
Spending Affordability Briefing

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

November 13, 2019

General Fund: Recent History and Outlook
Fiscal 2019-2021
(\$ in Millions)

	<u>2019</u> <u>Actual</u>	<u>2020</u> <u>Working</u>	<u>2021</u> <u>Baseline</u>
Funds Available			
Ongoing Revenues	\$18,224	\$18,731	\$19,086
Balances and Transfers	391	1,132	856
Short-term Revenues	192	0	0
Total Funds Available	\$18,807	\$19,863	\$19,942
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$17,758	\$18,641	\$19,527
One-time Spending	49	165	71
Appropriations to Reserve Fund	26	555	591
Total Spending	\$17,833	\$19,360	\$20,188
Cash Balance/(Shortfall)	\$974	\$503	-\$247
Structural			
Balance (Ongoing Revenues Less Ongoing Operating Costs)	\$466	\$91	-\$441
Ratio (Ongoing Revenues/Ongoing Operating Costs)	102.6%	100.5%	97.7%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$15	\$444	\$291
Transfers to General Fund	0	158	353
Estimated Rainy Day Fund Balance – June 30	\$876	\$1,183	\$1,143
Total Cash (Rainy Day Fund and General Fund Balance)	\$1,851	\$1,686	\$897
Rainy Day Fund Balance In Excess of 5%	-\$33	\$248	\$191

General Fund Outlook for Fiscal 2021 Is Much Improved

Fiscal Effects (June 2019) Projected Fiscal 2021 Closing Fund Balance	-\$893
Available Cash Increased	\$679
Fiscal 2019 Closeout	\$256
Fiscal 2020 Ongoing Revenues Revised Upward	130
Fiscal 2021 Ongoing Revenues Revised Upward	44
Savings from Governor Not Releasing Fenced Fiscal 2020 Funds	238
Net Other	11
Favorable Spending Trends Forecast for Fiscal 2021	\$541
Savings from Larger Bond Premiums Than Previously Forecast	\$198
Slower K-12 Education Aid Growth	191
Medicaid	92
Miscellaneous	60
Fiscal 2020 and 2021 Costs Not Anticipated in Prior Forecast	-\$574
Larger Than Expected Fiscal 2019 Fund Balance Swept to Rainy Day Fund	-\$241
Fund WMATA Mandate with General Funds Not Transportation Trust Fund	-167
Anticipated Fiscal 2020 Deficiencies	-125
1% January 1, 2020 Employee Salary Increase Triggered by Fiscal 2019 Revenue Overattainment – Fiscal 2021 Impact	-41
Baseline (November 2019) Forecast of Fiscal 2021 Closing Balance	-\$247

WMATA: Washington Metropolitan Area Transit Authority

Fiscal 2021 Budget Outlook Depends on Three Key Policy Decisions

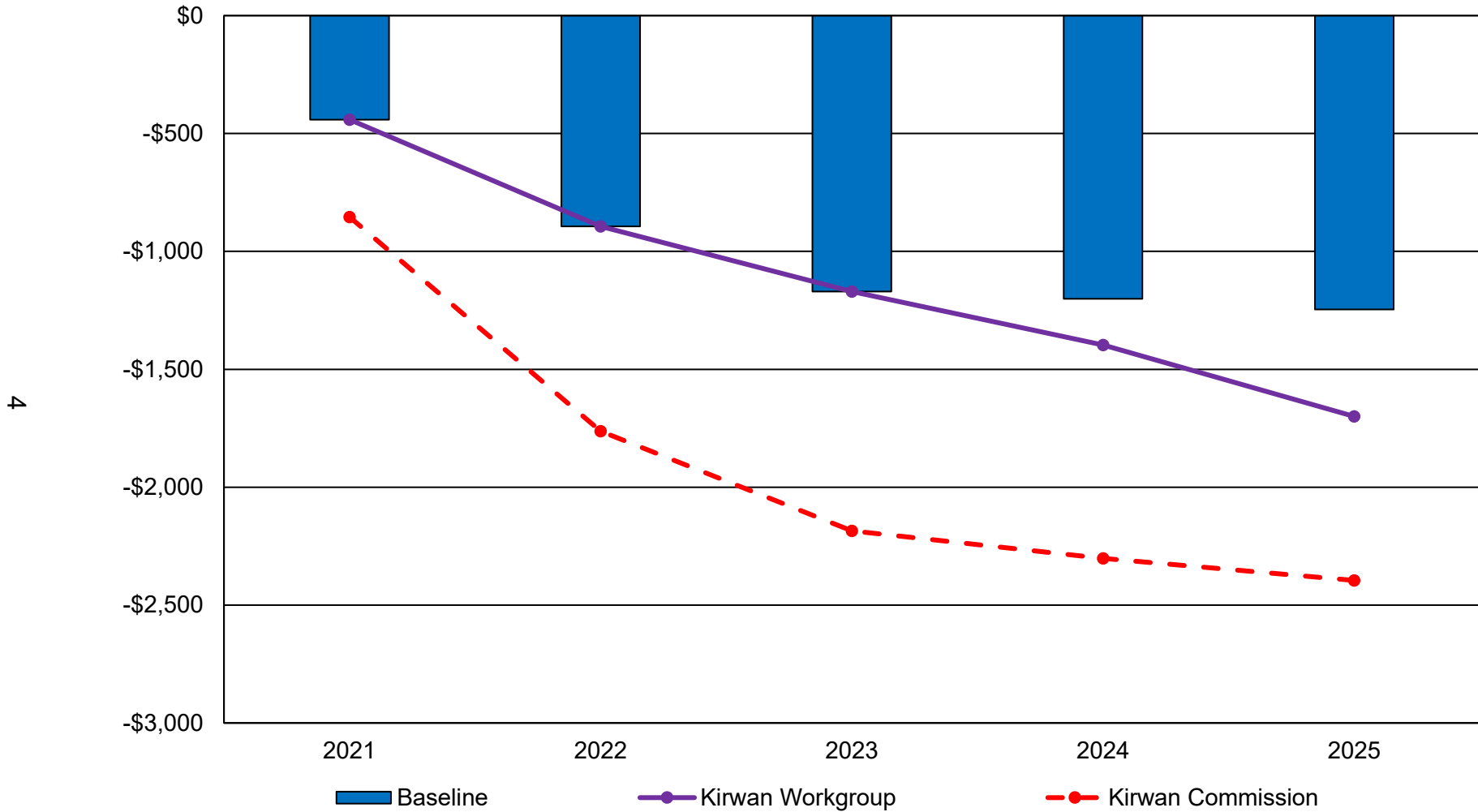
- How much should be retained in the Rainy Day Fund? The Spending Affordability Committee recommendation in December 2018 was to retain a balance equal to 6% of general fund revenues. The DLS forecast assumes this policy is retained to help address out-year budget challenges.
- How should the State fund the WMATA mandate moving forward? The Administration prefers using general funds to relieve pressure on the Transportation Trust Fund. The DLS forecast reflects this position.
- Can the State afford to raise employee salaries in fiscal 2021, and if so, by how much? The DLS forecast assumes a 3% salary increase (2% merit and 1% cost-of-living adjustment) effective July 1, 2020.

