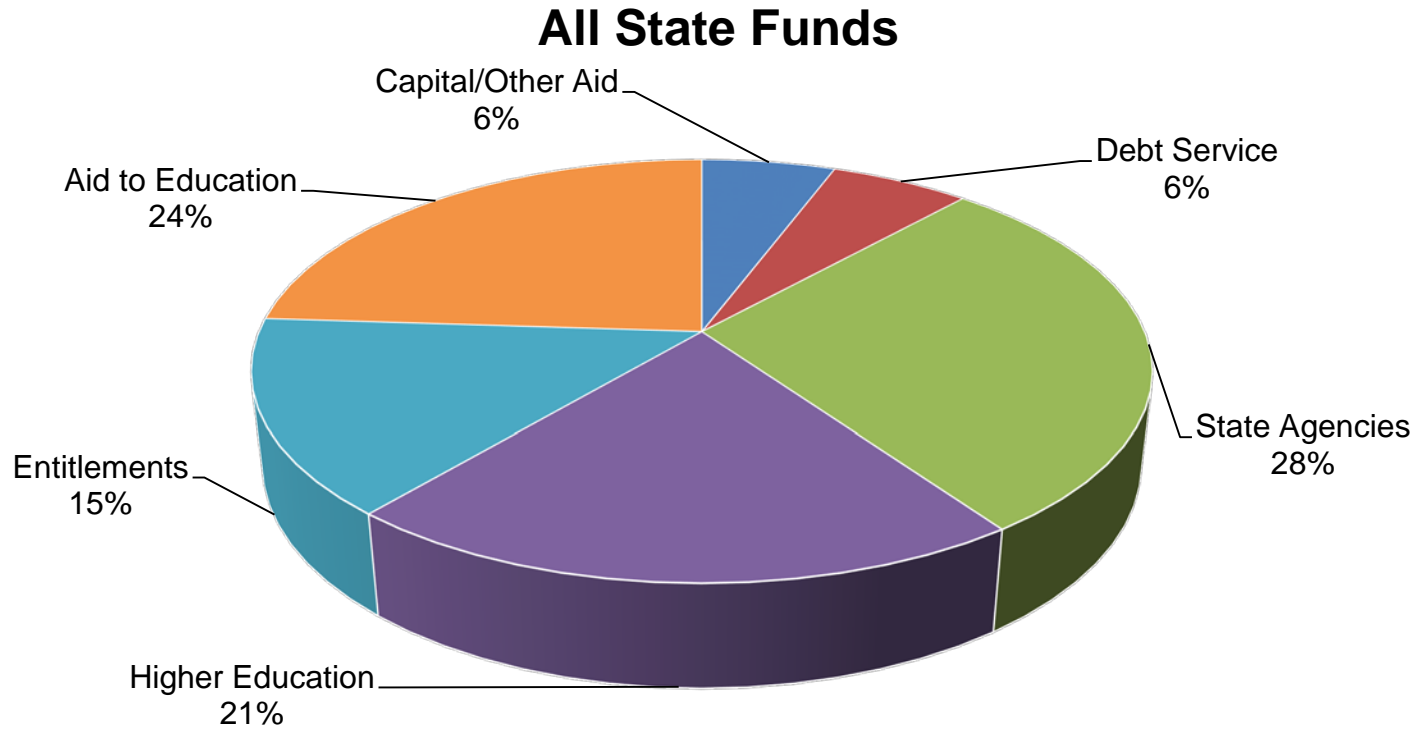
* Does not include \$1.4 billion in general funds provided to higher education institutions.

Average Annual Budget Change Fiscal 2006-2015

All State Funds



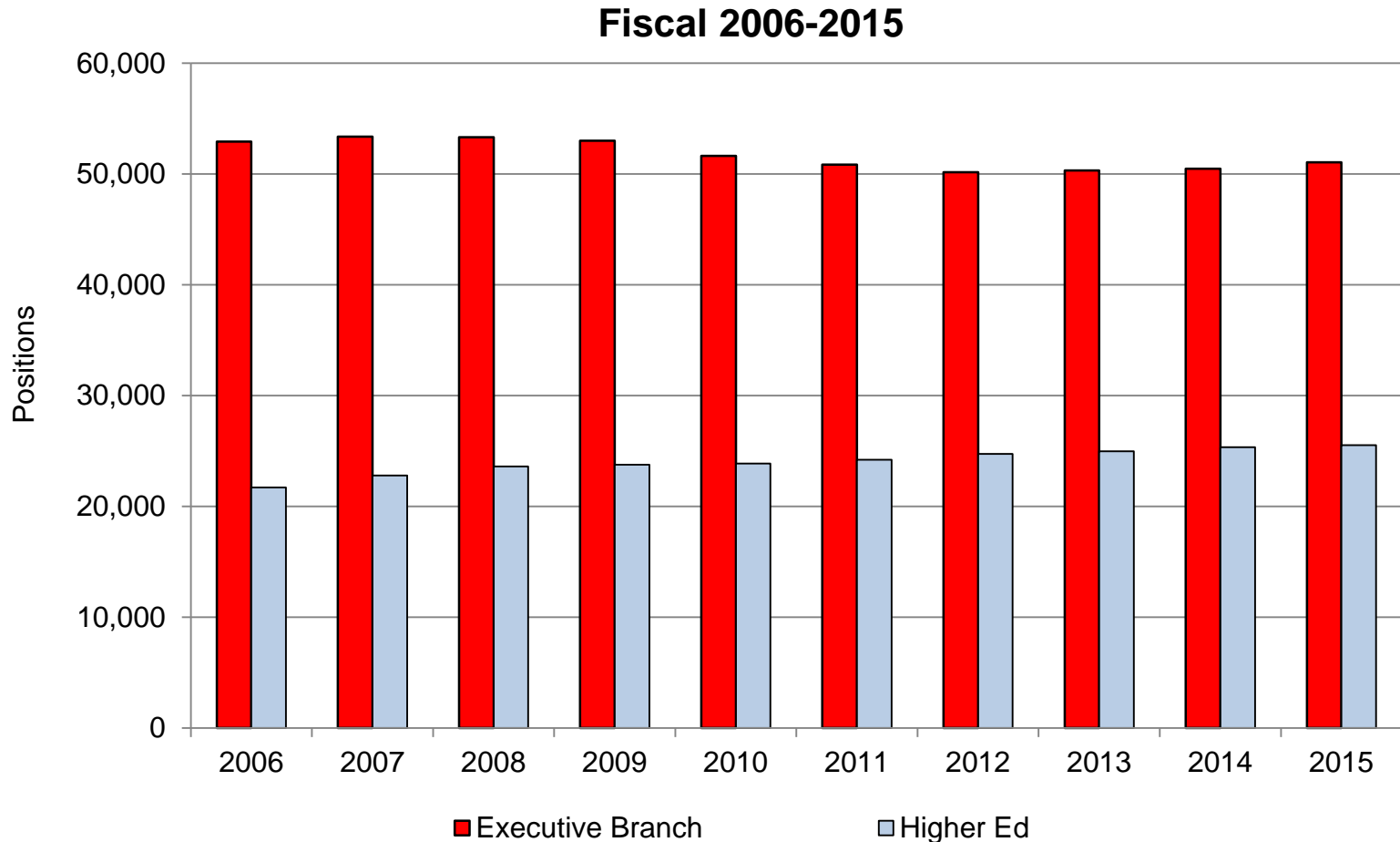
Components of Budget Change Fiscal 2006-2015



