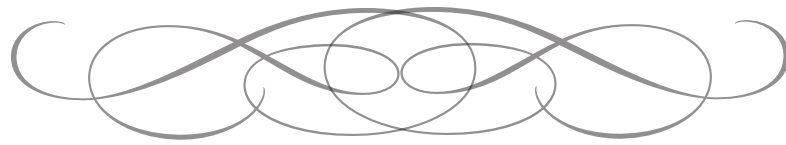


# Spending Affordability Committee



2017 Interim Report



Annapolis, Maryland  
December 2017

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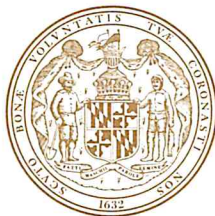
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MARYLAND GENERAL ASSEMBLY  
SPENDING AFFORDABILITY COMMITTEE

December 20, 2017

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 2017 interim. These recommendations were adopted by the committee at its meeting on December 19, 2017. 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 2019 spending limit, the potential impact of the federal fiscal environment, reserve fund balances, capital 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,

A blue ink signature of Senator Roger Manno, consisting of stylized initials and a surname.

Senator Roger Manno  
Presiding Chair

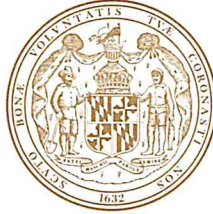
A blue ink signature of Delegate Ben Barnes, featuring a stylized first name and a surname.

Delegate Ben Barnes  
House Chair

Enclosure

RM:BB/RJR/kjl





MARYLAND GENERAL ASSEMBLY  
SPENDING AFFORDABILITY COMMITTEE

December 20, 2017

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

Dear Colleagues:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2017 interim. These recommendations were adopted by the committee at its meeting on December 19, 2017. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

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Sincerely,



Senator Roger Manno  
Presiding Chair



Delegate Ben Barnes  
House Chair

Enclosure

RM:BB/RJR/kjl



**Maryland General Assembly  
Spending Affordability Committee  
2017 Interim  
Membership Roster**

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**Senator Roger Manno, Presiding Chair  
Delegate Ben Barnes, House Chair**

**Senators**

James E. DeGrange, Sr.  
George C. Edwards  
J. B. Jennings  
Edward J. Kasemeyer  
Nancy J. King  
Richard S. Madaleno, Jr.  
Nathaniel J. McFadden  
Thomas M. Middleton  
Thomas V. Mike Miller, Jr.  
Douglas J. J. Peters

**Delegates**

Wendell R. Beitzel  
Michael E. Busch  
C. William Frick  
Tawanna P. Gaines  
Sheila E. Hixson  
Adrienne A. Jones  
Anne R. Kaiser  
Nicholaus R. Kipke  
Maggie McIntosh  
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**Citizens Advisory Committee**

John L. Bohanan  
Dana M. Jones

**Committee Staff**

Rebecca J. Ruff

**Support Staff**

Kimberly J. Landry



# Contents

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Governor’s Letter of Transmittal .....	iii
Legislative Policy Committee’s Letter of Transmittal.....	v
Membership Roster .....	vii
2017 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee .....	1
Part 1        Economic Outlook .....	9
Part 2        General Fund Revenues .....	13
Part 3        Federal Tax Changes.....	23
Part 4        General Fund Budget and Forecast.....	27
Part 5        Local Government Assistance .....	45
Part 6        Capital Program .....	51
Part 7        Transportation .....	67
Part 8        State Employment and Employee Benefits.....	73
Part 9        Supporting Material .....	83



# **2017 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee**

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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. Historically, this has been in the form of a recommended growth limit. More recently, however, efforts to close the structural budget gap have been the focus of the committee's recommendations. The full list of the committee's prior recommendations and legislative action on the operating budget are reflected in the table in **Appendix 1**. Since its inception 35 years ago, the recommendation of the committee has been adhered to by the legislature in all but one year.

Often, growth in personal income is used as a proxy for the State's economic performance. 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% over the past 30 years. 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 7.2% and 7.5% since.

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

## **Economy**

Since the recession ended, Maryland has generally underperformed relative to the nation as a whole with employment growth below the United States in each year from 2011 to 2016. Maryland's recovery from the recession was derailed as the federal budget reductions of recent years, along with the government shutdown in fall 2013, had a significant impact on the economy. Inflation-adjusted wage income per worker fell in Maryland for three years in a row (2011-2013) and grew 0.8% in 2014. The economy improved in 2015 and 2016 with employment growth of 1.5% and 1.4%, respectively. The real wage per worker was up 3.0% in 2015 due, in part, to extraordinarily low inflation. Wage growth weakened in 2016 and because inflation accelerated, the real wage per worker was up just 0.3%. The data available for 2017 shows employment growth

of 2.0%, but alternate measures of the labor market suggest the increase is closer to 1.3%. Wage income grew 2.7% in the first half of 2017.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since December 2016. BRE revised the economic outlook largely in line with recent performance. Employment growth for 2017 was revised up from 1.0% to 1.3%, but BRE did not alter the forecast of employment in future years. In December 2017, BRE made no change to its employment forecast but lowered the estimated personal income growth to 3.6% in 2017 and 3.7% in 2018, due mostly to revisions of nonwage income.

## **Revenues**

Fiscal 2017 general fund revenues were above the estimate by \$90 million, or 0.5%. General fund revenues totaled \$16.6 billion in fiscal 2017, an increase of 3.1% over fiscal 2016. The overattainment was due mostly to the personal income tax, the insurance premiums tax, and the estate tax. General fund personal income tax revenues were above the estimate by \$77 million and grew 5.9% over fiscal 2016.

Fiscal 2018 general fund revenues through October are up 3.1% over fiscal 2017. In September, BRE lowered their estimate for fiscal 2018 general fund revenues by \$53 million, or 0.3%. The personal income tax estimate was revised down by \$15.0 million. In December, BRE reduced the general fund estimate for fiscal 2018 by \$73.2 million and increased the estimate for fiscal 2019 by \$11.0 million. The revision reflects the revised economic outlook along with assumed tax planning in anticipation of a major federal tax bill resulting in the shifting of income from tax year 2017 to 2018. This has the effect of lowering expected income tax revenue in fiscal 2018 and increasing it in fiscal 2019. The revision also reflects very weak growth of sales tax revenues through the first four months of fiscal 2018.

## **Budget Requirements**

Taking into consideration the revenue projections by BRE in December 2017, the committee is currently projecting an ending general fund balance of \$63.2 million at the close of fiscal 2018. This projected balance also reflects September 6, 2017 Board of Public Works (BPW) reductions, a larger than anticipated fiscal 2018 starting balance driven by high levels of closeout reversions, and anticipated spending shortfalls requiring fiscal 2018 general fund deficiency appropriations of \$121.1 million.

Deficiencies are anticipated due to underattainment of Education Trust Fund revenues earmarked to support K-12 education aid; Medicaid's lower than budgeted pharmacy rebate and special fund revenue attainment; higher than expected Medicaid spending on substance use disorder services; repayment of disallowed federal fund claims by the Developmental Disabilities Administration (DDA); additional costs associated with a new Department of Public Safety and Correctional Services (DPSCS) pharmacy contract; and lower than expected federal funding for the Department of Human Services. Deficiency requirements would have been higher except for

the assumption of a projected decline in health insurance costs based on a large fiscal 2017 ending fund balance and savings promised from a new pharmacy contract.

After considering the impact of BPW reductions on fiscal 2018 and 2019, the baseline estimate for fiscal 2019 projects general fund growth of 5.3% when capital and reserve fund appropriations are included, resulting in a projected general fund deficit of \$287.0 million. General fund budget growth includes \$417.3 million for entitlements, mandated formulas, and other ongoing requirements. The largest increase is in the Medicaid program which is estimated to see general fund growth of \$271.5 million. This growth is driven by rate increases, the assumption by the State of a larger share of the costs for the Affordable Care Act expansion population, modestly higher enrollment levels, and a decline in available special fund revenue. Education aid formulas are expected to require \$160.1 million in new general fund support. Growth in Medicaid, education aid, and other ongoing requirements is moderated by lower general fund expenditures on foster care and assistance payments based on caseload and enrollment trends, property tax credit programs, and debt service.

In terms of State agency spending, the baseline assumes \$364.5 million in general fund growth. Personnel costs, excluding higher education, account for \$102.7 million of this growth. The baseline assumes a 1% general salary increase for fiscal 2019 effective July 1, 2018, with a general fund cost of \$23.3 million plus regular increment increases totaling \$41.9 million. The baseline also reflects lowering current turnover rates at a cost of \$43.0 million. Employee retirement costs grow relatively little from fiscal 2018, \$5.4 million. These expected increases are partially offset by \$11.0 million in anticipated savings in health insurance costs.

Other significant State agency costs include general fund support for the University System of Maryland (USM) to cover growth in base costs not supported by tuition and Higher Education Investment Fund revenue (\$58.1 million); rate increases and placement costs in DDA (\$35.5 million); growth in uninsured behavioral services funding, especially for individuals with substance use disorders (\$18.0 million); a variety of major information technology development projects (\$16.7 million); implementation of the More Jobs for Marylanders Act (\$11.0 million); and costs supported by fiscal 2018 deficiencies that carry over into fiscal 2019 (\$29.2 million).

The committee projects that the State will close fiscal 2019 with a balance of \$881.7 million in the Revenue Stabilization Account (Rainy Day Fund), which represents just over 5.0% of general fund revenues. The statutorily mandated appropriation for fiscal 2019 will be \$196.3 million.

Current baseline projections estimate the General Fund to have a cash shortfall of \$287 million at the close of fiscal 2019. **Exhibit 1** provides both the cash and structural balance projections for the General Fund through fiscal 2023.

**Exhibit 1**  
**General Fund Budget Outlook**  
**Fiscal 2018-2023**  
**(\$ in Millions)**

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<b><u>Working Approp.</u></b>	<b><u>Baseline</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>
Cash Balance	\$63	-\$287	-\$889	-\$1,200	-\$1,340	-\$1,493
Structural Balance	-302	-298	-832	-1,103	-1,261	-1,414

## Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2018 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. For the past several years, the traditional establishment of a growth limit has been replaced with recommendations to reduce the structural deficit that developed as a result of plummeting revenues, substantial short-term federal assistance, and extensive reliance on one-time budget balancing actions experienced in the first part of the past decade.

The significant efforts undertaken since fiscal 2011 to close the structural imbalance have reduced the magnitude of the deficit for the near future. However, the dampening effect of changing demographics, low inflation, and the proliferation of non-taxable goods and services on general fund revenues combined with increased funding demands for entitlement programs and other mandatory formulas means the spending gap persists. Current projections indicate a structural deficit totaling \$298 million in fiscal 2019 growing to more than \$1.4 billion by fiscal 2023. Ongoing operating spending growth is forecast to outpace revenue growth by 1.2 percentage points annually.

**As such, the committee recommends that the budget as submitted by the Governor and as approved by the General Assembly shall eliminate 100% of the structural deficit for fiscal 2019. The committee reserves the right to revisit the limit once the impacts of federal tax changes and federal spending cuts are evaluated.**

## **2. Federal Tax and Spending Changes**

Congress is poised to enact significant changes to federal tax law. At the same time, the uncertainty surrounding federal spending, with the potential for federal government shutdown, sequestration, or the failure to reauthorize the Children's Health Insurance Program, could also have a serious effect on Maryland. BRE is currently preparing a detailed analysis of the impact of proposed changes on Maryland taxpayers, the economy, and State and local revenues. The impact of any federal changes will ultimately be incorporated into the fiscal 2019 budget. Modifications to statute may be necessary to either decouple or align State law with the federal changes.

**The committee recommends that any federal tax law or spending changes that impact State and local finances be a primary consideration in the development of the fiscal 2019 general fund budget. The fiscal committees should undertake, as part of the normal legislative process, a critical examination of each federal tax law and spending change that affects State and local finances and how those changes impact the State's overall fiscal situation. In addition, special attention should be paid to how these changes may affect, positively or negatively, lower and middle income taxpayers in the State.**

## **3. Fund Balances**

### **A. Rainy Day Fund**

In addition to its general fund recommendations, the committee recommends a prudent use of the Rainy Day Fund to address general fund needs. The committee projects a Rainy Day Fund balance totaling \$881.6 million at the end of fiscal 2019, which is 5.0% of ongoing general fund revenues. Fiscal 2017 closed with an unassigned general fund balance of \$256.3 million. Under statute, \$10.0 million remains in the general fund, \$50.0 million is appropriated into the State pension fund, and \$196.3 million is appropriated into the Rainy Day Fund. This appropriation, as well as interest earnings, is expected to increase the fiscal 2019 balance to \$1,073.6 million, which is 6.1% of general fund revenues. **The committee recommends that the balance in the Rainy Day Fund be maintained at 5.0% of estimated revenue and authorizes the use of any funds above that balance to address imminent cash shortfalls in fiscal 2018 and 2019.**

### **B. General Fund Balance**

The State budget is built on a series of imperfect assumptions about the economy, State revenues, and State spending. Downward revisions to the State's revenue estimate have been common in recent years as revenues perform sluggishly despite favorable employment news. And almost every fiscal year, the Executive Branch requests, and the General Assembly approves, millions of dollars in deficiency appropriations to cover higher than expected costs. These trends necessitate attentiveness to maintaining alignment between spending on ongoing revenues. **Therefore, the committee recommends a minimum ending balance of at least \$100 million in the General Fund for fiscal 2019. The committee reserves the right to revisit the limit once the impacts of federal tax changes and federal spending cuts are evaluated.**

## 4. Capital Budget

### A. General Obligation Debt

In its 2017 report, the Capital Debt Affordability Committee (CDAC) recommended limiting general obligation (GO) bond authorizations to \$995 million each year through fiscal 2027. This is consistent with the recommendation made by CDAC in its 2015 and 2016 reports with the purpose of slowing the growth in debt service costs and preserving additional debt capacity for the future.

Although CDAC's recommendation is advisory and the committee has differed in its recommendation in recent years, the committee does support 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 remains concerned, however, that CDAC's recommendation to freeze authorizations through fiscal 2027 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 2019 through 2023.

CDAC's objective can be achieved without substantially eroding the purchasing power of the capital program. In its 2015 report, the committee recommended increasing the fiscal 2016 authorization, which totaled \$1,045 million, by 1% annually through the planning period. This 1% annual growth rate would equate to an authorization level of \$1,075 million for the 2018 session. This moderate growth rate limits increases in GO bond authorizations to projected State property tax revenue increases. Since general funds and other State revenues are projected to increase at an annual rate in excess of 1%, this reduces the ratio of debt service to revenues in the out-years.

**The committee recommends the authorization of \$1,075 million in new GO bonds for the 2018 session. In addition, for planning purposes, out-year annual authorizations should be limited to 1% growth, so that capital spending does not increase at a greater rate than State property tax revenues, which is the primary revenue source supporting debt service. The proposed limit keeps the State well within CDAC's debt affordability criteria.**

### B. Higher Education Debt

USM intends to issue up to \$24 million in academic debt for fiscal 2019. This is \$8 million less than was authorized for fiscal 2018 but is consistent with the amount programmed in the 2017 *Capital Improvement Program* for fiscal 2019. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2018.

**The committee concurs in the recommendation of CDAC that \$24 million in new academic revenue bonds may be authorized in the 2018 session for USM.**

## **5. State Employment**

Personnel costs comprise approximately 20% of the State's operating budget. The State's workforce has declined from 81,106 in fiscal 2002 to 80,119 at the start of fiscal 2019 as a result of position ceilings, voluntary separation programs, and position reductions. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 49,469 in fiscal 2018. Over 4,500 positions have been added in higher education during this period.

In recent years, there has been a substantial increase in vacant positions and vacancy rates in Executive Branch agencies, despite cost containment actions to abolish vacant positions. Vacancies increased by 233 positions over the course of the past year, from 5,067 positions in October 2016 to 5,300 positions in October 2017 (increasing the vacancy rate from 10.2% to 10.7%, respectively). The committee is concerned that a significant number of these vacancies are within agencies that have been identified as chronically understaffed.

A preliminary study by the Department of Legislative Services has identified understaffing as a significant issue at a number of State agencies. Some agencies identified as understaffed have substantial complements of vacant positions despite the availability of funding to fill them while others lack the positions and funding to begin to improve their staffing levels. The committee is concerned that a number of critical classes of positions in State agencies are understaffed, such as correctional officers, direct care providers, and positions in the Department of State Police, which could adversely impact public safety and care for vulnerable populations. **Given the staffing shortages, the committee recommends discontinuing the position cap that the State has had in place for a number of years. The committee encourages the Governor to act expeditiously to fill positions in understaffed agencies, particularly in agencies such as DPSCS that are experiencing higher levels of vacancies. To the extent that agencies are unable to fill positions because of hiring standards, excessive turnover expectancy, or inadequate compensation, the Administration should develop a plan to address these barriers through targeted compensation enhancements, reduced levels of turnover expectancy, or a re-examination of hiring requirements. A plan should be submitted to the budget committees no later than June 1, 2018.**

# **Appendix 1** **Prior Recommendations and Legislative Action on the Operating Budget** **(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
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 <sup>1</sup>	6.90%	803.0	6.87%	800.0
2001 <sup>2</sup>	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 <sup>3</sup>	6.70%	1,037.1	6.69%	1,036.3
2006 <sup>3</sup>	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 <sup>4</sup>	0.70%	145.7	0.19%	39.2
2010 <sup>4</sup>	0.00%	0.0	-3.00%	-626.9
2011	Reduce FY 2012 structural deficit by 33⅓%		36.90%/46.00% <sup>5</sup>	
2012	Reduce FY 2013 structural deficit by 50.0%		50.60%	
2013	Reduce FY 2014 structural deficit by \$200.0 million			-211.2
2014	4.00%	937.8	2.76%	646.4
	Reduce FY 2015 structural deficit by \$125.0 million			-126.1
2015	Reduce FY 2016 structural deficit by 50.0%		68.27%	
2016	4.85%	1,184.2	4.55%	1,111.2
2017	Reduce FY 2018 structural deficit by at least 50%.		90.19%	

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

<sup>2</sup>Methodology revised effective with the 2001 session.

<sup>3</sup>The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

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

<sup>5</sup>Spending reduction/total reduction.

## **Part 1**

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### **Economic Outlook**



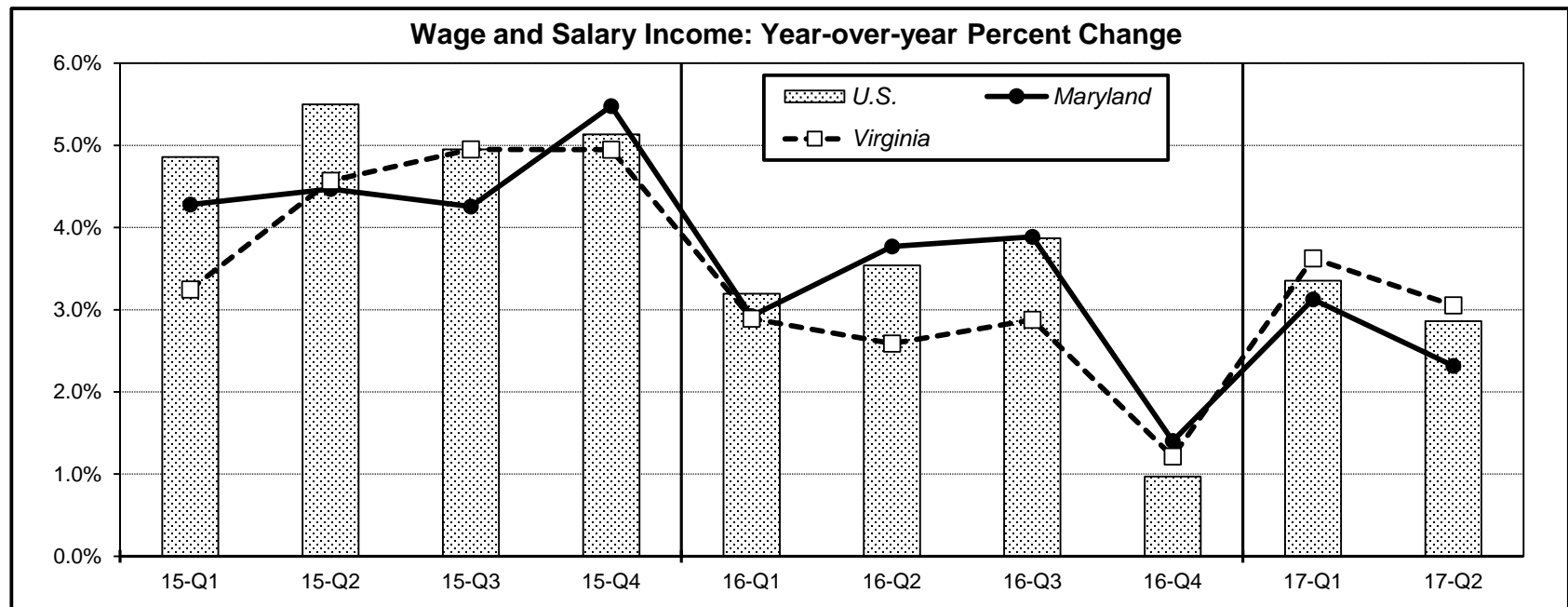
## Maryland Economic Performance

### Year-over-year Percent Change

<u>Month-Year</u>	<u>Employment</u>		<u>Unemployment</u>	<u>Initial</u>	<u>Existing</u>	<u>Median</u>	<u>Vehicle</u>
	<u>CES</u>	<u>QCEW</u>	<u>Rate</u>	<u>UI Claims</u>	<u>Home Sales</u>	<u>Home Price</u>	<u>Sales</u>
Jan-17	1.5%	1.4%	4.2%	-10.5%	6.8%	8.4%	20.1%
Feb-17	2.2%	1.7%	4.2%	-16.4%	0.3%	7.0%	-4.9%
Mar-17	1.8%	1.4%	4.2%	-9.2%	18.8%	6.8%	-3.2%
Apr-17	1.6%		4.3%	6.9%	2.0%	6.7%	-8.0%
May-17	1.6%		4.2%	-7.0%	4.1%	4.8%	0.0%
Jun-17	2.5%		4.1%	-3.0%	3.9%	3.2%	-3.3%
Jul-17	2.4%		4.0%	-1.9%	1.4%	2.7%	-1.6%
Aug-17	2.4%		3.9%	-11.8%	1.5%	3.4%	-1.4%
Sep-17				-9.1%	-1.2%	4.4%	-6.9%
Y-T-D	2.0%	1.5%	4.1%	-7.2%	3.9%	5.1%	-1.6%

CES: Current Establishment Survey; QCEW: Quarterly Census of Employment and Wages; UI: unemployment insurance; Y-T-D: year to date

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



# Maryland Economic Forecasts

## Year-over-year Percent Change

Calendar	Employment		Personal Income*		
	<u>Year</u>	<u>Dec. 2016</u>	<u>Sep. 2017</u>	<u>Dec. 2016</u>	<u>Sep. 2017</u>
	2014	0.9%	0.9%	3.4%	3.3%
	2015	1.5%	1.6%	4.1%	4.5%
	2016	1.6%	1.4%	3.3%	3.6%
	2017E	1.0%	1.3%	4.0%	4.1%
	2018E	0.8%	0.8%	4.2%	4.3%
	2019E	0.5%	0.5%	4.1%	4.1%
	2020E	0.6%	0.6%	4.1%	4.1%

Calendar Year	Wage and Salary Income		Average Wage	
	Dec. 2016	Sep. 2017	Dec. 2016	Sep. 2017
2014	3.3%	3.4%	2.4%	2.5%
2015	4.6%	4.6%	3.1%	3.0%
2016	3.3%	3.0%	1.7%	1.6%
2017E	3.9%	4.0%	2.9%	2.6%
2018E	4.0%	4.0%	3.2%	3.2%
2019E	3.8%	3.8%	3.2%	3.2%
2020E	4.0%	4.0%	3.4%	3.4%

Calendar Year	Dividends, Interest, Rent		Taxable Capital Gains Income*	
	Dec. 2016	Sep. 2017	Dec. 2016	Sep. 2017
2014	5.9%	5.8%	43.0%	43.0%
2015	3.5%	4.8%	-10.0%	1.4%
2016	2.5%	1.9%	0.0%	0.0%
2017E	3.7%	3.7%	0.0%	0.0%
2018E	4.6%	4.6%	0.0%	0.0%
2019E	4.4%	4.4%	0.0%	0.0%
2020E	4.1%	4.1%	0.0%	0.0%

\* The calendar 2015 figure is an estimate for December 2016, and calendar 2016 figures are estimates for both December 2016 and September 2017.