Fiscal 2021 General Fund Closing Balance – DLS Forecast	-\$247
Alternative Policy Decisions That Improve General Fund Outlook	
Reduce Rainy Day Fund Balance from 6% to 5%	\$190
Fund WMATA Mandate from Transportation Trust Fund	167
No Employee Salary Increases – Baseline Assumes 3%	124
Fiscal 2021 General Fund Closing Balance with Alternative Assumptions	\$234

DLS: Department of Legislative Services

WMATA: Washington Metropolitan Area Transit Authority

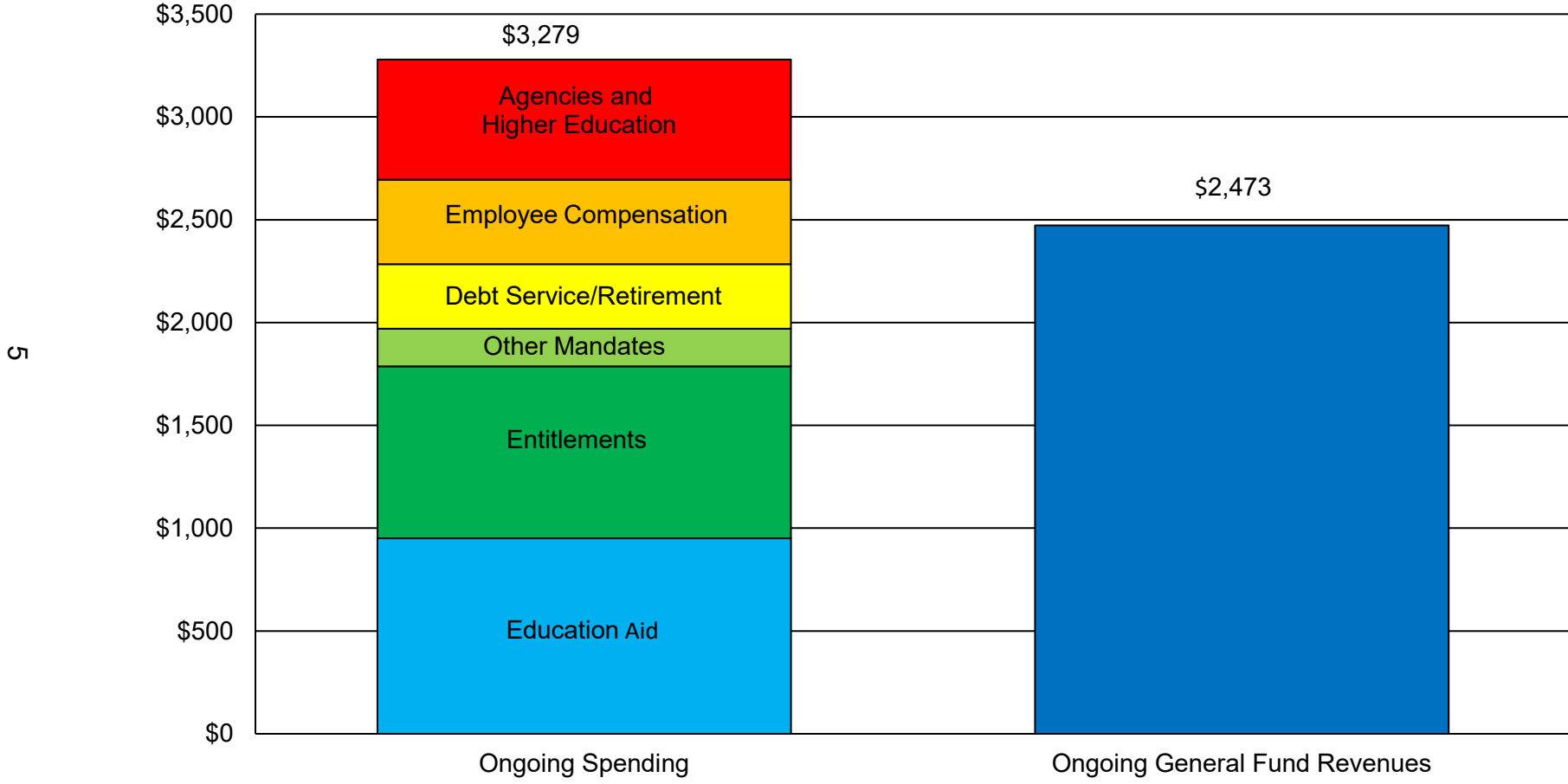
General Fund Outlook – Structural Deficit Forecast Fiscal 2021-2025



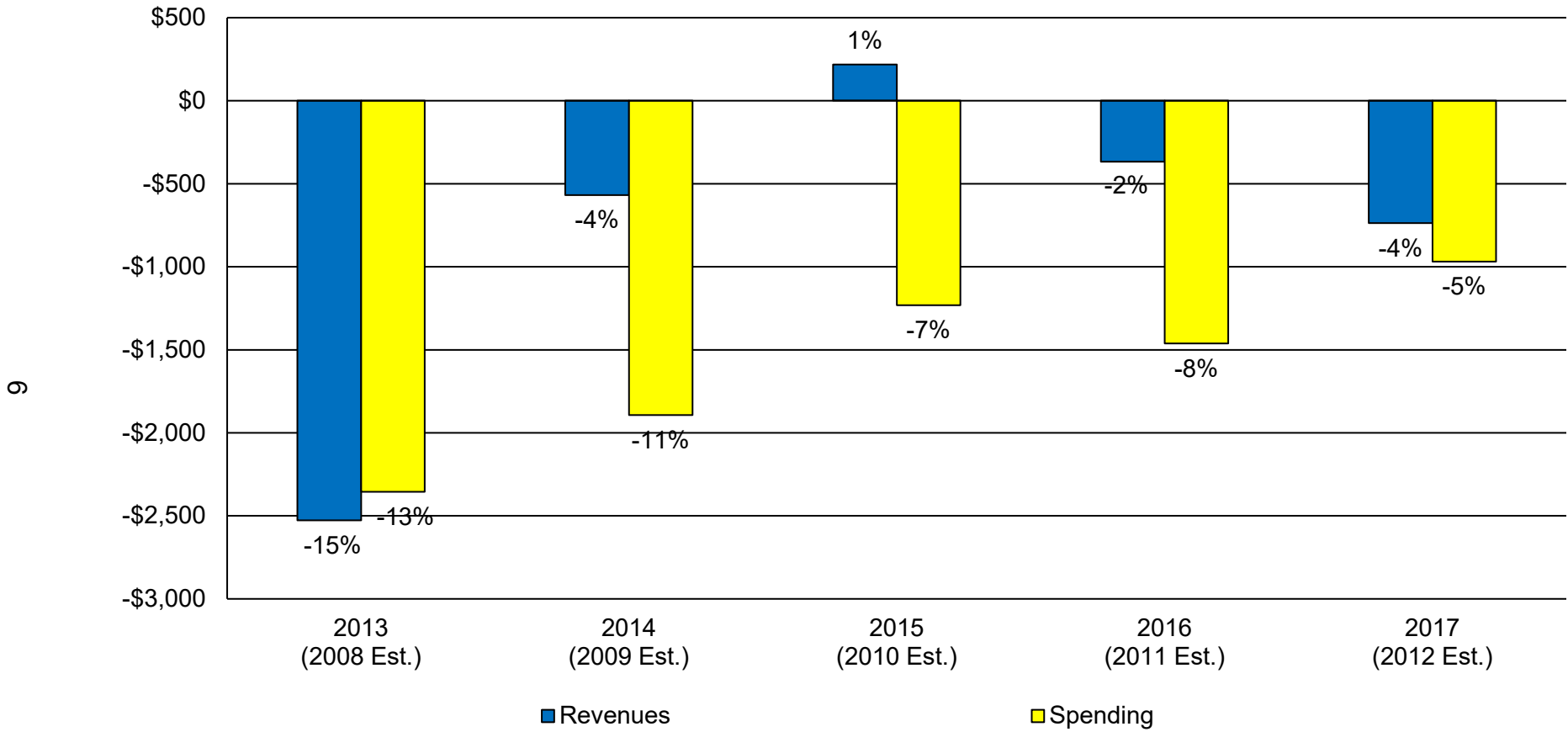
Kirwan Commission: The Commission on Innovation and Excellence in Education
 Kirwan Workgroup: The Blueprint for Maryland's Future Funding Formula Workgroup