**Total Increase in Spending
\$8.7 Billion**

Does not include federal funds

Regular Executive Branch Positions Declined 4% While Higher Education Positions Grew by 18%

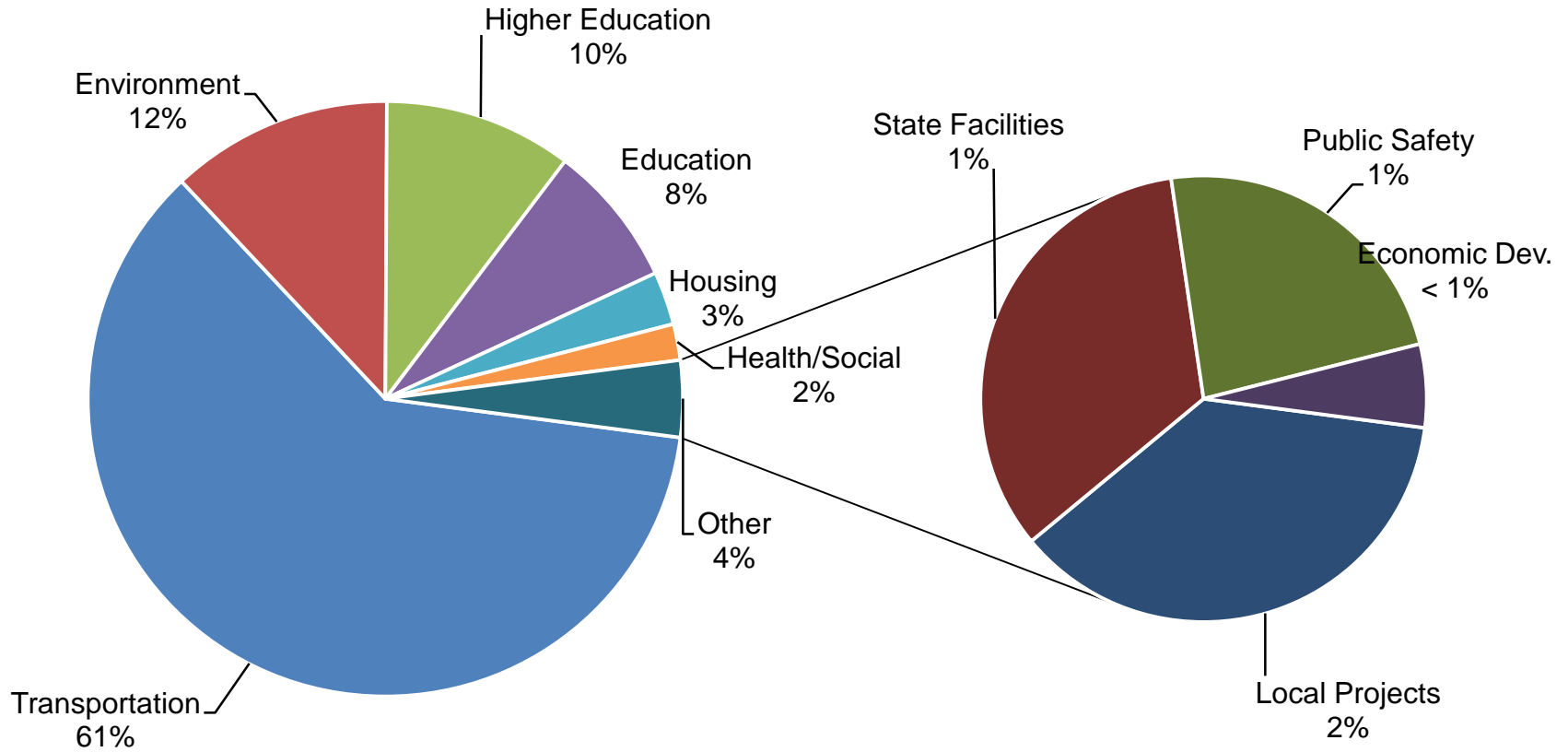


Capital Spending

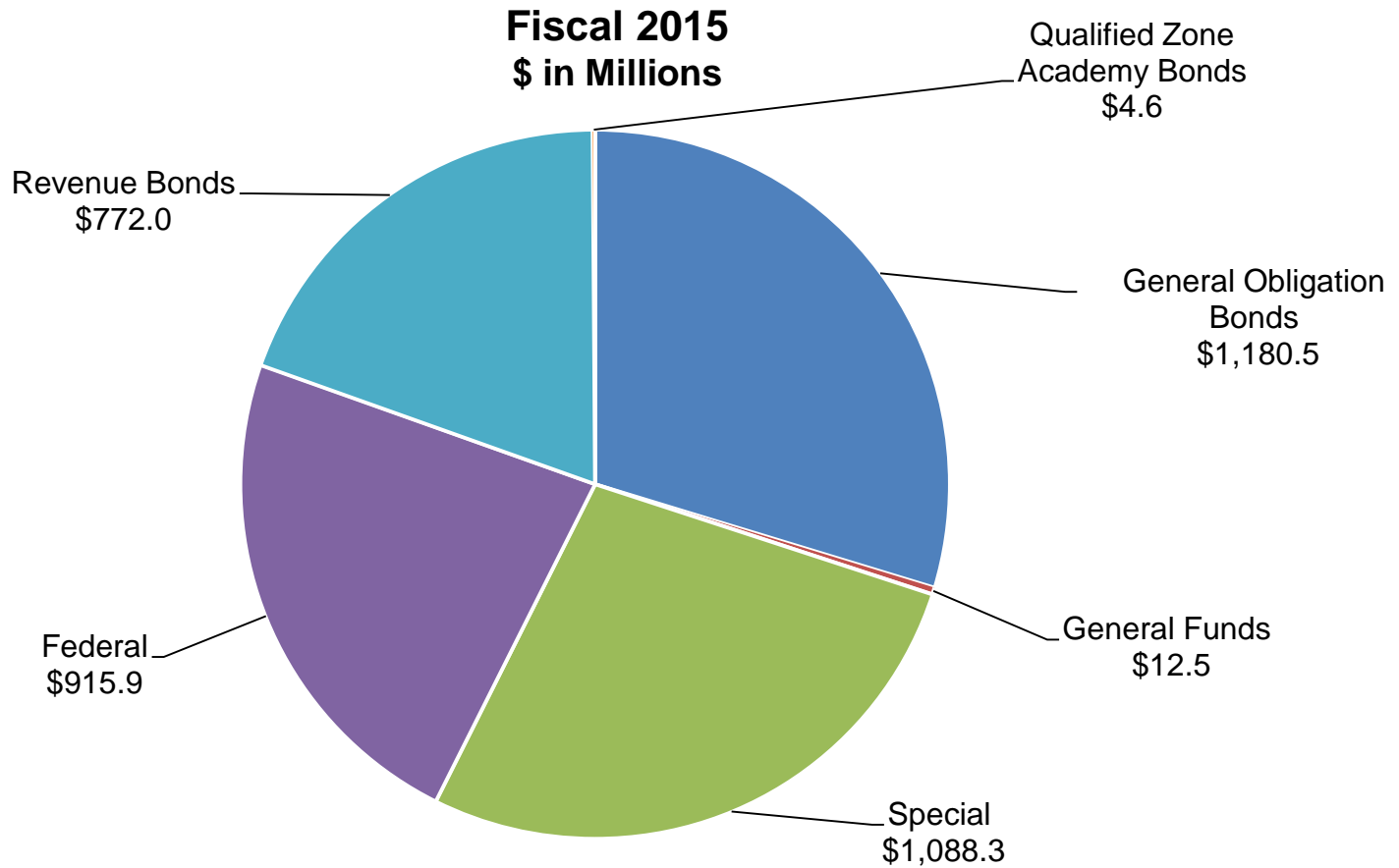
- The operating budget bill appropriates funds for long-term assets, such as buildings and roads. This capital funding is referred to as PAYGO, for pay-as-you-go
- The State also funds capital improvements with debt instead of cash. Separate legislation authorizes general obligation debt for capital purposes
- To qualify as capital, a project must have a useful life equal to the life of the bonds sold to finance the project (typically 15 years) and cost at least \$100,000
- The *Capital Improvement Program* is the State's five-year facility plan; transportation investments are contained in the six-year *Consolidated Transportation Plan*

Capital Spending by Use

Fiscal 2015



Capital Spending by Source



Maryland Budget Process



Balance Requirements

- The Maryland Constitution requires the budget to be balanced (Article III, Section 52). Requirement applies
 - To the Governor when introducing the budget
 - To the legislature when passing the budget
- While the whole budget must be balanced for practical purposes the focus is on the *general fund*
- There is no requirement that the budget be balanced at the end of the fiscal year
 - Presumed to be an executive responsibility. By statute, the Governor may reduce appropriations up to 25% with Board of Public Works approval (Section 7-213, SFP)
 - The National Conference of State Legislators reports that 37 states have such a requirement

Maryland's Unique Balance of Powers

- Key features favor the Governor
 - Only the Governor can initiate (or increase) Executive Branch budget items
 - Legislative action on Executive Branch limited to
 - Reducing items proposed by Governor
 - Restricting funds or making items contingent
 - Authorizing the Governor to transfer funds

Maryland's Unique Balance of Powers (Cont.)

