Spending Affordability Committee

2015 Interim Report

Annapolis, Maryland
December 2015

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Roger Manno
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Ben Barnes
House Chair

MARYLAND GENERAL ASSEMBLY

Spending Affordability Committee

December 17, 2015

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 2015 interim. These recommendations were adopted by the committee at its meeting on December 16, 2015. 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 2017 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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

Sincerely,

Senator Roger Manno
Presiding Chair

Delegate Ben Barnes
House 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 17, 2015

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

Dear Colleagues:

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Maryland General Assembly
Spending Affordability Committee
2015 Interim
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Contents

2015 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. Efforts to close the structural budget gap have been the focus of the committee's recommendations in recent years. For the first time since fiscal 2006, the general fund budget is estimated to be structurally balanced in the current year and the next two fiscal years. The committee's prior recommendations and legislative action on the operating budget are reflected in the table on the following page.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.7% 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.

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

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth Rate**	**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%	

[1]2000 legislative action does not reflect $266.0 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.

Economy

While the 2007 to 2009 recession in Maryland was less severe than for the nation as a whole, it was still the worst economic contraction the State had experienced since the recession of the early 1990s. 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 Maryland's economy. The per capita inflation-adjusted gross State product fell in 2012 and 2013 for the first time since 2009 and growth was just 0.2% in 2014. The data available for 2015 shows significant improvement over the performance in 2014. Employment grew 1.4% in the first half of 2015 with private-sector employment up 1.8%. Total personal income was up 4.1% in the first six months of 2015.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since December 2014. BRE revisions aligned the economic outlook with recent performance. Employment growth for 2015 was revised up from 1.1% to 1.3%. The 2015 projection for personal income growth was increased from 3.8% to 4.3%. BRE lowered their assumptions for capital gains income from growth of 6.0% in 2015 to a decline of 10.0% reflecting the drop in the stock market in August. In December 2015, BRE further increased their estimate of 2015 employment growth to 1.5% in light of year-to-date performance but also lowered the estimate for wage growth from 4.2% to 3.9%. Given the rebound in the equity markets, BRE changed their estimate of 2015 capital gains income from a drop of 10.0% to no growth.

Revenues

Fiscal 2015 general fund revenues exceeded the estimate by $214.1 million. General fund revenues totaled $15.9 billion in fiscal 2015, an increase of 5.4% over fiscal 2014. The biggest source of overattainment was the personal income tax. General fund personal income tax revenues were over the estimate by $178.0 million and grew 7.4% over fiscal 2014.

Fiscal 2016 general fund revenues through November are up 4.2% over fiscal 2015. In September, BRE raised their estimate for fiscal 2016 general fund revenues by $81.0 million. The personal income tax estimate was revised up by $107.0 million. In December, BRE increased the general fund estimate for fiscal 2016 by $31.4 million reflecting the revised economic assumptions and the year-to-date performance which includes some large estate tax payments. BRE's fiscal 2016 estimate also now includes an additional distribution of $45.0 million to the local income tax reserve account to work down the underfunding of the account. BRE increased their general fund revenue estimate for fiscal 2017 by $60.1 million. The fiscal 2017 estimate does not include an extra distribution to the local income tax reserve account.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2015, the committee is currently projecting an ending general fund balance of $561.2 million at the close of fiscal 2016. This projected surplus reflects anticipated spending shortfalls requiring fiscal 2016 general fund deficiency appropriations of $116.9 million. Major areas that are expected to require deficiency funding include the Developmental Disabilities Administration based on a recent federal audit disallowance of previously claimed federal funds; education foundation aid based on projected shortfalls in Education Trust Fund revenues; student assessment contracts; personnel and operating expenses in the Departments of Public Safety and Correctional Services and State Police; and the need to backfill for unattained 2% cost containment in various agencies. However, these deficiency requirements are more than offset by an anticipated $151.9 million general fund surplus in the Medicaid program driven by such factors as lower enrollment and higher special fund availability.

The baseline estimate for fiscal 2017 projects general fund growth of 6.7% when capital and reserve fund appropriations are included, resulting in an ending balance of $324.0 million. The general fund budget growth includes $307.5 million for entitlements, mandated formulas, and other statutory increases. For example, education aid formulas increase by $139.4 million, due primarily to a 1.0% increase in the per pupil foundation aid formula, the full funding of the Geographic Cost of Education Index, and an increase in compensatory aid, which is based on the foundation aid formula and the number of children eligible for free and reduced-price meals, which has also grown; the increase in general funds for debt service payments is $81.6 million; and Medicaid (including behavioral health) increases by an estimated $92.7 million to fund higher enrollment levels plus the assumption of modest rate increases for most providers.

In terms of State agency spending, the baseline assumes $495.5 million in general fund growth, $263.0 million of this increase is driven by personnel costs. The baseline assumes a 2% general salary increase for fiscal 2017 effective July 1, 2016, with a general fund cost of $75.9 million plus regular increment increases totaling $77.7 million. Health insurance costs increase by $57.2 million, and employee retirement costs grow by $27.3 million.

The committee projects that the State will close fiscal 2017 with a balance of $1,070.1 million in the Rainy Day Fund, which represents 6.3% of general fund revenues. The statutorily mandated appropriation for fiscal 2017 will be $235.3 million. It should be noted that the baseline assumes that the unappropriated general fund balance at the close of fiscal 2015 will result in a $50.0 million fiscal 2017 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 2016 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 recent 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. This was a moving target because of the significant revenue write-downs at BRE each year that occurred after the passage of the budget by the General Assembly.

The committee's 2015 recommendation to reduce the structural deficit by 50% was the fifth consecutive year addressing the need to reduce the structural general fund gap. In the 2015 session, the spending affordability goal was exceeded as over 70% of the structural gap was resolved by the budget enacted by the General Assembly.

These efforts combined with favorable revenue projections have resulted in the elimination of the spending gap one year ahead of the schedule set last year and created a projected structural surplus for fiscal 2016 through 2018. This improvement in the State's budgetary outlook supports the transition to the more traditional method for maintaining spending affordability for the upcoming session. **As such, the committee recommends that the fiscal 2017 general fund budget maintain structural balance and that appropriations subject to the spending affordability limit shall be limited to growth of no greater than 4.85% over those approved at the 2015 session. This limit places growth in State spending in line with the average anticipated growth in personal income for calendar 2016 and 2017. This limit would provide for a $1,184 million increase in appropriations at the 2016 session, allowing for total expenditures subject to spending affordability of $25,601 million. This growth limit provides sufficient resources to support the full funding of mandated education costs and other mandated programs, as well as merit increases and cost-of-living adjustments for State employees.**

2. Fund Balances

The committee projects a Revenue Stabilization Account ("Rainy Day" Fund) balance at the end of fiscal 2016 of $813.8 million, which would maintain the balance at 5.0% of estimated fiscal 2016 general fund revenues. Fiscal 2015 closed with an unassigned general fund balance totaling $295.3 million. By law, the first $10.0 million remains in the general fund. The law also requires that an amount up to $50.0 million be applied to the unfunded employee pension liability. An amount equal to the remaining $235.3 million is required to be appropriated into the Rainy Day Fund. At the end of fiscal 2017, the Rainy Day Fund balance is projected to be $1,070.0 million, which is 6.3% of estimated general fund revenues. **The committee recommends that the balance in the Rainy Day Fund be maintained at or above $1 billion unless otherwise provided by an action of the General Assembly.**

The committee recognizes that the narrowness of the projected structural balance 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 2017.**

The committee anticipates that compliance with this minimum fund balance and the spending limit stipulated in Recommendation #1 will result in a cash balance well in excess of the $100 million goal. If this is so, the committee recommends increasing the cash reserves above $100 million and/or dedicating the funds for one-time investments that will:

(1) enhance the long-term financial condition of the State; or

(2) address the State's infrastructure needs while minimizing future debt service costs.

The committee recommends that priority be given to the following prudent investments and that these investments be excluded from the affordability calculation for the 2016 session:

a. Pay-as-you-go (PAYGO) capital for programs and projects statutorily mandated or included in the 2015 five-year *Capital Improvement Program* (CIP). Priority for PAYGO should be given to programs and projects that are not eligible to receive bond proceeds from tax-exempt bonds.

b. Replenishment of the Catastrophic Event Fund. The fund currently has a balance of $132,557.

3. Capital Budget

A. General Obligation Debt

In its 2015 report, the Capital Debt Affordability Committee (CDAC) recommended limiting general obligation (GO) bond authorizations to $995 million each year through fiscal 2025. This is done to slow the growth in debt service costs and provide additional capacity in the out-years.

CDAC's recommendation is advisory and the committee is not bound by the recommendation. In recent years, 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. 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.

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 2025 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 2017 through 2021.

CDAC's objective can be achieved without substantially eroding the purchasing power of the capital program by increasing the fiscal 2016 authorization, which totaled $1,045 million, by 1% annually. 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 $1,055 million in new GO bonds for the 2016 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.

B. Higher Education Debt

For fiscal 2017, CDAC recommended that the University System of Maryland (USM) issue up to $22.0 million in Academic Revenue Bonds (ARB), which is $10.0 million less than the amount programmed in the 2015 session CIP for fiscal 2017. The decrease results from language added to Chapter 471 of 2015 which increased the authorization by $20.0 million above what was programmed for fiscal 2016, for a total of $54.5 million, to support the funding plan for the New Bioengineering Building at the University of Maryland, College Park. The language stipulated that the additional $20.0 million authorized in fiscal 2016 should be deducted from authorization levels programmed in the 2015 session CIP for fiscal 2017 and 2018 by $10.0 million each year, thereby, keeping the total amount of academic debt authorizations for the five-year CIP planning level consistent with what was programmed in the 2015 session CIP.

Although CDAC's recommendation is consistent with the intent of Chapter 471, the amount of USM academic debt programmed in the 2015 session CIP did not factor in an additional $2.5 million proposed by the budget committees through committee narrative included in the 2014 *Joint Chairmen's Report*. The committee narrative expressed budget committee support to increase the amount of USM academic debt by $2.5 million for each of fiscal 2016 and 2017 to support USM capital projects. While the additional $2.5 million was included in the fiscal 2016 ARB authorization, the 2015 session CIP erroneously omitted the additional $2.5 million recommended for fiscal 2017. As a result, CDAC's recommended fiscal 2017 level is likewise $2.5 million below what the budget committee's proposed in the 2014 session as expressed in adopted committee narrative. **Therefore, the committee recommends that the level of USM academic debt be set at $24.5 million for fiscal 2017.**

4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 80,839 at the start of fiscal 2016. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 50,639 in fiscal 2016. Over 4,100 positions have been added in higher education during this period. As of December 2015, the State has 80,831 positions.

In calendar 2015, there has been a substantial increase in vacant positions and vacancy rates in Executive Branch agencies. The number of vacant positions increased from under 3,900 in January 2015 to over 4,400 in October 2015, which increased the vacancy rate from 7.6% to 8.7%. Most affected are public safety (the vacancy rate increasing from 7.1% to 8.8%) and health and human service agencies (the vacancy rate increasing from 7.5% to 9.3%).

The committee finds that given the State's fiscal condition, 80,831 positions are appropriate for the delivery of State services. The fiscal 2017 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.

5. Pension Funding

In response to the investment losses realized during the Great Recession, the State has reformed its pension system to improve the funded status. In fiscal 2008 and 2009, investment losses to the State's pension funds totaled $9 billion. By fiscal 2010, the funded ratio fell to 63%. To improve this ratio, the State took action to improve the funded ratio, including reducing the multiplier for new hires, reducing cost-of-living adjustments for benefits earned after fiscal 2011, increasing member contributions, as well as phasing out the corridor funding method and replacing it with an actuarial funding method. By the end of fiscal 2015, the funded ratio had improved to 69%.

To further improve the funded ratio, supplemental payments, in excess of the actuarially determined amount, have also been made each year since fiscal 2012. In the 2015 session, the legislature provided for a minimum of $75 million in annual supplemental appropriations that are required to be made until the pension fund reaches an 85% funded level on an actuarial basis. At that time, the General Assembly also accelerated by seven years the planned exit from the corridor funding method to an actuarial funding method. This change requires an additional $39 million in State contributions in fiscal 2017. Finally, the legislature passed a statutory "sweeper" provision for fiscal 2017 through 2020 that requires that up to $50 million in supplemental payments be appropriated into the pension fund if there is an unassigned fund balance for the second prior fiscal year. In fiscal 2017, the "sweeper" requires the Administration to appropriate $50 million, in addition to the $75 million in required supplemental appropriations, for a total of $125 million in additional funding beyond the annual employer required contribution.

The actuarial funding method resolves underfunding by amortizing the unfunded liability and fully funding this liability. **The committee confirms that pension funding, like other costs of compensation, is subject to the spending affordability limit. Funds allowed for this purpose pursuant to the statutory requirement to share up to $50 million of unappropriated balance shall not be subject to the limit as it is not paid from current revenue and does not represent a necessarily recurring expense.**

6. The Draft *Consolidated Transportation Program* and Possible Over-commitment of the Transportation Trust Fund are Matters of Concern to the Committee

The committee notes that the draft fiscal 2016 to 2021 *Consolidated Transportation Program* (CTP) reflects a major shift in priorities from those embraced by the General Assembly through enactment of the Transportation Infrastructure Investment Act of 2013 (Chapter 429). The substantial decrease in mass transit capital funding runs counter to one of the major purposes for which transportation revenues were increased in fiscal 2013. Furthermore, overly optimistic assumptions on constraining operational spending within the Maryland Department of Transportation over the next six years combined with questionable revenue assumptions contained in the September 2015 draft forecast make it likely that the Transportation Trust Fund (TTF) is over-committed. **In assembling the final CTP, the Administration should provide an explanation of how projects are incorporated into the CTP, and consider economic impact and reduction of traffic congestion in developing the CTP. Additionally, the final TTF forecast should include operational spending estimates more in line with historic spending levels, continue a revenue reserve as a hedge against revenue underattainment, and reflect revenue for the Watershed Implementation Plan only if spending is included in either the Administration's general fund forecast or the GO bond program.**