Ongoing General Fund Spending Will Grow Faster Than Revenues Over Next Four Years, Increasing a Structural Gap from \$0.46 Billion in Fiscal 2021 to \$1.2 Billion in Fiscal 2025

**Fiscal 2021-2025
(\$ in Millions)**

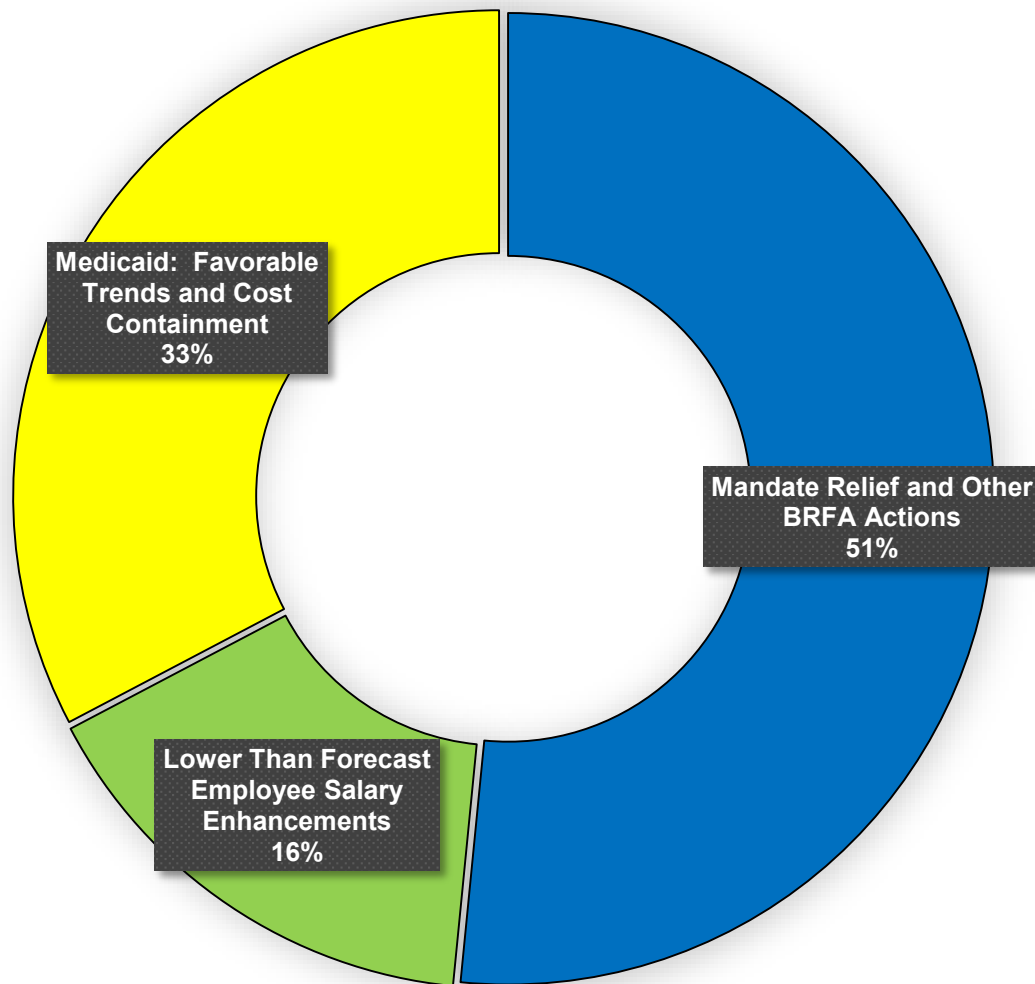


**Actual Revenues and Spending Compared to
DLS Forecast Prepared Five Years Prior
(e.g. Fiscal 2017 Actual vs. June 2012 Estimate for Fiscal 2017)
Fiscal 2013-2017
(\$ in Millions)**