- But the Legislature gets the last word
 - Governor lacks any veto authority with respect to the budget as passed
- Legislature may add its own budget and that of the Judiciary
- Devised by Goodnow Commission in 1916, which recommended financial and budgetary reforms designed to minimize politics and improve administration of the budget. Casts Governor as Administrator-in-chief
- No other state has chosen this model, although it has some adherents at the municipal level

Other Fascinating Features

- Governor can amend budget proposal at any time before final passage through a “Supplemental Budget”
 - To address oversights, costs of pending bills or emergencies – liberally applied
 - Consent of legislature required
- Governor may increase appropriations after budget is passed
 - Budget bill grants authority to recognize and spend special and federal funds in excess of budget estimates
 - Legislature reviews appropriations over \$100,000
- Legislature can directly increase appropriations in limited circumstances
 - Budgets for Judicial and Legislative branches can be increased (or reduced) through action on the budget bill
 - Appropriations can be increased through enactment of a “Supplementary Appropriations Bill”
 - Must be passed after budget and is limited to a single purpose
 - Must pay for itself by creating a tax – no pain, no gain

Operating Budget Calendar

Revenue Estimating

- The Board of Revenue Estimates provides a forecast of revenues to the Governor in September, December, and March
- At each point, the board forecasts revenues for the current and upcoming fiscal year
- Three members include the Treasurer (appointed by the Legislature); the Comptroller (elected, not appointed by the Governor); and the Secretary of the Department of Budget and Management (Governor's representative)
- Independent body ensures objective, non-political estimate of revenue

Operating Budget Calendar

Executive

- May – June Budget instructions to agencies
- August – September Agency requests to Governor
- October – November Agency hearings with Department of Budget and Management
- November – December Governor's decisions
- Mid January Budget and all budget-balancing legislation introduced (7th or 10th day of session)
- February – March Supplemental budgets introduced
- Early April – June Determine final appropriations and legislative restrictions
Closeout current budget
Begin work on next budget

Operating Budget Calendar

Legislative

- August – September DLS staff develop fiscal forecasts
- October – November Spending Affordability Committee (SAC) meets
- December SAC reports
- Mid January Fiscal briefing
Budget hearings begin
- March Committee decisions
Budget debate on floor of Senate and House
- Early April Conference committee meets
Budget passed (83rd day of session)
- May – December Oversight of budget implementation

Spending Affordability Process

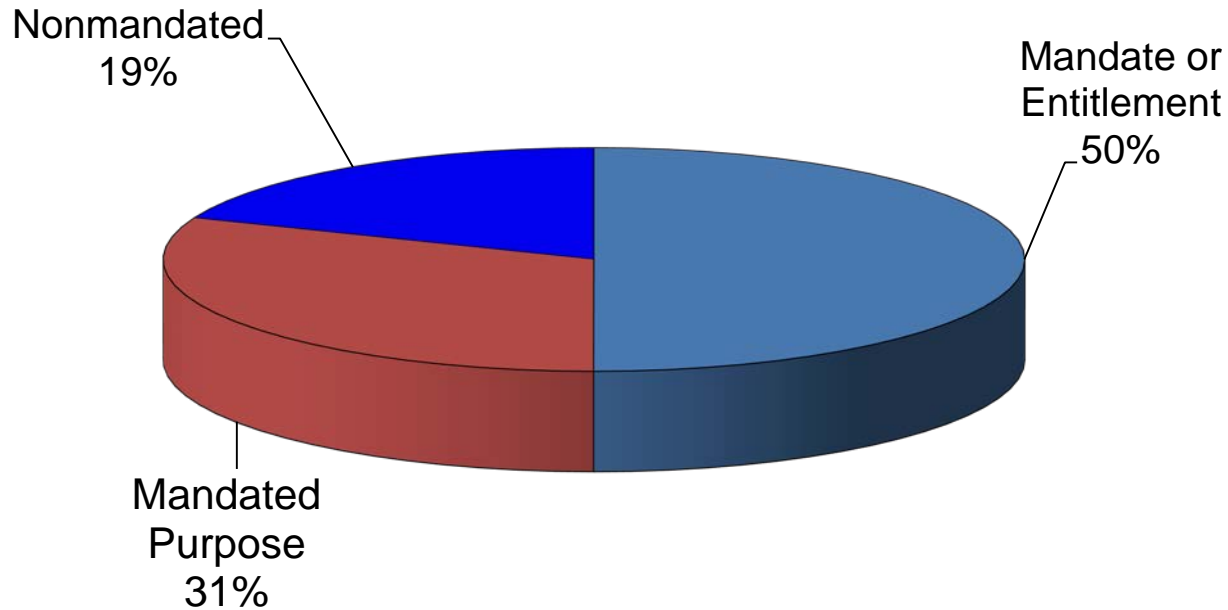
- Created by statute in 1982 as an alternative to a Constitutional “Proposition 13” type formula spending or revenue limit
 - Intent to keep growth in State spending in line with that of the economy
 - 22 legislative members and four citizen advisors
- Makes recommendations concerning
 - Operating spending
 - State debt
 - State personnel
 - Use of surplus funds
- Recommendations are not binding, but deviation must be explained by Governor and budget committees
- Sometimes ignored by Governor but generally enforced by legislature

Balancing the Budget

- Statute drives a number of elements of the budget
 - Mandates and entitlements
 - Dedicated special fund revenues
- Discretionary spending can be provided in the amount of the Governor's choosing
- Mandates must be funded by the Governor as directed by statute
- To modify mandates, entitlements, and most revenues, separate legislation must be enacted in concert with the budget
 - Recent practice has been to use a Budget Reconciliation and Financing Act (BRFA)
- BRFAs have been used to adjust mandated formulas or statutory funding levels, to redirect dedicated revenues to other uses (or to the general fund), and to establish or modify fees

Entitlements and Mandates Are Significant Share of Budget

Fiscal 2015 Allowance



Total State Funds – \$28.9 Billion

Note: Amounts do not include federal funds. Allowance is budget submitted by the Governor.