Part 1

Economic Outlook

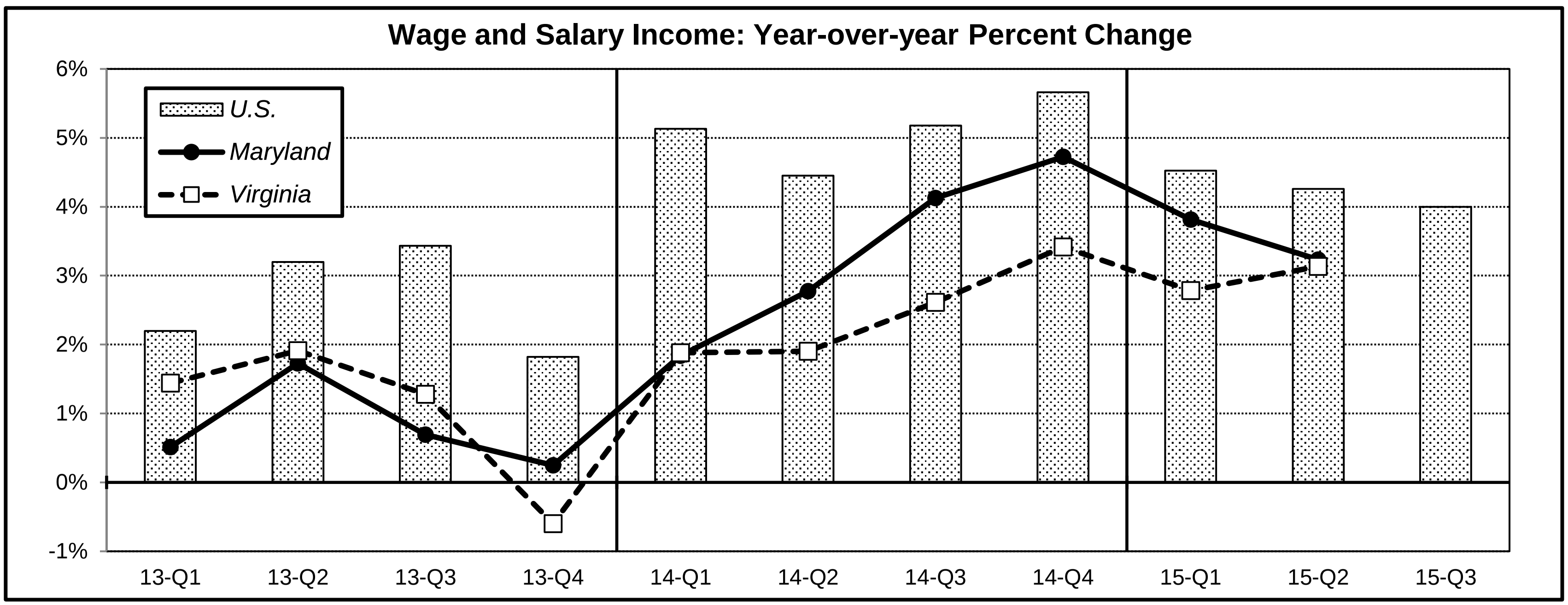
Maryland Economic Performance

Year-over-year Percent Change

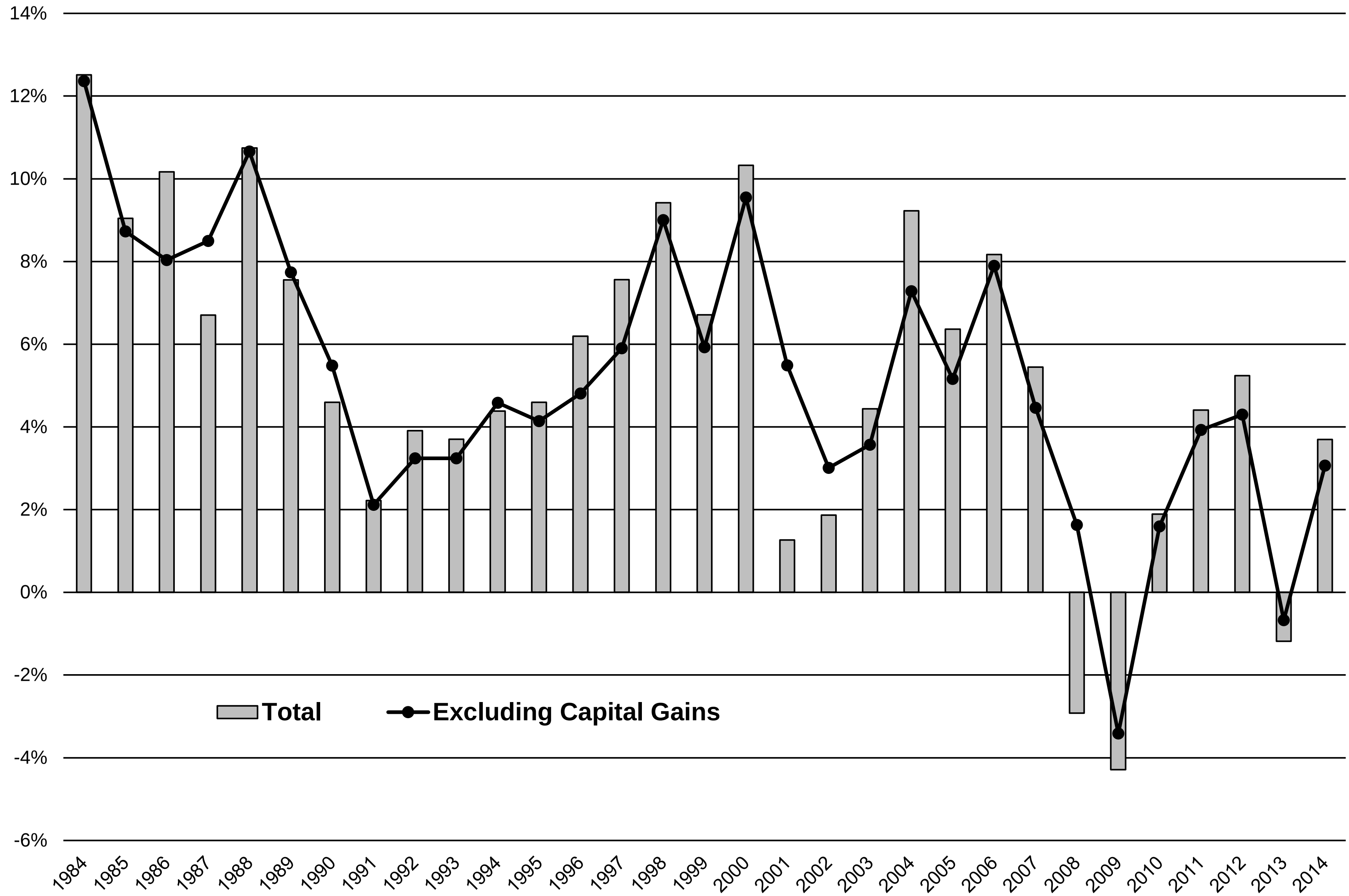
Month-Year	Employment CES	Employment QCEW	Unemployment Rate	Initial UI Claims	Existing Home Sales	Median Home Price	Vehicle Sales
Jan-15	1.5%	1.3%	5.5%	-13.7%	12.3%	-1.5%	7.9%
Feb-15	1.8%	1.5%	5.4%	-3.6%	16.3%	-3.7%	10.7%
Mar-15	1.4%	1.2%	5.4%	2.0%	24.4%	0.2%	6.5%
Apr-15	1.7%		5.3%	-15.3%	20.2%	-1.0%	6.0%
May-15	1.6%		5.3%	-12.5%	13.2%	0.6%	-1.1%
Jun-15	1.9%		5.2%	-4.4%	22.6%	-1.3%	-2.7%
Jul-15	2.3%		5.2%	-7.2%	20.8%	-0.3%	4.1%
Aug-15	2.0%		5.1%	0.7%	14.9%	-1.3%	4.5%
Sep-15	1.6%		5.1%	-10.8%	15.9%	-0.1%	2.9%
Oct-15					12.9%	0.5%	5.9%

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.



Taxable Income Proxy*: Year-over-year Percent Change



* Equals components of personal income that are generally subject to the income tax plus taxable capital gains income.

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar	Employment		Personal Income*	
Year	Dec. 2014	Sep. 2015	Dec. 2014	Sep. 2015
2012	1.2%	1.2%	3.6%	3.3%
2013	0.9%	0.9%	1.1%	-0.2%
2014	0.7%	0.9%	3.3%	3.8%
2015E	1.1%	1.3%	3.8%	4.3%
2016E	1.3%	1.3%	4.1%	4.7%
2017E	1.0%	1.0%	4.7%	5.1%
2018E	0.5%	0.8%	4.2%	4.5%

Calendar	Wage and Salary Income		Taxable Capital Gains Income**	
Year	Dec. 2014	Sep. 2015	Dec. 2014	Sep. 2015
2012	3.2%	3.1%	41.1%	41.1%
2013	0.8%	0.8%	-10.0%	-15.6%
2014	3.5%	3.4%	5.0%	24.5%
2015E	4.0%	4.2%	6.0%	-10.0%
2016E	4.2%	4.2%	6.0%	1.3%
2017E	4.1%	4.1%	6.0%	3.8%
2018E	3.7%	4.0%	6.0%	6.9%

* 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 0.6% excluding the impact of the tax holiday expiration.

** The calender 2013 figure is an estimate for Dec. 2014, and calendar 2014 figures are estimates for both Dec. 2014 and Sep. 2015.

Part 2

General Fund Revenues

Fiscal 2015 General Fund Revenues
($ in Millions)

	FY 2014	Fiscal 2015			FY 2014-2015 Percent Change	
Source	**Actual**	**Estimate[1]**	**Actual**	**Difference**	**Estimated**	**Actual**
Personal Income Tax	$7,773.8	$8,168.4	$8,346.1	$177.7	5.1%	7.4%
Sales and Use Tax	4,143.2	4,334.8	4,350.7	15.9	4.6%	5.0%
State Lottery	501.1	500.5	506.5	6.0	-0.1%	1.1%
Corporate Income Tax	761.2	767.6	777.3	9.7	0.8%	2.1%
Business Franchise Taxes	228.4	230.3	225.7	-4.6	0.8%	-1.2%
Insurance Premiums Tax	334.8	312.9	316.1	3.2	-6.6%	-5.6%
Estate and Inheritance Taxes	213.8	239.4	243.4	4.1	12.0%	13.9%
Tobacco Tax	402.4	393.2	391.5	-1.8	-2.3%	-2.7%
Alcohol Beverages Tax	31.1	31.6	31.3	-0.3	1.5%	0.5%
Motor Vehicle Fuel Tax [2]	5.0	5.0	5.0	0.0	0.0%	0.0%
District Courts	77.7	78.5	77.7	-0.8	1.1%	0.0%
Clerks of the Court	35.4	36.6	34.4	-2.2	3.6%	-2.6%
Hospital Patient Recoveries	63.0	63.3	65.2	1.9	0.4%	3.4%
Interest on Investments	21.4	20.4	10.7	-9.7	-4.8%	-49.9%
Miscellaneous	424.7	381.9	396.7	14.8	-10.1%	-6.6%
Subtotal	***$15,017.0***	***$15,564.3***	***$15,778.4***	***$214.1***	***3.6%***	***5.1%***
Transfer Tax [3]	$89.2	$144.2	$144.2	$0.0	61.6%	61.6%
Total Revenues	**$15,106.2**	**$15,708.4**	**$15,922.6**	**$214.1**	**4.0%**	**5.4%**

[1] From the Board of Revenue Estimates, March 2015, with adjustments for action at the 2015 legislative session.

[2] 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.

[3] The BRFA of 2013 (Chapter 424) 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.

Fiscal 2016 General Fund Revenues

($ in Millions)

		Fiscal Year through October			Full-year Estimated
Source	**FY 2015**	**FY 2016**	**$ Difference**	**% Difference**	**Growth Rate**
Personal Income Tax	$2,223.5	$2,282.5	$59.0	2.7%	4.8%
Sales and Use Tax [1]	1,086.2	1,117.2	31.0	2.9%	4.4%
State Lottery	160.3	166.1	5.8	3.6%	-3.7%
Corporate Income Tax	178.8	210.0	31.2	17.5%	5.9%
Business Franchise Taxes	46.1	46.6	0.5	1.1%	2.1%
Insurance Premiums Tax	79.6	78.7	-0.9	-1.1%	-3.6%
Estate and Inheritance Taxes	92.1	81.4	-10.7	-11.6%	-11.5%
Tobacco Tax	112.2	112.5	0.2	0.2%	-0.7%
Alcohol Beverages Tax	7.9	8.1	0.2	3.0%	-0.2%
District Courts	32.1	29.7	-2.5	-7.7%	0.0%
Clerks of the Court	18.0	19.0	1.0	5.5%	6.5%
Interest and Miscellaneous [2]	51.0	51.0	0.0	-0.1%	-15.4%
Total Revenues	**$4,087.9**	**$4,202.8**	**$114.9**	**2.8%**	**3.2%**

(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; and other miscellaneous revenues.

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2015 Actual	FY 2016 Estimate March	FY 2016 Estimate September	FY 2016 Estimate Difference	% Change Over FY 2015	FY 2017 Estimate	% Change Over FY 2016
Personal Income Tax	$8,346.1	$8,638.4	$8,745.3	$106.9	4.8%	$9,173.3	4.9%
Sales and Use Tax	4,350.7	4,543.1	4,543.1	0.0	4.4%	4,710.1	3.7%
State Lottery [1]	506.5	477.4	487.7	10.3	-3.7%	494.7	1.4%
Corporate Income Tax [2]	777.3	830.7	823.0	-7.7	5.9%	878.6	6.8%
Business Franchise Taxes	225.7	233.6	230.4	-3.2	2.1%	235.2	2.1%
Insurance Premiums Tax	316.1	301.6	304.8	3.2	-3.6%	316.1	3.7%
Estate and Inheritance Taxes	243.4	216.3	215.4	-0.8	-11.5%	199.9	-7.2%
Tobacco Tax	391.5	391.6	388.9	-2.7	-0.7%	387.1	-0.5%
Alcohol Beverages Tax	31.3	31.6	31.2	-0.3	-0.2%	31.4	0.4%
Motor Vehicle Fuel Tax [3]	5.0	4.6	4.6	0.0	-7.5%	0.0	-100.0%
District Courts	77.7	78.8	77.7	-1.1	0.0%	77.6	-0.1%
Clerks of the Court	34.4	35.4	36.7	1.3	6.5%	38.5	4.9%
Hospital Patient Recoveries	65.2	63.3	63.3	0.0	-2.9%	63.3	0.0%
Interest on Investments	10.7	31.2	11.0	-20.2	2.7%	20.0	81.8%
Miscellaneous	396.7	330.2	325.4	-4.8	-18.0%	313.3	-3.7%
Subtotal	***$15,778.4***	***$16,207.9***	***$16,288.5***	***$80.6***	***3.2%***	***$16,939.0***	***4.0%***
Transfer Tax [4]	$144.19	$115.37	$115.37	$0.00	-20.0%	$82.8	-28.3%
Total Revenues	**$15,922.6**	**$16,323.3**	**$16,403.9**	**$80.6**	**3.0%**	**$17,021.8**	**3.8%**

(1) Fiscal 2016 and 2017 reflect a distribution of $20 million to the Stadium Authority required by the Baltimore City Public Schools Construction and Revitalization Act of 2013 (Chapter 647).

(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 grow 4.1% 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 424) 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, and the BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by $37.7 million.

Note: The estimate from March 2015 has been adjusted for actions taken at the 2015 legislative session.

Source: Board of Revenue Estimates

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2015 Actual	FY 2016 Estimate Sep.	FY 2016 Estimate Dec.	FY 2016 Estimate Difference	% Change Over FY2015	FY 2017 Estimate Sep.	FY 2017 Estimate Dec.	FY 2017 Estimate Difference	% Change Over FY2016
Personal Income Tax	$8,346.1	$8,745.3	$8,779.1	$33.9	5.2%	$9,173.3	$9,273.2	$99.9	5.6%
Sales and Use Tax	4,350.7	4,543.1	4,515.7	-27.4	3.8%	4,710.1	4,662.3	-47.8	3.2%
State Lottery [1]	506.5	487.7	495.4	7.7	-2.2%	494.7	505.0	10.3	1.9%
Corporate Income Tax [2]	777.3	823.0	831.4	8.4	7.0%	878.6	876.2	-2.4	5.4%
Business Franchise Taxes	225.7	230.4	230.4	0.0	2.1%	235.2	235.2	0.0	2.1%
Insurance Premiums Tax	316.1	304.8	297.6	-7.2	-5.8%	316.1	308.7	-7.4	3.7%
Estate and Inheritance Taxes	243.4	215.4	236.1	20.7	-3.0%	199.9	198.5	-1.4	-15.9%
Tobacco Tax	391.5	388.9	392.4	3.5	0.2%	387.1	390.9	3.8	-0.4%
Alcohol Beverages Tax	31.3	31.2	31.5	0.3	0.7%	31.4	31.8	0.4	0.9%
Motor Vehicle Fuel Tax [3]	5.0	4.6	4.6	0.0	-7.5%	0.0	0.0	0.0	-100.0%
District Courts	77.7	77.7	77.7	0.0	0.0%	77.6	77.6	0.0	-0.1%
Clerks of the Court	34.4	36.7	37.6	0.9	9.1%	38.5	39.3	0.9	4.7%
Hospital Patient Recoveries	65.2	63.3	59.7	-3.6	-8.4%	63.3	58.3	-4.9	-2.3%
Interest on Investments	10.7	11.0	11.0	0.0	2.7%	20.0	20.0	0.0	81.8%
Miscellaneous	396.7	325.4	319.7	-5.7	-19.4%	313.3	322.0	8.7	0.7%
Subtotal	***$15,778.4***	***$16,288.5***	***$16,319.9***	***$31.4***	***3.4%***	***$16,939.0***	***$16,999.1***	***$60.1***	***4.2%***
Transfer Tax [4]	$144.2	$115.4	$115.4	$0.0	n/a	$82.8	$82.8	$0.0	n/a
Total Revenues	**$15,922.6**	**$16,403.9**	**$16,435.3**	**$31.4**	**3.2%**	**$17,021.8**	**$17,081.9**	**$60.1**	**3.9%**

[1] Fiscal 2016 and 2017 reflect a distribution of $20 million to the Stadium Authority required by the Baltimore City Public Schools Construction and Revitalization Act of 2013 (Chapter 647).