## **Part 2**

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### **General Fund Revenues**



## Fiscal 2017 General Fund Revenues

(\$ in Millions)

<u>Source</u>	FY 2016	Fiscal 2017				FY 2016-2017 % Change	
	<u>Actual</u>	<u>Estimate<sup>(1)</sup></u>	<u>Actual</u>	<u>\$ Diff.</u>	<u>% Diff.</u>	<u>Estimated</u>	<u>Actual</u>
Personal Income Tax	\$8,517.6	\$8,942.4	\$9,019.3	\$76.9	0.9%	5.0%	5.9%
Sales and Use Tax	4,444.5	4,587.3	4,539.3	-47.9	-1.0%	3.2%	2.1%
State Lottery	529.8	493.8	484.3	-9.5	-1.9%	-6.8%	-8.6%
Corporate Income Tax	874.5	784.6	795.6	11.0	1.4%	-10.3%	-9.0%
Business Franchise Taxes	222.0	223.5	228.4	4.9	2.2%	0.7%	2.9%
Insurance Premiums Tax	287.4	294.8	328.7	33.9	11.5%	2.6%	14.4%
Estate and Inheritance Taxes	261.9	206.7	227.9	21.2	10.3%	-21.1%	-13.0%
Tobacco Tax	395.3	393.8	387.0	-6.9	-1.7%	-0.4%	-2.1%
Alcohol Beverages Tax	31.9	32.9	32.5	-0.5	-1.4%	3.1%	1.7%
Other <sup>(2)</sup>	517.8	538.4	545.4	7.0	1.3%	4.0%	5.3%
<b>Subtotal</b>	<b>\$16,082.6</b>	<b>\$16,498.2</b>	<b>\$16,588.5</b>	<b>\$90.3</b>	<b>0.5%</b>	<b>2.6%</b>	<b>3.1%</b>
Transfer Tax <sup>(3)</sup>	\$115.4	\$62.8	\$62.8	\$0.0	0.0%	-45.6%	-45.6%
GAAP transfer <sup>(4)</sup>	0.0	47.4	47.4	0.0	0.0%	n/a	n/a
<b>Total Revenues</b>	<b>\$16,198.0</b>	<b>\$16,608.4</b>	<b>\$16,698.7</b>	<b>\$90.3</b>	<b>0.5%</b>	<b>2.5%</b>	<b>3.1%</b>

GAAP: generally accepted accounting principles

<sup>(1)</sup> From the Board of Revenue Estimates, March 2017, with adjustments for action at the 2017 legislative session.

<sup>(2)</sup> Includes revenues from the courts, interest earnings, hospital patient recoveries, and other miscellaneous revenues. Fiscal 2016 also includes \$4.6 million of motor fuel tax revenue.

<sup>(3)</sup> The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. The BRFA of 2015 (Chapter 489) increased the distribution in fiscal 2016 by \$37.7 million. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by \$20.0 million.

<sup>(4)</sup> The Comptroller's annual analysis of the local income tax reserve account determined the account was overfunded at the end of fiscal 2016 by \$47.4 million.

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

Source: Board of Revenue Estimates

## Factors Impacting Revenue Performance

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- General fund sales tax revenues were below the estimate in fiscal 2017 by almost \$50 million. Year-over-year growth was just 2.1%. Growth below 3.0% has become the new normal for the sales tax as five of the past six years have experienced growth of less than 3.0% (adjusted for law changes).
- A number of factors are impacting the sales tax, some long-term trends and others more recent. Consumer preferences have been shifting from spending on goods (generally taxable) to spending on services (generally not taxable) for the last several decades. Over the past 20 years, spending in Maryland on goods fell from around 35% of total consumer spending to 29%.
- Although Amazon began collecting the tax on its sales in Maryland in fiscal 2015, sales from retailers without a physical presence in the State remain untaxable. Nationally, e-commerce sales continue to grow at double-digit rates and account for around 8% of total retail sales and 10% of retail sales excluding motor vehicles and gas stations.
- The proliferation of nontaxable digital goods such as music streaming and downloads, e-books, mobile applications, and video streaming services has replaced spending on taxable goods. In addition, online and mobile applications have also facilitated the sharing economy, allowing consumers to exchange used goods easily.
- Low inflation is another factor weighing on revenue growth. Over the last five fiscal years (2012-2017), the U.S. consumer price index (CPI) increased annually on average by just 1.2%. Low inflation has likely contributed to slow nominal wage growth which has implications for both the income and sales taxes. In addition, durable goods prices have been falling in recent years. The average annual change in the durable goods CPI was -1.4% between fiscal 2012 and 2017.
- Changing demographics also has important implications for revenue growth. In 2005, the share of the Maryland population age 65 and over was 11.4%. By 2016, it had increased to 14.5% and is projected to exceed 20.0% by 2030. At the same time, the prime working age population (25-59) is projected to fall from 48.0% of the total in 2016 to 44.0% by 2030. An aging population will change consumer spending patterns in ways that will likely be a drag on sales tax growth. A large and growing population of retirees also has implications for the income tax as the composition of taxable income shifts.

## Fiscal 2018 General Fund Revenues

(\$ in Millions)

<u>Source</u>	<i>Fiscal Year through September</i>				<b>Full-year Estimated Growth Rate</b>
	<u>FY 2017</u>	<u>FY 2018</u>	<u>\$ Difference</u>	<u>% Difference</u>	
Personal Income Tax	\$1,753.0	\$1,686.0	-\$67.0	-3.8%	4.0%
Sales and Use Tax <sup>(1)</sup>	763.2	763.9	0.7	0.1%	2.5%
State Lottery	121.2	136.3	15.0	12.4%	7.3%
Corporate Income Tax	165.6	203.1	37.5	22.6%	4.0%
Business Franchise Taxes	44.4	50.3	6.0	13.4%	1.6%
Insurance Premiums Tax	75.3	84.3	9.0	11.9%	-0.7%
Estate and Inheritance Taxes	63.5	45.4	-18.1	-28.5%	-12.9%
Alcohol and Tobacco Taxes	84.0	81.6	-2.4	-2.8%	-1.2%
Other <sup>(2)</sup>	59.1	64.2	5.1	8.6%	-5.2%
<b>Total Revenues</b>	<b>\$3,129.2</b>	<b>\$3,114.9</b>	<b>-\$14.3</b>	<b>-0.5%</b>	<b>2.9%</b>

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

<sup>(2)</sup> Includes revenues from the courts, interest on investments, miscellaneous revenues, and hospital patient recovery revenues from Medicare, insurance, and sponsors. Fiscal 2018 includes \$3.8 million in casino revenue representing money that would normally go to the Small, Minority, and Women-Owned Businesses Account but was diverted to the General Fund per the Budget Reconciliation and Financing Act of 2017 (Chapter 23).

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

# Maryland General Fund Revenue Forecast

(\$ in Millions)

<u>Source</u>	<u>FY 2017</u>	<u>FY 2018 Estimate</u>				<u>% Change</u>	<u>FY 2019</u>	<u>% Change</u>
	<u>Actual</u>	<u>March</u>	<u>September</u>	<u>\$ Difference</u>	<u>% Difference</u>	<u>over FY 2017</u>	<u>Estimate</u>	<u>over FY 2018</u>
Personal Income Tax	\$9,019.3	\$9,395.9	\$9,380.7	-\$15.1	-0.2%	4.0%	\$9,764.9	4.1%
Sales and Use Tax	4,539.3	4,727.1	4,654.9	-72.2	-1.5%	2.5%	4,787.4	2.8%
State Lottery	484.3	504.5	519.5	15.0	3.0%	7.3%	522.8	0.6%
Corporate Income Tax	795.6	827.4	827.3	-0.2	0.0%	4.0%	873.5	5.6%
Business Franchise Taxes <sup>(1)</sup>	228.4	227.3	232.2	4.8	2.1%	1.6%	198.1	-14.7%
Insurance Premiums Tax	328.7	304.1	326.3	22.3	7.3%	-0.7%	350.0	7.2%
Estate and Inheritance Taxes <sup>(2)</sup>	227.9	184.5	198.5	14.0	7.6%	-12.9%	184.1	-7.3%
Tobacco Tax	387.0	392.2	381.6	-10.7	-2.7%	-1.4%	378.3	-0.8%
Alcohol Beverages Tax	32.5	33.4	32.9	-0.5	-1.5%	1.2%	33.3	1.3%
Other <sup>(3)</sup>	545.4	526.5	516.8	-9.7	-1.8%	-5.2%	521.5	0.9%
<b>Subtotal</b>	<b>\$16,588.5</b>	<b>\$17,123.0</b>	<b>\$17,070.7</b>	<b>-\$52.3</b>	<b>-0.3%</b>	<b>2.9%</b>	<b>\$17,613.9</b>	<b>3.2%</b>
Transfer Tax <sup>(4)</sup>	\$62.8	\$46.0	\$46.0	\$0.0	0.0%	-26.7%	\$0.0	n/a
GAAP Transfer	47.4	0.0	0.0	0.0	n/a	n/a	0.0	n/a
Extraordinary Revenues <sup>(5)</sup>	0.0	15.7	15.0	-0.7	-4.4%	n/a	0.0	n/a
<b>Total Revenues</b>	<b>\$16,698.7</b>	<b>\$17,184.7</b>	<b>\$17,131.7</b>	<b>-\$53.0</b>	<b>-0.3%</b>	<b>2.6%</b>	<b>\$17,613.9</b>	<b>2.8%</b>

GAAP: generally accepted accounting principles

<sup>(1)</sup> Corporate filing fees decline in fiscal 2019 due to implementation of Chapters 323 and 324 of 2016 which exempts companies that participate in the Maryland Small Business Retirement Savings Program and Trust or otherwise offer a retirement savings arrangement from the annual filing fee for corporations and business entities.

<sup>(2)</sup> Estate tax revenues decline due to Chapter 612 of 2014 which raises the unified credit over a number of years until it reaches the federal credit in calendar 2019.

<sup>(3)</sup> Includes revenues from the courts, hospital patient recoveries, interest earnings, and other miscellaneous revenues.

<sup>(4)</sup> The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by \$20.0 million and in fiscal 2018 by \$40.0 million.

<sup>(5)</sup> The BRFA of 2017 (Chapter 23) distributed to the General Fund casino revenues that would normally go to the Small, Minority, and Women-Owned Businesses Account in fiscal 2018.

Note: The estimate from March 2017 has been adjusted for actions taken at the 2017 legislative session.

Source: Board of Revenue Estimates

## Maryland General Fund Revenue Forecast (\$ in Millions)

<u>Source</u>	<u>FY 2018 Estimate</u>			<u>% Change over FY 2017</u>	<u>FY 2019 Estimate</u>			<u>% Change over FY 2018</u>
	<u>Sep</u>	<u>Dec</u>	<u>\$ Diff</u>		<u>Sep</u>	<u>Dec</u>	<u>\$ Diff</u>	
Personal Income Tax	\$9,380.7	\$9,288.8	-\$91.9	3.0%	\$9,764.9	\$9,782.4	\$17.5	5.3%
Sales and Use Tax	4,654.9	4,621.9	-33.0	1.8%	4,787.4	4,735.1	-52.3	2.5%
State Lottery	519.5	521.2	1.7	7.6%	522.8	521.7	-1.1	0.1%
Corporate Income Tax	827.3	844.4	17.2	6.1%	873.5	886.5	12.9	5.0%
Business Franchise Taxes <sup>(1)</sup>	232.2	234.1	1.9	2.5%	198.1	234.7	36.6	0.3%
Insurance Premiums Tax	326.3	326.3	0.0	-0.7%	350.0	350.0	0.0	7.2%
Estate and Inheritance Taxes <sup>(2)</sup>	198.5	216.4	17.9	-5.1%	184.1	186.5	2.4	-13.8%
Tobacco Tax	381.6	381.6	0.0	-1.4%	378.3	378.3	0.0	-0.8%
Alcohol Beverages Tax	32.9	31.9	-1.0	-1.9%	33.3	31.9	-1.3	0.3%
Other <sup>(3)</sup>	516.8	531.1	14.2	-2.6%	521.5	517.8	-3.7	-2.5%
<b>Subtotal</b>	<b>\$17,070.7</b>	<b>\$16,997.7</b>	<b>-\$73.0</b>	<b>2.5%</b>	<b>\$17,613.9</b>	<b>\$17,624.9</b>	<b>\$11.0</b>	<b>3.7%</b>
Transfer Tax <sup>(4)</sup>	\$46.0	\$46.0	\$0.0	-26.7%	\$0.0	\$0.0	\$0.0	n/a
Extraordinary Revenues <sup>(5)</sup>	15.0	14.8	-0.2	n/a	0.0	0.0	0.0	n/a
<b>Total Revenues</b>	<b>\$17,131.7</b>	<b>\$17,058.5</b>	<b>-\$73.2</b>	<b>2.2%</b>	<b>\$17,613.9</b>	<b>\$17,624.9</b>	<b>\$11.0</b>	<b>3.3%</b>

<sup>(1)</sup> The large upward revision in fiscal 2019 reflects assuming the decline in corporate filing fees due to implementation of Chapters 323 and 324 of 2016 will be delayed to fiscal 2020. The legislation exempts companies that participate in the Maryland Small Business Retirement Savings Program and Trust or otherwise offer a retirement savings arrangement from the annual filing fee for corporations and business entities.

<sup>(2)</sup> Estate tax revenues decline due to Chapter 612 of 2014 which raises the unified credit over a number of years until it reaches the federal credit in calendar 2019.

<sup>(3)</sup> Includes revenues from the courts, hospital patient recoveries, interest earnings, and other miscellaneous revenues.

<sup>(4)</sup> The Budget Reconciliation and Financing Act (BRFA) of 2013 (Chapter 425) established a distribution of transfer tax revenues to the General Fund for fiscal 2014 to 2018. Chapter 10 of 2016 reduced the distribution in fiscal 2017 by \$20.0 million and in fiscal 2018 by \$40.0 million.

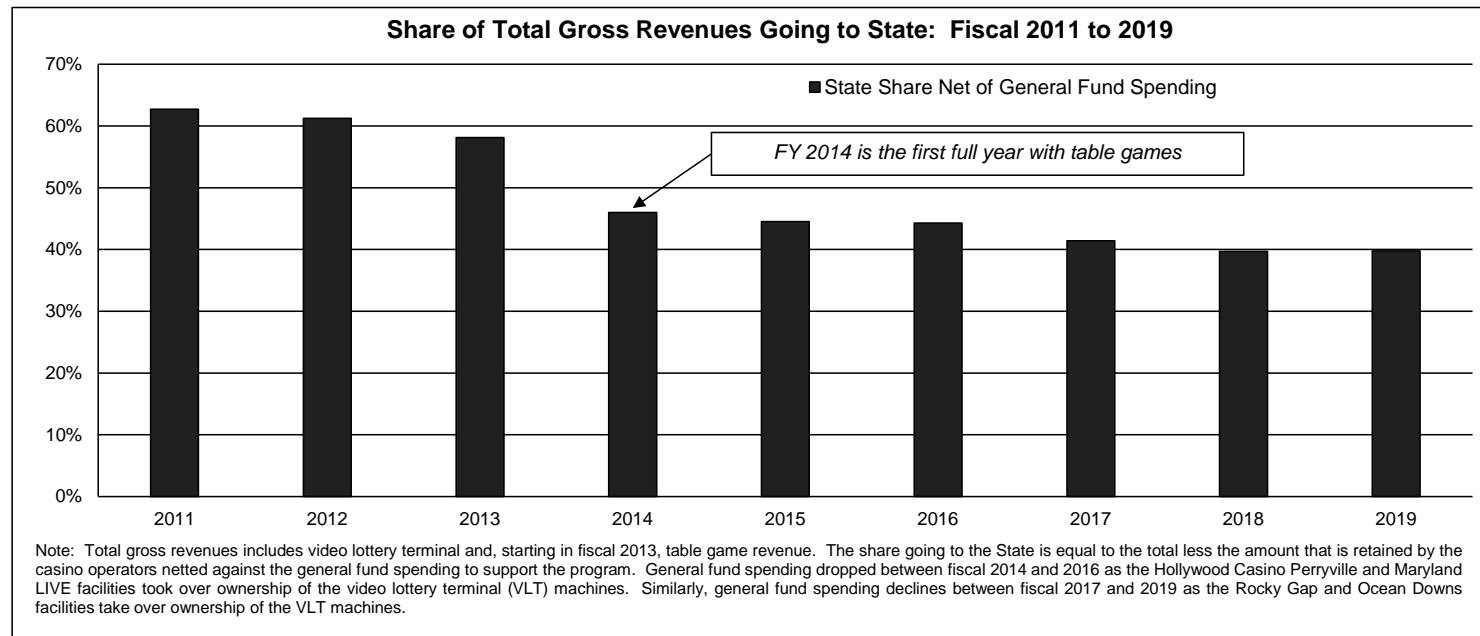
<sup>(5)</sup> The BRFA of 2017 (Chapter 23) distributed to the general fund casino revenues that would normally go to the Small, Minority, and Women-Owned Businesses Account in fiscal 2018.

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

	Video Lottery Terminals						
	FY 2017			FY 2018			FY 2019
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$365.9	\$361.7	-\$4.2	\$409.8	\$392.4	-\$17.4	\$412.0
Casino Operators	396.6	391.3	-5.3	501.7	480.5	-21.2	487.2
Local Impact Grants	48.1	47.5	-0.6	58.0	55.5	-2.5	56.2
Small, Minority, and Women-owned Businesses	13.1	12.9	-0.2	0.0	0.0	0.0	0.0
Purse Dedication	55.4	54.6	-0.7	62.5	59.8	-2.8	60.5
Race Tracks Facility Renewal Account	8.5	8.4	-0.1	10.2	9.8	-0.5	9.9
State Lottery Agency	9.4	9.3	-0.1	10.7	10.2	-0.5	10.4
General Fund	0.0	0.0	0.0	15.7	15.0	-0.7	0.0
<b>Total Gross Revenues</b>	<b>\$897.1</b>	<b>\$885.9</b>	<b>-\$11.2</b>	<b>\$1,068.6</b>	<b>\$1,023.1</b>	<b>-\$45.5</b>	<b>\$1,036.2</b>

	Table Games						
	FY 2017			FY 2018			FY 2019
	Estimate	Actual	Difference	Mar. Est.	Sep. Est.	Difference	Estimate
Education Trust Fund	\$92.7	\$89.5	-\$3.3	\$100.4	\$94.7	-\$5.8	\$95.8
Casino Operators	445.6	428.1	-17.5	535.7	505.0	-30.7	511.2
Local Impact Grants	18.7	17.6	-1.1	33.5	31.6	-1.9	31.9
<b>Total Gross Revenues</b>	<b>\$557.0</b>	<b>\$535.1</b>	<b>-\$21.9</b>	<b>\$669.6</b>	<b>\$631.2</b>	<b>-\$38.3</b>	<b>\$638.9</b>

Source: State Lottery and Gaming Control Agency; Board of Revenue Estimates. March estimate has been adjusted for legislation adopted at the 2017 session.