Characteristics of a BRFA

- Modifies the underlying statute that has a budgetary effect
- Acts like any other piece of legislation
- May provide for short- or long-term changes – does not expire at the end of the fiscal year like the budget bill does
- Must be enacted with the budget so that the actions can be counted as balancing the budget
- Budget committees affirmatively concur, reject, or modify the provisions in the BRFA and, therefore, the associated appropriation or revenue

Budget and BRFA Together

- The budget bill and BRFA must be read together to understand what is being proposed
- The budget bill and BRFA must be read together to understand what is being enacted

Fiscal 2016 and Related Issues



Budget Outlook Has Deteriorated Since 2014 Legislative Session

General Fund (\$ in Millions)

	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>
Estimated Balance – June 2014	\$83	-\$397
Fiscal 2014 Closeout	21	
Spending Reduction (BPW – July 2014)	76	
September GF Revenue Revision	-177	-238
Less SF Revenues to Support GF	-48	-5
New Current Services Spending Estimates	-247	125
No Balance to Carry Forward		-83
Other Changes		5
Estimated Balance – November 2014	-\$292	-\$593

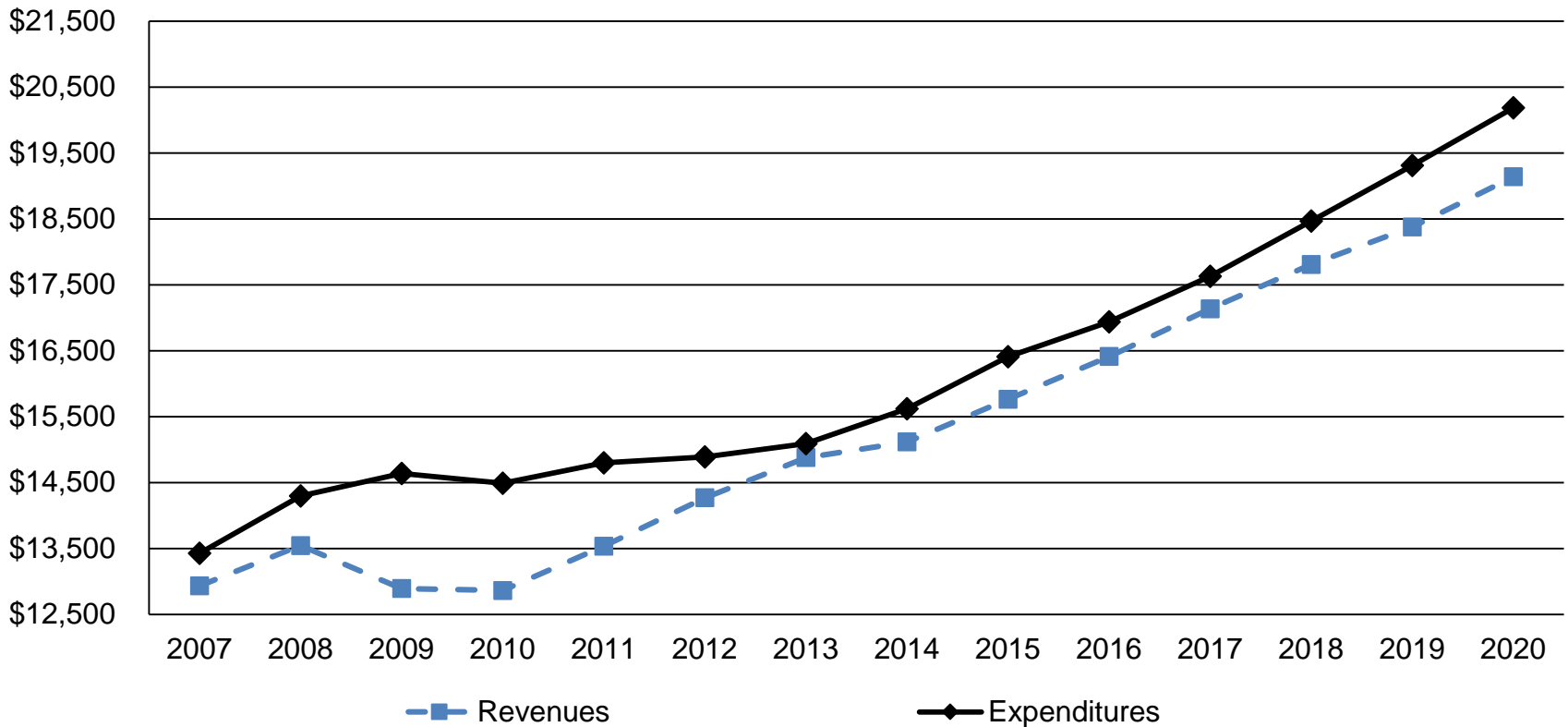
BPW: Board of Public Works

GF: General Funds

SF: Special Funds

Imbalance Between Ongoing Revenues and Spending Continues

Fiscal 2007-2020
(\$ in Millions)