[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 grow 2.8% in fiscal 2017.

[3] The BRFA of 2011 diverted $5 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 424) 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 and the BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by $37.7 million.

Source: Board of Revenue Estimates

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

Video Lottery Terminals

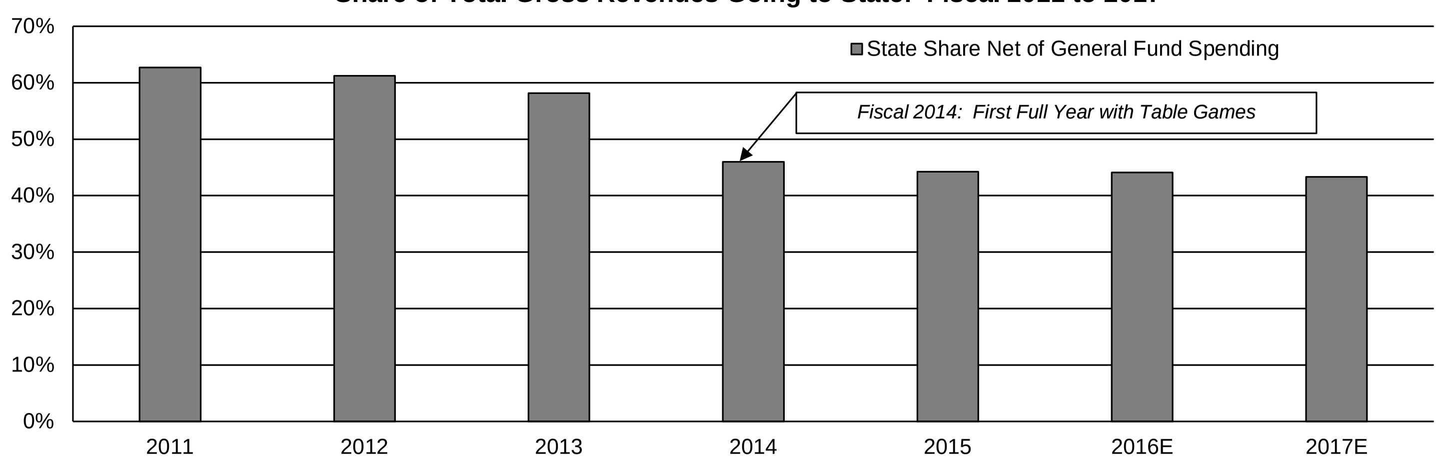
	FY 2015			FY 2016			FY 2017
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	$318.6	$316.1	-$2.5	$314.5	$304.6	-$10.0	$375.5
Casino Operators	255.1	253.6	-1.5	296.4	287.6	-8.8	400.2
Local Impact Grants	36.6	36.4	-0.2	38.7	37.5	-1.2	49.2
Small, Minority, and Women-Owned Businesses	10.0	9.9	-0.1	10.6	10.2	-0.3	13.4
Purse Dedication	46.2	46.0	-0.3	48.9	47.3	-1.5	56.8
Race Tracks Facility Renewal Account	7.1	7.1	0.0	6.8	6.6	-0.2	8.7
State Lottery Agency	12.0	11.9	-0.1	7.6	7.4	-0.2	9.5
Total Gross Revenues	**$685.7**	**$681.0**	**-$4.8**	**$723.5**	**$701.3**	**-$22.2**	**$913.3**

Table Games

	FY 2015			FY 2016			FY 2017
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	$70.8	$71.3	$0.4	$76.0	$75.0	-$1.0	$76.0
Casino Operators	283.4	285.1	1.7	303.9	300.1	-3.8	355.0
Local Impact Grants	0.0	0.0	0.0	0.0	0.0	0.0	12.7
Total Gross Revenues	**$354.2**	**$356.4**	**$2.2**	**$379.8**	**$375.1**	**-$4.8**	**$443.7**

Source: Board of Revenue Estimates, September 2015; assumes the Prince George's County's facility opens in January 2017

Share of Total Gross Revenues Going to State: Fiscal 2011 to 2017



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.

"Current as of December 16, 2015"

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

Video Lottery Terminals

	FY 2016			FY 2017		
	Sep. Est.	**Dec. Est.**	**Difference**	**Sep. Est.**	**Dec. Est.**	**Difference**
Education Trust Fund	$304.6	$312.9	$8.3	$375.5	$382.8	$7.4
Casino Operators	287.6	295.6	8.0	400.2	408.4	8.2
Local Impact Grants	37.5	38.6	1.1	49.2	50.2	1.0
Small, Minority, and Women-owned Businesses	10.2	10.5	0.3	13.4	13.7	0.3
Purse Dedication	47.3	48.7	1.3	56.8	58.0	1.2
Race Tracks Facility Renewal Account	6.6	6.8	0.2	8.7	8.9	0.2
State Lottery Agency	7.4	7.6	0.2	9.5	9.7	0.2
Total Gross Revenues	**$701.3**	**$720.6**	**$19.4**	**$913.3**	**$931.6**	**$18.4**

Table Games

	FY 2016			FY 2017		
	Sep. Est.	**Dec. Est.**	**Difference**	**Sep. Est.**	**Dec. Est.**	**Difference**
Education Trust Fund	$75.0	$75.0	$0.0	$76.0	$76.0	$0.0
Casino Operators	300.1	300.1	0.0	355.0	355.0	0.0
Local Impact Grants	0.0	0.0	0.0	12.7	12.7	0.0
Total Gross Revenues	**$375.1**	**$375.1**	**$0.0**	**$443.7**	**$443.7**	**$0.0**

Source: Board of Revenue Estimates, December 2015; assumes the Prince George's facility opens in January 2017

Part 3

General Fund Budget and Forecast

Potential Fiscal 2016 General Fund Deficiencies and Medicaid Surplus
($ in Millions)

Health and Maryland Health Benefit Exchange (Excluding Medicaid): Developmental Disabilities Administration federal audit disallowance ($30.7 million) and Maryland Health Benefit Exchange fiscal 2015 and 2016 legal fees and call center costs ($4.0 million).	$34.7
K-12: Offset for Education Trust Fund cumulative revenue shortfall ($19.9 million) and student assessment costs ($7.0 million).	26.9
Public Safety and Correctional Services: Overtime ($16.7 million); underfunding anticipated from the non-implementation of roll call ($3.5 million); 10-hour shifts ($1.0 million); lack of savings from the closure of the Men's Detention Center ($1.9 million); and 2015 legislation ($0.1 million).	23.2
State Police: Backfilling of unattained 2% cost containment ($5.2 million) and fiscal 2015 shortfall in operating expenditures ($4.5 million).	9.8
Human Resources: Offset of federal child care subsidy funds with program transfer to the Maryland State Department of Education ($4.5 million); Temporary Assistance for Needy Families and Temporary Disability Assistance Payments ($1.9 million); and backfill of child support enforcement fees ($0.7 million).	7.1
Higher Education: Health manpower shortage and statewide program grants ($2.7 million); community colleges optional retirement program ($2.2 million); and backfilling of unattained 2% cost containment ($2.0 million).	6.9
Office of the Public Defender: Underfunding of fiscal 2016 expenses for panel attorneys and other operating costs based on fiscal 2015 spending ($4.9 million) and backfilling of unattained 2% cost containment ($1.4 million).	6.3
Other: Stadium Authority backfilling of unattained 2% cost containment covering State share of Baltimore City and Ocean City convention centers operating deficit ($1.3 million); various 2015 legislation ($0.4 million); and other ($0.3 million).	2.0
Total Deficiencies	**$116.9**
Medicaid Surplus Fiscal 2016 savings driven by enrollment decline in the traditional Medicaid program, increased special fund availability, and a calendar 2015 mid-year managed care organization (MCO) rate adjustment partially offset by increased costs for a calendar 2016 MCO rate increase, higher Medicare premium buy-in costs, higher enrollment in the Maryland Children's Health Program, and higher costs for behavioral health services for the uninsured ($151.9 million).	-$151.9
Deficiencies Net of Medicaid Surplus	**-$35.0**

General Fund: Recent History and Outlook
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Baseline
Funds Available			
Ongoing Revenues	$15,856	$16,385	$17,039
Balances and Transfers	290	346	521
Short-term Revenues	85	38	0
Total Funds Available	**$16,231**	**$16,769**	**$17,560**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$16,141	$16,369	$17,038
One-time Spending	10	0	0
One-time Spending/Reductions	-258	-201	0
Pay-as-you-go Capital	3	21	20
Appropriations to Reserve Fund	15	60	285
Total Spending	**$15,911**	**$16,248**	**$17,344**
Cash Balance/Shortfall	**$320**	**$521**	**$216**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**-$285**	**$16**	**$1**
Ratio (Ongoing Revenues/Operating Costs)	**98.2%**	**100.1%**	**100.0%**
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$15	$50	$235
Transfers to General Fund	0	21	0
Estimated Rainy Day Fund Balance – June 30	**$786**	**$814**	**$1,070**
Total Cash (Rainy Day Fund and General Fund Balance)	**$1,107**	**$1,335**	**$1,286**

"Current as of December 16, 2015"

General Fund: Recent History and Outlook
Fiscal 2015-2017
($ in Millions)

	2015 Actual	2016 Working	2017 Baseline
Funds Available			
Ongoing Revenues	$15,856	$16,416	$17,099
Balances and Transfers	290	346	561
Short-term Revenues	85	38	0
Total Funds Available	**$16,231**	**$16,800**	**$17,660**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$16,141	$16,360	$17,031
One-time Spending	10	0	0
One-time Spending/Reductions	-258	-201	0
Pay-as-you-go Capital	3	21	20
Appropriations to Reserve Fund	15	60	285
Total Spending	**$15,911**	**$16,240**	**$17,336**
Cash Balance/Shortfall	**$320**	**$561**	**$323**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**-$285**	**$56**	**$68**
Ratio (Ongoing Revenues/Operating Costs)	**98.2%**	**100.3%**	**100.4%**
Reserve Fund Activity			
Appropriations to Rainy Day Fund	$15	$50	$235
Transfers to General Fund	0	21	0
Estimated Rainy Day Fund Balance – June 30	**$786**	**$814**	**$1,070**
Total Cash (Rainy Day Fund and General Fund Balance)	**$1,107**	**$1,375**	**$1,393**

Fiscal 2017 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 medical care and medicine/drugs at State facilities (3.38%), utilities/electricity (2.73%), postage (2.62%), and food (2.28%).

- Employee compensation costs include:

  - a general salary increase of 2.0% effective July 2016, and funding for employee increments on the regular July-January schedule;

  - employee health insurance inflation (8.5%); and

  - employee retirement costs (1.6%).

- Higher education grant is calculated assuming a 3.0% tuition increase.

Caseload Assumptions

	FY 2015	FY 2016	FY 2017	% Change FY 2016-2017
Pupil Enrollment*	834,524	842,229	850,292	1.0%
Medicaid	923,487	861,795	878,314	1.9%
Children’s Health	122,955	135,251	139,308	3.0%
Expansion under Affordable Care Act	218,597	228,434	233,003	2.0%
Temporary Cash Assistance	61,739	57,636	53,945	-6.4%
Foster Care/Adoption/Guardianship	13,477	13,155	12,858	-2.3%
Adult Prison Population	20,920	19,871	19,871	0.0%

* Data for fiscal 2015, 2016, and 2017 reflect September 2013, September 2014, and September 2015 (est.) full-time equivalent enrollments.

State Expenditures – General Funds
($ in Millions)

Category	Work. Appr. FY 2015	Leg. Appr. FY 2016	Baseline FY 2017	FY 2016 to FY 2017 $ Change	FY 2016 to FY 2017 % Change
Debt Service	$140.0	$252.4	$334.0	$81.6	32.3%
County/Municipal	246.0	255.3	260.8	5.5	2.2%
Community Colleges	290.5	296.1	310.8	14.7	5.0%
Education/Libraries	5,770.3	5,813.1	5,938.7	125.6	2.2%
Health	41.7	44.7	48.4	3.7	8.3%
Aid to Local Governments	***$6,348.6***	***$6,409.2***	***$6,558.8***	***$149.6***	***2.3%***
Foster Care Payments	$222.8	$193.0	$179.9	-$13.0	-6.8%
Assistance Payments	73.9	63.4	57.6	-5.8	-9.2%
Medical Assistance	2,815.1	2,862.3	2,959.4	97.1	3.4%
Property Tax Credits	82.0	81.3	79.3	-2.0	-2.5%
Entitlements	***$3,193.9***	***$3,200.0***	***$3,276.2***	***$76.2***	***2.4%***
Health	$1,262.0	$1,286.5	$1,385.1	$98.6	7.7%
Human Resources	324.5	356.1	382.9	26.8	7.5%
Children's Cabinet Interagency Fund	20.8	22.5	22.5	0.0	0.0%
Juvenile Services	278.1	279.1	292.7	13.5	4.8%
Public Safety/Police	1,421.1	1,430.6	1,555.8	125.2	8.8%
Higher Education	1,287.9	1,330.8	1,442.5	111.7	8.4%
Other Education	389.8	395.5	433.8	38.3	9.7%
Agric./Nat'l. Res./Environment	132.1	112.8	121.2	8.4	7.5%
Other Executive Agencies	664.8	643.2	682.1	38.9	6.0%
Judiciary	429.9	452.9	482.4	29.5	6.5%
Legislative	82.3	84.5	89.0	4.5	5.3%
Across-the-board Cuts	-7.5	0.0	0.0	0.0	n/a
State Agencies	***$6,285.8***	***$6,394.5***	***$6,890.0***	***$495.5***	***7.7%***
Deficiencies	$0.0	-$35.0	$0.0	$35.0	-100.0%
Total Operating	**$15,968.3**	**$16,221.1**	**$17,059.0**	**$837.9**	**5.2%**
Capital [(1)]	$11.5	$29.6	$29.4	-$0.2	-0.6%
Subtotal	***$15,979.8***	***$16,250.7***	***$17,088.4***	***$837.8***	***5.2%***
Reserve Funds	$14.8	$60.0	$285.3	$225.3	375.6%
Appropriations	**$15,994.6**	**$16,310.7**	**$17,373.8**	**$1,063.1**	**6.5%**
Reversions	-$30.3	-$62.9	-$30.0	$32.9	-52.3%
Grand Total	**$15,964.3**	**$16,247.8**	**$17,343.8**	**$1,096.0**	**6.7%**

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2015 working appropriation reflects $197.8 million in reductions approved by the Board of Public Works on January 7. It also includes deficiencies, legislative reductions to the deficiencies, $3.7 million in targeted reversions, and $7.5 million in savings from Section 22 of the budget bill (HB 70). The fiscal 2016 legislative appropriation reflects $201.7 million in reductions and $118.7 million in restorations from Section 48 of the budget bill.

Components of General Fund Budget Change

($ in Millions)

Summary of Budget Growth Compared to Working Appropriation	Dollars	Share of Growth
Ongoing Requirements/Entitlements	$307.5	38.3%
State Agency Costs	495.5	61.7%
Growth in Operating Budget, Including Anticipated Deficiencies	**$803.0**	
Pay-as-you-go (PAYGO)	-$0.2	
Appropriation to Reserve Fund	225.3	
Total Baseline Increase in State Expenditures	**$1,028.1**	
Deficiency Appropriations	$35.0	
Total	**$1,063.1**	

Ongoing Requirements/Entitlements

Education Aid Formulas	$139.4
Medical Assistance – Slow enrollment growth off a lower enrollment base mitigates increase associated with managed care organization rate increase, modest provider rate increases, less reliance on special funds, and the initial impact of 5% State funding of the Affordable Care Act expansion population	92.7
Debt Service – General funds to supplement property tax revenues	81.6
Community College Formula Plus Miscellaneous Grants	11.5
Disparity Grant Formula	4.8
State Aid for Police Protection Grant	4.4
Medicaid Behavioral Health	4.4
Community College Retirement Including Optional Retirement Program	3.2
Local Health Department Funding	2.7
Library Aid Formulas	1.4
Property Tax Credit Programs	-2.1
Assistance Payments – Primarily in Temporary Cash Assistance and Temporary Disability Assistance Program payments due to enrollment decline	-5.8
Quality Teacher Incentive Program	-7.5
Teachers and Librarians Retirement Payments	-7.7
Foster Care Payments – Reduced institutional placements and caseload decline	-13.0
Other Aid	-2.6

State Agency Costs

Statewide Personnel Expenses (Including Higher Education)

Merit Pay (increments)	$77.7
General Salary Increase (2% assumed)	75.9
Health Insurance	57.2
Employee Retirement	52.2

Components of General Fund Budget Change (cont.)