## 2017 Legislation Impacting Casino Revenue

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- Chapter 339 of 2017 requires the casinos at Rocky Gap and Ocean Downs to own or lease the video lottery terminal (VLT) machines by March 31, 2020. The casinos receive an additional 10% of gross VLT proceeds if the licensee owns or leases the equipment by January 1, 2019. Rocky Gap took over ownership of its VLT machines as of July 1, 2017, and Ocean Downs assumed ownership as of July 31, 2017. The casino at Rocky Gap retains 60% of gross VLT revenue and the Education Trust Fund (ETF) receives 32%. The Ocean Downs facility receives 53% of gross VLT revenue with the ETF getting 32%. The legislation also lowered the share of VLT revenues going to the State Lottery and Gaming Control Agency from 2% to 1% and increased the share going to local impact grants from 2.75% to 3.75% for the first 10 years of operation of the Rocky Gap facility.
- Chapter 445 of 2017 allows casinos to carry forward losses and offset the loss with proceeds from the subsequent day or days. A loss represents payouts to successful players that exceed the amount bet through VLTs or table games on a given day. Prior to this legislation, a daily loss was borne by the casino owner. The ability to carry forward the loss reduces the total gross revenue to be distributed resulting in the loss now being shared by the licensee and the State. Daily losses are very rare for VLTs but fairly common for table games. Table game revenue is distributed 80% to the casino licensee, 5% to local impact grants, and 15% to the ETF.
- Chapters 451 and 452 of 2017 alter the distribution of unclaimed VLT prize revenue. A prize won on a VLT machine and not claimed within 182 days becomes the property of the State. Prior to this legislation, the unclaimed prize revenue was distributed in the same manner as total gross revenue for the particular casino. The legislation changes the distribution of VLT unclaimed prize revenue to the following: 2.5% to the Small, Minority, and Women-Owned Businesses Account, 9.5% to local impact grants, 10% to the Purse Dedication Account, 1.5% to the Racetrack Facility Renewal Account, and the remainder to the ETF. In fiscal 2017, total unclaimed prize revenue was around \$875,000.
- The Budget Reconciliation and Financing Act of 2017 (Chapter 23) diverts the distribution that normally goes to the Small, Minority, and Women-Owned Business Account to the General Fund in fiscal 2018 and to the ETF in fiscal 2019 and 2020. The distribution is 0.75% of gross VLT revenues at the Rocky Gap facility and 1.5% at all other casinos.



## **Part 3**

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### **Federal Tax Changes**



# Recent Federal Tax Proposals with Potential Impacts for Maryland Taxpayers

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- **Increased Standard Deduction Amount**

- The standard deduction for the federal income tax is proposed to increase from \$6,350 to \$12,000 for single filers and from \$12,700 to \$24,000 for joint filers.
- A taxpayer who claims the federal standard deduction is required to claim the standard deduction on the Maryland income tax return. The increased standard deduction amount would potentially result in an increase in State and local income tax revenues due to additional taxpayers claiming the standard deduction instead of itemizing deductions.

- **Eliminating the Deduction for State and Local Taxes Paid**

- A taxpayer who itemizes deductions may deduct certain taxes paid to state and local governments when determining federal taxable income. It has been proposed that this deduction be eliminated, which would increase tax liabilities for Maryland taxpayers that claim the deduction.
- In tax year 2015, about 46% of Maryland federal tax returns claimed this deduction, which is significantly higher than the national average of 30%.
- Approximately 1.4 million Maryland federal income tax returns deducted a total of \$17.5 billion in State and local taxes in tax year 2015.
- If the deduction would have been eliminated in tax year 2015, Maryland taxpayers would have paid an estimated \$3 billion in additional federal income taxes, with the average Maryland taxpayer paying an additional \$2,328.
- State and local income tax liabilities would also increase for taxpayers who claim the deduction for real estate taxes and sales taxes paid.

- **Repatriation of Corporate Earnings**

- Income earned by a domestic parent corporation from foreign operations conducted by foreign corporate subsidiaries is subject to U.S. tax only when the income is distributed as a dividend to the domestic parent corporation.

- One recent study estimates that approximately \$2.6 trillion of foreign earnings are currently not subject to U.S. tax. The current proposal calls for a reduced federal tax rate on repatriated profits.
- The repatriation of these profits could result in a significant increase in State income tax revenues.
- Legislation has been introduced in Maryland in recent years that would have provided a subtraction modification for dividends received by a corporation from a controlled foreign corporation if the dividends are included in federal taxable income as part of a repatriation holiday.
- **Estate Tax – Repeal**
  - The federal estate tax excludes certain amounts from taxation each year. The amount is indexed to inflation and adjusted annually. For decedents dying in calendar 2017, \$5.49 million can be excluded for federal estate tax purposes.
  - For decedents dying in calendar 2017, \$3 million can be excluded from an estate when calculating the Maryland estate tax, rising to \$4 million in calendar 2018. For decedents dying on or after January 1, 2019, the Maryland estate tax will exclude the same amount excluded under the federal estate tax, indexed to inflation.
  - While there may be administrative issues that could arise for the Maryland estate tax if the federal estate tax is repealed, the State tax is currently “decoupled” from any federal tax repeal and, therefore, State estate tax revenues would not be directly impacted.

## **Part 4**

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### **General Fund Budget and Forecast**



**General Fund: Recent History and Outlook**  
**Fiscal 2017-2019**  
**(\$ in Millions)**

	2017 Actual	2018 Working	2019 Baseline
<b>Funds Available</b>			
Ongoing Revenues	\$16,664	\$17,066	\$17,650
Balances and Transfers	630	259	254
One-time GAAP Transfer	47	0	0
Short-term Revenues	19	15	0
<b>Total Funds Available</b>	<b>\$17,361</b>	<b>\$17,340</b>	<b>\$17,904</b>
<b>Appropriations, Deficiencies, and Cost Containment</b>			
Net Ongoing Operating Costs and Deficiencies	\$16,934	\$17,369	\$17,948
One-time Spending	45	0	0
One-time Spending/Reductions	-94	-112	-31
Pay-as-you-go Capital	62	10	78
Appropriations to Reserve Fund	155	10	196
<b>Total Spending</b>	<b>\$17,102</b>	<b>\$17,277</b>	<b>\$18,191</b>
<b>Cash Balance/Shortfall</b>	<b>\$259</b>	<b>\$63</b>	<b>-\$287</b>
<b>Structural</b>			
<b>Balance</b> (Ongoing Revenues Less Operating Costs)	<b>-\$269</b>	<b>-\$302</b>	<b>-\$298</b>
<b>Ratio</b> (Ongoing Revenues/Operating Costs)	<b>98.4%</b>	<b>98.3%</b>	<b>98.3%</b>
<b>Reserve Fund Activity</b>			
Appropriations to Rainy Day Fund	\$155	\$10	\$196
Transfers to General Fund	170	0	191
<b>Estimated Rainy Day Fund Balance – June 30</b>	<b>\$833</b>	<b>\$858</b>	<b>\$882</b>
<b>Total Cash (Rainy Day Fund and General Fund Balance)</b>	<b>\$1,091</b>	<b>\$921</b>	<b>\$595</b>
<b>Rainy Day Fund Balance In Excess of 5%</b>	<b>-\$2</b>	<b>\$2</b>	<b>\$1</b>

GAAP: generally accepted accounting principles

**Fiscal 2018 Fund Balance Reconciliation**  
**(\$ in Millions)**

<b>Estimated Closing Fund Balance (July 2017)</b>	<b>\$91.1</b>
<b>Revenues &amp; Transfers</b>	
Sept and Dec 2017 BRE Revisions	-\$125.5
Fiscal 2017 Closeout	90.3
September 2017 BPW Assumptions	1.0
Tax Credit Reimbursements Closeout & Sept BRE	-0.1
<b><i>Subtotal</i></b>	<b><i>-34.3</i></b>
<b>Spending</b>	
Fiscal 2017 Closeout Reversions	72.6
September 2017 BPW Withdrawn Appropriation	61.0
Fiscal 2018 Deficiencies	-127.2
<b><i>Subtotal</i></b>	<b><i>6.4</i></b>
<b>Estimated Closing Fund Balance December 2017)</b>	<b>\$63.2</b>

BPW: Board of Public Works

BRE: Board of Revenue Estimates

GAAP: generally accepted accounting principles

## Outlook for Fiscal 2019 Improves

### Comparison of July 2017 Forecast to the October 2017 Forecast (\$ in Millions)

	<b><u>Estimated Cash Balance</u></b>	<b><u>Estimated Structural Balance</u></b>
July 2017 Forecast	-\$742	-\$721
October 2017 Forecast	-182	-304
<b>Difference</b>	<b>\$560</b>	<b>\$417</b>
<b>Reasons for Difference:</b>		
Debt Service Premiums and Savings	\$227	\$227
Fiscal 2017 Closeout Revenues and Reversions	163	0
Medicaid Enrollment and Medical Expenditure Trends	191	191
Health Insurance Prescription Drugs and Balance	98	36
Other	19	-6
Sept 2017 Board of Public Works Cuts and Revenues	62	42
Rainy Day Fund Transfer due to closeout sweeper	46	
Fiscal 2018 Deficiencies	-121	
Board of Revenue Estimates Revenue Revisions	-125	-73
<b>Total</b>	<b>\$560</b>	<b>\$417</b>

**\$185 Million in Potential Fiscal 2018 General Fund Deficiencies are Partially Offset by  
Projected Savings in Health Insurance Costs  
(\$ in Millions)**

<b>Medicaid:</b> Fiscal 2017 behavioral health costs carried into fiscal 2018 attributed mainly to higher spending on substance use disorder services (\$17.2 million). Fiscal 2018 deficiencies (\$53.6 million) reflect: higher than budgeted medical expenses (\$20.7 million), primarily due to lower estimates of pharmacy rebates; and lower than budgeted special fund attainment (\$32.9 million), primarily due to a shortfall in Cigarette Restitution Fund (CRF) support based on the timing of the 2004 sales year arbitration ruling concerning non-participating manufacturers and lower CRF revenues overall.	\$70.8
<b>Federal Fund and Revenue Underattainment:</b> Maryland State Department of Education (MSDE) lower than budgeted Education Trust Fund revenues in fiscal 2017 (\$5.7 million) and fiscal 2018 (\$35.0 million); and Department of Human Services (DHS) underattainment of federal funds throughout the department based on the most recent actuals (\$4.1 million).	\$44.8
<b>Long-term Liabilities:</b> Developmental Disabilities Administration federal fund audit disallowance for residential habilitation services (\$34.2 million); and Department of Labor, Licensing, and Regulation federal fund claims over several years (\$4.6 million).	\$38.8
<b>Operating Expenses:</b> Public Safety and Correctional Services estimated costs of new Pharmacy contract (\$18.0 million); Office of the Public Defender panel attorneys and general operating expenses (\$5.6 million); Department of General Services expenses related to eMaryland marketplace (\$4.5 million); Maryland Department of Health (\$2.3 million) including funding for new psychiatric bed capacity, upgraded staffing at the Office of the Chief Medical Examiner, and maintenance expenses at Crownsville; MSDE Nonpublic Placements (\$1.9 million); and DHS (-\$1.6 million) operating expenses offset by a surplus in the Temporary Disabilities Assistance Program.	\$30.7
<b>Anticipated Fiscal 2018 Savings in Health Insurance Costs:</b> Savings from the new pharmacy contract and the availability of over \$190.0 million in fund balance at the close of fiscal 2017.	-\$64.0
<b>Total Deficiencies</b>	<b>\$121.1</b>

# Fiscal 2019 Baseline Budget Forecast Assumptions

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## Baseline Budget Concepts

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions.
- Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.
- Major inflation assumptions include natural gas (4.0%), medical care and medicine/drugs at State facilities (3.5%), postage (2.6%), utilities/electricity (2.2%), and food (2.1%).
- Employee compensation costs include:
  - a general salary increase of 1.0% effective July 2018, and funding for employee increments on the regular July-January schedule;
  - employee and retiree health insurance savings as a result of high fiscal 2017 ending fund balances and a new pharmacy contract inflation (-5.7%); and
  - employee retirement costs (0.3%).
- The higher education grant is calculated primarily on growth in mandatory costs and assuming a 3.0% tuition increase.

## Caseload Assumptions

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>% Change FY 2018-2019</u>
Pupil Enrollment*	845,861	852,520	857,885	0.6%
Medicaid	895,389	920,251	938,880	2.0%
Children's Health	144,294	147,180	150,123	2.0%
Expansion under Affordable Care Act	290,718	313,976	329,674	5.0%
Temporary Cash Assistance	50,901	46,699	44,298	-5.1%
Foster Care/Adoption/Guardianship	12,977	12,626	12,316	-2.5%
Adult Prison Population	19,485	19,623	19,851	1.2%

\* Data for fiscal 2017, 2018, and 2019 reflect September 2015, September 2016, and September 2017 (est.) full-time equivalent enrollments.

# State Expenditures – General Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018 to FY 2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$259.4	\$259.6	\$221.0	-\$38.6	-14.9%
County/Municipal	\$262.5	\$271.6	\$282.7	\$11.1	4.1%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	5,924.7	5,935.9	6,113.4	177.6	3.0%
Health	49.5	51.1	55.4	4.4	8.5%
<b>Aid to Local Governments</b>	<b>\$6,551.1</b>	<b>\$6,576.3</b>	<b>\$6,777.9</b>	<b>\$201.7</b>	<b>3.1%</b>
Foster Care Payments	\$177.8	\$184.5	\$180.5	-\$4.0	-2.2%
Assistance Payments	64.5	59.6	51.3	-8.3	-13.9%
Medical Assistance	2,995.7	3,151.9	3,423.4	271.5	8.6%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
<b>Entitlements</b>	<b>\$3,320.3</b>	<b>\$3,483.4</b>	<b>\$3,737.7</b>	<b>\$254.3</b>	<b>7.3%</b>
Health	\$1,369.2	\$1,422.9	\$1,503.1	\$80.2	5.6%
Human Resources	406.6	379.9	387.8	7.8	2.1%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	272.4	268.4	276.3	7.9	3.0%
Public Safety/Police	1,522.0	1,496.4	1,570.6	74.2	5.0%
Higher Education	1,422.2	1,439.5	1,511.7	72.2	5.0%
Other Education	417.5	436.9	449.2	12.3	2.8%
Agriculture/Natural Res./Environment	119.8	120.3	126.0	5.7	4.8%
Other Executive Agencies <sup>(1)</sup>	696.0	677.0	768.4	91.4	13.5%
Judiciary	481.7	490.4	499.5	9.1	1.9%
Legislative	89.2	90.3	91.9	1.6	1.8%
<b>State Agencies</b>	<b>\$6,813.1</b>	<b>\$6,840.5</b>	<b>\$7,205.0</b>	<b>\$364.5</b>	<b>5.3%</b>
Anticipated Deficiencies	\$0.0	\$121.1	\$0.0	-\$121.1	-100.0%
<b>Total Operating</b>	<b>\$16,943.9</b>	<b>\$17,280.9</b>	<b>\$17,941.7</b>	<b>\$660.7</b>	<b>3.8%</b>
Capital <sup>(2)</sup>	\$62.3	\$9.5	\$78.4	\$68.9	725.3%
<b>Subtotal</b>	<b>\$17,006.2</b>	<b>\$17,290.4</b>	<b>\$18,020.1</b>	<b>\$729.7</b>	<b>4.2%</b>
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
<b>Appropriations</b>	<b>\$17,161.5</b>	<b>\$17,300.4</b>	<b>\$18,216.4</b>	<b>\$916.0</b>	<b>5.3%</b>
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
<b>Grand Total</b>	<b>\$17,131.5</b>	<b>\$17,270.2</b>	<b>\$18,186.4</b>	<b>\$916.2</b>	<b>5.3%</b>

<sup>(1)</sup> Fiscal 2019 includes \$30.4 million for health insurance costs that will be allocated among the agencies.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2017 working appropriation includes deficiencies and \$125.8 million in targeted reversions. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017 which reduced general fund spending by \$61.0 million.

## State Expenditures – State Funds (\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2017-2018 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,489.1	\$1,564.3	\$1,630.8	\$66.6	4.3%
County/Municipal	\$604.9	\$671.1	\$665.9	-\$5.2	-0.8%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	6,399.3	6,458.0	6,621.3	163.3	2.5%
Health	49.5	51.1	55.4	4.4	8.5%
<b>Aid to Local Governments</b>	<b>\$7,368.1</b>	<b>\$7,497.9</b>	<b>\$7,669.0</b>	<b>\$171.1</b>	<b>2.3%</b>
Foster Care Payments	\$180.0	\$188.8	\$184.9	-\$3.9	-2.1%
Assistance Payments	77.8	72.1	63.3	-8.8	-12.2%
Medical Assistance	3,970.4	4,152.2	4,376.2	224.0	5.4%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
<b>Entitlements</b>	<b>\$4,310.5</b>	<b>\$4,500.6</b>	<b>\$4,706.9</b>	<b>\$206.4</b>	<b>4.6%</b>
Health	\$1,887.3	\$1,890.0	\$1,942.9	\$52.9	2.8%
Human Resources	504.7	473.5	479.3	5.8	1.2%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	276.2	271.6	279.7	8.0	3.0%
Public Safety/Police	1,746.7	1,718.0	1,797.1	79.1	4.6%
Higher Education	5,782.8	5,882.5	6,026.4	143.9	2.4%
Other Education	487.5	506.8	519.6	12.8	2.5%
Transportation	1,837.4	1,907.6	1,998.7	91.1	4.8%
Agriculture/Natural Res./Environment	401.6	413.2	423.1	9.9	2.4%
Other Executive Agencies <sup>(1)</sup>	1,407.2	1,365.0	1,435.7	70.7	5.2%
Judiciary	541.0	556.7	557.0	0.3	0.1%
Legislative	89.2	90.3	91.9	1.6	1.8%
<b>State Agencies</b>	<b>\$14,978.2</b>	<b>\$15,093.8</b>	<b>\$15,572.0</b>	<b>\$478.3</b>	<b>3.2%</b>
Anticipated Deficiencies	\$0.0	\$105.6	\$0.0	-\$105.6	-100.0%
<b>Total Operating</b>	<b>\$28,145.9</b>	<b>\$28,762.1</b>	<b>\$29,578.8</b>	<b>\$816.6</b>	<b>2.8%</b>
Capital <sup>(2)</sup>	\$1,940.7	\$1,920.2	\$2,124.8	\$204.6	10.7%
– Transportation	1,554.5	1,575.1	1,607.2	32.2	2.0%
– Environment	210.3	187.6	228.1	40.5	21.6%
– Other	175.8	157.5	289.4	131.9	83.7%
<b>Subtotal</b>	<b>\$30,086.5</b>	<b>\$30,682.3</b>	<b>\$31,703.6</b>	<b>\$1,021.3</b>	<b>3.3%</b>
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
<b>Appropriations</b>	<b>\$30,241.9</b>	<b>\$30,692.3</b>	<b>\$31,899.9</b>	<b>\$1,207.6</b>	<b>3.9%</b>
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
<b>Grand Total</b>	<b>\$30,211.9</b>	<b>\$30,662.1</b>	<b>\$31,869.9</b>	<b>\$1,207.9</b>	<b>3.9%</b>

<sup>(1)</sup> Fiscal 2019 includes \$30.4 million for health insurance costs that will be allocated among the agencies.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2017 working appropriation reflects deficiencies, \$125.8 million in targeted reversions, and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017 which reduced general and special fund spending by \$62.9 million. Fiscal 2018 also reflects \$37.9 million in additional special fund spending due to funding swaps.

## Components of General Fund Budget Change

(\$ in Millions)

Summary of Budget Growth Compared to Adjusted Legislative Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Debt Service/Local Aid/Entitlements	\$417.3	53.4%
State Agency Costs	364.5	46.6%
<b>Growth in Operating Budget, Including Anticipated Deficiencies</b>	<b>\$781.8</b>	
Pay-as-you-go (PAYGO)	\$68.9	
Appropriation to Reserve Fund	186.3	
Reversions	0.3	
<b>Total Baseline Increase in State Expenditures</b>	<b>\$1,037.3</b>	
Deficiency Appropriations	-\$121.1	
<b>Total</b>	<b>\$916.2</b>	
<b>Debt Service/Local Aid/Entitlements</b>		
Medical assistance including \$15.1 million resulting from a 3.5% behavioral provider rate increase per Chapters 571 and 572 of 2017		\$271.5
Education aid formulas including \$3.0 million for Chapters 573 and 574 of 2017 – The Heroin and Opioid Education and Community Action Act		160.1
Teachers and librarians retirement payments		15.6
Community college formula plus miscellaneous grants		8.7
Disparity grant formula		8.6
Local health department funding		4.4
Other local aid including Chapter 692 of 2017 – State Forest, State Park, and Wildlife Management Area Revenue Equity Program (\$2.5 million)		2.4
Library aid formulas		1.9
Foster Care payments – declining caseload trends (\$6.5 million) only partially offset by 2% provider rate increase (\$2.5 million)		-4.0
Property Tax Credit programs		-4.9
Assistance payments – declining enrollment trends in Temporary Cash Assistance and TDAP		-8.3
Debt service – available bond premiums reduce the need for general funds to supplement property tax revenues		-38.6
<b>State Agency Costs</b>		
<b>Statewide Personnel Expenses (Excluding Higher Education):</b>		
Turnover adjustment		\$43.0
Merit pay (increments)		41.9
General salary increase (1%)		23.3
Employee retirement		5.4
Health insurance savings		-11.0
<b>Impact of 2017 Legislation</b>		
Chapters 571 and 572 of 2017 – Behavioral health for the uninsured rate increase (3.5%) and Drug Court grants		12.3
Chapter 149 of 2017 More Jobs for Marylanders Act		11.0
Chapter 689 of 2017 Correctional Officers' Retirement System – Membership		3.0
Chapter 659 of 2017 Sexual Assault Victims Resources Act		1.6
Chapter 513 of 2017 Maryland Historic Trust Grant Fund		1.3
Chapter 26 of 2017 Maryland Defense Act		1.0
Chapter 23 of 2017 Prince George's Medical Center Operating Support		-1.0
Other legislation		4.6

## Components of General Fund Budget Change (cont.)

### Other Major Agency Programmatic and Operating Expenses:

University System of Maryland: General funds required to cover growth in base costs not provided for through tuition and Higher Education Investment Fund revenue	\$58.1
Developmental Disabilities Administration: Mandated 3.5% provider rate increase (\$22.4 million) and fiscal 2019 expansion and annualization of fiscal 2018 expansion (\$13.1 million)	35.5
Behavioral Health Administration: Behavioral health services for the uninsured	18.0
Major Information Technology projects including \$13.2 million for Comptroller's integrated tax system	16.7
Sellinger Formula for Aid to Private Colleges and Universities	8.4
Department of Public Safety and Correctional Services Medical Contract	6.9
Morgan State University	3.5
Maryland Higher Education Commission: Educational Excellence Awards	2.5
Developmental Disabilities Admin.: Expansion of the Transitions Program at the Potomac Center	2.1
Subcabinet Fund competitive funding	2.0
Increase in grants per Chapter 689 of 2016 – The College Affordability Act in the 529 plan	2.0
Cybersecurity Tax Credit restoration of funding	2.0
Judiciary: New Catonsville Court personnel and operating costs	1.7
Department of Information Technology: 700 MHz radio equipment and maintenance contracts	1.6
Maryland State Arts Council grant increase	1.6
Department of Budget and Management: Assumed cost of Annual Salary Review increase based on five-year average	1.1
BCCC: Rebuild of formulas and P-Tech funding per Chapter 591 of 2017	1.0
Maryland School for the Deaf formula adjustment	1.0
Archives additional funding required under the Memorandum of Understanding with Judiciary	1.0
General fund support for video lottery terminal operations	-2.3
Other	\$34.9

**Anticipated Fiscal 2018 Deficiencies Carried over into Fiscal 2019** \$29.2

### Reserve Fund and PAYGO

PAYGO: Repayment of transfer tax funding for Program Open Space per Chapter 10 of 2016	\$37.9
PAYGO: Rebuild of Strategic Demolition and Smart Growth Impact Fund	28.5
PAYGO: Chapter 523 of 2017 National Capital Strategic Economic Development Fund	2.0
PAYGO: Hazardous Substance Cleanup Program increased funding	0.5
Reserve fund rebuild to reflect unassigned fiscal 2017 fund balance per statute	186.3

**Total** **\$1,037.3**

BCCC: Baltimore City Community College  
 TDAP: Temporary Disability Assistance Program

## General Fund Growth in Medicaid/Maryland Children’s Health Program Is Expected to be \$272 Million above the Fiscal 2018 Working Appropriation

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<u>Funds</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 WA</u>	<u>Fiscal 2018 DLS Estimate</u>	<u>Fiscal 2019 Baseline</u>	<u>\$ Change 18WA -19</u>	<u>% Change 18WA -19</u>
General	\$3,007.7	\$3,151.9	\$3,205.5	\$3,423.4	\$271.5	8.6%
Special	963.6	1,000.3	967.3	952.8	-47.5	-4.7%
Federal	6,720.0	6,919.1	6,893.2	7,165.0	245.9	3.6%
Reimbursable	70.5	75.2	70.5	70.5	-4.7	-6.3%
<b>Total</b>	<b>\$10,761.8</b>	<b>\$11,146.5</b>	<b>\$11,136.5</b>	<b>\$11,611.7</b>	<b>\$465.2</b>	<b>4.2%</b>

DLS: Department of Legislative Services

WA: working appropriation

Note: DLS Fiscal 2018 Estimate attributes anticipated fiscal 2018 deficiency appropriations to the appropriate fiscal year. Data is for major provider payments only.