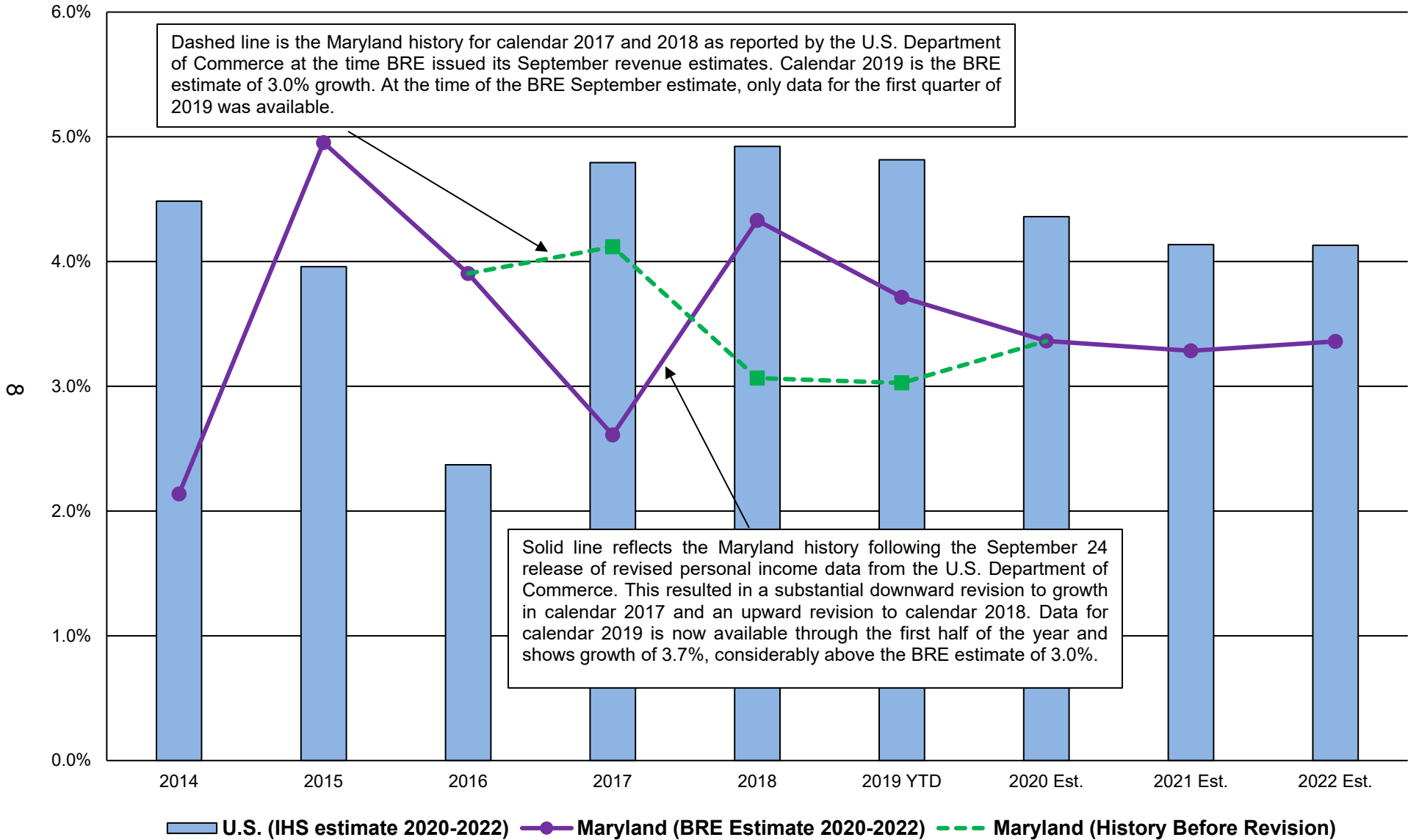
DLS: Department of Legislative Services

Why Was Actual Fiscal 2013 through 2017 Spending \$8 Billion Lower Than Forecast by DLS Five Years Earlier?



BRFA: Budget Reconciliation and Financing Act
DLS: Department of Legislative Services

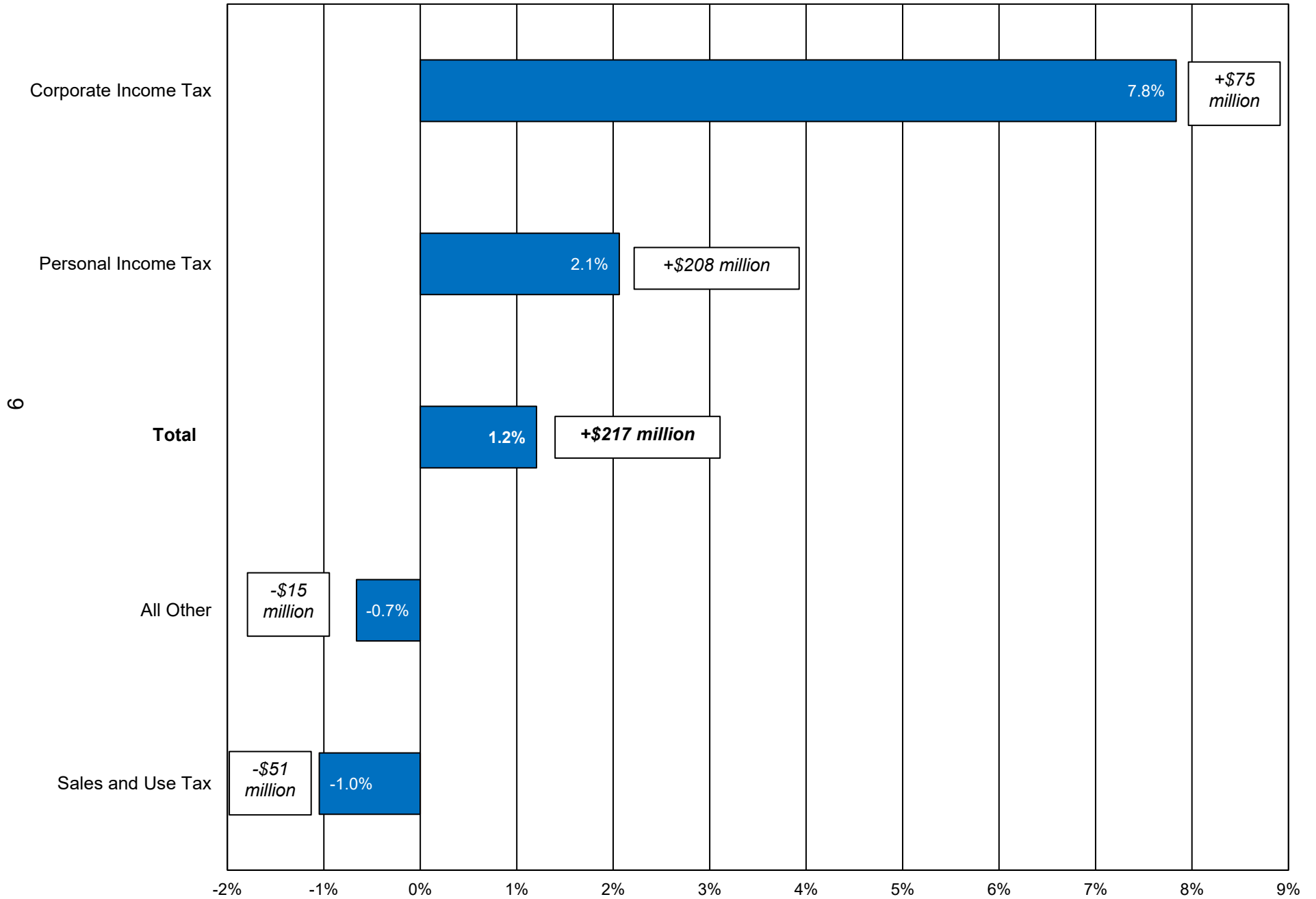
Maryland and U.S. Earnings* Year-over-Year Percent Change Calendar 2014-2022 Est.