Agency Programmatic and Operating Expenses	
Fiscal 2016 Deficiency Expenses that Continue into Fiscal 2017 – Department of Public Safety and Correctional Services (DPSCS) overtime and operating expenses ($23.1 million), State Police operating expenses ($9.8 million), Office of the Public Defender panel attorneys and operating expenses ($6.3 million), Maryland State Department of Education (MSDE) Partnership for Assessment of Readiness for College and Careers testing ($6.0 million), Department of Human Resources (DHR) offset of loss of child care subsidy federal funds ($4.5 million), and Stadium Authority State share of operating subsidies at Baltimore City and Ocean City convention centers	$50.9
Developmental Disabilities Administration – Mandated 3.5% provider rate increase ($20.6 million), annualization of fiscal 2016 expansion ($13.9 million), and transitioning youth fiscal 2017 expansion ($2.9 million)	37.3
MSDE – Additional child care subsidies based on change in federal authorization ($10.0 million) and Autism waiver including 2% provider rate increase ($7.4 million)	17.4
Behavioral Health Administration – Behavioral health services for the uninsured	15.9
Department of Commerce – State film incentive program ($14.4 million) and CyberMaryland program ($1.0 million)	15.4
Department of Health and Mental Hygiene – Increase in fiscal 2017 base funding to reflect implementation of fiscal 2016 2% reduction	13.8
University System of Maryland – Enrollment growth and other program expenses	12.8
Sellinger Formula for Aid to Private Colleges and Universities	9.2
Major Information Technology Projects	6.9
DPSCS – Fiscal 2017 opening of Youth Detention Center	5.9
DHR – Increase in fiscal 2017 base funding to reflect implementation of the fiscal 2016 2% reduction	3.2
Department of Budget and Management (DBM) – Enterprise Business System	3.1
Maryland Higher Education Commission – Educational Excellence Awards	2.3
Department of Natural Resources – Park service mandated funding	2.2
Maryland Health Benefit Exchange – Requirement over special fund statutory minimum	1.7
Judiciary – New judges (7) and clerks (5)	1.2
DBM – Annual salary review based on five-year average	1.1
Public Safety Communication System Operating Costs	1.0
St. Mary's College of Maryland Mandated Formula	0.5
State Share of Ocean City Convention Center Debt Service	-1.4
Other	32.2
Reserve Fund and PAYGO	
Increase in Rainy Day Fund Sweeper of Unappropriated Fiscal 2015 General Fund Balance	$185.3
Pension Sweeper as Required under the Budget Reconciliation and Financing Act of 2015	50.0
Removal of Repayment of Local Income Tax Reserve	-10.0
PAYGO One-time Grants – Removal of fiscal 2016 school construction PAYGO earmarked for housing, Sinai Hospital, and turf fields offset by $20.0 million in PAYGO for enrollment growth, and relocatable classrooms per Chapter 355 of 2015	-0.2
Total	**$1,028.1**

State Expenditures – Special and Higher Education Funds*
($ in Millions)

Category	Work. Appr. FY 2015	Leg. Appr. FY 2016	Baseline FY 2017	FY 2016 to FY 2017 $ Change	FY 2016 to FY 2017 % Change
Debt Service	$1,143.3	$1,128.0	$1,163.1	$35.0	3.1%
County/Municipal	265.9	279.1	326.8	47.7	17.1%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	386.8	394.0	451.5	57.5	14.6%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	***$652.7***	***$673.1***	***$778.3***	***$105.2***	***15.6%***
Foster Care Payments	$5.5	$4.8	$2.3	-$2.5	-51.7%
Assistance Payments	18.6	16.6	15.8	-0.8	-4.6%
Medical Assistance	985.1	955.7	935.9	-19.8	-2.1%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$1,009.2***	***$977.1***	***$954.1***	***-$23.0***	***-2.4%***
Health	$474.5	$438.0	$452.5	$14.5	3.3%
Human Resources	96.9	90.6	103.1	12.5	13.8%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	5.0	4.9	5.2	0.3	5.7%
Public Safety/Police	218.1	221.6	229.1	7.6	3.4%
Higher Education	4,093.5	4,185.4	4,303.1	117.6	2.8%
Other Education	61.8	47.9	59.5	11.6	24.3%
Transportation	1,671.4	1,756.5	1,832.5	76.0	4.3%
Agric./Nat'l. Res./Environment	225.5	249.4	285.7	36.3	14.6%
Other Executive Agencies	711.2	671.7	678.9	7.2	1.1%
Judiciary	64.1	64.7	61.1	-3.6	-5.6%
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	***$7,621.9***	***$7,730.7***	***$8,010.8***	***$280.1***	***3.6%***
Deficiencies	$0.00	$5.91	$0.00	-$5.91	-100.0%
Total Operating	**$10,427.1**	**$10,514.9**	**$10,906.3**	**$391.4**	**3.7%**
Capital	$1,700.9	$1,977.9	$2,089.8	$111.9	5.7%
– Transportation	1,449.4	1,725.4	1,807.7	82.3	4.8%
– Environment	197.6	193.3	193.8	0.5	0.3%
– Other	53.8	59.2	88.3	29.1	49.1%
Grand Total	**$12,128.0**	**$12,492.9**	**$12,996.1**	**$503.3**	**4.0%**

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

Note: The fiscal 2015 working appropriation reflects $7.5 million in reductions approved by the Board of Public Works on January 7, additional special fund spending of $6.8 million due to funding swaps, deficiencies, and legislative reductions to the deficiencies. The fiscal 2016 legislative appropriation reflects $12.9 million in additional special fund spending due to funding swaps and $15.6 million to restore the 2% reduction in State salaries that was included in Section 20 of the budget bill (HB 70).

State Expenditures – Federal Funds
($ in Millions)

Category	Work. Appr. FY 2015	Leg. Appr. FY 2016	Baseline FY 2017	FY 2016 to FY 2017 $ Change	FY 2016 to FY 2017 % Change
Debt Service	$11.5	$11.5	$11.5	$0.0	0.0%
County/Municipal	53.1	65.9	65.9	0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	802.3	847.3	847.3	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
Aid to Local Governments	***$859.9***	***$917.7***	***$917.7***	***$0.0***	***0.0%***
Foster Care Payments	$90.6	$98.7	$73.5	-$25.1	-25.5%
Assistance Payments	1,364.5	1,259.5	1,255.6	-4.0	-0.3%
Medical Assistance	6,112.5	5,970.8	6,325.7	354.9	5.9%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	***$7,567.7***	***$7,329.0***	***$7,654.8***	***$325.8***	***4.4%***
Health	$1,011.9	$883.6	$932.4	$48.8	5.5%
Human Resources	514.6	498.6	510.7	12.0	2.4%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	7.1	7.4	7.8	0.4	5.5%
Public Safety/Police	30.0	30.0	31.7	1.7	5.6%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	263.6	248.0	254.8	6.8	2.7%
Transportation	93.7	94.9	95.7	0.8	0.8%
Agric./Nat'l. Res./Environment	71.1	64.4	67.3	2.9	4.5%
Other Executive Agencies	576.7	567.5	588.3	20.8	3.7%
Judiciary	1.7	0.2	0.2	0.0	7.3%
Across-the-board Cuts	0.0	0.0	0.0	0.0	n/a
State Agencies	***$2,570.5***	***$2,394.5***	***$2,488.7***	***$94.2***	***3.9%***
Deficiencies	$0.0	-$0.4	$0.0	$0.4	-100.0%
Total Operating	**$11,009.6**	**$10,652.3**	**$11,072.6**	**$420.4**	**3.9%**
Capital	$831.7	$965.4	$998.1	$32.7	3.4%
– Transportation	763.8	860.4	928.8	68.5	8.0%
– Environment	41.3	44.9	44.4	-0.5	-1.1%
– Other	26.5	60.1	24.9	-35.2	-58.6%
Grand Total	**$11,841.3**	**$11,617.7**	**$12,070.7**	**$453.1**	**3.9%**

Note: The fiscal 2015 working appropriation includes $15.4 million in deficiencies. The fiscal 2016 legislative appropriation reflects $77.8 million to restore funding per Section 48 of the budget bill (HB 70).

State Expenditures – State Funds
($ in Millions)

Category	Work. Appr. FY 2015	Leg. Appr. FY 2016	Baseline FY 2017	FY 2016 to FY 2017 $ Change	FY 2016 to FY 2017 % Change
Debt Service	$1,283.3	$1,380.4	$1,497.1	$116.6	8.4%
County/Municipal	511.9	534.4	587.7	53.2	10.0%
Community Colleges	290.5	296.1	310.8	14.7	5.0%
Education/Libraries	6,157.1	6,207.1	6,390.2	183.1	3.0%
Health	41.7	44.7	48.4	3.7	8.3%
Aid to Local Governments	***$7,001.3***	***$7,082.3***	***$7,337.1***	***$254.7***	***3.6%***
Foster Care Payments	$228.3	$197.8	$182.2	-$15.6	-7.9%
Assistance Payments	92.5	80.0	73.4	-6.6	-8.3%
Medical Assistance	3,800.3	3,818.0	3,895.3	77.3	2.0%
Property Tax Credits	82.0	81.3	79.3	-2.0	-2.5%
Entitlements	***$4,203.1***	***$4,177.1***	***$4,230.3***	***$53.2***	***1.3%***
Health	$1,736.5	$1,724.5	$1,837.6	$113.1	6.6%
Human Resources	421.4	446.7	486.1	39.3	8.8%
Children's Cabinet Interagency Fund	20.8	22.5	22.5	0.0	0.0%
Juvenile Services	283.1	284.1	297.9	13.8	4.9%
Public Safety/Police	1,639.2	1,652.1	1,784.9	132.8	8.0%
Higher Education	5,381.4	5,516.2	5,745.6	229.4	4.2%
Other Education	451.6	443.4	493.3	49.9	11.3%
Transportation	1,671.4	1,756.5	1,832.5	76.0	4.3%
Agric./Nat'l. Res./Environment	357.5	362.2	406.9	44.8	12.4%
Other Executive Agencies	1,376.0	1,314.9	1,361.0	46.1	3.5%
Judiciary	494.0	517.6	543.5	25.9	5.0%
Legislative	82.3	84.5	89.0	4.5	5.3%
Across-the-board Cuts	-7.5	0.0	0.0	0.0	n/a
State Agencies	***$13,907.8***	***$14,125.2***	***$14,900.9***	***$775.6***	***5.5%***
Deficiency	$0.0	-$29.1	$0.0	$29.1	-100.0%
Total Operating	**$26,395.4**	**$26,736.0**	**$27,965.3**	**$1,229.3**	**4.6%**
Capital [(1)]	$1,712.4	$2,007.5	$2,119.2	$111.7	5.6%
– Transportation	1,449.4	1,725.4	1,807.7	82.3	4.8%
– Environment	198.6	194.0	194.2	0.2	0.1%
– Other	64.3	88.1	117.3	29.2	33.1%
Subtotal	***$28,107.8***	***$28,743.5***	***$30,084.6***	***$1,341.0***	***4.7%***
Reserve Funds	$14.8	$60.0	$285.3	$225.3	375.6%
Appropriations	**$28,122.6**	**$28,803.5**	**$30,369.9**	**$1,566.4**	**5.4%**
Reversions	-$30.3	-$62.9	-$30.0	$32.9	-52.3%
Grand Total	**$28,092.3**	**$28,740.7**	**$30,339.9**	**$1,599.2**	**5.6%**

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2015 working appropriation reflects $205.3 million in reductions approved by the Board of Public Works on January 7 and additional special funds spending of $6.8 million due to funding swaps. It also includes deficiencies, reductions to the deficiencies, $3.7 million in targeted reversions, and $7.5 million in savings from Section 22 of the budget bill (HB 70). The fiscal 2016 legislative appropriation reflects $201.7 million in general fund reductions and $118.7 million in general fund restorations from Section 48 of the budget bill. The fiscal 2016 legislative appropriation also reflects $12.9 million in additional special fund spending due to funding swaps and $15.6 million in special funds to restore the 2% reduction in State salaries that was included in Section 20 of the budget bill.

State Expenditures – All Funds

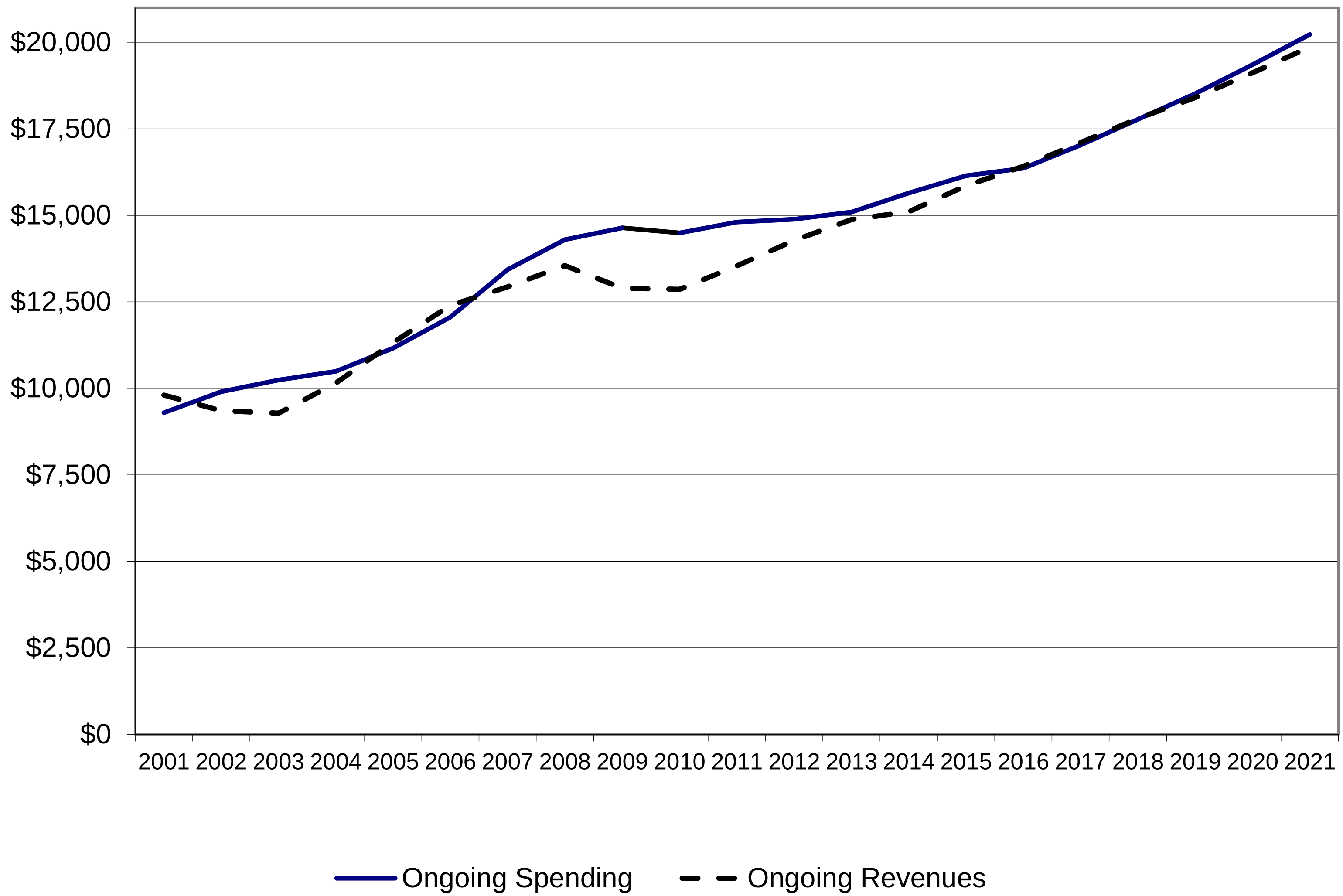
($ in Millions)