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- After adjusting for the September Board of Public Works reductions, the fiscal 2019 baseline assumes overall growth in the Medicaid budget of 4.2%. However, general fund growth is much higher at 8.6%. After adjusting for anticipated deficiency appropriations, overall Medicaid growth is expected to be 4.3%, with general fund growth of 6.8%.
  - Major drivers of general fund growth include:
    - Provider rates (\$103 million) including the fiscal 2019 impact of calendar 2018 managed care organization rate increases (3.8%), increased behavioral health rates per Chapters 571 and 572 of 2017 (3.5%), and assumptions of regulated (2.5%) and community provider (ranging from 2.0% to 2.9%) rate increases;
    - Enrollment and utilization (\$42 million). The fiscal 2019 baseline assumes an average monthly enrollment of 1.41 million, compared to year-to-date enrollment of 1.36 million, a 1.8% annual growth rate. Importantly, almost half of the enrollment growth is in the Affordable Care Act (ACA) expansion and the Maryland Children’s Health Program eligibility categories for which the State receives an enhanced match.
    - Fiscal 2018 deficiency medical costs rolled forward into fiscal 2019 (\$21 million).

- Expectations of lower special fund attainment (\$48 million) primarily due to the mandated reduction in the Medicaid Deficit Assessment and the availability of Cigarette Restitution Fund support.
- The increasing State’s budget responsibility for the ACA expansion population after rate and enrollment changes (\$26.0 million). In fiscal 2019, the State is responsible for 6.5% of total estimated expenditures of \$2.9 billion, up from 5.5% in fiscal 2018.
- The fiscal 2019 baseline assumes that the Children’s Health Insurance Program will be reauthorized by Congress and will maintain both the current matching and eligibility requirements (specifically the enhanced federal match that is scheduled to continue through federal fiscal 2019). Absent this reauthorization, Maryland is required to maintain coverage for the 145,000 children currently enrolled in the program through federal fiscal 2019 at the regular Medicaid matching rate. Depending on when available funding is exhausted (around the third quarter of fiscal 2018), this would result in additional deficiency requirements in fiscal 2018 plus an additional \$104 million general fund need in fiscal 2019.
- Although efforts at the federal level to change the current funding requirements for Medicaid (both through block grants as well as changes to the support for the ACA expansion population) have thus far been unsuccessful, those efforts may yet re-surface. The largest short-term threat to the State budget would involve any change in funding to the ACA expansion population. For example, compared to current law, under the Graham-Cassidy proposal, it was estimated that Maryland would lose \$13.5 billion in federal funds between federal fiscal 2020 and 2026 related just to the ACA expansion population. Block grant proposals for most of the traditional Medicaid population could also have had an impact toward the end of the forecast period, particularly for the elderly and disabled adults.

**General Fund Budget Outlook**  
**Fiscal 2018-2023**  
(\$ in Millions)

	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2019-2023 Average Annual Change</b>
	<b><u>Work. App.</u></b>	<b><u>Baseline</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>	<b><u>Est.</u></b>	
<b>Revenues</b>							
Opening Fund Balance	\$259	\$111	\$0	\$0	\$0	\$0	
Transfer	0	191	38	36	35	36	
One-time Revenues/Legislation	15	0	0	0	0	0	
<b>Subtotal One-time Revenue</b>	<b>\$274</b>	<b>\$302</b>	<b>\$38</b>	<b>\$36</b>	<b>\$35</b>	<b>\$36</b>	
Ongoing Revenues	\$17,139	\$17,639	\$18,256	\$18,923	\$19,620	\$20,316	
Revenue Adjustments – Legislation	0	0	0	0	0	0	
<b>Subtotal Ongoing Revenue</b>	<b>\$17,139</b>	<b>\$17,639</b>	<b>\$18,256</b>	<b>\$18,923</b>	<b>\$19,620</b>	<b>\$20,316</b>	<b>3.6%</b>
<b>Total Revenues and Fund Balance</b>	<b>\$17,413</b>	<b>\$17,941</b>	<b>\$18,294</b>	<b>\$18,959</b>	<b>\$19,655</b>	<b>\$20,352</b>	<b>3.2%</b>
<b>Ongoing Spending</b>							
Operating Spending	\$17,882	\$18,487	\$19,518	\$20,433	\$21,295	\$22,169	
Education Trust Fund <sup>1</sup>	-487	-508	-515	-508	-515	-523	
<b>Subtotal Ongoing Spending</b>	<b>\$17,394</b>	<b>\$17,980</b>	<b>\$19,003</b>	<b>\$19,925</b>	<b>\$20,780</b>	<b>\$21,646</b>	<b>4.7%</b>
<b>One-time Spending</b>							
PAYGO Capital	\$10	\$78	\$50	\$50	\$31	\$31	
Legislation/One-time Adjustments/Swaps	-112	-61	0	0	0	0	
Appropriation to Reserve Fund	10	196	50	83	83	83	
<b>Subtotal One-time Spending</b>	<b>-\$92</b>	<b>\$213</b>	<b>\$100</b>	<b>\$133</b>	<b>\$114</b>	<b>\$114</b>	
<b>Total Spending</b>	<b>\$17,302</b>	<b>\$18,193</b>	<b>\$19,103</b>	<b>\$20,058</b>	<b>\$20,893</b>	<b>\$21,760</b>	<b>4.6%</b>
<b>Ending Balance</b>	<b>\$111</b>	<b>-\$252</b>	<b>-\$809</b>	<b>-\$1,100</b>	<b>-\$1,238</b>	<b>-\$1,408</b>	
Rainy Day Fund Balance	\$858	\$882	\$913	\$946	\$981	\$1,015	
Balance over 5% of GF Revenues	1	0	0	0	0	-0.4	
As % of GF Revenues	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
<b>Structural Balance</b>	<b>-\$255</b>	<b>-\$340</b>	<b>-\$747</b>	<b>-\$1,003</b>	<b>-\$1,159</b>	<b>-\$1,330</b>	

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

<sup>1</sup>Education Trust Fund is supported by revenues from video lottery terminals and table games.

# General Fund Budget Outlook

Fiscal 2018-2023

(\$ in Millions)

	FY 2018 <u>Work. App.</u>	FY 2019 <u>Baseline</u>	FY 2020 <u>Est.</u>	FY 2021 <u>Est.</u>	FY 2022 <u>Est.</u>	FY 2023 <u>Est.</u>	FY 2019- 2023 Average Annual Change
<b>Revenues</b>							
Opening Fund Balance	\$259	\$63	\$0	\$0	\$0	\$0	
Transfer	0	191	43	36	35	35	
One-time Revenues/Legislation	15	0	0	0	0	0	
<b>Subtotal One-time Revenue</b>	<b>\$273</b>	<b>\$254</b>	<b>\$43</b>	<b>\$36</b>	<b>\$35</b>	<b>\$35</b>	
Ongoing Revenues	\$17,066	\$17,650	\$18,164	\$18,813	\$19,509	\$20,221	
Revenue Adjustments – Legislation	\$0	\$0	\$0	\$0	\$0	\$0	
<b>Subtotal Ongoing Revenue</b>	<b>\$17,066</b>	<b>\$17,650</b>	<b>\$18,164</b>	<b>\$18,813</b>	<b>\$19,509</b>	<b>\$20,221</b>	<b>3.5%</b>
<b>Total Revenues and Fund Balance</b>	<b>\$17,340</b>	<b>\$17,904</b>	<b>\$18,207</b>	<b>\$18,849</b>	<b>\$19,544</b>	<b>\$20,256</b>	<b>3.1%</b>
<b>Ongoing Spending</b>							
Operating Spending	\$17,850	\$18,451	\$19,507	\$20,419	\$21,280	\$22,154	
Education Trust Fund <sup>1</sup>	-481	-503	-510	-503	-510	-518	
<b>Subtotal Ongoing Spending</b>	<b>\$17,369</b>	<b>\$17,948</b>	<b>\$18,997</b>	<b>\$19,917</b>	<b>\$20,770</b>	<b>\$21,636</b>	<b>4.7%</b>
<b>One-time Spending</b>							
Pay-as-you-go Capital	\$10	\$78	\$50	\$50	\$31	\$31	
Legislation/One-time Adjustments/Swaps	-112	-61	0	0	0	0	
Appropriation to Reserve Fund	10	196	50	83	83	83	
<b>Subtotal One-time Spending</b>	<b>-\$92</b>	<b>\$213</b>	<b>\$100</b>	<b>\$133</b>	<b>\$114</b>	<b>\$114</b>	
<b>Total Spending</b>	<b>\$17,277</b>	<b>\$18,191</b>	<b>\$19,096</b>	<b>\$20,050</b>	<b>\$20,884</b>	<b>\$21,750</b>	<b>4.6%</b>
<b>Ending Balance</b>	<b>\$63</b>	<b>-\$287</b>	<b>-\$889</b>	<b>-\$1,200</b>	<b>-\$1,340</b>	<b>-\$1,493</b>	
Rainy Day Fund Balance	\$858	\$882	\$908	\$941	\$976	\$1,011	
Balance over 5% of General Fund Revenues	4	0	0	0	0	0	
As % of General Fund Revenues	5.03%	5.00%	5.00%	5.00%	5.00%	5.00%	
<b>Structural Balance</b>	<b>-\$302</b>	<b>-\$298</b>	<b>-\$832</b>	<b>-\$1,103</b>	<b>-\$1,261</b>	<b>-\$1,414</b>	

<sup>1</sup>Education Trust Fund is supported by revenues from video lottery terminals and table games.

## General Fund Spending Growth by Component (\$ in Millions)

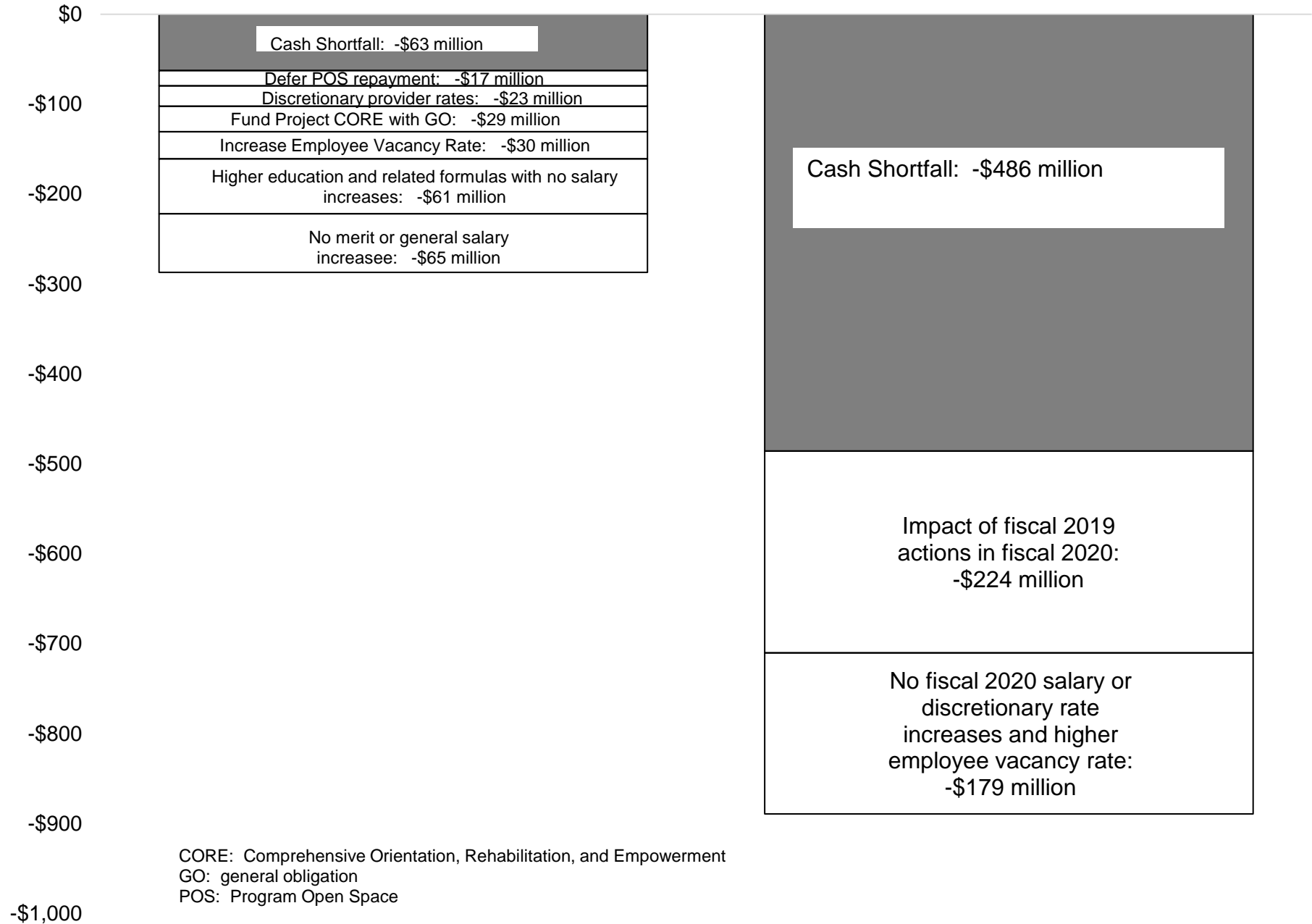
	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2023</u> <u>Est.</u>	<u>\$ Growth</u>	<u>Avg. Annual</u> <u>% Change</u>
Mandates (Local Aid, Sellinger, Legislation)	\$6,944	\$8,074	\$1,130	3.8%
Employee Salary, COLA, Merits, Health Benefits	2,577	2,978	401	3.7%
Debt Service	221	537	316	24.9%
Employee Retirement	438	542	104	5.5%
Agencies and Higher Education	3,391	3,734	343	2.4%
Developmental Disabilities Administration	639	773	134	4.9%
Entitlements	3,738	4,998	1,260	7.5%
Ongoing Spending	\$17,948	\$21,636	\$3,688	4.8%
Ongoing Revenues	17,650	20,221	2,571	3.5%
<b>Structural Gap</b>	<b>-\$298</b>	<b>-\$1,414</b>	<b>-\$1,117</b>	<b>47.7%</b>

<u>Mandates</u>	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2023</u> <u>Est.</u>	<u>\$ Growth</u>	<u>Avg. Annual</u> <u>% Change</u>
Aid to Education	\$6,037	\$6,936	\$899	3.5%
Community Colleges	326	475	149	9.8%
Aid to Local Health Departments	55	76	21	8.4%
Sellinger Formula for Independent Colleges	57	101	44	15.2%
Other	467	485	18	1.0%
<b>Total Mandates</b>	<b>\$6,944</b>	<b>\$8,074</b>	<b>\$1,130</b>	<b>3.8%</b>

COLA: cost-of-living-adjustment

## Discretionary Actions to Reduce Cash Shortfall in Fiscal 2019 to \$63 million

## Discretionary Actions to Reduce Cash Shortfall in Fiscal 2020 to \$486 million





## **Part 5**

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### **Local Government Assistance**



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

	<b><u>FY 2019</u></b> <b><u>State Aid Amount</u></b>	<b><u>Percent</u></b> <b><u>of Total</u></b>
Public Schools	\$6,546.2	85.0%
County/Municipal	694.4	9.0%
Community Colleges	326.4	4.2%
Libraries	81.2	1.1%
Local Health	55.4	0.7%
<b>Total</b>	<b>\$7,703.6</b>	<b>100.0%</b>

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**Change in State Aid**  
**State Funds**  
**(\$ in Millions)**

	<b><u>FY 2019</u></b> <b><u>Aid Change</u></b>	<b><u>Percent</u></b> <b><u>Change</u></b>
Public Schools	\$160.9	2.5%
County/Municipal	4.6	0.7%
Community Colleges	8.7	2.7%
Libraries	2.4	3.1%
Local Health	4.4	8.5%
<b>Total</b>	<b>\$180.9</b>	<b>2.4%</b>

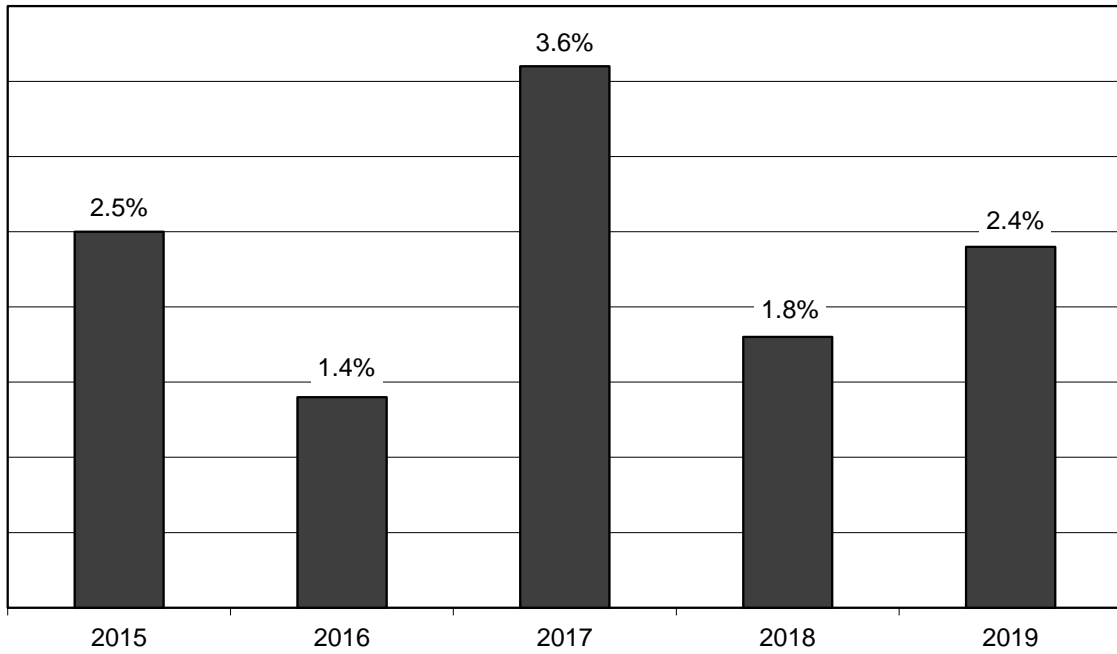
**State Aid by Major Programs**  
**Fiscal 2017-2019**  
**State Funds**  
**(\$ in Millions)**