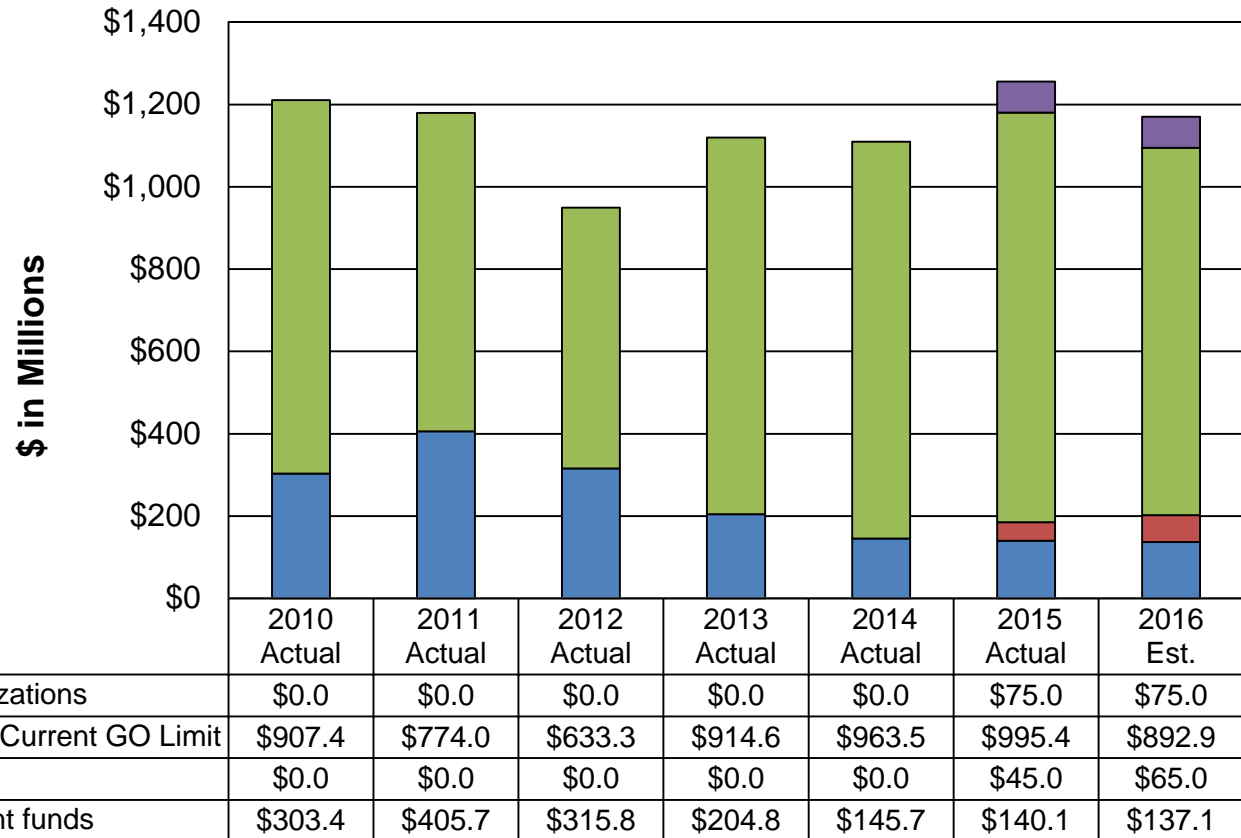


Fiscal 2016 Current Services Budget Growth Estimated to Be 6.7%

General Fund Growth Fiscal 2015 Appropriation to Fiscal 2016 Baseline Estimate (\$ in Millions)

	<u>Increase</u>	<u>Percent Increase</u>
Debt Service	\$128	91.4%
Education/Library Aid	188	3.3
Medical Assistance	119	4.3
Higher Education	118	8.8
Corrections/State Police	143	10.1
Health Department	70	5.4
Other State Agencies	189	8.1

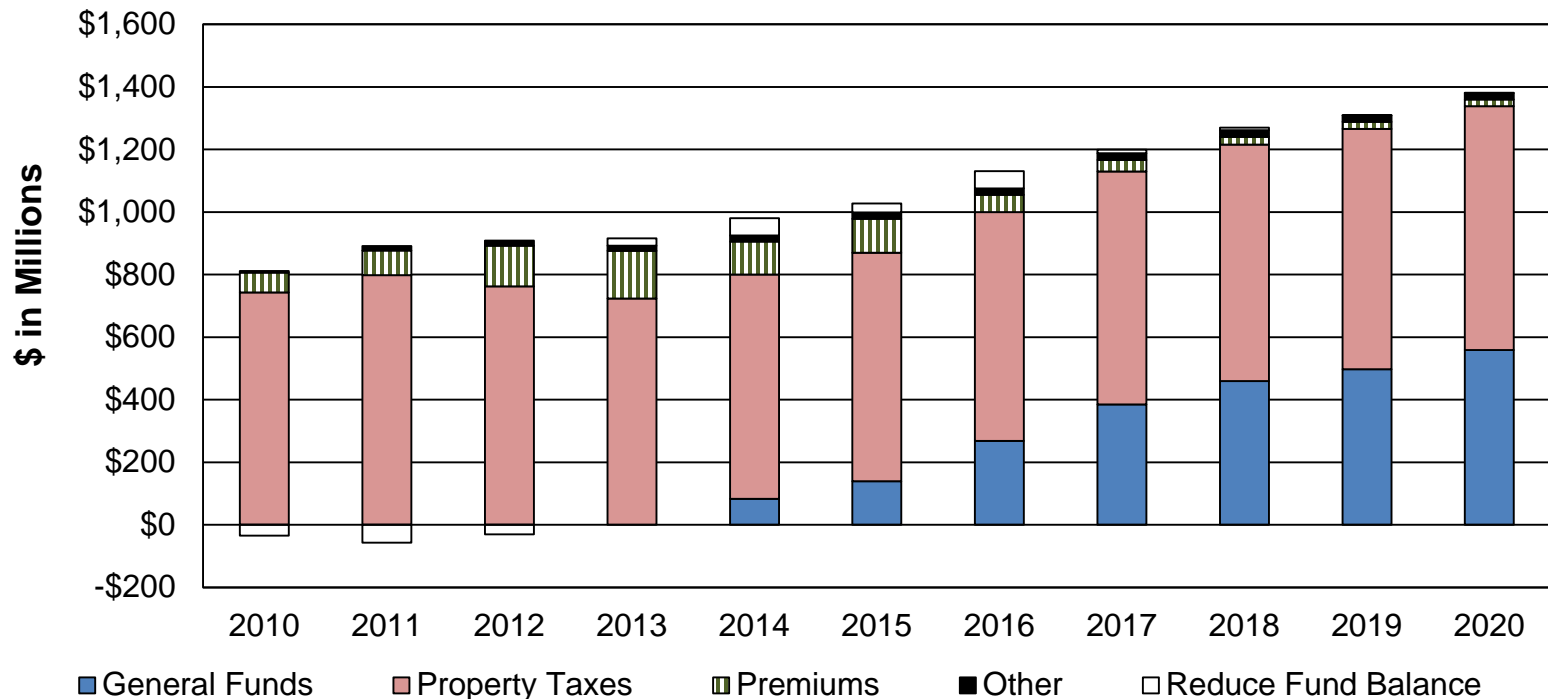
GO Bonds Have Been Used to Provide Operating Budget Relief in Recent Years