Category	Work. Appr. FY 2015	Leg. Appr. FY 2016	Baseline FY 2017	FY 2016 to FY 2017 $ Change	FY 2016 to FY 2017 % Change
Debt Service	$1,294.8	$1,391.9	$1,508.6	$116.6	8.4%
County/Municipal	565.0	600.3	653.6	53.2	8.9%
Community Colleges	290.5	296.1	310.8	14.7	5.0%
Education/Libraries	6,959.5	7,054.4	7,237.5	183.1	2.6%
Health	46.2	49.2	52.9	3.7	7.6%
Aid to Local Governments	***$7,861.2***	***$8,000.0***	***$8,254.7***	***$254.7***	***3.2%***
Foster Care Payments	$319.0	$296.5	$255.8	-$40.7	-13.7%
Assistance Payments	1,457.0	1,339.6	1,329.0	-10.6	-0.8%
Medical Assistance	9,912.8	9,788.8	10,221.0	432.2	4.4%
Property Tax Credits	82.0	81.3	79.3	-2.0	-2.5%
Entitlements	***$11,770.8***	***$11,506.1***	***$11,885.1***	***$379.0***	***3.3%***
Health	$2,748.3	$2,608.1	$2,770.0	$161.9	6.2%
Human Resources	935.9	945.4	996.7	51.4	5.4%
Children's Cabinet Interagency Fund	20.8	22.5	22.5	0.0	0.0%
Juvenile Services	290.2	291.4	305.6	14.2	4.9%
Public Safety/Police	1,669.2	1,682.1	1,816.6	134.5	8.0%
Higher Education	5,381.4	5,516.2	5,745.6	229.4	4.2%
Other Education	715.2	691.4	748.1	56.7	8.2%
Transportation	1,765.1	1,851.4	1,928.2	76.8	4.1%
Agric./Nat'l. Res./Environment	428.6	426.5	474.2	47.7	11.2%
Other Executive Agencies	1,952.7	1,882.4	1,949.3	67.0	3.6%
Judiciary	495.8	517.8	543.7	25.9	5.0%
Legislative	82.3	84.5	89.0	4.5	5.3%
Across-the-board Cuts	-7.5	0.0	0.0	0.0	n/a
State Agencies	***$16,478.3***	***$16,519.8***	***$17,389.6***	***$869.8***	***5.3%***
Deficiency	$0.0	-$29.5	$0.0	$29.5	-100.0%
Total Operating	**$37,405.0**	**$37,388.3**	**$39,038.0**	**$1,649.7**	**4.4%**
Capital [(1)]	$2,544.1	$2,972.9	$3,117.3	$144.4	4.9%
– Transportation	2,213.3	2,585.8	2,736.6	150.8	5.8%
– Environment	239.9	238.9	238.6	-0.3	-0.1%
– Other	90.9	148.2	142.2	-6.1	-4.1%
Subtotal	***$39,949.1***	***$40,361.2***	***$42,155.3***	***$1,794.1***	***4.4%***
Reserve Funds	$14.8	$60.0	$285.3	$225.3	375.6%
Appropriations	**$39,963.9**	**$40,421.2**	**$42,440.6**	**$2,019.5**	**5.0%**
Reversions	-$30.3	-$62.9	-$30.0	$32.9	-52.3%
Grand Total	**$39,933.6**	**$40,358.3**	**$42,410.6**	**$2,052.3**	**5.1%**

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2015 working appropriation reflects $205.3 million in reductions approved by the Board of Public Works on January 7 and additional special fund spending of $6.8 million due to funding swaps. It also includes deficiencies, legislative reductions to the deficiencies, $3.7 million in targeted reversions, and $7.5 million in savings from Section 22 of the budget bill (HB 70). The fiscal 2016 legislative appropriation reflects: (1) $201.7 million in general fund reductions and $118.7 million in general fund restorations from Section 48 of the budget bill; (2) $12.9 million in additional special fund spending due to funding swaps and $15.6 million in special funds to restore the 2% reduction in State salaries that was included in Section 20 of the budget bill; and (3) $77.8 million in federal funds to restore funding per Section 48 of the budget bill.

History and Projections of General Fund Structural Deficits
Fiscal 2001-2021
($ in Millions)



"Current as of November 18, 2015"

General Fund Budget Outlook
Fiscal 2016-2021
($ in Millions)

	FY 2016 Work. App.	FY 2017 Baseline	FY 2018 Est.	FY 2019 Est.	FY 2020 Est.	FY 2021 Est.	Average Annual Change
Revenues							
Opening Fund Balance	$320	$522	$217	$0	$0	$0	
Transfer	64	0	0	258	185	33	
Subtotal One-time Revenue	***$384***	***$522***	***$217***	***$258***	***$185***	***$33***	
Ongoing Revenues	$16,385	$17,039	$17,740	$18,336	$19,042	$19,767	
Subtotal Ongoing Revenue	***$16,385***	***$17,039***	***$17,740***	***$18,336***	***$19,042***	***$19,767***	**3.8%**
Total Revenues & Fund Balance	**$16,768**	**$17,560**	**$17,957**	**$18,594**	**$19,227**	**$19,800**	**3.0%**
Ongoing Spending							
Operating Spending	$16,738	$17,481	$18,292	$19,048	$19,892	$20,773	
Education Trust Fund[1]	-380	-451	-527	-534	-542	-551	
Multi-year Commitments	9	9	9	9	9	9	
Subtotal Ongoing Spending	***$16,368***	***$17,038***	***$17,774***	***$18,523***	***$19,359***	***$20,232***	**4.4%**
One-time Spending							
PAYGO Capital	$21	$20	$21	$21	$21	$21	
Legislation/One-time Adjustments/Swaps	-201	0	0	0	0	0	
Appropriation to Reserve Fund	60	285	207	50	50	83.3	
Subtotal One-time Spending	***-$121***	***$306***	***$228***	***$71***	***$71***	***$104***	
Total Spending	**$16,247**	**$17,344**	**$18,002**	**$18,594**	**$19,430**	**$20,336**	**4.1%**
Ending Balance	**$522**	**$217**	**-$46**	**$0**	**-$203**	**-$536**	
Rainy Day Fund Balance	$814	$1,070	$1,251	$1,067	$952	$989	
Balance over 5% of General Fund Revenues	-5	218	364	150	0	0.5	
As % of General Fund Revenues	4.97%	6.28%	7.05%	5.82%	5.00%	5.00%	
Structural Balance	**$17**	**$1**	**-$34**	**-$187**	**-$317**	**-$465**	

PAYGO: pay-as-you-go

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

General Fund Budget Outlook
Fiscal 2016-2021
($ in Millions)

	FY 2016 Work. App.	FY 2017 Baseline	FY 2018 Est.	FY 2019 Est.	FY 2020 Est.	FY 2021 Est.	Average Annual Change
Revenues							
Opening Fund Balance	$320	$561	$324	$15	$0	$0	
Transfer	64	0	0	176	304	108	
Subtotal One-time Revenue	***$384***	***$561***	***$324***	***$191***	***$304***	***$108***	
Ongoing Revenues	$16,416	$17,099	$17,794	$18,399	$19,120	$19,860	
Subtotal Ongoing Revenue	***$16,416***	***$17,099***	***$17,794***	***$18,399***	***$19,120***	***$19,860***	***3.8%***
Total Revenues and Fund Balance	**$16,800**	**$17,660**	**$18,118**	**$18,590**	**$19,424**	**$19,968**	**3.1%**
Ongoing Spending							
Operating Spending	$16,738	$17,481	$18,292	$19,048	$19,892	$20,773	
Education Trust Fund[1]	-388	-459	-534	-541	-549	-557	
Multi-year Commitments	9	9	9	9	9	9	
Subtotal Ongoing Spending	***$16,360***	***$17,031***	***$17,768***	***$18,516***	***$19,353***	***$20,225***	***4.4%***
One-time Spending							
PAYGO Capital	$21	$20	$21	$21	$21	$21	
Legislation/One-time Adjustments/Swaps	-201	0	0	0	0	0	
Appropriation to Reserve Fund	60	285	314	52.5	50	83.3	
Subtotal One-time Spending	***-$121***	***$306***	***$335***	***$74***	***$71***	***$104***	
Total Spending	**$16,239**	**$17,336**	**$18,103**	**$18,590**	**$19,424**	**$20,330**	**4.1%**
Ending Balance	**$561**	**$324**	**$15**	**$0**	**$0**	**-$362**	
Rainy Day Fund Balance	$814	$1,070	$1,360	$1,261	$1,030	$992	
Balance over 5% of General Fund (GF) Revenues	-7	215	471	341	74	-0.6	
As % of GF Revenues	4.96%	6.26%	7.65%	6.85%	5.39%	5.00%	
Structural Balance	**$57**	**$68**	**$26**	**-$117**	**-$233**	**-$366**	

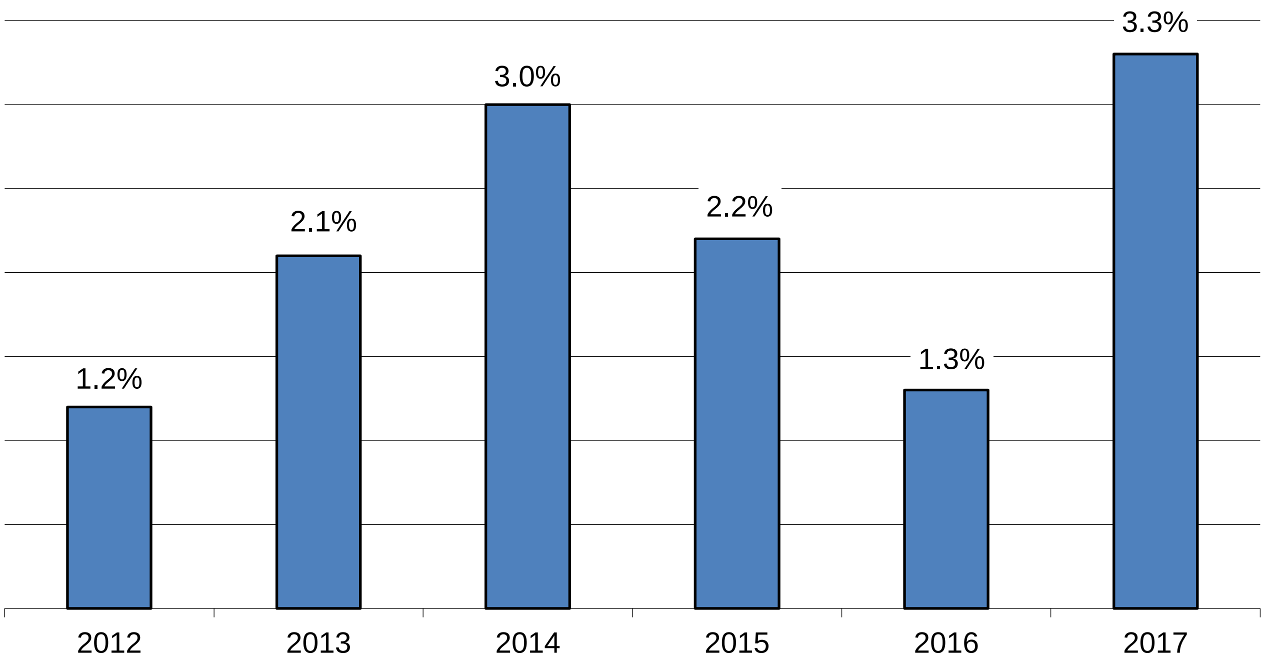
PAYGO: pay-as-you-go

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

Part 4

Local Government Assistance

Annual Change in State Aid to Local Governments
Fiscal 2012-2017



State Aid by Governmental Entity
($ in Millions)

	FY 2012	FY 2017	$ Change	% Change
Public Schools	$4,945.5	$5,602.2	$656.7	13.3%
Libraries	48.8	53.4	4.6	9.4%
Community Colleges	230.4	266.4	35.9	15.6%
Local Health	38.3	48.4	10.1	26.4%
County/Municipal	386.4	588.3	201.9	52.3%
Subtotal – Direct Aid	***$5,649.4***	***$6,558.6***	***$909.2***	***16.1%***
Retirement Payments	$881.7	$785.2	-$96.5	-10.9%
Total	**$6,531.1**	**$7,343.8**	**$812.7**	**12.4%**

State Aid by Governmental Entity

Amount and Percent of Total
State Funds
($ in Millions)

	FY 2017 State Aid Amount	Percent of Total
Public Schools	$6,323.8	86.1%
County/Municipal	588.3	8.0%
Community Colleges	310.8	4.2%
Libraries	72.5	1.0%
Local Health	48.4	0.7%
Total	**$7,343.8**	**100.0%**

Change in State Aid
State Funds
($ in Millions)

	FY 2017 Aid Change	Percent Change
Public Schools	$181.7	3.0%
County/Municipal	31.3	5.6%
Community Colleges	14.7	5.0%
Libraries	1.4	2.0%
Local Health	2.7	6.0%
Total	**$231.8**	**3.3%**

State Aid by Major Programs
Fiscal 2015-2017
State Funds
($ in Millions)

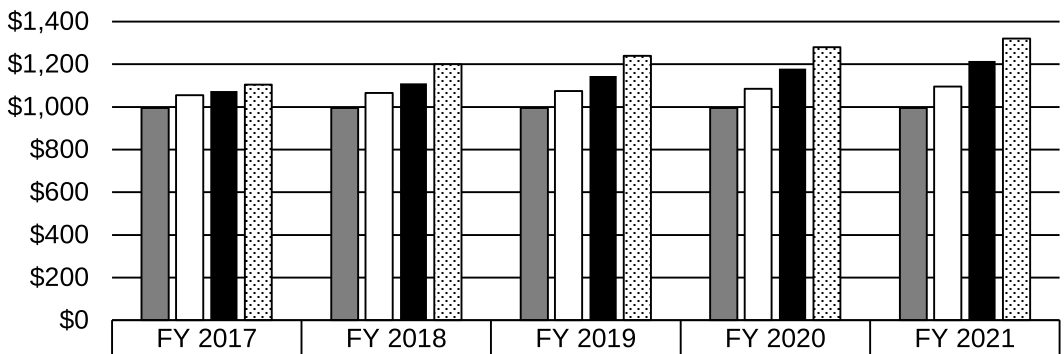
	FY 2015	FY 2016	Baseline FY 2017	$ Change 2016-2017	% Change 2016-2017
Public Schools					
Foundation Program	$2,882.4	$2,947.1	$2,977.2	$30.1	1.0%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	132.7	68.1	138.0	69.9	102.6%
Net Taxable Income Education Grants	26.9	23.8	37.4	13.6	56.9%
Foundation – Special Grants	0.6	0.1	0.0	-0.1	-100.0%
Compensatory Aid	1,251.7	1,305.1	1,357.1	51.9	4.0%
Student Transportation	258.4	266.2	271.5	5.2	2.0%
Special Education – Formula Aid	271.7	276.0	278.9	2.9	1.1%
Special Education – Nonpublic Placements	110.9	122.6	126.0	3.4	2.8%
Limited English Proficiency Grants	197.7	217.2	236.8	19.6	9.0%
Guaranteed Tax Base	59.4	53.8	54.9	1.1	2.1%
Aging Schools Program	6.1	6.1	6.1	0.0	0.0%
Head Start/Pre-kindergarten	6.1	6.1	6.1	0.0	0.0%
Other Education Programs	92.3	73.9	65.6	-8.3	-11.2%
Subtotal Direct Aid	***$5,343.5***	***$5,412.8***	***$5,602.2***	***$189.4***	**3.5%**
Retirement Payments	$738.6	$729.3	$721.6	-$7.7	-1.1%
Total Public School Aid	**$6,082.0**	**$6,142.1**	**$6,323.8**	**$181.7**	**3.0%**
Libraries					
Library Aid Formula	$34.4	$35.4	$36.4	$1.0	2.7%
State Library Network	16.3	16.6	17.0	0.4	2.4%
Subtotal Direct Aid	***$50.8***	***$52.0***	***$53.4***	***$1.4***	**2.6%**
Retirement Payments	$18.5	$19.1	$19.2	$0.0	0.2%
Total Library Aid	**$69.3**	**$71.1**	**$72.5**	**$1.4**	**2.0%**
Community Colleges					
Community College Formula	$219.5	$222.7	$233.7	$11.0	4.9%
Other Programs	30.7	31.4	32.7	1.3	4.1%
Subtotal Direct Aid	***$250.2***	***$254.1***	***$266.4***	***$12.3***	**4.8%**
Retirement Payments	$40.3	$42.0	$44.4	$2.4	5.8%
Total Community College Aid	**$290.5**	**$296.1**	**$310.8**	**$14.7**	**5.0%**
Local Health Grants	**$41.7**	**$45.7**	**$48.4**	**$2.7**	**6.0%**
County/Municipal Aid					
Transportation	$192.9	$201.5	$205.9	$4.4	2.2%
Public Safety	116.2	117.9	123.9	6.0	5.1%
Program Open Space	26.4	23.5	17.7	-5.8	-24.6%
Disparity Grant	127.7	129.8	134.7	4.8	3.7%
Gaming Impact Grants	36.8	38.9	61.9	23.0	59.1%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	9.2	17.7	16.5	-1.2	-6.8%
Total County/Municipal Aid	**$537.0**	**$557.0**	**$588.3**	**$31.3**	**5.6%**
Total State Aid	**$7,020.6**	**$7,112.0**	**$7,343.8**	**$231.8**	**3.3%**

Part 5

Capital Program

CDAC Recommends Reduced GO Bond Authorization Levels

Fiscal 2017-2021
($ in Millions)



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Administration Plan	$995	$995	$995	$995	$995
1% Growth	$1,055	$1,065	$1,075	$1,085	$1,095
3% Growth	$1,075	$1,110	$1,145	$1,180	$1,215
December 2014 SAC	$1,105	$1,200	$1,240	$1,280	$1,320

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

Note: The General Assembly authorized $1,045 million of new GO bonds for the 2015 session, and the 1% and 3% annual growth scenarios are based on the $1,045 million 2015 session level. The level was later reduced to $1,043 million through Governor line item veto.