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u> <u>Baseline</u>	<u>FY 2018-2019</u> <u>\$ Change</u>	<u>FY 2018-2019</u> <u>% Change</u>
<b>Public Schools</b>					
Foundation Program	\$2,962.0	\$3,005.3	\$3,045.6	\$40.3	1.3%
Supplemental Grant	46.6	46.6	46.6	0.0	0.0%
Geographic Cost Index	136.9	139.1	141.0	1.9	1.4%
NTI Education Grants	39.7	49.2	62.2	13.0	26.4%
TIF Education Grants	0.0	0.4	0.5	0.1	13.6%
Declining Enrollment Grants	0.0	17.2	12.9	-4.4	-25.4%
Foundation – Special Grants	19.4	0.0	0.0	0.0	
Compensatory Aid	1,309.1	1,305.5	1,349.7	44.2	3.4%
Student Transportation	270.8	276.3	281.3	4.9	1.8%
Special Education – Formula Aid	279.6	284.9	288.8	3.9	1.4%
Special Education – Nonpublic Placements	121.6	123.6	126.1	2.5	2.0%
Limited English Proficiency Grants	227.0	248.7	267.5	18.8	7.6%
Guaranteed Tax Base	54.5	50.3	49.1	-1.2	-2.3%
Aging Schools Program	0.0	6.1	6.1	0.0	0.0%
Head Start/Pre-kindergarten	6.1	20.7	29.8	9.1	44.0%
Other Education Programs	64.1	76.9	89.5	12.6	16.4%
<b>Subtotal Direct Aid</b>	<b>\$5,537.5</b>	<b>\$5,650.9</b>	<b>\$5,796.7</b>	<b>\$145.8</b>	<b>2.6%</b>
Retirement Payments	\$787.0	\$734.5	\$749.6	\$15.1	2.1%
<b>Total Public School Aid</b>	<b>\$6,324.5</b>	<b>\$6,385.3</b>	<b>\$6,546.2</b>	<b>\$160.9</b>	<b>2.5%</b>
<b>Libraries</b>					
Library Aid Formula	\$36.4	\$40.7	\$42.0	\$1.3	3.1%
State Library Network	17.0	17.7	18.4	0.7	3.8%
<b>Subtotal Direct Aid</b>	<b>\$53.4</b>	<b>\$58.4</b>	<b>\$60.3</b>	<b>\$1.9</b>	<b>3.3%</b>
Retirement Payments	\$20.9	\$20.3	\$20.8	\$0.5	2.4%
<b>Total Library Aid</b>	<b>\$74.3</b>	<b>\$78.7</b>	<b>\$81.2</b>	<b>\$2.4</b>	<b>3.1%</b>
<b>Community Colleges</b>					
Community College Formula	\$234.4	\$235.2	\$243.9	\$8.8	3.7%
Other Programs	33.5	37.9	36.3	-1.7	-4.4%
<b>Subtotal Direct Aid</b>	<b>\$267.9</b>	<b>\$273.1</b>	<b>\$280.2</b>	<b>\$7.1</b>	<b>2.6%</b>
Retirement Payments	\$46.5	\$44.6	\$46.2	\$1.6	3.5%
<b>Total Community College Aid</b>	<b>\$314.3</b>	<b>\$317.7</b>	<b>\$326.4</b>	<b>\$8.7</b>	<b>2.7%</b>
<b>Local Health Grants</b>	<b>\$49.5</b>	<b>\$51.1</b>	<b>\$55.4</b>	<b>\$4.4</b>	<b>8.5%</b>
<b>County/Municipal Aid</b>					
Transportation	\$209.6	\$219.9	\$185.8	-\$34.1	-15.5%
Public Safety	127.2	131.6	132.8	1.2	0.9%
Program Open Space	27.2	40.7	65.1	24.4	59.9%
Disparity Grant	132.8	138.8	147.4	8.6	6.2%
Gaming Impact Grants	65.0	87.0	88.2	1.1	1.3%
Neighborhood Revitalization Grants	21.5	25.6	28.5	2.9	11.2%
Teacher Retirement Supplemental Grant	27.7	27.7	27.7	0.0	0.0%
Other Grants	17.5	18.5	18.9	0.5	2.5%
<b>Total County/Municipal Aid</b>	<b>\$628.6</b>	<b>\$689.8</b>	<b>\$694.4</b>	<b>\$4.6</b>	<b>0.7%</b>
<b>Total State Aid</b>	<b>\$7,391.1</b>	<b>\$7,522.7</b>	<b>\$7,703.6</b>	<b>\$180.9</b>	<b>2.4%</b>

NTI: net taxable income

TIF: Tax Increment Financing

## Annual Change in State Aid to Local Governments Fiscal 2015-2019





## **Part 6**

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### **Capital Program**



# Capital Program

## Pay-as-you-go Outlook

- **General Fund Support for the Capital Program Remains Constrained:** The fiscal situation continues to limit general fund support of the capital program. The fiscal 2019 baseline assumes the use of \$78.4 million in general funds as compared to the \$9.5 million appropriated in the fiscal 2018 budget. Two components comprise the majority of the difference:
- **Project Creating Opportunities for Renewal and Enterprise (C.O.R.E.):** Consistent with the 2017 *Capital Improvement Program* (CIP), the fiscal 2019 baseline assumes \$28.5 million in general fund support for project C.O.R.E. in Baltimore City. This initiative was general obligation (GO) bond funded at \$25.6 million in fiscal 2018 reflecting the constrained use of general fund pay-as-you-go (PAYGO) and would likely be a candidate for GO bond funding in fiscal 2019, the last year of the three-year initiative.
- **Transfer Tax Repayment:** The fiscal 2019 baseline assumes that transfer tax revenues used to fund Program Open Space (POS) will be augmented by the repayment of funds in accordance with Chapter 10 of 2016 and in accordance with the repayment plan established by the Administration in the 2017 CIP. Accordingly, the baseline includes \$37.9 million in general funds that are expended as special funds.
- **Special Fund Support for the Capital Program Projected to Increase in Fiscal 2019:** The 2019 baseline programs a \$128.0 million increase in the use of special fund PAYGO in support of the capital program. This is primarily attributable to changes in the transfer tax revenues available for capital purposes, including the end of transfer tax revenue diversions to the General Fund and increased revenue estimates for fiscal 2019 above fiscal 2018 budgeted estimates.

## Capital PAYGO Program (\$ in Millions)

<u>Fund Type</u>	<u>FY 2017 Final</u>	<u>FY 2018 Leg. Approp.</u>	<u>FY 2019 CIP</u>	<u>FY 2019 Baseline</u>	<u>Difference Baseline to Leg. Approp.</u>	<u>Difference Baseline to CIP</u>
General	\$72.1	\$9.5	\$50.5	\$78.4	\$68.9	\$27.9
Special	355.3	376.3	502.7	504.3	128.0	1.6
Federal	75.1	106.0	69.9	77.7	-28.3	7.8
<b>Total</b>	<b>\$502.5</b>	<b>\$491.8</b>	<b>\$623.1</b>	<b>\$660.4</b>	<b>\$168.6</b>	<b>\$37.3</b>

CIP: *Capital Improvement Program*

PAYGO: pay-as-you-go

Note: Fiscal 2017 final general fund figures include \$6.792 million and \$3.003 million appropriated for the Maryland Department of the Environment Water Quality and Drinking Water revolving loan programs that were reverted to the General Fund at the close out of the fiscal 2017 budget.

## Capital Program (cont.)

- Transfer Tax Replacement Plan:** Chapter 10 of 2016 requires the repayment of \$237.2 million in past redirected transfer tax funds by fiscal 2029. The plan provides for the use of general funds as a source of repayment and includes several components that potentially impact the fiscal 2019 budget. Based on Chapter 10 and the Administration's plan, the fiscal 2019 baseline includes \$37.9 million in general funds of which \$31.9 million is allocated in accordance with the POS statutory formula, and \$6.0 million is provided to Capital Development Projects. Of note, \$16.9 million of the \$31.9 million is not required to be repaid in fiscal 2019 – a cumulative repayment of \$50.7 million could be delayed until fiscal 2021 – but is reflected in the fiscal 2019 baseline in accordance with the Administration's current repayment plan.

### Transfer Tax Replacement Plan Fiscal 2018-2029 (\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023-2029</u>	<u>Total</u>
Payback for Fiscal 2006 Transfer (to be distributed through Transfer Tax formula)	\$0.0	\$15.0	\$15.0	\$15.0	\$0.0	\$0.0	\$45.0
Critical Maintenance/Natural Resources Development Fund (Payback for Fiscal 2006 Transfer)	0.0	6.0	6.0	6.0	6.0	16.0	40.0
Payback for Fiscal 2016 to 2018 Transfer (to be distributed through Transfer Tax formula) *	0.0	16.9	16.9	16.9	12.7	88.8	152.2
<b>Total</b>	<b>\$0.0</b>	<b>\$37.9</b>	<b>\$37.9</b>	<b>\$37.9</b>	<b>\$18.7</b>	<b>\$104.8</b>	<b>\$237.2</b>

\*Statute requires repayment of \$50.7 million by close of fiscal 2021. The Governor's plan is to repay in \$16.9 million installments over fiscal 2019 through 2021.

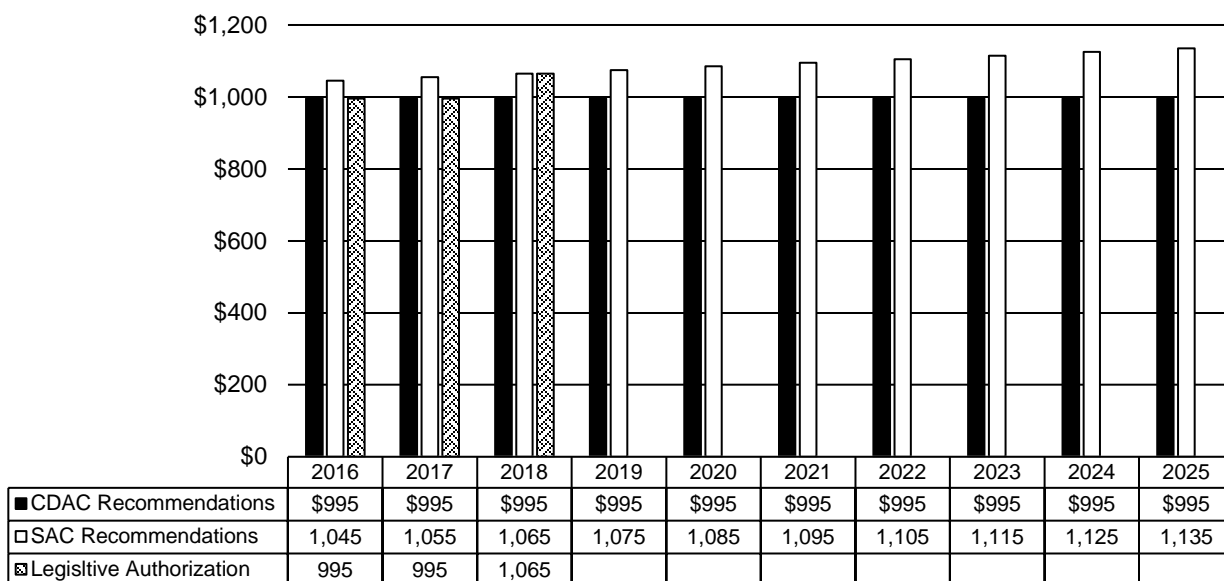
Note: Chapter 10 of 2016 requires the repayment of one-third by fiscal 2021, two-thirds by fiscal 2025, and of the full amount by fiscal 2029. Repayment figures do not include \$5.0 million required to be allocated to the Maryland Agricultural and Resource-Based Industry Development Corporation Next Generation Farmland Acquisition Program considered an operating budget program.

Source: Department of Budget and Management

## Capital Program (cont.)

- Capital Debt Affordability Committee (CDAC) Recommends Annual \$995 Million GO Bond Authorization Level:** The October 2017 CDAC recommendation would keep new GO bond authorizations at \$995 million annually through the planning period and continues the policy of scaled back annual authorizations. The 2016 SAC recommendation, recognizing the need to address the increasing reliance on general funds for debt service, established a limit on new GO bond authorizations that increased by 1% on a year-over-year basis. This moderate growth rate limits increases in GO bond authorizations to projected State property tax revenue increases. Since general funds and other State revenues are projected to increase at an annual rate in excess of 1%, this reduces the ratio of debt service to revenues in the out-years.

**2015-2017 CDAC and 2015-2016 SAC Recommended GO Bond Authorization Levels**  
**Fiscal 2016-2025**  
**(\$ in Millions)**



CDAC: Capital Debt Affordability Committee

GO: general obligation

SAC: Spending Affordability Committee

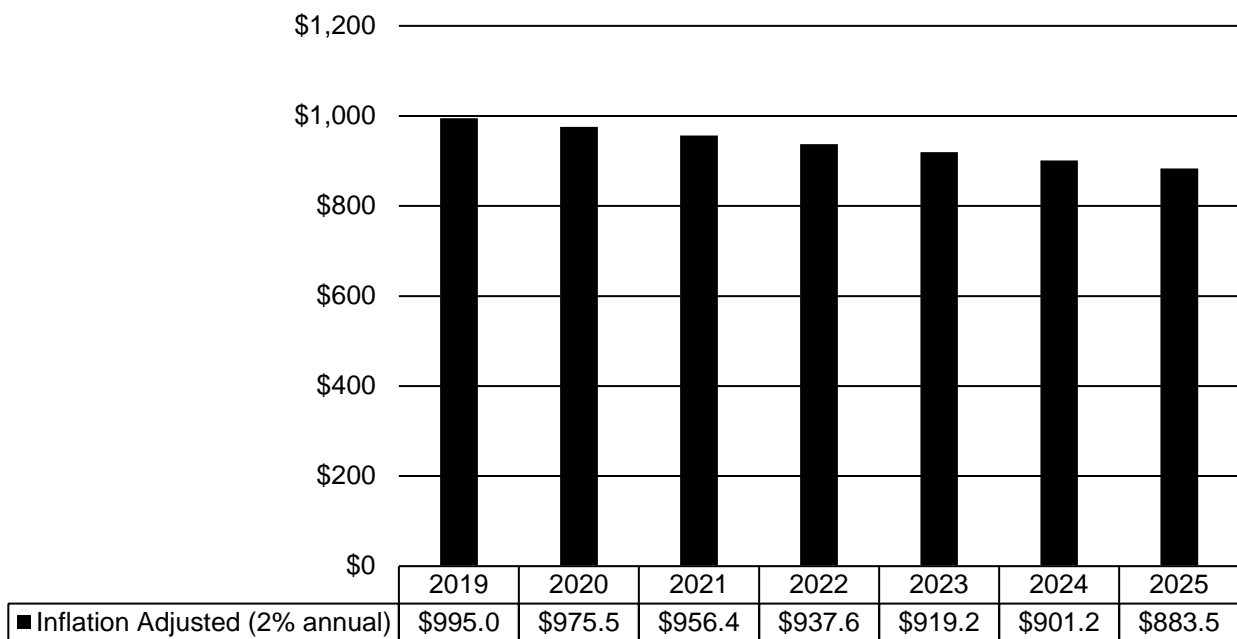
Note: The fiscal 2016 capital program was supplemented with the use of \$48.0 million in bond premiums increasing the amount of bond proceeds made available to the capital program to \$1,043.0 million. The fiscal 2017 capital program was supplemented with \$121.0 million in general funds of which \$42.9 million fenced off in the State Reserve Fund was never appropriated.

Source: 2015, 2016, and 2017 CDAC report, 2016 SAC report

## Capital Program (cont.)

- **Impact of Construction Inflation on Bond Authorization Levels:** The CDAC's 2017 recommendation does not include an annual inflation adjustment. Without annual adjustments to account for the effects of inflation in the construction market, CDAC's proposed level of annual out-year authorization is diminished. The CDAC's recommendation for the 2018 session marks the third year in a row that an annual inflationary increase has not been factored. More recently, prior to the current flat funding recommendation, CDAC policy included a 3% annual growth in new GO bond authorizations; 2% construction inflation; and 1% population growth.

### CDAC Proposed New GO Bond Authorization Levels – Inflation Adjusted Fiscal 2019-2025 (\$ in Millions)

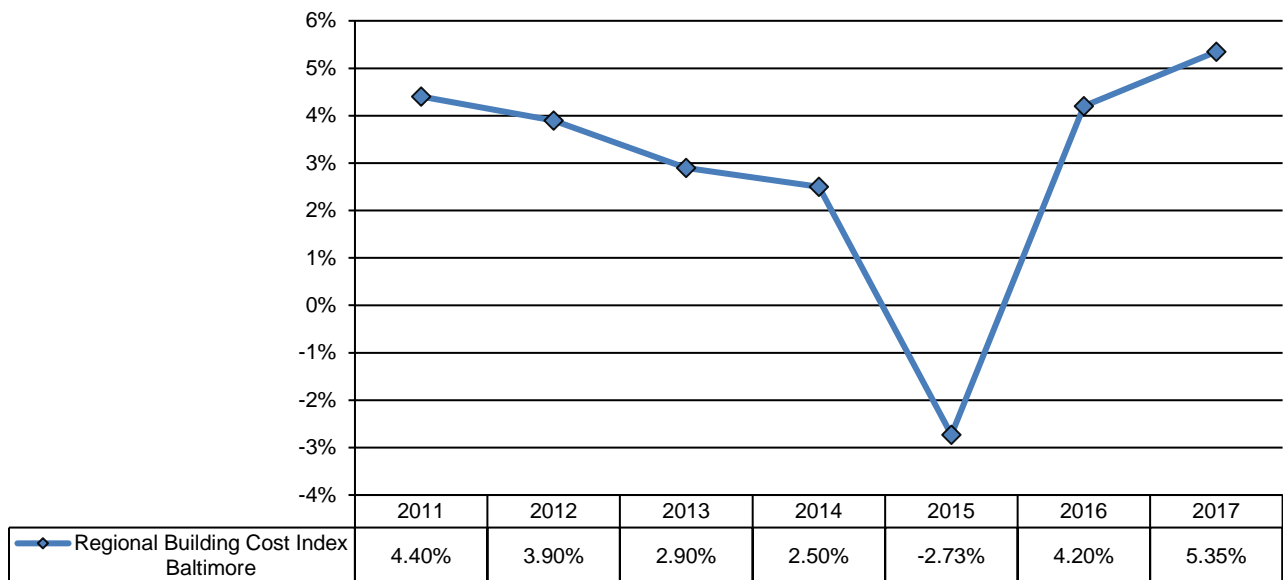


CDAC: Capital Debt Affordability Committee  
GO: general obligation

Source: 2017 CDAC report

## Capital Program (cont.)

### Annual Construction Cost Inflation Calendar 2011-2017



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

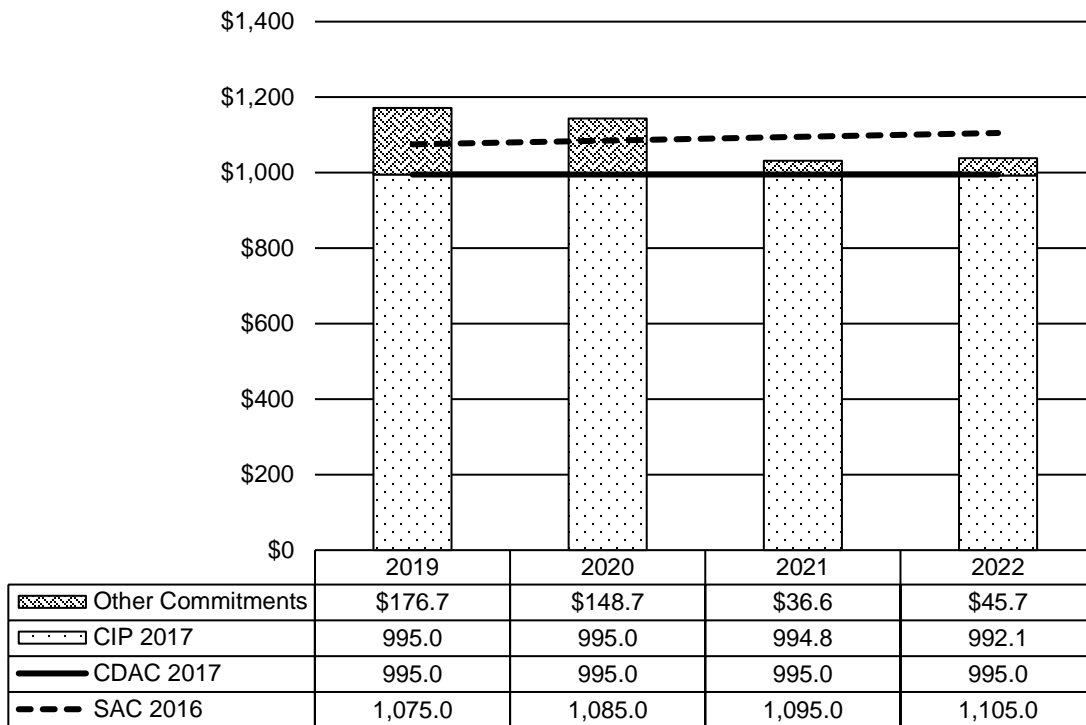
- **Year-over-year Construction Inflation on the Rise:** Following a sharp decline in calendar 2015, beginning in early calendar 2016 and through the first nine months of calendar 2017, year-over-year construction inflation is on the rise. A tightening of the labor market and wage increases has contributed to a steady increase relative to calendar 2015 measures. Overall, from calendar 2011 through the first nine months of calendar 2017, regional construction inflation has increased at an average annual rate of 3.2%. Recent spikes in construction inflation could result in an upward revision of standard annual inflation factors used in estimating out-year project costs as programmed in the annual CIP further stressing a flat \$995 million GO bond authorization level.

### CDAC Recommended GO Bond Authorization Levels Are Insufficient to Meet Commitments

Capital commitments made in the 2017 session exceed the levels of GO bonds currently programmed in the 2017 CIP and recommended by CDAC.

## Capital Program (cont.)

### GO Bond Commitments Made in 2017 Exceed Programmed Authorization Levels Fiscal 2019-2022 (\$ in Millions)



CDAC: Capital Debt Affordability Committee

CIP: *Capital Improvement Program*

GO: general obligation

SAC: Spending Affordability Committee

Source: 2017 CIP; Department of Legislative Services

- Commitments Exceed Programmed GO Bond Authorization Levels:** These additional commitments include mandates established through legislation, capital programs, and projects accelerated by the Administration and the General Assembly; pre-authorization of projects not already included in the CIP; expressions of legislative intent through budget language; and potential GO bond replacement funds for general funds programmed in the 2017 CIP including the transfer tax repayment plan established in Chapter 10 of 2016. Commitments for fiscal 2019 exceed the CDAC recommendation by \$176.7 million.