GO: general obligation
MDOT: Maryland Department of Transportation
WIP: Watershed Implementation Plan

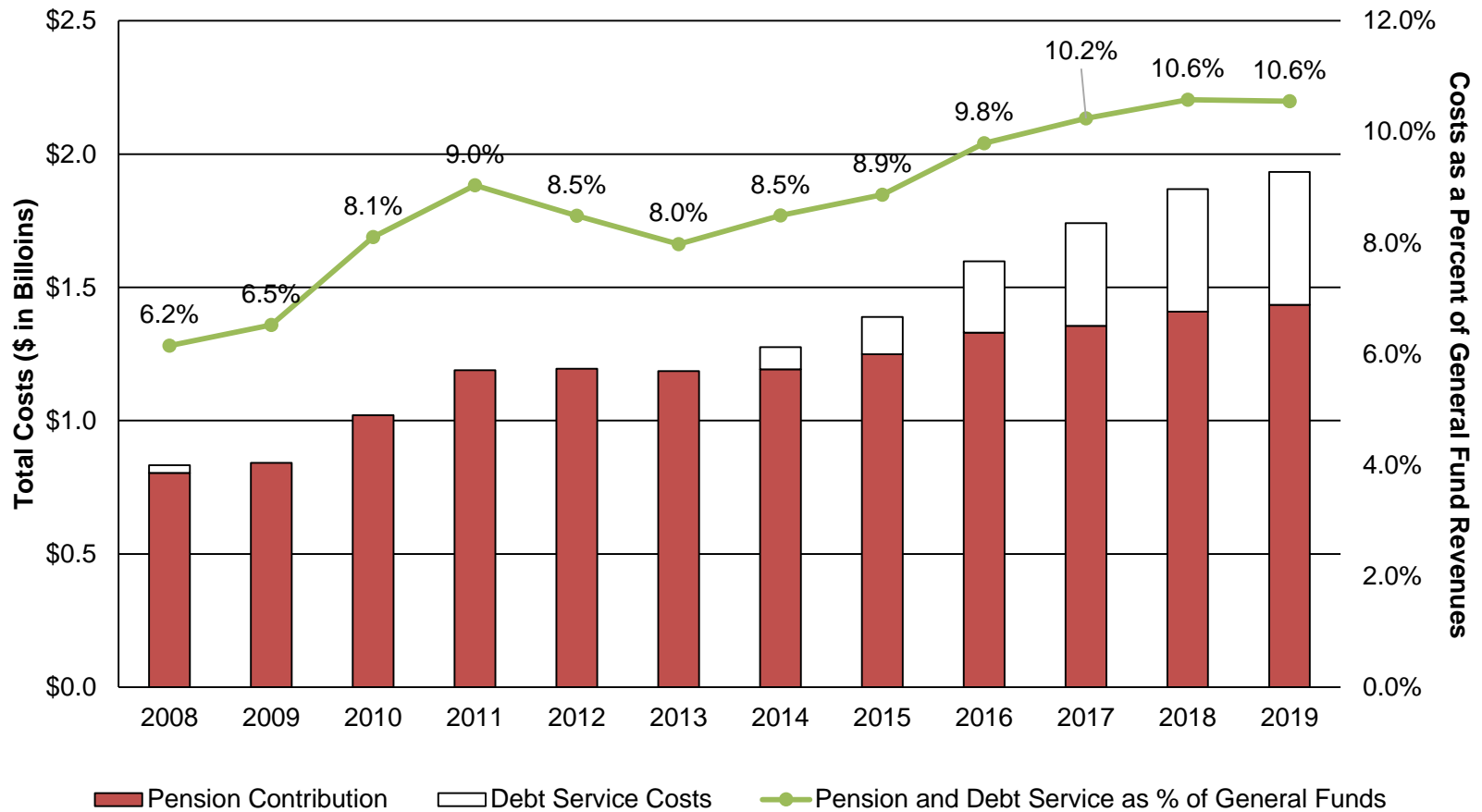
As More GO Bonds Are Utilized, GO Bond Debt Service Costs Exceed State Property Tax Revenues