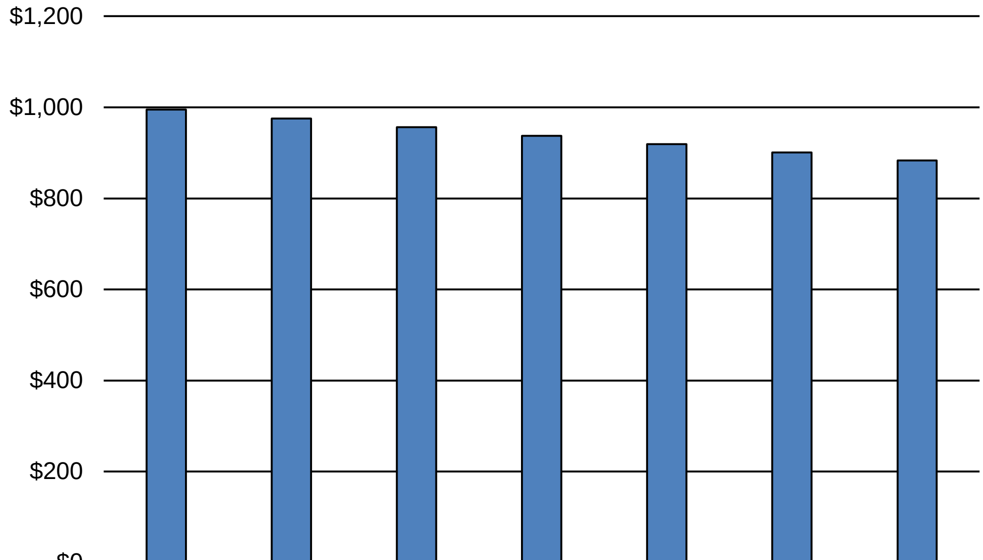
Source: 2015 CDAC report, 2014 SAC report

- 2015 Capital Debt Affordability Committee recommended a limit of $995 million for new general obligation (GO) bond authorizations for the 2016 session. The recommendation is $50 million below what the General Assembly authorized for new GO bond authorizations in the 2015 session and $110 million below what the Spending Affordability Committee (SAC) recommended for the 2016 session in December 2014.

- If new GO bond authorizations are maintained at $995 million annually through the five-year planning period, the capital program would be reduced by $1.17 billion below what SAC recommended for the planning period and would be $400 million below a 1% annual increase level and $750 million below a 3% annual increase level through the five-year planning period.

- Maintaining a $995 million new GO bond authorization level would also necessitate removing $210 million of authorizations already programmed in the 2015 session *Capital Improvement Program* for fiscal 2017 through 2020.

CDAC Proposed New GO Bond Authorization Levels – Impact of Annual Construction Cost Inflation
Fiscal 2017-2021
($ in Millions)



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Inflation Adjusted (2% Annual)	$995.0	$975.5	$956.4	$937.6	$919.2	$901.2	$883.5

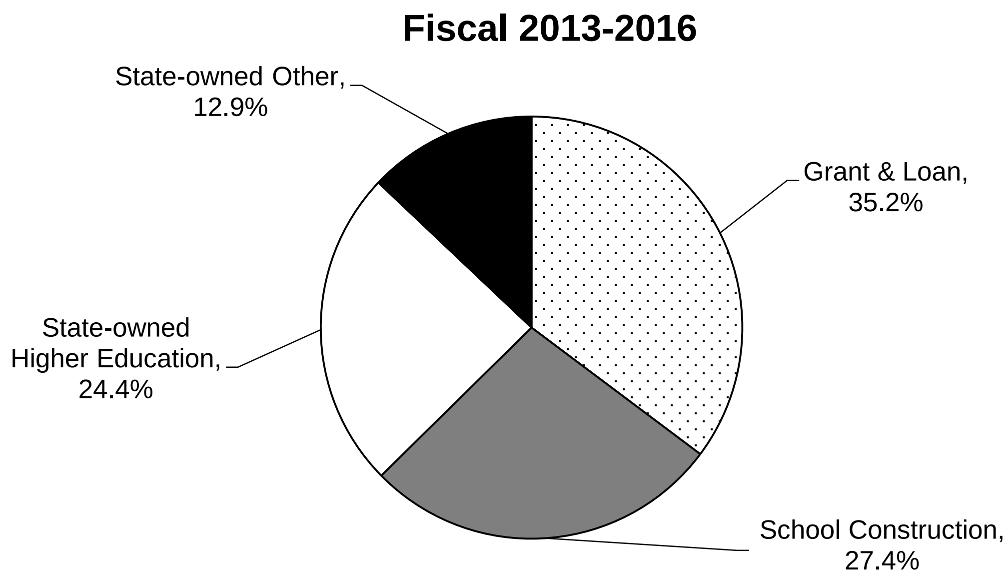
CDAC: Capital Debt Affordability Committee
GO: general obligation

Note: Construction inflation has increased at an average annual rate of 1.8% from January 2011 through October 2015.

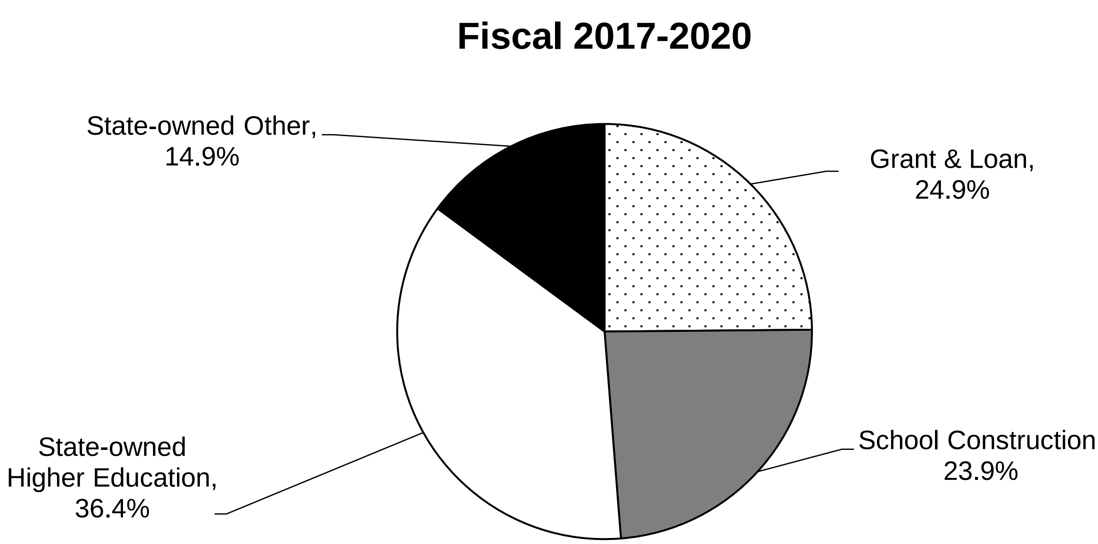
Source: Bureau of Labor Statistics Producer Price Index for Materials and Components of Construction

- Maintaining a $995 million GO bond limit reduces the purchasing power of the available funds. In fiscal 2017 dollars, $995 million equates to $919 million by fiscal 2021 using a 2% annual construction inflation rate. Construction inflation at 2% per-annum will diminish the purchasing power by a total of $191 million in 2017 dollars from fiscal 2017 through 2021.

Bond Funding Shares for State-owned Projects, Public School Construction, and Grant and Loan Programs

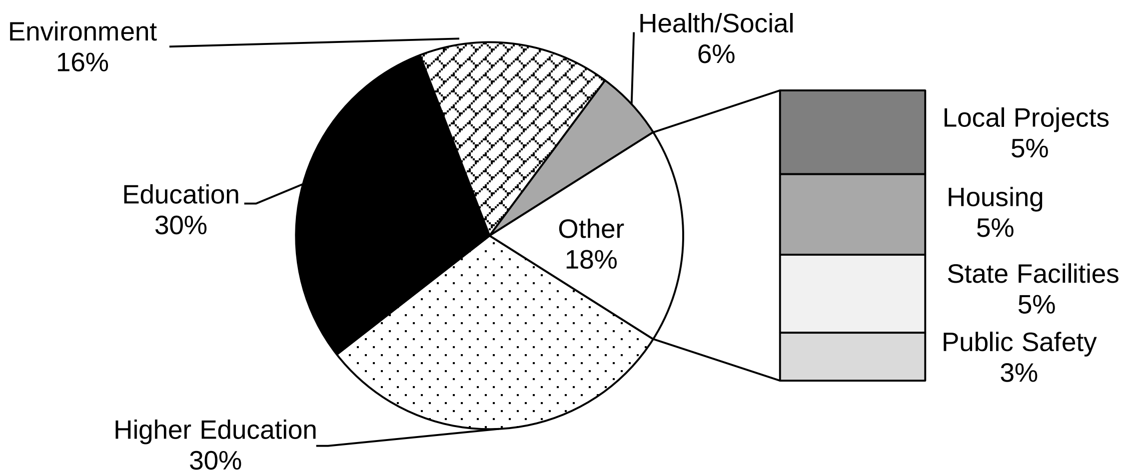


Note: General Assembly general obligation (GO) bond authorizations totaled $4.5 billion from fiscal 2013 through 2016.



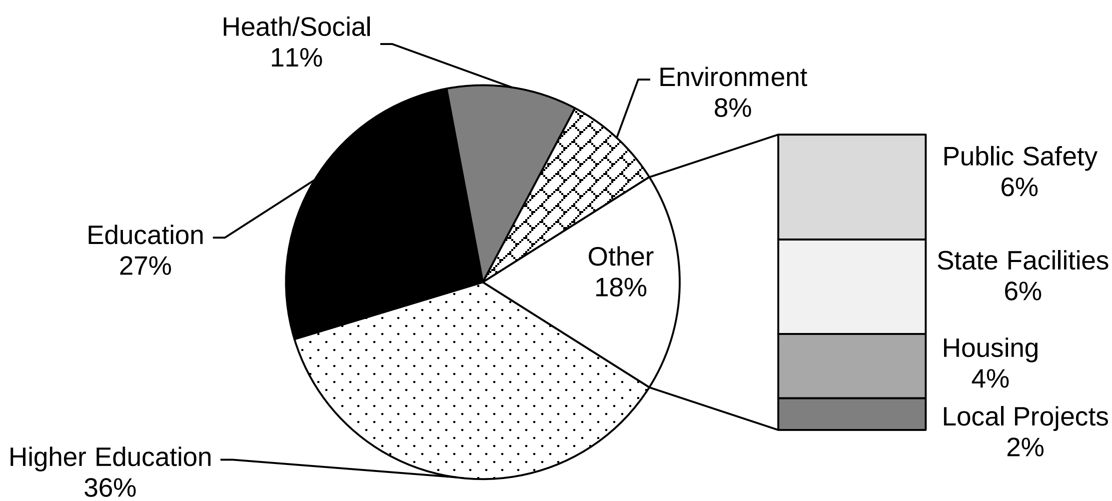
Note: Current *Capital Improvement Program* projects total new GO bond authorizations at $4.2 billion for fiscal 2017 through 2020.

General Obligation Bond Uses
Fiscal 2013-2016



Note: General Assembly general obligation (GO) bond authorizations totaled $4.5 billion from fiscal 2013 through 2016.

Capital Improvement Program
Fiscal 2017-2020



Note: Current *Capital Improvement Program* projects total new GO bond authorizations at $4.2 billion for fiscal 2017 through 2020.

State Debt Policy

Capital Debt Affordability Committee Recommends Decreasing Authorizations

- Capital Debt Affordability Committee (CDAC) reviews State debt policy each year and issues a recommendation for the following legislative session by October 1. In 2015, CDAC recommended authorizing $995 million in general obligation bonds for the fiscal 2017 capital program. For planning purposes, the committee also recommended maintaining annual expenditures at $995 million through fiscal 2025.

- The recommended authorization is $50 million less than the fiscal 2016 capital program, which totaled $1,045 million.

State Debt Is within Affordability Ratios

- CDAC's policy is that State tax-supported debt outstanding should not exceed 4% of Maryland personal income, and State tax-supported debt service payments should not exceed 8% of State revenues.

State Affordability Ratios
Fiscal 2016-2021

Fiscal Year	Debt Outstanding as a % of Personal Income	Debt Service as % of Revenues
2016	3.52%	7.31%
2017	3.59%	7.58%
2018	3.57%	7.89%
2019	3.51%	7.68%
2020	3.43%	7.64%
2021	3.35%	7.63%

Source: Department of Legislative Services

Annuity Bond Fund Forecast
Fiscal 2016-2021
($ in Millions)

	2016	2017	2018	2019	2020	2021
Special Fund Revenues						
State Property Tax Receipts	$750	$757	$768	$779	$791	$802
Bond Sale Premiums	35	0	0	0	0	0
Other Revenues	3	3	3	3	3	3
ABF Fund Balance Transferred from Prior Year	139	76	2	1	1	1
Subtotal Special Fund Revenues	***$927***	***$837***	***$772***	***$784***	***$795***	***$806***
General Funds	$252	$334	$464	$482	$525	$532
Transfer Tax Special Funds	6	7	7	7	7	7
Federal Funds	11	11	11	11	11	10
Total Revenues	**$1,197**	**$1,189**	**$1,255**	**$1,284**	**$1,338**	**$1,355**
Debt Service Expenditures	**$1,121**	**$1,187**	**$1,253**	**$1,283**	**$1,337**	**$1,354**
ABF End-of-year Fund Balance	**$76**	**$2**	**$1**	**$1**	**$1**	**$1**

ABF: Annuity Bond Fund

Source: Department of Legislative Services

- Fiscal 2017 begins with a $76 million fund balance, which can be used to reduce the general fund appropriation.

- From fiscal 2018 to 2021, general fund expenditures increase 4.7% annually while total debt service costs increase 2.6% annually. The higher general fund growth rate is attributable to slower property tax growth rates, which increase 1.5% annually.