## Capital Program (cont.)

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### Commitments Made in 2017 Session Exceed Programmed GO Bond Authorization Levels Fiscal 2019-2022 (\$ in Millions)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Projects Accelerated/Enhanced/Deferred	\$35.839	\$29.902	-\$30.322	-\$2.000
Projects Preauthorized	16.460	26.915	0.000	0.000
Mandates	14.000	14.000	14.000	14.000
Expressions of Intent	29.000	25.000		
Legislative Local Initiatives	15.000	15.000	15.000	15.000
<b>Subtotal</b>	<b>\$110.299</b>	<b>\$110.817</b>	<b>-\$1.322</b>	<b>\$27.000</b>
Potential Bond Replacement for GF PAYGO	\$66.407	\$37.907	\$37.907	\$18.680
<b>Total</b>	<b>\$176.706</b>	<b>\$148.724</b>	<b>\$36.585</b>	<b>\$45.680</b>

GF: general fund  
GO: general obligation  
PAYGO: pay-as-you-go

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

Source: 2017 *Capital Improvement Program*; Department of Legislative Services

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## State Debt Policy

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### Capital Debt Affordability Committee Recommends Decreasing Authorizations

- The Capital Debt Affordability Committee (CDAC) reviews State debt policy each year and issues a recommendation for the following legislative session by October 1. CDAC voting members are the State Treasurer, the Comptroller, the Secretary of Budget and Management, the Secretary of Transportation, and an individual appointed by the Governor. The chairs of the Capital Budget subcommittees of the Senate Budget and Taxation Committee and the House Appropriations Committee are also on CDAC.
- CDAC recommends authorizing \$995 million in general obligation (GO) bonds for the fiscal 2019 capital program, compared to \$1,065 million authorized in fiscal 2018. For planning purposes, the committee also recommends maintaining annual expenditures at \$995 million through fiscal 2027.

### State Debt Is within Affordability Ratios

- CDAC's policy is that State tax-supported debt outstanding should not exceed 4.0% of Maryland personal income, and State tax-supported debt service payments should not exceed 8.0% of State revenues.
- The level of GO bond authorizations proposed by CDAC are affordable.
- The Department of Legislative Services (DLS) notes that the level of debt proposed by the Spending Affordability Committee, \$1,075 million authorized in fiscal 2019, is affordable.

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### State Affordability Ratios Fiscal 2018-2023

<u>Fiscal Year</u>	<u>Debt Outstanding Not to Exceed 4% of Personal Income</u>	<u>Debt Service Not to Exceed 8% of Revenues</u>
2018	3.49%	7.74%
2019	3.41%	7.79%
2020	3.32%	7.60%
2021	3.19%	7.56%
2022	3.06%	7.64%
2023	2.95%	7.59%

Source: Department of Legislative Services, October 2017

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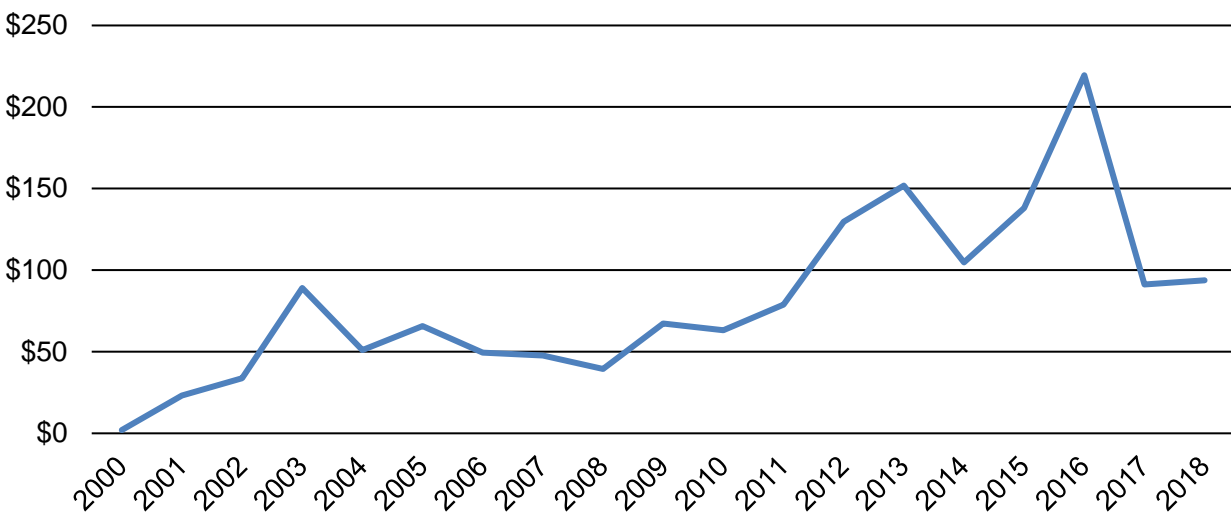
## State Debt Policy (cont.)

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### Paying for Debt Service

- From fiscal 2004 to 2013, general funds were appropriated for debt service costs only once.
  - General appropriations were avoided because:
    - GO bonds were selling at substantial premium, attributable to low-interest rates;
    - property values increased in excess of 10.0% in some fiscal years, resulting in additional State property tax revenue, even with the homestead tax credit limiting annual increases; and
    - the State property tax rate was increased from \$0.084 per \$100 of assessable base to \$0.132 in fiscal 2004. This was reduced to \$0.112 in fiscal 2007 and has remained at that level.
  - After the property bubble burst, State property tax revenues declined from fiscal 2011 to 2014. From fiscal 2014 to 2018, State property tax revenues increased at an annual rate of 2.8%. The Annuity Bond Fund no longer generates sufficient revenues to support all GO bond debt service costs.
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### Bond Sale Premiums Realized Fiscal 2000-2018 (\$ in Millions)

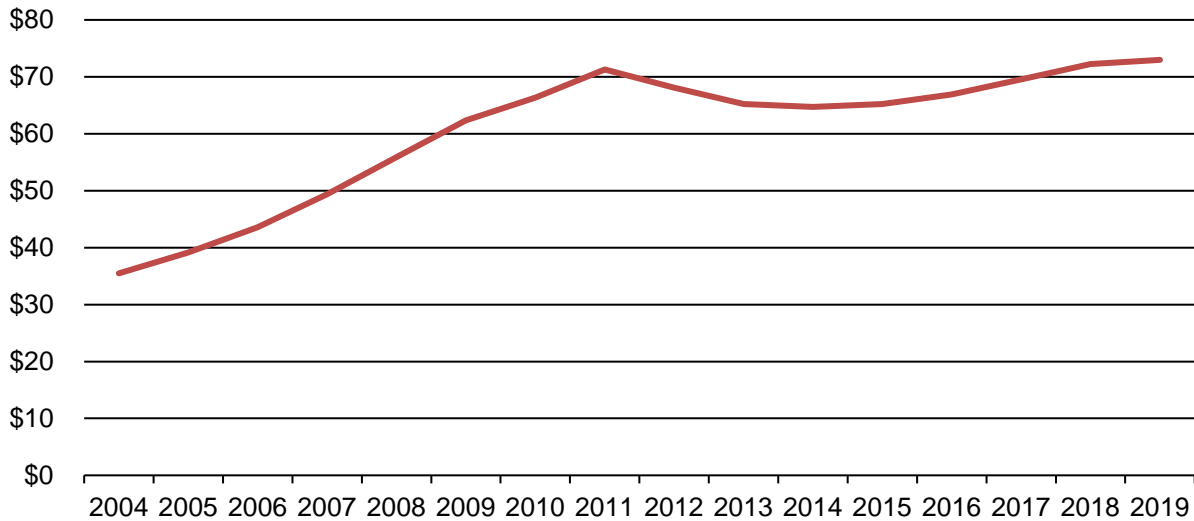


Source: Department of Legislative Services

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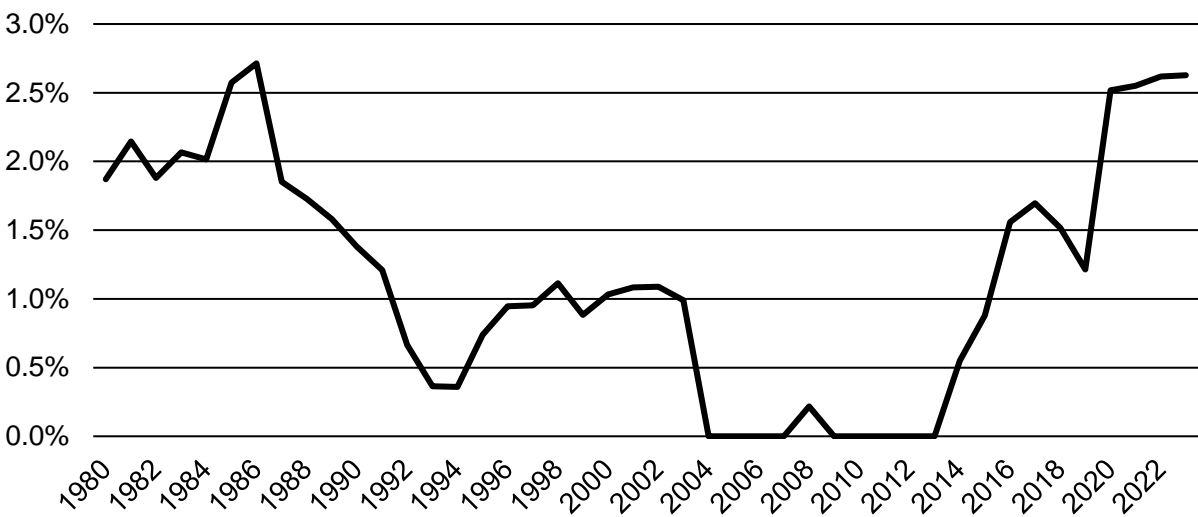
## State Debt Policy (cont.)

**Revenues Generated by One Cent of State Property Taxes**  
Fiscal 2004-2019  
(\$ in Millions)



Source: Department of Legislative Services

**General Fund Debt Service Appropriations**  
**As a Percentage of General Fund Revenues**  
Fiscal 1980-2022



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

## State Debt Policy (cont.)

### Annuity Bond Fund Forecast Fiscal 2018-2023 (\$ in Millions)

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<b>Special Fund Revenues</b>						
Prior Year Balance	\$191	\$192	\$1	\$2	\$1	\$1
State Property Tax Receipts	809	817	834	851	868	885
Bond Sale Premiums <sup>1</sup>	147	53	20	0	0	0
Other Revenues	2	2	2	2	2	2
<b>Subtotal Special Fund Revenues</b>	<b>\$1,149</b>	<b>\$1,065</b>	<b>\$858</b>	<b>\$855</b>	<b>\$872</b>	<b>\$889</b>
General Funds	\$260	\$221	\$463	\$486	\$517	\$537
Transfer Tax Special Funds	7	7	7	7	7	7
Federal Funds	12	11	11	10	9	8
<b>Total Revenues</b>	<b>\$1,427</b>	<b>\$1,304</b>	<b>\$1,338</b>	<b>\$1,358</b>	<b>\$1,405</b>	<b>\$1,441</b>
<b>Debt Service Expenditures</b>	<b>\$1,235</b>	<b>\$1,303</b>	<b>\$1,337</b>	<b>\$1,356</b>	<b>\$1,404</b>	<b>\$1,439</b>
<b>ABF End-of-year Fund Balance</b>	<b>\$192</b>	<b>\$1</b>	<b>\$2</b>	<b>\$1</b>	<b>\$1</b>	<b>\$2</b>

ABF: Annuity Bond Fund

<sup>1</sup>The August 2017 bond sale generated a \$93.7 million premium. Estimated bond sale premiums total \$52.7 million in March 2018, \$31.1 million in summer 2018, \$21.8 million in March 2019, \$11.4 million in summer 2019, and \$8.9 million in March 2020. This assumes coupon rates between 4.25% and 4.50% and the True Interest Cost increasing from 2.89% to 4.50%.

Source: Department of Legislative Services, October 2017

- From fiscal 2018 to 2023, total debt service costs increase 3.1% annually. State property tax revenues increase 1.8% annually.
- Fiscal 2019 begins with a \$192 million fund balance, which reduces the required general fund appropriation.
- General fund appropriations increase 5.1% annually after fiscal 2020.
- If interest rates remain low throughout the forecast period, DLS projects that the bond sales would generate upward of \$70 million in premiums in fiscal 2019 and 2020, which offsets the general fund appropriation correspondingly.

## **State Debt Policy (cont.)**

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### **Provisions in the Federal Tax Plan That Affect State Debt**

#### **Termination of Private Activity Bonds**

- Private Activity Bonds (PAB) provide financing to nongovernment entities at a lower tax-exempt rate. These bonds support housing, student loans, and infrastructure projects.
- In Maryland, the annual allocation was \$601 million in fiscal 2016. Though the allocation is not exhausted each year, PABs provided \$650 million in financing for single-family homes over fiscal 2013 and 2014, as well as \$648 million for multifamily housing for the period of fiscal 2013 to 2016.
- Additionally, the federal tax bill proposed to eliminate a 4% low-income housing tax credit, which is used by developers to raise capital. The Department of Housing and Community Development (DHCD) estimates that this provided \$174 million in capital for low-income housing in fiscal 2016.
- DHCD advises that these changes would substantially shrink available funding for low-income housing.
- In addition to the State's PAB allocation, the U.S. Department of Transportation provisionally approved that the Maryland Economic Development Corporation (MEDCO) issue up to \$1.3 billion in PABs for the Maryland Department of Transportation's Purple Line light rail project. MEDCO has issued \$313 million and does not plan on issuing any additional PABs. Since no additional bonds will be issued, losing the tax-exemption does not have a direct impact on the State for this particular project.

#### **Repeal of Tax Credit Bonds**

- Since fiscal 2001, the State has issued \$204 million in federally subsidized bonds, such as Qualified Zone Academy Bonds, of which \$166 million are tax credit bonds.
- DLS estimates that tax credits reduced State debt service costs by \$56 million.

## State Debt Policy (cont.)

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### Repeal of Advanced Refunding Bonds

- In general, State bonds include a 10-year call. Under current federal law, each issuance allows one advanced refunding. The advanced refunding provides the State with the opportunity to refinance bonds at a lower rate before the bonds are callable, if interest rates decline.
- Since December 2009, refunding has reduced GO bond debt service costs by \$316 million. Without advanced refunding, some savings would have been reduced and future refunding might have been less if interest rates increased.

### Effect of Reducing Taxes on the State and Municipal Bond Market

- Another concern about the bill is that reducing taxes is likely to reduce the demand for municipal bonds:
  - Financial institutions, like banks and insurance companies, are estimated to own 25.0% of tax-exempt bonds. These institutions would require a higher interest rate to purchase tax-exempt bonds.
  - Some reports note that owners of pass-through entities, such as partnerships and Subchapter S Corporations, may also be less likely to purchase tax-exempt bonds, thereby dampening the demand and driving up prices.
- A research and consulting firm estimates that reducing the corporate income tax rate to 20.0% is expected to increase the tax-exempt interest rates by 0.50% to 0.75% (50 to 75 basis points) without considering the effect of other provisions in the bill.
  - At the most recent bond sale in August 2017, the State issued \$550 million.
  - Since GO bonds sold at a premium, higher rates would not increase debt service costs if interest rates increase by 0.50% (50 basis points). Instead, the higher rates would reduce the premium by \$25 million. The State's premium would have been reduced from \$94 million to \$69 million.
  - When bonds no longer sell at a premium, the effect of increasing interest rates by 0.50% (50 basis points) is to increase debt service costs. This adds \$28 million to debt service costs over the 15-year life of a \$550 million issuance.



## **Part 7**

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### **Transportation**



## Transportation Trust Fund Forecast

### Transportation Trust Fund Forecast Comparison Fiscal 2017-2022 v. Fiscal 2018-2023 Six-year Totals (\$ in Millions)

	<u>MDOT Final 2017-2022</u>	<u>MDOT Draft 2018-2023</u>	<u>Final Draft Variance</u>	<u>DLS 2018-2023</u>	<u>MDOT/DLS Variance</u>
<b>Revenues</b>					
<b>Taxes and Fees</b>					
Motor Vehicle Fuel Taxes	\$6,844	\$7,144	\$300	\$6,913	-\$231
Titling Taxes	5,475	5,577	102	5,651	74
Sales Tax – Rental Vehicles	195	199	4	199	0
Corporate Income Tax	979	1,023	44	1,023	0
Registration Fees	2,378	2,403	25	2,403	0
Miscellaneous Motor Vehicle Fees	1,856	1,881	25	1,881	0
<b>Subtotal – Taxes and Fees</b>	<b>\$17,727</b>	<b>\$18,227</b>	<b>\$500</b>	<b>\$18,069</b>	<b>-\$157</b>
<b>Other Revenues</b>					
Operating Revenues	\$2,856	\$2,946	\$90	\$2,946	\$0
Federal Operating Assistance	582	582	0	582	0
Bond Proceeds/Premiums	3,378	2,990	-388	1,883	-1,107
Other	549	525	-24	525	0
Change in Fund Balance	-24	-6	18	13	19
<b>Subtotal – Other Revenues</b>	<b>\$7,341</b>	<b>\$7,037</b>	<b>-\$304</b>	<b>\$5,949</b>	<b>-\$1,088</b>
<b>Total Revenues</b>	<b>\$25,068</b>	<b>\$25,264</b>	<b>\$196</b>	<b>\$24,018</b>	<b>-\$1,245</b>
<b>Expenditures</b>					
Debt Service	\$2,226	\$2,445	\$219	\$2,251	-\$194
Operating Budget	12,598	12,945	347	13,607	662
P3 Availability Payments	0	150	150	150	0
Deductions to Other Agencies	421	431	10	431	0
Highway User Revenues	1,074	1,094	20	1,096	2
State Capital Program*	8,749	8,199	-550	6,484	-1,715
<b>Total Expenditures</b>	<b>\$25,068</b>	<b>\$25,264</b>	<b>\$196</b>	<b>\$24,018</b>	<b>-\$1,245</b>

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

P3: Public-private partnership

\*For comparison purposes, the fiscal 2017 through 2022 special fund amount includes \$694 million that was reserved for Highway User Revenues restoration in the Transportation Trust Fund forecast but not included in the *Consolidated Transportation Program*.

## Transportation Trust Fund Forecast (cont.)

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### Observations

- The six-year State capital program in the Maryland Department of Transportation (MDOT) draft fiscal 2018-2023 Transportation Trust Fund (TTF) forecast is \$196 million higher than its prior year six-year program. Tax and fee revenue projections add \$500 million compared with MDOT's previous forecast, but this is partially offset by lower projected debt issuances. Higher projected debt service, operating expenditures, and the start of Availability Payments to the Purple Line concessionaire combine to reduce the State-funded capital program by \$550 million compared to the previous forecast.
- The Department of Legislative Services (DLS) fiscal 2018-2023 TTF forecast indicates that the State capital program in the MDOT draft forecast is still oversubscribed by \$1.7 billion caused by the following:
  - additional spending for departmental operations accounts for \$662 million of the reduction. The DLS forecast inflates out-year operational spending by the five-year average annual rate of increase through fiscal 2017. The budget committees instructed MDOT to use the five-year rate of change in its out-year operating projections but it chose not to do so;
  - lower motor fuel tax revenues partially offset by higher estimated titling tax revenues account for a further \$157 million of the reduction to the capital program; and
  - bond issuances in the DLS forecast are \$1.1 billion less than in the MDOT forecast. The reduction is necessary to maintain the net income to debt service coverage ratio of 2.5 that MDOT has adopted as its administrative policy (bond covenants require a minimum of 2.0 coverage.) Absent the reduction in bond issuances, the net income debt coverage ratio would fall below the 2.5 minimum in fiscal 2021 through 2023.

## Draft Consolidated Transportation Program

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- The draft fiscal 2018 to 2023 *Consolidated Transportation Program* (CTP) reflects \$811 million less in capital spending over the six-year period compared to the previous six-year plan. Federal funds decrease by \$214 million due primarily to cash flow changes in the Purple Line project and projects completing the development and evaluation process. The \$559 million decrease in special funds was necessitated due to the higher spending for debt service, departmental operations, and planned payments to the Purple Line concessionaire discussed previously.
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### Comparison of Six-year Capital Spending by Fund Source Fiscal 2017-2023 (\$ in Millions)

	<u>2017-2022 CTP</u>	<u>Draft 2018-2023 CTP</u>	<u>Change</u>	<u>% Change</u>
Special Funds*	\$8,773.2	\$8,214.7	-\$558.5	-6.4%
Federal Funds	5,674.0	5,460.0	-214.0	-3.8%
Other Funds**	1,044.6	1,006.8	-38.5	-3.7%
<b>Total Funds</b>	<b>\$15,491.8</b>	<b>\$14,680.8</b>	<b>-\$811.0</b>	<b>-5.2%</b>

CTP: *Consolidated Transportation Program*

\*For comparison purposes, the fiscal 2017-2022 special fund amount includes \$694 million that was reserved for Highway User Revenues restoration in the Transportation Trust Fund (TTF) forecast but not included in the CTP. This funding is not reserved in the draft forecast and is thus included in the draft CTP.

\*\*Includes funds from customer and passenger facility charges and certain types of federal aid that do not pass through the TTF.

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation, 2017-2022 final CTP, 2018-2023 draft CTP

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## Draft Consolidated Transportation Program (cont.)

### Comparison of Six-year Capital Spending by Mode Fiscal 2017-2023 (\$ in Millions)

	<u>2017-2022 CTP</u>	<u>Draft 2018-2023 CTP</u>	<u>Change</u>	<u>% Change</u>
Secretary's Office	\$320.0	\$217.9	-\$102.1	-31.9%
WMATA	1,583.8	1,631.9	48.1	3.0%
State Highways*	8,494.0	8,181.8	-312.2	-3.7%
Port	876.4	784.3	-92.1	-10.5%
Motor Vehicle	121.5	117.8	-3.7	-3.0%
Mass Transit	3,658.0	3,363.7	-294.3	-8.0%
Airport	437.7	383.3	-54.4	-12.4%
<b>Total</b>	<b>\$15,491.4</b>	<b>\$14,680.7</b>	<b>-\$810.7</b>	<b>-5.2%</b>

CTP: Consolidated Transportation Program

WMATA: Washington Metropolitan Area Transit Authority

\*For comparison purposes, the fiscal 2017 through 2022 State Highways amount includes \$694 million that were reserved for Highway User Revenues restoration in the Transportation Trust Fund forecast but not included in the CTP. This funding is not reserved in the draft forecast and is thus included in the draft CTP.