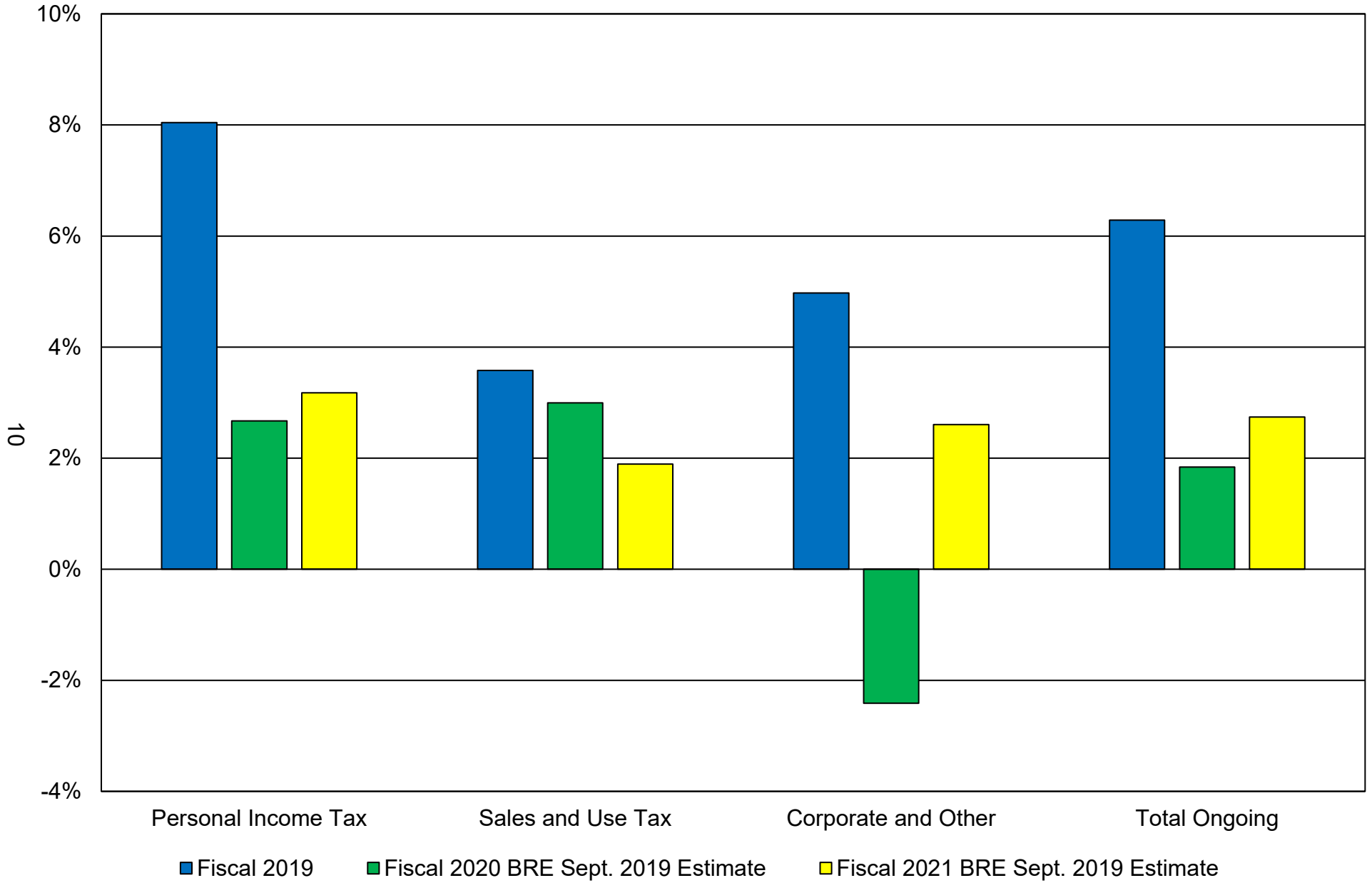
BRE: Board of Revenue Estimates

* Earnings includes wages and benefits plus proprietors' income.

Fiscal 2019 General Fund Revenues Difference from Estimate



Maryland General Fund Revenues: Fiscal 2019 to 2021 Year-over-year Percent Change



BRE: Board of Revenue Estimates

Maryland General Fund Revenue Forecast (\$ in Millions)

Source	FY 2019	FY 2020 Estimate				% Change	FY 2021	% Change
	Actual	March	September	\$ Difference	% Difference	over FY 2019	Estimate	over FY 2020
Personal Income Tax	\$10,272.4	\$10,377.4	\$10,546.9	\$169.5	1.6%	2.7%	\$10,882.1	3.2%
Sales and Use Tax ⁽¹⁾	4,812.1	5,026.4	4,956.2	-70.2	-1.4%	3.0%	5,049.9	1.9%
State Lottery	552.4	544.5	567.1	22.7	4.2%	2.7%	579.2	2.1%
Corporate Income Tax	1,033.1	962.4	992.0	29.6	3.1%	-4.0%	1,093.6	10.2%
Business Franchise Taxes ⁽²⁾	245.1	243.4	248.1	4.7	1.9%	1.2%	215.8	-13.0%
Insurance Premiums Tax	335.2	397.9	348.6	-49.2	-12.4%	4.0%	356.4	2.2%
Estate and Inheritance Taxes ⁽³⁾	180.4	164.3	167.3	3.0	1.9%	-7.3%	170.0	1.6%
Alcohol and Tobacco Taxes	389.2	396.6	383.8	-12.7	-3.2%	-1.4%	377.7	-1.6%
Other	579.2	494.6	527.5	32.9	6.7%	-8.9%	526.0	-0.3%
Subtotal Ongoing Revenues	\$18,399.0	\$18,607.4	\$18,737.6	\$130.2	0.7%	1.8%	\$19,250.8	2.7%
Excellence in Education Fund ⁽⁴⁾	-\$200.0	\$0.0	\$0.0	\$0.0	n/a	n/a	\$0.0	n/a
Total Revenues	\$18,199.0	\$18,607.4	\$18,737.6	\$130.2	0.7%	3.0%	\$19,250.8	2.7%
Volatility Adjustment ⁽⁵⁾	\$0.0	-\$41.9	-\$42.2	-0.2	n/a	n/a	-\$192.5	n/a
Available Revenues	\$18,199.0	\$18,565.5	\$18,695.4	\$129.9	0.7%	2.7%	\$19,058.3	1.9%

⁽¹⁾ Fiscal 2019 reflects \$80 million in revenue from out of state retailers following the Supreme Court decision allowing states to require those sellers to collect and remit the sales tax (*South Dakota vs. Wayfair*). The Board of Revenue Estimates (BRE) estimates that revenue will grow to \$115 million in fiscal 2020 and \$120 million in fiscal 2021. In addition, BRE estimates that sales tax collections from marketplace facilitators pursuant to Chapter 735 of 2019 will add \$29 million in fiscal 2020 and \$40 million in fiscal 2021. Chapter 735 requires that the first \$100 million in sales tax collections from marketplace facilitators and out-of-state retailers go to the General Fund with the remainder going to The Blueprint for Maryland's Future Fund.