Four Options

Comparing Capital Programs
Fiscal 2016-2021
($ in Millions)

Fiscal Year	Administration Plan	1% Growth	3% Growth	December 2014 SAC
2016	$1,045	$1,045	$1,045	$1,095
2017	995	1,055	1,075	1,105
2018	995	1,065	1,110	1,200
2019	995	1,075	1,145	1,240
2020	995	1,085	1,180	1,280
2021	995	1,095	1,215	1,320
2017-2021 Total	**$4,975**	**$5,375**	**$5,725**	**$6,145**
Increase over Administration Plan		$400	$750	$1,170

SAC: Spending Affordability Committee

Source: Department of Legislative Services

Debt Service to Revenues Affordability Ratio
Fiscal 2016-2021

Fiscal Year	Administration Plan	1% Growth	3% Growth	December 2014 SAC
2016	7.31%	7.31%	7.31%	7.31%
2017	7.58%	7.58%	7.58%	7.58%
2018	7.89%	7.90%	7.90%	7.91%
2019	7.68%	7.70%	7.70%	7.72%
2020	7.64%	7.67%	7.69%	7.73%
2021	7.63%	7.68%	7.72%	7.77%

SAC: Spending Affordability Committee

Source: Department of Legislative Services

Comparing Debt Service Costs
Fiscal 2017 Authorizations
($ in Millions)

	Administration Plan	1% Increase	3% Increase	December 2014 SAC
Total Principal Payments	$995	$1,055	$1,075	$1,105
Total Interest Payments	482	511	520	535
Total Debt Service Payments	**$1,477**	**$1,566**	**$1,595**	**$1,640**
Percent Increase		**6%**	**8%**	**11%**
Additional Principal		$60	$80	$110
Additional Interest		29	39	53
Total Additional		**$89**	**$119**	**$163**

Source: Department of Legislative Services

- The cost of the Administration's plan, which authorizes $995 million in fiscal 2017, is $1,477 million. Interest payments total $482 million.

- The cost of increasing the fiscal 2016 authorization 1.0% is $1,566 million. Interest payments are $29 million more than the Administration's proposal. Remaining costs are principal for additional projects.

- The cost of increasing the fiscal 2016 authorization 3.0% is $1,595 million. Interest payments are $39 million more than the Administration's proposal. Remaining costs are principal for additional projects.

- The cost of authorizing the level proposed by the Spending Affordability Committee in December 2014 is $1,640 million. Interest payments are $53 million more than the Administration proposal. Remaining costs are principal for additional projects.

Part 6

Transportation

Draft Consolidated Transportation Program

- The draft fiscal 2016 to 2021 *Consolidated Transportation Program* (CTP) reflects a major shift in priorities from those of the previous Administration and those embraced by the General Assembly through enactment of the Transportation Infrastructure Investment Act of 2013 (Chapter 429).

  - **Less capital spending**

Comparison of Six-year Capital Spending by Fund Source
Fiscal 2015-2021
($ in Millions)

	2015-2020 CTP	Draft 2016-2021 CTP	Change	Percent Change
Special Funds	$9,533.2	$9,482.2	-$51.0	-0.5%
Federal Funds	4,964.4	4,870.0	-94.4	-1.9%
Other Funds*	1,345.3	1,144.5	-200.8	-14.9%
Total Funds	**$15,842.9**	**$15,496.7**	**-$346.2**	**-2.2%**

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 2015 final CTP, 2016 draft CTP

  - **Much more aid to local governments** – the draft Transportation Trust Fund forecast allocates $743 million from fiscal 2017 to 2021 to increase the local share of Highway User Revenues (HUR) by approximately 2.5 percentage points per year as part of the Administration's proposal to increase local HUR to 30% by fiscal 2024. This phased increase will require enactment of legislation. Similar legislation was proposed by the Administration at the 2015 session, but it did not pass.

  - **Less for mass transit** – programmed transit capital funding is reduced by over one quarter over the six-year period covered by the draft CTP, a decline of $1.4 billion (27.1%) from the previous six-year plan.

Draft Consolidated Transportation Program (cont.)

- **More for highways** – programmed spending on highway projects in the draft CTP increases by $1.1 billion (15.2%) over the previous six-year plan.
  - 25 projects (22 of which are bridges) with six-year programmed spending totaling $342.6 million added to the construction program; and
  - 11 projects with six-year programmed spending totaling $721.7 million moved from the development and evaluation program to the construction program.

Comparison of Six-year Capital Spending by Mode
Fiscal 2015-2021
($ in Millions)

	2015-2020 CTP	Draft 2016-2021 CTP	Change	% Change
Administration	$280.6	$267.9	-$12.7	-4.53%
WMATA	1,578.9	1,581.4	2.5	0.16%
State Highways	7,188.8	8,279.1	1,090.3	15.17%
Port	971.3	949.0	-22.3	-2.30%
Motor Vehicle	125.3	127.3	2.0	1.60%
Mass Transit	5,047.0	3,680.2	-1,366.8	-27.08%
Airport	651.0	611.8	-39.2	-6.02%
Total	**$15,842.9**	**$15,496.7**	**-$346.2**	**-2.19%**

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

Source: Maryland Department of Transportation 2015 final CTP, 2016 draft CTP

Transportation Trust Fund Forecast

Transportation Trust Fund Forecast Comparison
Fiscal 2016-2021 Six-year Total
($ in Millions)

	MDOT	DLS	Variance
Revenues			
Taxes and Fees			
Motor Vehicle Fuel Taxes	$6,550	$7,461	$911
Titling Taxes	5,333	5,387	54
Sales Tax – General (online)	948	0	-948
Sales Tax – Rental Vehicles	218	212	-6
Corporate Income Tax	1,046	1,056	10
Registration Fees	2,314	2,314	0
Miscellaneous Motor Vehicle Fees	1,824	1,824	0
Subtotal – Taxes and Fees	***$18,233***	***$18,255***	***$22***
Other Revenues			
Operating Revenues	$2,774	$2,774	$0
Miscellaneous Revenues	869	869	0
Watershed Implementation Plan	200	0	-200
Revenue Reserve	0	-197	-197
Subtotal – Other Revenues	***$3,843***	***$3,446***	***-$397***
Fiscal 2015 Balance Above Projected	0	119	119
Total Revenues	**$22,076**	**$21,820**	**-$256**
Expenditures			
Operating Budget	11,816	12,501	685
Combined Revenue and Expenditure Effect			**-$942**

DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation

- Lower revenues and higher operating expenses reduce the ability of the Transportation Trust Fund to support both the capital program and local transportation aid at the levels assumed in the Maryland Department of Transportation (MDOT) forecast.

Transportation Trust Fund Forecast (cont.)

Capital Program and Highway User Revenue Funding Scenarios
Six-year Totals
($ in Millions)

	Highway User Revenue	Bond Proceeds	Capital Program	Lowest Debt Service Coverage Ratio
Maryland Department of Transportation (MDOT) Forecast	$1,810	$3,490	$9,464	2.7
Department of Legislative Services Forecast				
Scenario 1: MDOT Capital Program & Current Law Highway User Revenue	$1,083	$3,728	$9,461	2.6
Scenario 2: Proposed Highway User Revenue Increase	1,837	2,129	7,278	2.5
Difference	**$754**	**-$1,599**	**-$2,184**	

- If maintaining the level of the capital program included in the MDOT forecast is the priority:
  - no capacity to increase Highway User Revenues going to local governments;
  - issuance of debt must be increased by $238 million compared to MDOT forecast; and
  - debt service coverage ratio falls to 2.6 (MDOT administrative policy is to maintain ratio at no less than 2.5).
- If increasing HUR as assumed in MDOT's forecast is the priority:
  - debt issuance capacity decreases by $1.4 billion compared to MDOT's forecast;
  - capital program reduced by $2.2 billion; and
  - debt service coverage ratio falls to 2.5 minimum level.

Part 7

State Employment and Employee Benefits

Regular Full-time Equivalent Positions Changes
Fiscal 2014 Actual to Fiscal 2017 Baseline

Department/Service Area	2014 Actual	2015 Work. Approp.	2016 Leg. Approp.*	2017 Baseline	2016-2017 Change
Health and Human Services					
Health and Mental Hygiene	6,407	6,394	6,357	6,357	0
Human Resources	6,529	6,532	6,359	6,359	0
Juvenile Services	2,078	2,062	2,055	2,055	0
Subtotal	***15,014***	***14,988***	***14,771***	***14,771***	***0***
Public Safety					
Public Safety and Correctional Services	11,046	11,126	11,025	11,105	80
Police and Fire Marshal	2,425	2,446	2,438	2,441	3
Subtotal	***13,471***	***13,572***	***13,463***	***13,546***	***83***
Transportation	**8,819**	**9,179**	**9,086**	**9,086**	**0**
Other Executive					
Legal (Excluding Judiciary)	1,505	1,503	1,498	1,502	4
Executive and Administrative Control	1,640	1,647	1,635	1,640	5
Financial and Revenue Administration	2,113	2,109	2,117	2,129	12
Budget and Management and DoIT	442	456	448	448	0
Retirement	205	205	216	216	0
General Services	594	585	578	578	0
Natural Resources	1,295	1,302	1,321	1,322	1
Agriculture	383	383	380	380	0
Labor, Licensing, and Regulation	1,628	1,641	1,603	1,603	0
MSDE and Other Education	1,965	1,984	1,940	1,942	2
Housing and Community Development	337	339	343	346	3
Business and Economic Development	222	221	217	218	1
Environment	937	955	939	942	3
Subtotal	***13,265***	***13,329***	***13,234***	***13,265***	***31***
Executive Branch Subtotal	***50,568***	***51,067***	***50,553***	***50,667***	***114***
Higher Education	**25,344**	**25,543**	**25,613**	**25,613**	**0**
Executive and Higher Education Subtotal	***75,912***	***76,610***	***76,166***	***76,280***	***114***
Judiciary	**3,639**	**3,733**	**3,914**	**3,929**	**15**
Legislature	**748**	**749**	**749**	**749**	**0**
Total	**80,299**	**81,092**	**80,828**	**80,957**	**129**

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

* Fiscal 2016 Legislative Appropriation is adjusted to reflect a 2% across-the-board reduction, positions created by the Board of Public Works, and Higher Education Flex Positions added.

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

Fiscal 2017 Baseline Budget Position Changes

Fiscal 2016: Adjustments to the Legislative Appropriation

- 288 positions were deleted through the Administration's 2% across-the-board reduction to State agencies. The largest reductions include:
  - 196 in higher education institutions;
  - 82 at the Department of Human Resources; and
  - 6 at the Department of Health and Mental Hygiene.
- 271 positions created in higher education in fiscal 2016 through its statutory flex authority.
- 6 positions created by the Board of Public Works in August and September 2015, of which 5 support foreclosure mediation at the Office of Administrative Hearings and 1 which supports the Maryland Solicitations Act at the Secretary of State.

Fiscal 2017: Workload Adjustments

- 78 new positions to support the new Baltimore City Youth Detention Center at the Department of Public Safety and Correctional Services (DPSCS).
- 15 positions for 7 judges and new staff at the Judiciary consistent with the judges' certification of need plan.
- 12 new positions for the State Lottery and Gaming Control Agency to support a new gaming facility in Prince George's County.
- 4 new flight training positions at the Department of State Police. The net gain is 3, since the department also abolished 1 Lieutenant Colonel position.
- 1 position added to the Department of Natural Resources to support recent capital improvements at Elk Neck State Park.

Fiscal 2017 Baseline Budget Position Changes (cont.)

Fiscal 2017: Legislation Adjustments

- 4 positions in the Governor's Office to create a new State economic development entity organization that coordinates the activities of the Department of Commerce (DoC), Maryland Economic Development Organization, Maryland Technology Development Corporation, and Maryland Public-private Partnership Marketing Corporation.

- 3 positions at the Attorney General's Office, including an ombudsman, assistant attorney general, and support staff to support requirements for the Public Information Act (Chapters 135 and 136).

- 3 positions at the Department of Housing and Community Development to develop and implement a process to review alternative energy efficiency code proposals (Chapter 239).

- 3 positions at the Maryland Department of the Environment to administer new watershed protection and restoration requirements (Chapter 124).

- 2 polygraph examiners at DPSCS (Chapter 407).

- 1 position at the Public Service Commission to support transport network services (Chapter 204).

- 1 position in the Maryland Insurance Administration to adopt principle-based reserving life insurance, health insurance, and deposit-type contracts (Chapter 367).

- 1 position at DoC to create a director of the new Advisory Council on the Impact of Regulations on Small Business (Chapter 137).

- 1 position at the Maryland Higher Education Commission to support State Authorization Reciprocity Agreements to offer distance learning programs.

- 1 part-time position at the Maryland State Department of Education to support the Charter School Improvement Act (Chapter 311) and another part-time position to support the Maryland Council on Advancement of School-based Health Centers (Chapter 417).

Analysis of Vacancies and Turnover Rate
Fiscal 2016 Legislative Appropriation Compared to October 2015 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	6,357	7.0%	445	685	240
Human Resources	6,359	7.5%	480	461	-19
Juvenile Services	2,055	7.3%	150	241	91
Subtotal	***14,771***	***7.3%***	***1,074***	***1,386***	***313***
Public Safety					
Public Safety and Correctional Services	11,025	6.0%	658	938	279
Police and Fire Marshal	2,438	4.8%	117	251	134
Subtotal	***13,463***	***5.7%***	***775***	***1,189***	***414***
Transportation	**9,086**	**3.9%**	**356**	***665***	***309***
Other Executive					
Legal (Excluding Judiciary)	1,498	8.3%	125	117	-8
Executive and Administrative Control	1,635	5.2%	85	170	85
Financial and Revenue Administration	2,117	5.8%	123	222	99
Budget and Management and DoIT	448	3.7%	17	35	18
Retirement	216	5.4%	12	21	9
General Services	578	7.2%	41	53	11
Natural Resources	1,321	7.4%	98	73	-25
Agriculture	380	6.7%	25	49	23
Labor, Licensing, and Regulation	1,603	4.4%	71	239	168
MSDE and Other Education	1,940	6.3%	123	158	36
Housing and Community Development	343	5.9%	20	35	15
Business and Economic Development	217	5.2%	11	34	23
Environment	939	7.4%	69	96	27
Subtotal	***13,234***	***6.2%***	***819***	***1,300***	***481***
Executive Branch Subtotal	**50,553**	**5.9%**	**3,024**	**4,540**	**1,516**

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

* Fiscal 2016 Legislative Appropriation is adjusted to reflect a 2% across-the-board reduction, positions created by the Board of Public Works, and Higher Education Flex Positions added.

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

Employee and Retiree Health Insurance Account
Fiscal 2014 to 2017
($ in Millions)

	2014 Actual	2015 Actual	2016 Working	2017 Baseline
Beginning Balance	**$287.8**	**$215.8**	**$79.9**	**$92.0**
Expenditures				
DBM Personnel Administrative Cost	$7.3	$7.1	$7.6	$7.6
Payments of Claims				
Medical	$871.6	$906.3	$950.8	$1,001.6
Prescription Drug (Rx)	392.8	463.4	500.5	555.6
Dental	48.2	46.9	49.4	49.4
New Positions	0.0	0.0	0.0	1.6
Contractual	0.0	0.0	14.9	15.7
Payments to Providers	**$1,312.6**	**$1,416.7**	**$1,515.7**	**$1,623.9**
Percent Growth in Payments	7.9%	7.9%	7.0%	7.1%
Receipts				
State Agencies	$955.1	$958.5	$1,177.3	$1,271.5
Employee Contributions	152.0	162.0	201.9	218.1
Retiree Contributions	79.2	78.4	99.4	107.4
Rx Rebates, Recoveries, and Other	61.6	88.9	56.8	56.8
Total Receipts	**$1,247.9**	**$1,287.9**	**$1,535.4**	**$1,653.7**
Percent Growth in Receipts	-6.7%	3.2%	19.2%	7.7%
Ending Balance	**$215.8**	**$79.9**	**$92.0**	**$114.1**
Incurred But Not Received	**-$105.5**	**-$105.5**	**-$105.5**	**-$105.5**
Reserve for Future Provider Payments	**$110.3**	**-$25.6**	**-$13.5**	**$8.6**

DBM: Department of Budget and Management

Note: Mental health costs are merged with medical costs.