Estimated Annuity Bond Fund Activity
Fiscal 2010-2020



- In fiscal 2016, an estimated \$268 million in general funds will be needed to support GO bond debt service costs

Debt Service and Pension Costs Compared to General Fund Revenues

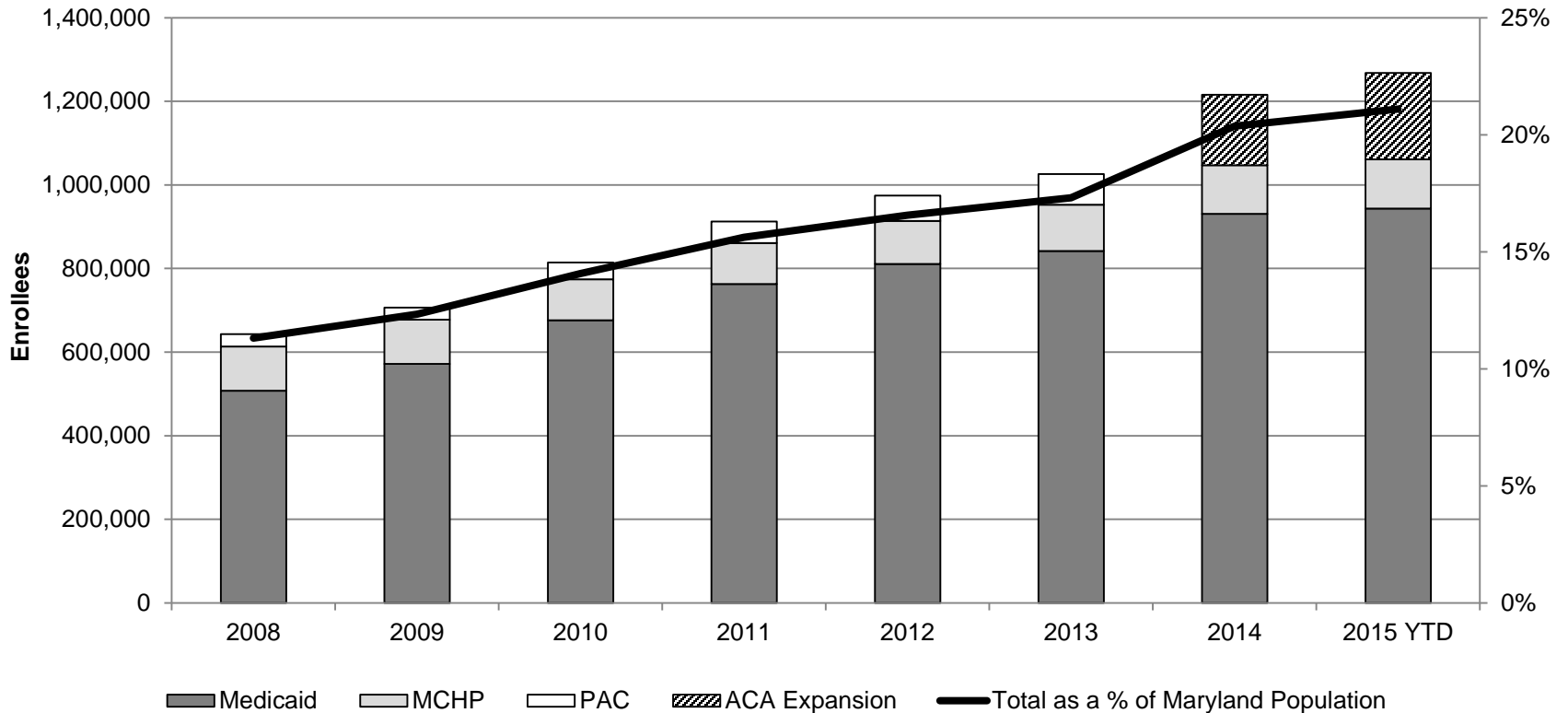


Medicaid Has Become a Larger Provider of Health Care Coverage

- Maryland Medical Assistance Programs provide eligible low-income individuals with comprehensive health care coverage
- Medicaid is a jointly funded State/federal partnership with the federal funding share ranging from 50-100% depending on the eligibility category
- Medicaid enrollment has doubled since fiscal 2008
- The rapid enrollment growth reflects State-sponsored expansion to parents of children in Medicaid (begun in 2008), the recent recession (2008-2010), and heightened awareness of Medicaid combined with expansion under the federal Affordable Care Act (2014)

Medicaid Enrollment

Fiscal 2008-2015 YTD



ACA: Affordable Care Act
MCHP: Maryland Children's Health Program
PAC: Primary Adult Care
YTD: year-to-date

Medicaid Will Continue to Put Pressure on the State Budget

- The Medicaid program (excluding behavioral health and Developmental Disabilities community services) represents 20% of the total State budget and 16% of the general fund budget
- The budget continues to rely on over \$900 in special funds (primarily assessments on providers including nursing homes, hospitals, and MCOs)
- Under current law, fiscal 2016 represents the high point of federal support for Medicaid. Beginning in fiscal 2017, that support will gradually fall, adding additional pressure on the State general fund budget

State Agency Baseline Budget Growth Driven Primarily By Personnel Costs

- Annualization of fiscal 2015 general salary increase
- 2% general salary increase assumed for fiscal 2016
- Employee merit (step) increases assumed for fiscal 2016
- Health insurance costs increase 13% due to use of health insurance account fund balance in fiscal 2015 and underlying health insurance inflation