Source: Maryland Department of Transportation, 2017-2022 final CTP, 2018-2023 draft CTP

- The largest decrease, on a percentage basis, occurs in the Secretary's Office, which sees a 31.9% decrease in its six-year program due to the completion of the development and evaluation phase of two mostly federally funded projects related to Amtrak and to the removal of capital grants for local governments in the draft CTP. Over half the reductions to the port represent reductions to projects to fund other needs. The reduction in airport funding is due primarily to projects being completed or nearing completion.
- The largest dollar decreases occur in highways (-\$312 million) and mass transit (-\$294 million) funding. Lower construction cost estimates and cash flow changes in the Total Maximum Daily Load program account for just over \$36 million of the decrease in highway project funding and reduced need in the sound barrier program accounts for an additional \$10 million of the reduction. The reduction in mass transit spending relates to cash flow changes for the Purple Line and the removal of a locally funded project from the draft CTP.

## **Part 8**

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### **State Employment and Employee Benefits**



# Personnel

## Regular Full-time Equivalent Positions Changes Fiscal 2016 Actual to Fiscal 2019 Baseline

<u>Department/Service Area</u>	<u>2016 Actual</u>	<u>2017 Working</u>	<u>2018 Working*</u>	<u>2019 Baseline</u>	<u>2018-2019 Change</u>
<b>Largest Five State Agencies</b>					
Public Safety and Correctional Services	11,025	10,954	10,554	10,554	0
Human Services	6,360	6,224	6,224	6,233	9
Health	6,353	6,181	6,187	6,192	5
Police and Fire Marshal	2,438	2,436	2,436	2,436	0
Juvenile Services	2,041	1,998	1,978	1,978	0
<b>Subtotal</b>	<b>28,217</b>	<b>27,793</b>	<b>27,379</b>	<b>27,393</b>	<b>14</b>
<b>Transportation</b>	<b>9,126</b>	<b>9,108</b>	<b>9,058</b>	<b>9,058</b>	<b>0</b>
<b>Other Executive</b>					
Legal (Excluding Judiciary)	1,501	1,475	1,474	1,485	11
Executive and Administrative Control	1,626	1,564	1,559	1,569	10
Financial and Revenue Administration	2,119	2,102	2,099	2,100	1
Budget and Management and DoIT	480	584	582	582	0
Retirement	213	210	210	210	0
General Services	578	581	581	582	1
Natural Resources	1,321	1,315	1,333	1,332	-1
Agriculture	380	356	355	355	0
Labor, Licensing, and Regulation	1,603	1,513	1,491	1,495	5
MSDE and Other Education	1,940	1,940	1,940	1,942	2
Housing and Community Development	337	325	324	330	6
Commerce	202	193	193	193	0
Environment	939	894	893	900	7
<b>Subtotal</b>	<b>13,237</b>	<b>13,051</b>	<b>13,033</b>	<b>13,075</b>	<b>42</b>
<b>Executive Branch Subtotal</b>	<b>50,579</b>	<b>49,951</b>	<b>49,469</b>	<b>49,525</b>	<b>56</b>
<b>Higher Education</b>	<b>25,632</b>	<b>25,909</b>	<b>26,298</b>	<b>26,298</b>	<b>0</b>
<b>Judiciary</b>	<b>3,914</b>	<b>3,951</b>	<b>3,989</b>	<b>4,003</b>	<b>14</b>
<b>Legislature</b>	<b>749</b>	<b>749</b>	<b>749</b>	<b>750</b>	<b>1</b>
<b>Total</b>	<b>80,874</b>	<b>80,560</b>	<b>80,505</b>	<b>80,576</b>	<b>71</b>

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

\*Fiscal 2018 Working Appropriation reflects changes in higher education positions due to Board of Public Works action, and the creation and abolishment of positions due to flex authority of the institutions.

Note: Numbers may not sum due to rounding.

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

## Personnel (cont.)

### Analysis of Vacancies and Turnover Rate Fiscal 2018 Working Appropriation Compared to October 2017 Vacancies

<u>Department/Service Area</u>	<u>Positions</u>	<u>Turnover Rate*</u>	<u>Vacancies to Meet Turnover</u>	<u>Vacancies</u>	<u>Vacancies Above (or Below) Turnover</u>
<b>Largest General Fund State Agencies</b>					
Public Safety and Correctional Services	10,554	9.1%	958	1,750	792
Human Services	6,224	7.6%	472	528	56
Health	6,187	7.2%	448	615	167
Police and Fire Marshal	2,436	7.2%	175	309	134
Juvenile Services	1,978	7.3%	144	207	63
<b>Subtotal</b>	<b>27,379</b>	<b>8.0%</b>	<b>2,197</b>	<b>3,409</b>	<b>1,212</b>
<b>Transportation</b>	<b>9,058</b>	<b>4.5%</b>	<b>408</b>	<b>614</b>	<b>206</b>
<b>Other Executive</b>					
Legal (Excluding Judiciary)	1,474	5.6%	82	123	41
Executive and Administrative Control	1,559	4.0%	62	157	95
Financial and Revenue Administration	2,099	4.8%	102	177	75
Budget and Management and DoIT	582	3.8%	22	59	36
Retirement	210	4.9%	10	20	10
General Services	581	6.1%	35	69	34
Natural Resources	1,333	5.9%	79	136	57
Agriculture	355	6.2%	22	31	9
Labor, Licensing, and Regulation	1,491	3.4%	51	216	165
MSDE and Other Education	1,940	5.7%	111	175	64
Housing and Community Development	324	6.0%	20	22	2
Commerce	193	7.6%	15	5	-10
Environment	893	6.5%	58	88	29
<b>Subtotal</b>	<b>13,033</b>	<b>5.2%</b>	<b>670</b>	<b>1,277</b>	<b>607</b>
<b>Executive Branch Total</b>	<b>49,469</b>	<b>6.5%</b>	<b>3,275</b>	<b>5,300</b>	<b>2,025</b>

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

\*The turnover rate for the Department of Public Safety and Correctional Services and the Department of Human Services includes turnover reductions approved by Board of Public Works action on September 6, 2017.

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

## Executive Branch Staffing Needs

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- Since fiscal 2002 the Executive Branch, excluding higher education, has abolished almost 7,700 positions.
  - DLS spent two years reviewing Executive Branch staffing needs based on laws, regulations, caseload guidelines, agency staffing studies, and other documentation.
  - Based on this analysis, the Department of Legislative Services has identified a need for nearly 1,300 additional authorized positions in addition to the need to fill approximately 1,200 existing positions.
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<u>Agency</u>	<u>Additional Positions Required</u>
Maryland Department of the Environment	295
Office of the Public Defender	214
State Department of Assessments and Taxation	200
Department of State Police	193
Department of Public Safety and Correctional Services	154
Maryland Department of Health	93
Department of Juvenile Services	79
Maryland Commission On Civil Rights	12
Maryland Insurance Administration	9
Department of General Services	6
Historic St. Mary's City Commission	4
Secretary of State	3
<b>Total</b>	<b>1,262</b>

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- Cost containment hiring freezes, limited employee compensation since the Great Recession, and uncompetitive salary levels impede the State's ability to attract and retain employees.
- Despite ranking fifth in personal income, State salaries ranked twenty-ninth in the United States based on a 2016 study commissioned by Missouri which examined salary levels adjusted for the cost of living.
- Many of the understaffed areas have very high vacancy rates currently. Some of the understaffing reflects current practices deviating from statute (e.g., State Department of Assessments and Taxation). Any effort to address could initially be limited to a modest increase in new regular positions for a few agencies.
- The Spending Affordability Committee may want to recommend that the Governor improve efforts to fill vacant positions and to provide new positions to agencies which could fill them.

## State Retirement and Pension System

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### Employer Pension Contributions Fiscal 2017-2019 (\$ in Millions)

	<u>2017</u>	<u>2018</u>	<u>2019</u>
State Employer Base	\$1,532.5	\$1,549.3	\$1,570.8
Supplemental	75.0	75.0	75.0
Sweeper	50.0	0	50.0
Governor	25.0	0	0
<b>Total State</b>	<b>\$1,682.5</b>	<b>\$1,624.3</b>	<b>\$1,695.8</b>
Local School Boards	\$279.8	\$280.5	\$283.8
<b>Total Employer</b>	<b>\$1,962.2</b>	<b>\$1,904.8</b>	<b>\$1,979.6</b>

Source: State Retirement Agency; Department of Budget and Management; Department of Legislative Services

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- Total State contributions for teacher and employee pensions are projected to be almost \$1.70 billion in fiscal 2019, an increase of \$71.5 million from the fiscal 2018 contribution, largely due to the restoration of the \$50.0 million pension sweeper payment (see below).
- Local school systems are projected to contribute \$283.8 million, an increase of \$3.3 million from fiscal 2018 levels.
- The projected State contribution includes a supplemental contribution of \$75.0 million and \$50.0 million in general funds from the pension sweeper provision enacted during the 2015 session.
- The system's funded ratio climbed to 70.9%, surpassing the 70.0% threshold for the first time since fiscal 2009.
- With investment returns exceeding the actuarial target in three of the last five years, and actuarial losses from fiscal 2012 now fully accounted, the amount of unrecognized losses has been cut by about half, from \$2.2 billion last fiscal year to \$1.2 billion this fiscal year.

## **State Retirement and Pension System Investment Return Assumption**

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- The Board of Trustees of the State Retirement and Pension System lowered its assumed rate of investment returns from 7.55% to 7.45% over two years, and its assumed inflation rate from 2.7% to 2.6% over the same period, beginning with the June 30, 2017 actuarial valuation.
- The system's actuary estimates that the reduction from 7.55% to 7.50% in the most recent actuarial valuation increased total employer contributions by approximately \$33.5 million.
- The board made the decision even though the system's actuary advised the board that the 7.55% assumed rate was within the acceptable range of anticipated future returns.
- In addition, past average annual returns have generally exceeded the 7.55% level for short-, medium-, and long-term periods:

One Year:	10.0%
Five Year:	7.6%
Ten Year:	4.2%
Thirty Year:	8.1%

**Employee and Retiree Health Insurance Account**  
**Fiscal 2017 Legislative Appropriation vs. Actual**  
(\$ in Millions)

	<b>2017 Leg. <u>Approp.</u></b>	<b>2017 <u>Actual</u></b>	<b>Diff. FY17 <u>Leg.-Actual</u></b>
<b>Beginning Balance</b>	<b>\$78.4</b>	<b>\$156.3</b>	<b>\$77.9</b>
<b>Expenditures</b>			
DBM Personnel Administrative Cost	\$17.5	\$11.4	-\$6.1
<b>Payments of Claims</b>			
Medical	\$967.1	\$979.6	\$12.5
Rx	588.9	561.8	-27.1
Dental	49.7	48.7	-1.0
<b>Payments to Providers</b>	<b>\$1,605.7</b>	<b>\$1,590.1</b>	<b>-\$15.6</b>
<b>Receipts</b>			
State Agencies	\$1,264.9	\$1,305.0	\$40.1
Employee Contributions	193.5	187.7	-5.8
Retiree Contributions	94.2	97.3	3.1
Rx Rebates, Recoveries, and Other	104.0	150.0	46.0
<b>Total Receipts</b>	<b>\$1,656.6</b>	<b>\$1,740.1</b>	<b>\$83.5</b>
<b>Ending Balance</b>	<b>\$111.8</b>	<b>\$294.9</b>	<b>\$183.1</b>
<b>Incurred But Not Received</b>	<b>-\$105.5</b>	<b>-\$103.0</b>	<b>\$2.5</b>
<b>Reserve for Future Provider Payments</b>	<b>\$6.3</b>	<b>\$191.9</b>	<b>\$185.6</b>

- Fiscal 2017 closed with a fund balance of \$191.9 million after incurred but not received costs, which is \$185.6 million greater than what was originally budgeted.
- The beginning balance from fiscal 2016 was higher due to an additional pay period bolstering contributions and greater than anticipated prescription drug rebate revenue.
- Fiscal 2017 receipts into the fund came in \$83.5 million greater than what was originally budgeted due to increased State agencies' contributions and higher than expected prescription drug rebate revenue. State agencies' contributions exceeded expectations in part because the budget assumed the State would pay 80% of premiums even though many employees and retirees enroll in the Exclusive Provider Organizations plans toward which the State pays 85% of the premium.
- Claims came in \$15.6 million under what was appropriated, primarily due to slower than projected growth in prescription drug claims.

DBM: Department of Budget and Management

Rx: Prescription Drug

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

**Employee and Retiree Health Insurance Account**  
**Fiscal 2017-2019**  
**(\$ in Millions)**

	<b><u>2017</u></b> <b><u>Actual</u></b>	<b><u>2018</u></b> <b><u>Working</u></b>	<b><u>2019</u></b> <b><u>Baseline</u></b>
<b>Beginning Balance</b>	<b>\$156.3</b>	<b>\$266.8</b>	<b>\$189.5</b>
<b>Expenditures</b>			
DBM Personnel Administrative Cost	11.4	7.8	7.5
<b>Payments of Claims</b>			
Medical	979.6	1,023.0	1,072.9
Rx	561.8	547.4	540.2
Dental	48.7	48.7	48.7
Contractual	11.9	11.9	11.9
<b>Payments to Providers</b>	<b>\$1,602.0</b>	<b>\$1,631.0</b>	<b>\$1,673.7</b>
Percent Growth in Payments	4.2%	1.8%	2.6%
<b>Receipts</b>			
State Agencies	1,276.6	1,146.6	1,198.7
Employee Contributions	192.0	172.5	180.3
Retiree Contributions	97.3	87.4	91.4
Rx Rebates, Recoveries, and Other	157.9	155.0	150.4
<b>Total Receipts</b>	<b>\$1,723.8</b>	<b>\$1,561.5</b>	<b>\$1,620.8</b>
Percent Growth in Receipts	5.5%	-9.4%	3.8%
<b>Ending Balance</b>	<b>\$266.8</b>	<b>\$189.5</b>	<b>\$129.0</b>
<b>Incurred But Not Received</b>	<b>-\$103.0</b>	<b>-\$103.0</b>	<b>-\$103.0</b>
<b>Reserve for Future Provider Payments</b>	<b>\$163.8</b>	<b>\$86.5</b>	<b>\$26.0</b>

DBM: Department of Budget and Management

Rx: Prescription Drug

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



## **Part 9**

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### **Supporting Material**



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

<b>Starting Balance</b>		<b>\$258.5</b>
<b>Revenues</b>		
BRE Estimated Revenue December 2017	\$16,997.7	
Program Open Space	46.0	
BPW Assumptions September 2017	1.0	
<b>Total</b>		<b>\$17,044.6</b>
<b>Transfers</b>		
Budgeted Tax Credits	\$21.8	
Small, Minority, and Women-Owned Businesses	14.8	
<b>Total</b>		<b>\$36.6</b>
<b>Funds Available</b>		<b>\$17,339.8</b>
<b>Spending</b>		
Fiscal 2018 Legislative Appropriation	\$17,240.3	
BPW Reductions September 2017	-61.0	
DLS Estimated Deficiencies	127.2	
Estimated Agency Reversions	-30.0	
<b>Net Expenditures</b>		<b>\$17,276.6</b>
<b>Ending Balance</b>		<b>\$63.2</b>

BPW: Board of Public Works

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

**Status of the General Fund**

**Fiscal 2019**  
**(\$ in Millions)**

<b>Starting Balance</b>		<b>\$63.2</b>
<b>Revenues</b>		
BRE Estimated Revenue December 2017	\$17,624.9	
<b>Total</b>		<b>\$17,624.9</b>
<b>Transfers</b>		
Budgeted Tax Credits	\$25.2	
Rainy Day Fund	191.0	
<b>Total</b>		<b>\$216.2</b>
<b>Funds Available</b>		<b>\$17,904.3</b>
<b>Spending</b>		
Fiscal 2019 DLS Baseline Estimate	\$18,221.4	
Estimated Agency Reversions	-30.0	
<b>Net Expenditures</b>		<b>\$18,191.4</b>
<b>Ending Balance</b>		<b>-\$287.0</b>

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

## State Expenditures – Special and Higher Education Funds\*

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018 to FY 2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,229.7	\$1,304.6	\$1,409.8	\$105.2	8.1%
County/Municipal	\$342.4	\$399.5	\$383.2	-\$16.3	-4.1%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	474.6	522.1	507.9	-14.3	-2.7%
Health	0.0	0.0	0.0	0.0	n/a
<b>Aid to Local Governments</b>	<b>\$817.0</b>	<b>\$921.6</b>	<b>\$891.0</b>	<b>-\$30.6</b>	<b>-3.3%</b>
Foster Care Payments	\$2.2	\$4.3	\$4.5	\$0.1	2.7%
Assistance Payments	13.3	12.5	12.0	-0.5	-4.2%
Medical Assistance	974.7	1,000.3	952.8	-47.5	-4.8%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b>Entitlements</b>	<b>\$990.2</b>	<b>\$1,017.1</b>	<b>\$969.2</b>	<b>-\$47.9</b>	<b>-4.7%</b>
Health	\$518.1	\$467.1	\$439.8	-\$27.3	-5.8%
Human Resources	98.1	93.5	91.5	-2.0	-2.1%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	3.9	3.2	3.3	0.1	2.7%
Public Safety/Police	224.8	221.6	226.6	5.0	2.2%
Higher Education	4,360.6	4,443.0	4,514.7	71.7	1.6%
Other Education	70.0	69.9	70.4	0.5	0.7%
Transportation	1,837.4	1,907.6	1,998.7	91.1	4.8%
Agriculture/Natural Res./Environment	281.8	292.9	297.0	4.1	1.4%
Other Executive Agencies	711.2	688.0	667.3	-20.7	-3.0%
Judiciary	59.3	66.3	57.5	-8.8	-13.2%
Legislative	0.0	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$8,165.1</b>	<b>\$8,253.3</b>	<b>\$8,367.0</b>	<b>\$113.7</b>	<b>1.4%</b>
Anticipated Deficiencies	\$0.0	-\$15.5	\$0.0	\$15.5	-100.0%
<b>Total Operating</b>	<b>\$11,202.0</b>	<b>\$11,481.2</b>	<b>\$11,637.1</b>	<b>\$155.9</b>	<b>1.4%</b>
Capital	\$1,878.4	\$1,910.7	\$2,046.4	\$135.7	7.1%
– Transportation	1,554.5	1,575.1	1,607.2	32.2	2.0%
– Environment	210.1	187.1	227.1	40.0	21.4%
– Other	113.8	148.5	212.0	63.5	42.8%
<b>Grand Total</b>	<b>\$13,080.4</b>	<b>\$13,391.9</b>	<b>\$13,683.5</b>	<b>\$291.6</b>	<b>2.2%</b>

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

Note: The fiscal 2017 working appropriation reflects deficiencies and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which reduced special fund spending by \$2.0 million. It also reflects \$37.9 million in additional special fund spending due to funding swaps.

# State Expenditures – Federal Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018 to FY 2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$11.5	\$11.5	\$11.5	\$0.0	-0.1%
County/Municipal	\$87.5	\$72.4	\$72.4	\$0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	936.8	993.3	993.3	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
<b>Aid to Local Governments</b>	<b>\$1,028.7</b>	<b>\$1,070.1</b>	<b>\$1,070.1</b>	<b>\$0.0</b>	<b>0.0%</b>
Foster Care Payments	\$82.3	\$73.8	\$72.7	-\$1.1	-1.5%
Assistance Payments	1,255.6	1,196.4	1,095.0	-101.4	-8.5%
Medical Assistance	6,866.6	6,919.1	7,204.8	285.6	4.1%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b>Entitlements</b>	<b>\$8,204.4</b>	<b>\$8,189.3</b>	<b>\$8,372.5</b>	<b>\$183.2</b>	<b>2.2%</b>
Health	\$975.7	\$990.5	\$1,010.0	\$19.5	2.0%
Human Resources	481.9	557.0	553.9	-3.1	-0.5%
Children's Cabinet Interagency Fund	0.0	0.0	0.0	0.0	n/a
Juvenile Services	4.8	4.8	5.0	0.1	2.9%
Public Safety/Police	43.0	37.3	38.4	1.1	2.8%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	254.2	275.0	278.9	3.8	1.4%
Transportation	98.7	97.5	98.8	1.3	1.3%
Agriculture/Natural Res./Environment	69.1	66.1	67.2	1.1	1.7%
Other Executive Agencies	614.4	622.5	620.2	-2.3	-0.4%
Judiciary	1.1	0.1	0.1	0.0	0.7%
<b>State Agencies</b>	<b>\$2,543.0</b>	<b>\$2,650.8</b>	<b>\$2,672.4</b>	<b>\$21.7</b>	<b>0.8%</b>
Anticipated Deficiencies	\$0.0	-\$25.5	\$0.0	\$25.5	-100.0%
<b>Total Operating</b>	<b>\$11,787.7</b>	<b>\$11,896.2</b>	<b>\$12,126.6</b>	<b>\$230.4</b>	<b>1.9%</b>
Capital	\$1,089.5	\$1,055.5	\$1,088.2	\$32.7	3.1%
– Transportation	1,016.3	949.5	1,010.5	61.0	6.4%
– Environment	44.3	42.6	41.7	-1.0	-2.2%
– Other	28.9	63.4	36.0	-27.4	-43.2%
<b>Grand Total</b>	<b>\$12,877.1</b>	<b>\$12,951.7</b>	<b>\$13,214.8</b>	<b>\$263.1</b>	<b>2.0%</b>

Note: The fiscal 2017 working appropriation includes \$817.5 million in deficiencies. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which increased federal fund spending by \$0.1 million to backfill general fund reductions of the same amount.