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

State Retirement and Pension System

Funding Status as of June 30
($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015
Actuarial Liabilities	$53,707	$55,707	$58,027	$61,414
Actuarial Value of Assets	34,089	35,992	39,277	42,154
Unfunded Actuarial Liabilities	**$19,618**	**$19,715**	**$18,750**	**$19,260**
Funded Ratio	63.5%	64.6%	67.7%	68.6%

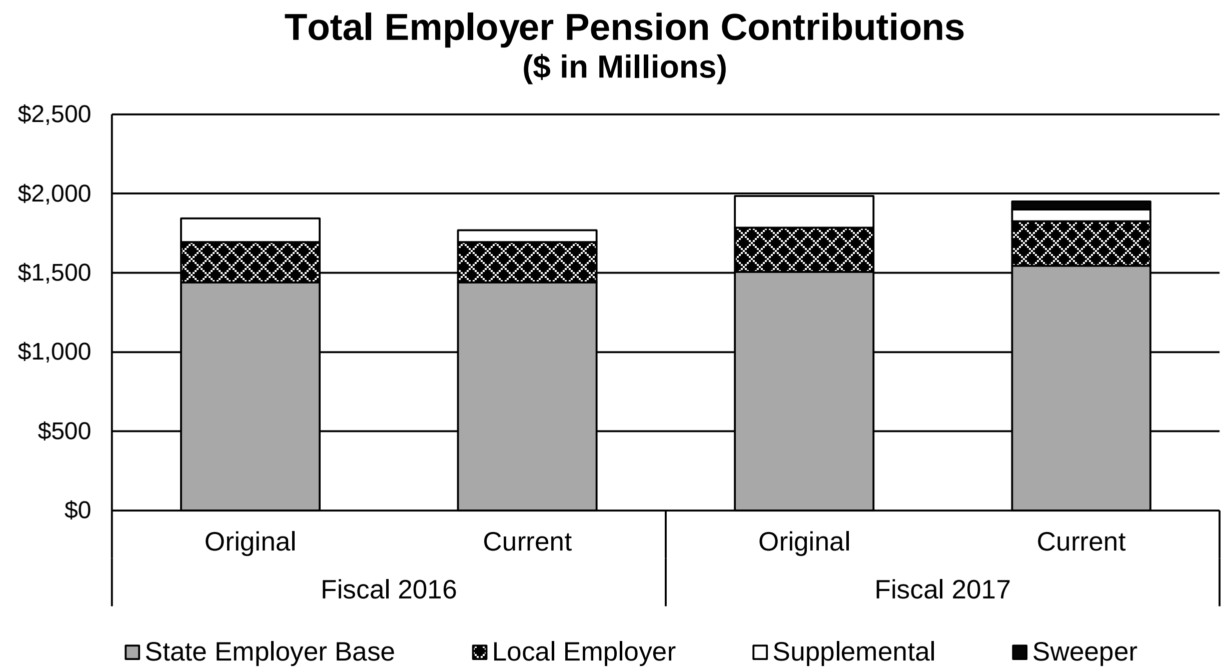
Employer Contributions
($ in Millions)

	FY 2014	FY 2015	FY 2016	FY 2017
Required State Contribution	$1,319	$1,387	$1,439	$1,545
Supplemental Contribution	100	100	75	75
General Fund Balance Sweeper*				50
Total State Contribution	**$1,419**	**$1,487**	**$1,514**	**$1,670**
School Board Contributions	$173	$222	$255	$280
Total Contributions	**$1,592**	**$1,709**	**$1,769**	**$1,950**

*Legislation enacted in 2015 required up to a $50 million appropriation to the retirement system when there is an unappropriated general fund balance in the second prior fiscal year.

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

Source: State Retirement Agency; Department of Legislative Services



Source: State Retirement Agency; Department of Legislative Services

- Total State contributions for teacher and employee pensions is projected to be $1.67 billion in fiscal 2017, an increase of $156.0 million over the fiscal 2016 contribution.

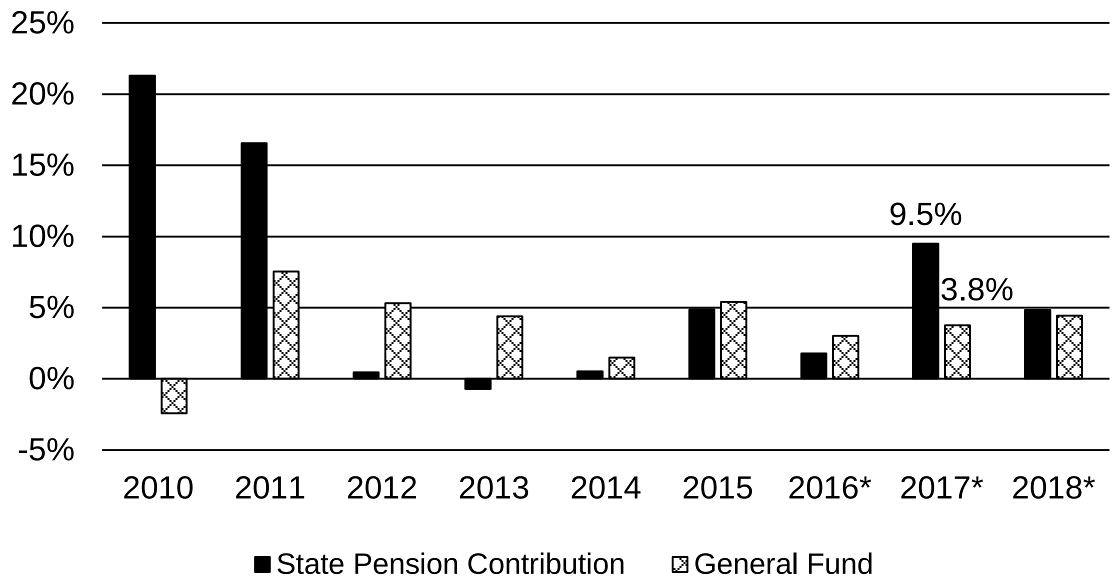
- Local school systems are projected to contribute $279.8 million, an increase of $25.0 million over fiscal 2016 levels.

- The State contribution includes a supplemental contribution of $75.0 million from the 2011 pension reform legislation and an additional $50.0 million from the pension sweeper provision passed during the 2015 session, which requires an appropriation of up to $50.0 million when there is an unappropriated general fund surplus in the second prior fiscal year.

- The base State employer contribution is $39.3 million higher than it otherwise would have been due to the repeal of the corridor funding method.

- In total, the fiscal 2017 pension contribution is projected to be $35.7 million less than it would have been if no changes had been made to the funding formula during the 2015 session.

Annual Percent Change in State Pension Contributions and General Fund Revenues
Fiscal 2010-2018



*Projected.

Source: State Retirement Agency; Department of Legislative Services; Board of Revenue Estimates

- Pension reform and investment returns have mitigated volatility in State pension contributions.

- Contributions are generally tracking general fund revenue growth rates; significant growth in State pension contributions in fiscal 2017 is due to (1) the repeal of the corridor funding method; and (2) the new pension sweeper provision.

Part 8

Supporting Material

Status of the General Fund
Fiscal 2016
($ in Millions)

Starting Balance		**$320.4**
Revenues		
BRE Estimated Revenue September 2015	$16,366.2	
December 2015 BRE Revision	31.4	
Total		**$16,397.6**
Transfers		
Rainy Day Fund	$21.3	
Budget Reconciliation and Financing Act of 2015	42.2	
Budgeted Tax Credits	18.8	
Total		**$82.3**
Funds Available		**$16,800.3**
Spending		
Fiscal 2016 Allowance	$16,428.8	
DLS Estimated Deficiencies	108.6	
DLS Estimated Medicaid Surplus	-151.9	
Estimated Agency Reversions	-146.0	
Net Expenditures		**$16,239.5**
Ending Balance		**$560.8**

Fund Balance Reconciliation Since July 1, 2015

July 2015 Estimated Ending Fund Balance	$27.6
BRE Revisions	117.4
Rainy Day Fund Transfer	-12.7
Closeout	267.7
Deficiencies	43.3
Reversions (PG Hospital, GCEI, and Medicaid), Tax Credit	117.4
Revised Fiscal 2016 Closing Fund Balance	**$560.8**

BRE: Board of Revenue Estimates
DLS: Department of Legislative Services
GCEI: Geographic Cost of Education Index
PG: Prince George's County

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

Starting Balance		**$560.8**
Revenues		
BRE Estimated Revenue September 2015	$17,021.8	
December 2015 BRE Revision	60.1	
Total		**$17,081.9**
Transfers		
Budgeted Tax Credits	$17.1	
Total		**$17.1**
Funds Available		**$17,659.8**
Spending		
Fiscal 2017 DLS Baseline Estimate	$17,366.4	
Estimated Agency Reversions	-30.0	
Net Expenditures		**$17,336.4**
Ending Balance		**$323.4**

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

State Reserve Fund Activity
Fiscal 2016 and 2017
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/15	**$773.1**	**$0.0**	**$0.1**
Fiscal 2016 Appropriations	$50.0	$150.0	$0.0
Transfer to General Fund	-21.3	0.0	0.0
Transfer to Local Income Tax Reserve Account	0.0	-10.0	0.0
Section 48 Intiatives Funded by Administration	0.0	-118.6	0.0
General Fund Reversion	0.0	-21.4	0.0
Interest	12.1	0.0	0.0
Estimated Balances 6/30/16	**$813.8**	**$0.0**	**$0.1**
Fiscal 2017 Appropriations	$235.3	$50.0	$0.0
Transfer to Pension Fund	0.0	-50.0	0.0
Interest	20.8	0.0	0.0
Estimated Balances 6/30/17	**$1,070.0**	**$0.0**	**$0.1**
Percent of Revenues in Reserve	**6.3%**		

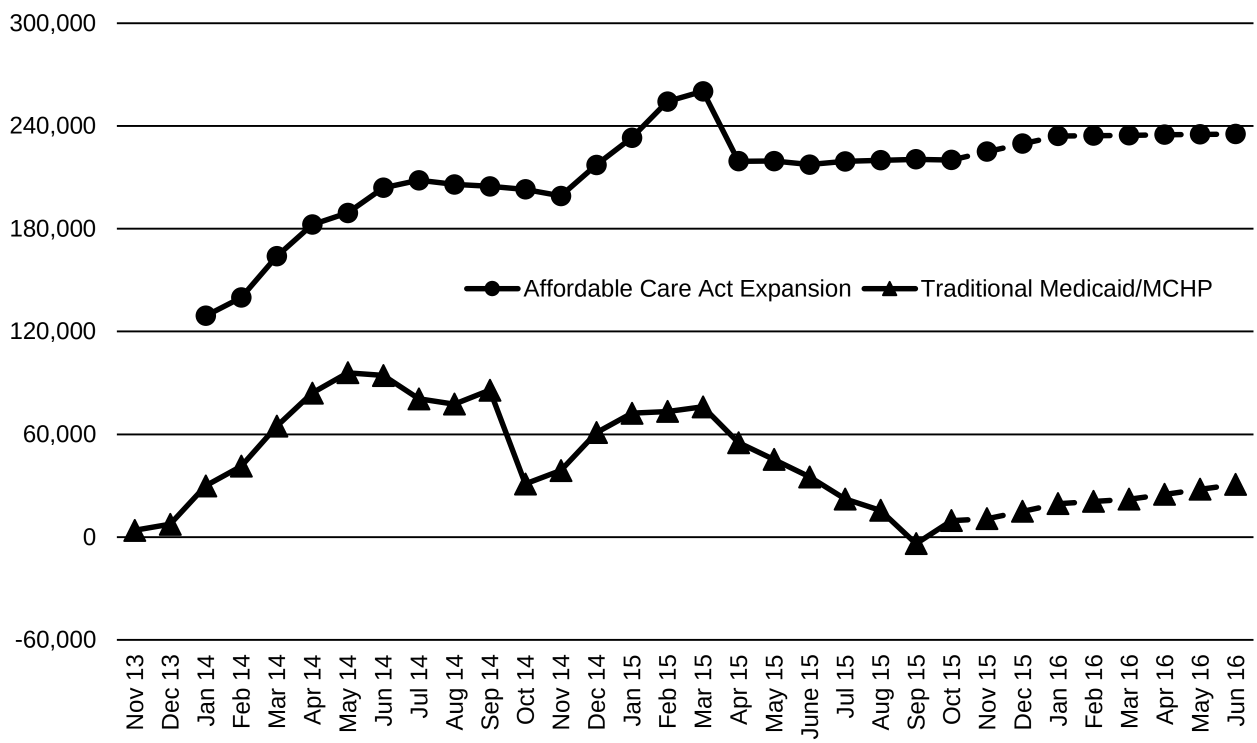
Declining Enrollment Drives Anticipated Combined Fiscal 2015 and 2016 General Fund Surplus in Medicaid of $185 Million

- Medicaid/Maryland Children's Health Program (MCHP) monthly enrollment peaked in March 2015 at 1.32 million. Through October 2015, total enrollment has dropped by 106,000, to 1.21 million, or 8.1%.

- The drop in enrollment coincides with the end of a three-month eligibility redetermination delay for individuals originally enrolled through the Health Information Exchange eligibility system, the requirement that most individuals originally enrolled in the Department of Human Resources Client Automated Resource and Eligibility System (CARES) enroll in the Maryland Health Connection as they come up for redetermination, and the elimination of categorization errors within the disabled adult eligibility population.

- This decline, combined with higher than budgeted attainment of special funds and pharmacy rebates, resulted in a fiscal 2015 reversion of $16.5 million in general funds. The Department of Legislative Services anticipates that Medicaid has over-accrued by $32.9 million in fiscal 2015 which will result in an additional reversion of that amount.

Cumulative Monthly Additional Enrollment in Medicaid/MCHP November 2013 to June 2016 Will the Missing Medicaid Enrollees Return?



MCHP: Maryland Children's Health Program

- Public awareness of Medicaid during the upcoming open enrollment period is anticipated to see some additional growth in Medicaid enrollment; but that impact is muted by the ongoing redetermination of individuals from CARES to the Maryland Health Connection. That process should be complete by March 2016.

- Combined with overattainment in special funds and pharmacy rebates, unless there is a significant bounce-back in enrollment, the fiscal 2016 Medicaid budget is overbudgeted by $151.9 million. This surplus is after considering a proposed calendar 2016 5.9% managed care organization (MCO) rate increase.

A Lower Fiscal 2016 Base Budget Results in a Modest Increase in General Funds In Fiscal 2017 Compared to Fiscal 2016 Appropriations
Fiscal 2015-2017
($ in Millions)

Funds	2015 Legis. App.	2015 Projected	2016 Budgeted	2016 Projected	2017 Baseline
General	$2,452.3	$2,333.6	$2,477.0	$2,325.2	$2,587.1
Special	960.6	1,003.5	943.6	979.7	924.8
Federal	4,484.0	5,144.8	5,231.8	5,532.7	5,702.1
Reimbursable	65.6	63.7	59.9	59.9	59.9
Total	**$7,962.4**	**$8,545.6**	**$8,712.3**	**$8,897.4**	**$9,273.9**

Note: Budgeted 2016 includes adjustments for 2% reductions taken in Medicaid.

Source: Department of Legislative Services

- General fund growth in Medicaid in the fiscal 2017 baseline over the fiscal 2016 budgeted amount is modest due to the projected lower fiscal 2016 costs.

- However, overall general fund growth from the fiscal 2016 projected budget is more robust at $261.9 million, or 11.3%. This general fund budget growth accommodates modest enrollment growth in fiscal 2017, or 2.1%; annualization of the calendar 2016 MCO rate increase of 5.9%; provider rate increases for most services; the beginning of the State's assumption of a share of the costs associated with the new Affordable Care Act expansion eligibility category in January 2017; and a decline of $54.9 million, or 5.6%, in available special funds (primarily lower cigarette restitution funds and hospital assessments).

- Risk remains in terms of enrollment uncertainty, and also if MCOs require a significant adjustment to calendar 2016 rates based on case mix associated with the lower enrollment.