⁽²⁾ Corporate filing fees decline in fiscal 2021 due to the Budget Reconciliation and Financing Act (BRFA) of 2019 (Chapter 16), which directs filing fee revenue over \$63.3 million to the Commission on Innovation and Excellence in Education Fund. The BRFA of 2019 also delayed the implementation of Chapters 323 and 324 of 2016 until fiscal 2022 that 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.

⁽³⁾ Estate tax revenues decline due to Chapter 612 of 2014 that raised the unified credit over a number of years and Chapter 15 of 2018 that sets the credit at \$5 million beginning in calendar 2019.

⁽⁴⁾ The BRFA of 2018 (Chapter 10) distributed \$200 million of fiscal 2019 personal income tax revenues to the Commission on Innovation and Excellence in Education Fund created by the bill.

⁽⁵⁾ Chapters 4 and 550 of 2017 (as amended by the BRFAs of 2018 and 2019) require BRE, beginning with fiscal 2020, to calculate an adjustment to the general fund revenue estimate based on the share of revenues from nonwithholding personal income tax payments relative to the historical average. The adjustment is limited to 0.225% of general fund revenues in fiscal 2020, 1.0% in fiscal 2021, and 2.0% in fiscal 2022 and later.

Note: The estimate from March 2019 has been adjusted for actions taken at the 2019 session. Other includes revenues from the courts, hospital patient recoveries, interest earnings, and other miscellaneous revenues.

Source: Board of Revenue Estimates

Fiscal 2021 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

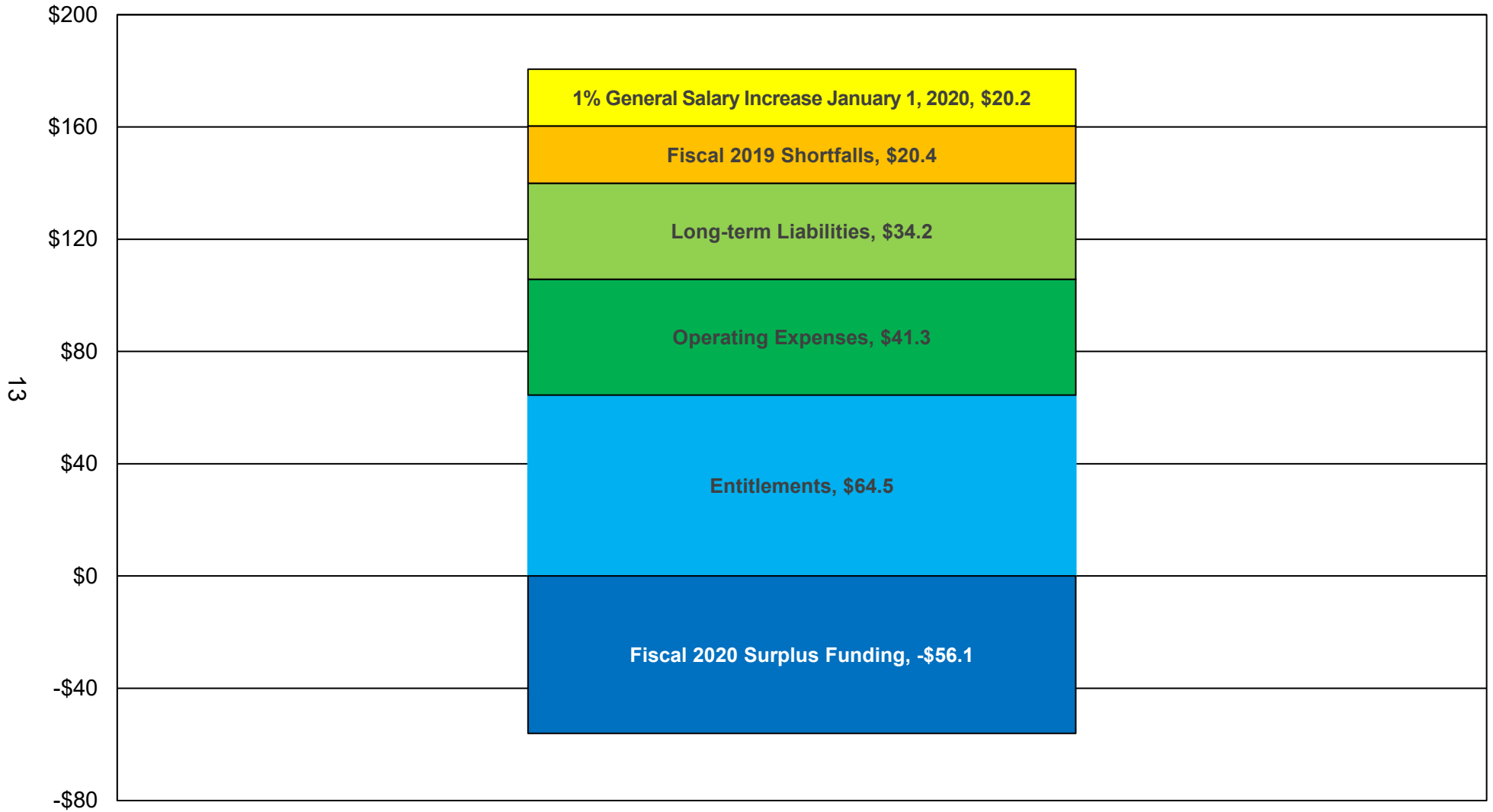
- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions. Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.
- Major inflation assumptions include natural gas (4.6%), medical care and medicine/drugs at State facilities (0.0% to 3.9% depending on program), utilities/electricity (2.4%), food (2.4%), gas and oil (2.3%), and postage (2.1%).
- Employee compensation costs include:
 - annualization of fiscal 2020 salary increase (January 1, 2020 1.0% general salary increase based on revenue overattainment);
 - a general salary increase of 1.0% effective July 1, 2020, and funding for employee increments on the regular July-January schedule;
 - employee and retiree health insurance costs (7.6%); and
 - employee retirement costs (vary but driven by increase in employee retirement plan, 1.1%).
- The higher education grant is calculated primarily on growth in mandatory costs, including employee compensation and benefits, and assuming a 2.0% tuition increase.