## State Expenditures – All Funds

(\$ in Millions)

<u>Category</u>	<u>FY 2017 Working Appropriation</u>	<u>FY 2018 Adj. Leg. Appropriation</u>	<u>FY 2019 Baseline</u>	<u>FY 2018-2019 \$ Change</u>	<u>% Change</u>
Debt Service	\$1,500.6	\$1,575.8	\$1,642.4	\$66.6	4.2%
County/Municipal	\$692.3	\$743.5	\$738.2	-\$5.2	-0.7%
Community Colleges	314.3	317.7	326.4	8.7	2.7%
Education/Libraries	7,336.1	7,451.3	7,614.6	163.3	2.2%
Health	54.0	55.6	59.9	4.4	7.8%
<b>Aid to Local Governments</b>	<b>\$8,396.8</b>	<b>\$8,568.0</b>	<b>\$8,739.1</b>	<b>\$171.1</b>	<b>2.0%</b>
Foster Care Payments	\$262.3	\$262.6	\$257.7	-\$5.0	-1.9%
Assistance Payments	1,333.4	1,268.5	1,158.3	-110.2	-8.7%
Medical Assistance	10,836.9	11,071.3	11,541.2	469.9	4.2%
Property Tax Credits	82.3	87.5	82.6	-4.9	-5.7%
<b>Entitlements</b>	<b>\$12,514.9</b>	<b>\$12,689.9</b>	<b>\$13,039.7</b>	<b>\$349.8</b>	<b>2.8%</b>
Health	\$2,863.0	\$2,880.5	\$2,952.9	\$72.4	2.5%
Human Resources	986.6	1,030.5	1,033.2	2.8	0.3%
Children's Cabinet Interagency Fund	16.6	18.5	20.5	2.0	10.8%
Juvenile Services	281.1	276.5	284.6	8.2	3.0%
Public Safety/Police	1,789.7	1,755.3	1,835.5	80.2	4.6%
Higher Education	5,782.8	5,882.5	6,026.4	143.9	2.4%
Other Education	741.7	781.8	798.5	16.6	2.1%
Transportation	1,936.1	2,005.1	2,097.5	92.4	4.6%
Agriculture/Natural Res./Environment	470.7	479.3	490.3	11.0	2.3%
Other Executive Agencies <sup>(1)</sup>	2,021.6	1,987.5	2,055.9	68.5	3.4%
Judiciary	542.1	556.7	557.0	0.3	0.1%
Legislative	89.2	90.3	91.9	1.6	1.8%
<b>State Agencies</b>	<b>\$17,521.2</b>	<b>\$17,744.5</b>	<b>\$18,244.4</b>	<b>\$499.9</b>	<b>2.8%</b>
Anticipated Deficiencies	\$0.0	\$80.1	\$0.0	-\$80.1	-100.0%
<b>Total Operating</b>	<b>\$39,933.5</b>	<b>\$40,658.3</b>	<b>\$41,665.6</b>	<b>\$1,007.2</b>	<b>2.5%</b>
Capital <sup>(2)</sup>	\$3,030.1	\$2,975.7	\$3,213.0	\$237.3	8.0%
– Transportation	2,570.8	2,524.6	2,617.8	93.2	3.7%
– Environment	254.6	230.2	269.8	39.6	17.2%
– Other	204.7	220.9	325.4	104.5	47.3%
<b>Subtotal</b>	<b>\$42,963.7</b>	<b>\$43,634.0</b>	<b>\$44,878.6</b>	<b>\$1,244.5</b>	<b>2.9%</b>
Reserve Funds	\$155.4	\$10.0	\$196.3	\$186.3	1863.5%
<b>Appropriations</b>	<b>\$43,119.0</b>	<b>\$43,644.0</b>	<b>\$45,074.9</b>	<b>\$1,430.9</b>	<b>3.3%</b>
Reversions	-\$30.0	-\$30.3	-\$30.0	\$0.3	-0.8%
<b>Grand Total</b>	<b>\$43,089.0</b>	<b>\$43,613.8</b>	<b>\$45,044.9</b>	<b>\$1,431.1</b>	<b>3.3%</b>

<sup>(1)</sup> Fiscal 2019 includes \$30.4 million for health insurance costs that will be allocated among the agencies.

<sup>(2)</sup> Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2017 working appropriation reflects deficiencies, \$125.8 million in targeted reversions, and \$2.5 million in additional special fund spending due to funding swaps. The fiscal 2018 adjusted legislative appropriation reflects actions taken by the Board of Public Works in September 2017, which reduced spending by \$62.9 million. Fiscal 2018 also reflects \$38 million in additional special and federal fund spending due to funding swaps.

**State Reserve Fund Activity**  
**Fiscal 2018 and 2019**  
**(\$ in Millions)**

	<b>Rainy Day <u>Fund</u></b>	<b>Dedicated <u>Purpose Acct.</u></b>	<b>Catastrophic <u>Event Acct.</u></b>
<b>Estimated Balances 6/30/17</b>	<b>\$832.5</b>	<b>\$0.0</b>	<b>\$7.1</b>
Fiscal 2018 Appropriations	10.0	0.0	0.0
Interest and Other Net Revenues	15.5	0.0	0.0
<b>Estimated Balances 6/30/18</b>	<b>\$858.0</b>	<b>\$0.0</b>	<b>\$7.1</b>
Fiscal 2019 Appropriations	196.3	0.0	0.0
Transfer to the General Fund	-192.0	0.0	0.0
Interest Earnings	19.3	0.0	0.0
<b>Estimated Balances 6/30/19</b>	<b>\$881.6</b>	<b>\$0.0</b>	<b>\$7.1</b>
<b>Percent of Revenues in Reserve</b>	<b>5.0%</b>		

**Potential Fiscal 2018 Deficiencies – All Funds**  
**(\$ in Millions)**

	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>
<p><b>Medicaid:</b> Fiscal 2017 behavioral health costs carried into fiscal 2018 attributed mainly to higher spending on substance use disorder services (\$17.2 million general fund (GF)). Fiscal 2018 deficiencies (\$53.6 million GF) reflect: higher than budgeted medical expenses (\$20.7 million), primarily due to lower estimates of pharmacy rebates; and lower than budgeted special fund attainment (\$32.9 million), primarily due to a shortfall in Cigarette Restitution Fund (CRF) support based on the timing of the 2004 sales year arbitration ruling concerning nonparticipating manufacturers and lower CRF revenues</p>	\$70.8	\$0.0	\$0.0	\$70.8
<p><b>Federal Fund and Revenue Underattainment:</b> Maryland State Department of Education (MSDE) lower than budgeted Education Trust Fund revenues in fiscal 2017 (\$5.7 million GF) and fiscal 2018 (\$35.0 million GF); and Department of Human Services (DHS) underattainment of federal funds throughout the department based on the most recent actuals (\$4.1 million GF, \$0.4 million special funds (SF), and -\$4.5 million federal funds (FF)).</p>	\$44.8	\$0.4	-\$4.5	\$40.8
<p><b>Long-term Liabilities:</b> Developmental Disabilities Administration federal fund audit disallowance for residential habilitation services (\$34.2 million GF); and Department of Labor, Licensing, and Regulation federal fund claims over several years (\$4.6 million GF).</p>	\$38.8	\$0.0	\$0.0	\$38.8
<p><b>Operating Expenses:</b> Public Safety and Correctional Services estimated costs of new Pharmacy contract (\$18.0 million GF); Office of the Public Defender panel attorneys and general operating expenses (\$5.6 million GF); State Lottery contract expenses related to online gambling (\$5.0 million SF), Department of General Services expenses related to eMaryland marketplace (\$4.5 million GF); Maryland Department of Health (\$2.3 million GF, \$0.1 million SF) including funding for new psychiatric bed capacity, upgraded staffing at the Office of the Chief Medical Examiner, and maintenance expenses at Crownsville; MSDE Nonpublic Placements (\$1.9 million); DHS (-\$1.6 million GF, \$0.3 million FF) operating expenses offset by a surplus in the Temporary Disabilities Assistance Program; and other (\$0.4 million SF) .</p>	\$30.7	\$5.5	\$0.3	\$36.6
<p><b>Anticipated Fiscal 2018 Savings in Health Insurance Costs:</b> Savings from the new pharmacy contract and the availability of over \$190.0 million in fund balance at the close of fiscal 2017 (-\$64.0 million GF, \$21.4 million SF, and \$21.4 million FF).</p>	-\$64.0	-\$21.4	-\$21.4	-\$106.8
<b>Total Deficiencies</b>	<b>\$121.1</b>	<b>-\$15.5</b>	<b>-\$25.5</b>	<b>\$80.1</b>

## General Obligation Bond Sale Premiums Projected and Realized

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When bonds are sold, they have a par value (principal) and a coupon rate (interest rate paid to the bondholder based on par value). When the bonds are bid, the Treasurer's Office determines how many bonds are sold (par value of the bonds) and when the bonds mature.<sup>1</sup> The underwriter determines the coupon rate (interest rate the issuer pays) and the sale price of the bonds, which is awarded to the underwriter with the lowest interest cost. If the coupon rate is greater than the market rate, which is referred to as the True Interest Cost (TIC), the bonds sell at a premium and the State's bond proceeds exceed par value of the bonds.

At the most recent bond sale in August 2017, the State issued \$550 million in tax-exempt general obligation (GO) bonds (par value). The average coupon was 4.29% and the TIC (market interest rate) was 2.29%. Since the coupon rate exceeded the market interest rate, the bonds sold at a premium, and total bond proceeds totaled \$644 million (after deducting the underwriters discount and cost of issuance expenses). This additional \$94 million is the bond premium.

### The Department of Legislative Services' Premium Estimating Process

To estimate a premium, the Department of Legislative Services (DLS) follows these steps:

- ***Estimate the TIC:*** To estimate the TIC, DLS uses the interest rate projections from Moody's Economy.com and IHS Global Insight for the 10-year U.S. Treasury Bill. DLS uses the 10-year interest rate projections since the average maturity for State bonds is usually just under 10 years. These two rates are averaged. This average adjusts the TIC of the most recent bond sale to reflect changes in interest rates over time. For example, if the rates are expected to increase 1.00% (100 basis points) in one year, the projected TIC of the bond sale one year later would be 1.00% (100 basis points) higher than the most recent sale's TIC.
- ***Project the Coupon Rate:*** DLS computes the average coupon rate of recent bond sales. This has been hovering around 4.25% in recent years; the most recent issuance had an average coupon rate of 4.29%.

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<sup>1</sup> Section 34 of Article III of the Constitution of Maryland limits State debt to 15 years. State policy is to pay interest only the first 2 years, and begin retiring debt in the third year. Debt service payments are about the same from year 3 to year 15. The average maturity of a State bond is just under 10 years.

- **Use the TIC, Coupon Rate, and Amount Issued to Estimate Premiums:** For each expected sale, DLS prepares an amortization table and calculates the premiums based on the present value of the cash flows.

## Comparing DLS' and the Department of Budget and Management's Premium Estimates

Each fall, DLS prepares an estimate of the next fiscal year's budget for the Spending Affordability Committee. As part of this process, DLS projects the premiums that will be realized during the budget year. The Administration does not estimate premiums during the upcoming budget's fiscal year. As introduced by the Administration, the budget only includes an estimate of premiums anticipated in the current year. Since the sale occurs before the end of the legislative session, a deficiency appropriation can be made. The Department of Budget and Management's policy is consistent with the State Treasurer, who recommends against estimating premiums in the budget year. **Exhibit 1** shows that DLS projected \$301 million in premiums from fiscal 2014 through 2018 that were not included in the allowance.

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### Exhibit 1 Projected Premiums Fiscal 2014-2018 (\$ in Millions)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u> <sup>1</sup>	<u>2018</u>	<u>Total</u>
DLS' SAC Projected Premiums Two Years Prior	\$105.1	\$59.4	\$55.2	\$32.3	\$48.6	\$300.6
DBM's Projected Premiums with Budget Submission	0.0	0.0	0.0	0.0	0.0	0.0

DBM: Department of Budget and Management

DLS: Department of Legislative Services

SAC: Spending Affordability Committee

<sup>1</sup> DLS models projected \$32.3 million in premiums, but the forecast did not include any premiums.

Source: Department of Legislative Services; Public Financial Management; Public Resources Advisory Group

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## Accuracy of Premium Estimates

DLS' calculations are close to the actual premium. A typical DLS estimate of a \$50 million premium is usually within \$100,000 of the actual premium if the same TIC and

coupon rate are used. When estimating premiums, the concern is that slight changes in the TIC or coupon rate result in substantial changes in the premiums. For example, changing the interest rate or coupon rate by 0.25% (25 basis points) changes the premium estimate \$12 million.

In recent years, economic forecasters have projected that interest rates would increase steadily in the near term. This has not been the case; instead, interest rates have remained low. As discussed earlier, DLS uses these forecasts to estimate premiums. Since the economic forecasts have anticipated increasing interest rates, DLS has projected that the premiums will decline in the budget year. In fact, interest rates have remained low, so DLS has underestimated premiums. **Exhibit 2** shows that DLS' model estimated \$301 million in premiums while actual premiums totaled \$652 million.

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**Exhibit 2**  
**Projected and Actual Bond Sale Premiums**  
**Fiscal 2014-2018**  
**(\$ in Millions)**

<u>Fiscal Year</u>	<u>DLS Projections</u>	<u>Actual Premiums</u>	<u>Difference</u>
2014	\$105.1	\$104.7	-\$0.4
2015	59.4	142.8	83.4
2016	55.2	219.5	164.3
2017	32.3 <sup>1</sup>	91.2	58.9
2018	48.6	93.9	45.3
<b>Total</b>	<b>\$300.6</b>	<b>\$652.1</b>	<b>\$351.5</b>

<sup>1</sup> DLS models projected \$32.3 million in premiums, but the forecast did not include any premiums.

DLS: Department of Legislative Services

Source: Department of Legislative Services; Public Financial Management; Public Resources Advisory Group

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## **The Effect of Unbudgeted Premiums on the Annuity Bond Fund Balance**

The Annuity Bond Fund (ABF) supports GO bond debt service costs. The largest revenue source is the State property tax. Bond sale premiums are deposited into the fund. If these revenues are insufficient, general funds are also appropriated. When forecasting the ABF, DLS provides sufficient general fund revenues to fully fund debt

service costs but no excess general funds are provided. Consequently, DLS estimates that the budget year will end with a fund balance that is about \$1 million.

If unbudgeted premiums are realized, they are deposited into the ABF. This results in a large end-of-year balance in the ABF. This can be used to reduce general fund appropriations in the out-years. When preparing the fiscal 2016 forecast in November 2014, DLS recommended estimating premiums during the budget year. The recommendation was not approved, and the State has continued the policy of not estimating premiums in the budget year.

**Transportation Trust Fund Closeout**  
**Comparison of Fiscal 2017 Projected and Actual Revenues and Expenditures**  
**(\$ in Millions)**

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	<b>Projected <u>2017</u></b>	<b>Actual <u>2017</u></b>	<b><u>Variance</u></b>
<b>Starting Fund Balance</b>	<b>\$126</b>	<b>\$126</b>	<b>\$0</b>
<b>Revenues</b>			
Motor Fuel Taxes	\$1,040	\$1,079	\$39
Titling Taxes	882	886	4
Sales Tax – Rental Vehicles	31	32	1
Corporate Income, Registrations, and Misc. Motor Vehicle Administration Fees	832	839	7
Maryland Department of Transportation (MDOT) Operating Revenues (MD Aviation Admin., MD Port Admin., and MD Transit Admin.)	445	441	-4
Other Receipts and Adjustments	113	120	7
Bond Proceeds and Premiums	623	723	100
<b>Total Revenues</b>	<b>\$3,966</b>	<b>\$4,118</b>	<b>\$152</b>
<b>Uses of Funds</b>			
MDOT Operating Expenditures	\$1,850	\$1,854	\$4
MDOT Capital Expenditures	1,577	1,700	123
MDOT Debt Service	300	288	-12
Highway User Revenues	173	175	2
Other Expenditures	67	65	-3
<b>Total Expenditures</b>	<b>\$3,967</b>	<b>\$4,082</b>	<b>\$114</b>
<b>Ending Fund Balance</b>	<b>\$125</b>	<b>\$163</b>	<b>\$38</b>

- The fiscal 2017 ending fund balance of \$163 million was \$38 million over the target ending balance.
- Overall, nonbond-related revenues exceeded projections by almost \$53 million. Bond sales and premiums were \$100 million above projections.
- Spending was a net of \$114 million more than estimated with increased capital spending of \$123 million partially offset by reductions in debt service and other spending.

## **Baseline Budget Position Changes Assumptions**

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### **Fiscal 2018 Position Changes**

- A net increase of 387 positions in higher education is reflected in fiscal 2018. Using flex authority, the institutions created 377 new positions, converted 79 contractual positions, and abolished 39 positions. In addition, the Board of Public Works abolished 30 positions in the University System of Maryland on September 6, 2017.

### **Fiscal 2019 Position Changes**

#### **Workload Adjustments**

- 5 new positions in fiscal 2018 for the Office of the Chief Medical Examiner as a result of increased autopsies, requiring 3 additional medical examiners, 1 investigator, and 1 toxicologist.
- A net decrease of 0.84 positions in the Department of Natural Resources due to changes in staffing needs for the Bloede Dam Removal, Cunningham Falls State Park, and Point Lookout State Park Lighthouse Restoration projects.

#### **New Facilities**

- 14 new positions in the Judiciary for the new Catonsville Courthouse, including 5 District Court judges, 5 staffers, and 4 facility-related positions.
- 2 new positions in the Department of Planning for the new Patterson Center, including 1 horticulturalist and 1 administrator.

#### **Transfers**

- 5 positions in the Department of Human Services associated with homeless services are transferred to the Department of Housing and Community Development.

#### **Positions Associated with Legislation**

- 13 new positions in the Department of Human Services as a result of the transfer of the Charles County State Attorneys' Office to the department (Chapter 135 of 2017) and additional staff to handle increased caseloads in the adult protective services program (Chapters 837 and 838 of 2017).

- 7 new positions in the Maryland Department of the Environment to provide regulatory and compliance engineers to review county water and sewer plans (Chapter 387 of 2017) and to implement required lead testing of drinking water in public or nonpublic schools (Chapter 386 of 2017), and a sanitarian to develop and implement required membrane bioreactor regulations in on-site sewage disposal systems (Chapter 391 of 2017).
- 11 new positions in the Office of the Attorney General to implement the Maryland Securities Act – Vulnerable Adults (Chapters 837 and 838 of 2017), the Crime Victims Resource Act (Chapter 659 of 2017), and the Maryland Defense Act (Chapter 26 of 2017).
- 4.5 new positions in the Department of Labor, Licensing, and Regulation to oversee implementation of new continuing education standards (Chapter 784 of 2017), to provide an investigator to implement the POWER Apprenticeship Act (Chapter 782 of 2017), and to provide an investigator and administrator to assist with State Occupational Mechanical Licensing Boards with ongoing regulatory responsibilities (Chapter 254 of 2017).
- 4 new positions in the Maryland Insurance Administration to review carrier network access plans (Chapter 309 of 2016) and for an additional analyst to review filings of participation agreements and related documents (Chapters 225 and 226 of 2017).
- 2 new positions in the Executive Department – Boards, Commissions, and Offices to handle an increase in Small and Minority Business registrations (Chapter 438 of 2017).
- 2 new positions in the Department of Housing and Community Development to provide a program administrator for the National Capital Strategic Economic Development Fund (Chapter 523 of 2017), and a position to administer the Independent Living Tax Credit (Chapter 229 of 2017).
- 1 new position in the General Assembly of Maryland Office of Legislative Audits for an additional staff auditor to conduct a performance audit of the Prince George's County Board of License Commissioners once every three years (Chapters 811 and 812 of 2017).
- 1 new position in the Military Department for a human resource officer to handle increased workload as a result of expanding collective bargaining to firefighters at Martin State Airport (Chapter 182 of 2017).

- 1 new position in the Office of Administrative Hearings for an additional administrative law judge to process increased grievances as a result of the Payroll Recovery Act (Chapter 783 of 2017).
- 1 new position in the State Department of Assessments and Taxation to assist the Property Tax Assessment Appeals Boards in the disposition of appeals to comply with the required 120-day period (Chapter 537 of 2017).
- 1 new position in the Department of General Services for an administrator to implement the POWER Apprenticeship Act (Chapter 782 of 2017).
- 1 new position in the Maryland State Department of Education for an educational program specialist to administer the Pathways in Technology Early College High School program (Chapter 591 of 2017).
- 1 new position for the new Maryland State Library Agency for two part-time positions, including an information technology position and an assistant Attorney General (Chapters 337 and 338 of 2017).

**Contractual Full-time Equivalent Positions Changes  
Fiscal 2016 Actual to Fiscal 2019 Baseline**

<u>Department/Service Area</u>	<u>2016 Actual</u>	<u>2017 Working</u>	<u>2018 Wrk. Approp.</u>	<u>2019 Baseline</u>	<u>2018-2019 Change</u>
<b>Largest General Funded State Agencies</b>					
Public Safety and Correctional Services	268	392	308	308	0
Human Services	143	74	74	74	0
Health	354	483	476	476	0
Police and Fire Marshal	22	66	68	68	0
Juvenile Services	178	147	150	150	0
<b>Subtotal</b>	<b>964</b>	<b>1,162</b>	<b>1,078</b>	<b>1,078</b>	<b>0</b>
<b>Transportation</b>	<b>40</b>	<b>41</b>	<b>122</b>	<b>122</b>	<b>0</b>
<b>Other Executive</b>					
Legal (Excluding Judiciary)	46	51	57	57	0
Executive and Administrative Control	203	180	179	180	1
Financial and Revenue Administration	52	51	51	51	0
Budget and Management and DoIT	13	13	34	34	0
Retirement	11	9	8	8	0
General Services	7	23	23	23	0
Natural Resources	376	436	492	494	2
Agriculture	45	47	48	48	0
Labor, Licensing, and Regulation	127	145	130	130	1
MSDE and Other Education	274	286	279	282	3
Housing and Community Development	53	103	105	105	0
Commerce	18	21	25	25	0
Environment	27	61	50	50	0
<b>Subtotal</b>	<b>1,251</b>	<b>1,425</b>	<b>1,478</b>	<b>1,484</b>	<b>7</b>
<b>Executive Branch Subtotal</b>	<b>2,255</b>	<b>2,627</b>	<b>2,678</b>	<b>2,684</b>	<b>7</b>
<b>Higher Education</b>	<b>6,937</b>	<b>6,766</b>	<b>7,064</b>	<b>7,064</b>	<b>0</b>
<b>Judiciary</b>	<b>330</b>	<b>334</b>	<b>347</b>	<b>357</b>	<b>10</b>
<b>Legislature</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>9,522</b>	<b>9,728</b>	<b>10,089</b>	<b>10,105</b>	<b>17</b>

DoIT: Department of Information Technology

MSDE: Maryland State Department of Education

\*Note: Numbers may not sum due to rounding.

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