Caseload Assumptions

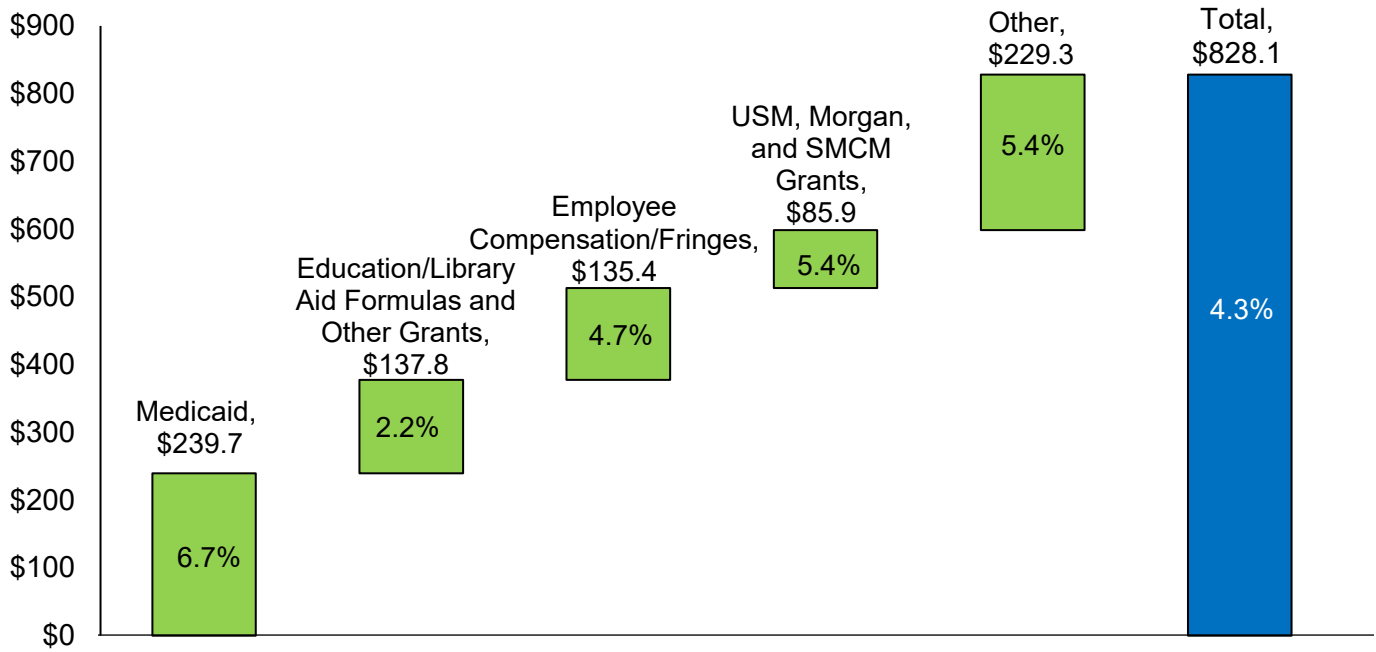
	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>% Change FY 2020-2021</u>
Pupil Enrollment*	860,806	863,071	868,939	0.7%
Medicaid	908,338	936,924	939,875	0.3%
Children's Health	154,321	146,605	145,139	-1.0%
Expansion under Affordable Care Act	309,238	314,207	319,234	1.6%
Temporary Cash Assistance	42,661	40,528	40,123	-1.0%
Foster Care/Adoption/Guardianship	12,535	12,427	12,328	-0.8%
Adult Prison Population	21,142	20,558	20,039	-2.5%

* Data for fiscal 2019, 2020, and 2021 reflect September 2017, September 2018, and September 2019 (est.) full-time equivalent enrollments.

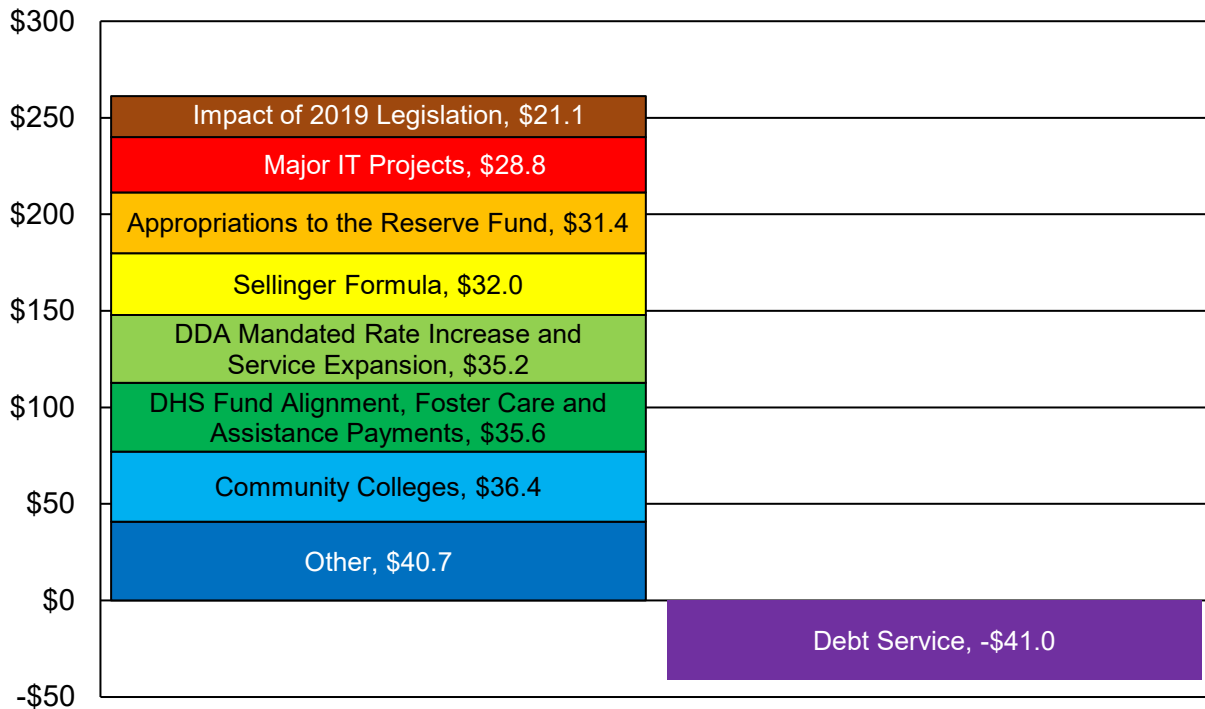
**Potential General Fund Deficiencies Total \$125 Million –
\$181 Million in Potential Deficiencies Are Partially Offset by
Projected Underspending of \$56 Million in Various Programs
(\$ in Millions)**



Fiscal 2021 Baseline Budget Estimates \$828.1 Million Growth Over the Fiscal 2020 Adjusted Legislative Appropriation (\$ in Millions/% Growth)



Other Spending Adds \$229.3 Million in General Funds After Adjusting for Debt Service

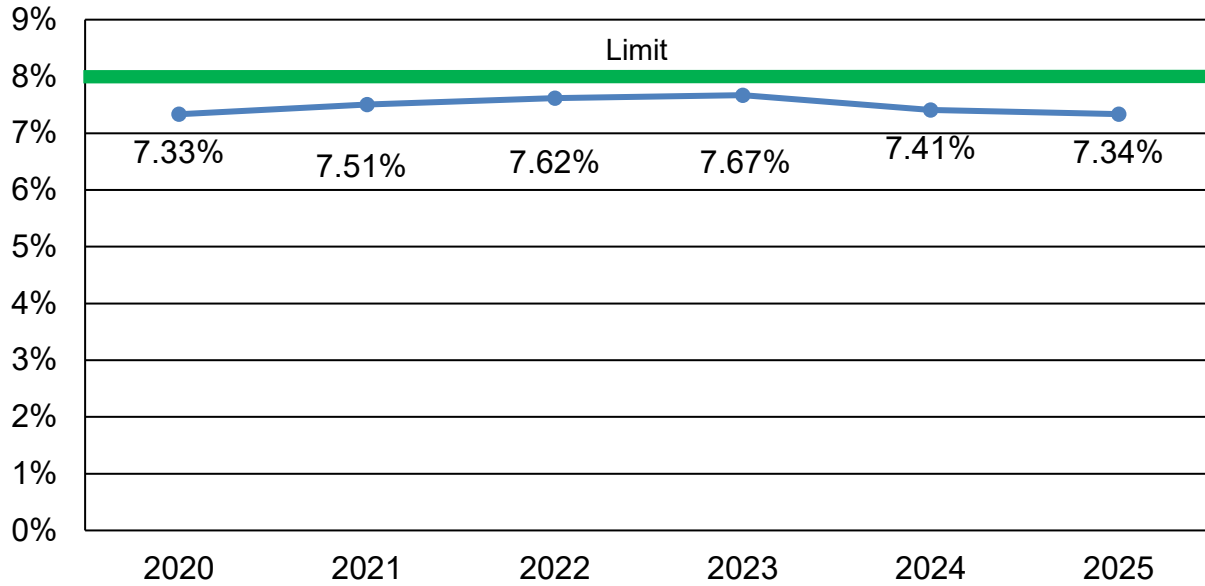


DDA: Developmental Disabilities Administration
 DHS: Department of Human Services
 IT: information technology

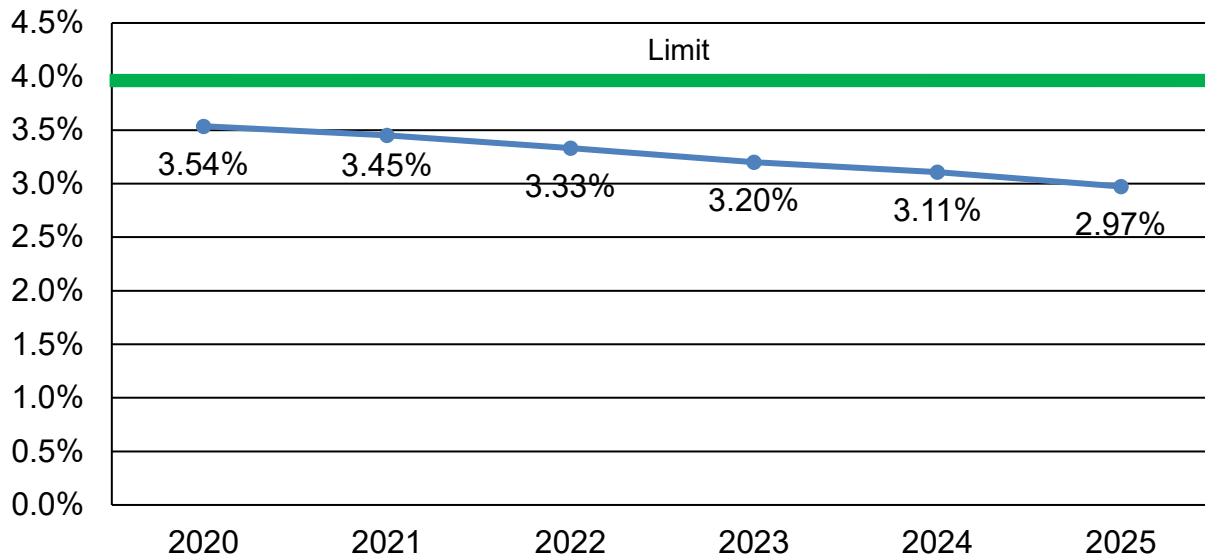
SMCM: St. Mary's College of Maryland
 USM: University System of Maryland

State Debt Policy – Affordability Ratios

State Debt Service to State Revenues Fiscal 2020-2025



State Debt Outstanding to State Personal Income Fiscal 2020-2025



Source: Bureau of Revenue Estimates; Department of Legislative Services

State Debt Policy – Debt Service Costs

- The forecast projects increasing interest rates, reduced bond sale premiums, and a constant State property tax rate of \$0.112 per \$100 of assessable base.
- As premiums decline, general fund debt service appropriations are expected to increase from \$246 million in fiscal 2021 to \$518 million in fiscal 2025, ending the previous period of high premiums and low general fund appropriations.
- Out-year general fund appropriations plateau at approximately 2.4% of general fund revenues and 35% of debt service costs, which is consistent with historical averages.

Annuity Bond Fund Forecast Fiscal 2020-2025 (\$ in Millions)

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Special Fund Revenues						
State Property Tax Receipts	\$862	\$884	\$900	\$918	\$936	\$955
Bond Sale Premiums ¹	157	89	21	0	0	0
Other Revenues	2	2	2	2	2	2
ABF Fund Balance Transferred from Prior Year	121	124	20	10	1	1
Subtotal Special Fund Revenues	\$1,142	\$1,099	\$943	\$930	\$940	\$958
General Funds	\$287	\$246	\$440	\$482	\$506	\$518
Transfer Tax Special Funds ²	7	7	7	7	7	7
Federal Funds ³	11	10	9	8	7	5
Total Revenues	\$1,447	\$1,362	\$1,399	\$1,428	\$1,460	\$1,488
Debt Service Expenditures	\$1,323	\$1,342	\$1,389	\$1,427	\$1,459	\$1,487
ABF End-of-year Fund Balance	\$124	\$20	\$10	\$1	\$1	\$1

ABF: Annuity Bond Fund

¹ Estimated bond sale premiums total \$57.6 million in March 2020, \$50.9 million in summer 2020, \$37.8 million in March 2021, and \$21 million in summer 2021.

² This supports \$70.0 million of general obligation bonds issued in 2010 for Program Open Space.

³ This includes federal interest subsidies for Build America Bonds, Qualified Zone Academy Bonds, Qualified School Construction Bonds, and Qualified Energy Conservation Bonds.

Source: Department of Legislative Services, October 2019

Capital Program

Commitments Exceed Fully Allocated Authorization Levels

- The Capital Improvement Program (CIP) fully allocates the Capital Debt Affordability Committee recommended general obligation (GO) bond authorization level through the planning period. However, additional commitments made by the General Assembly and the potential use of GO bonds to fund general fund mandates in the capital program exceed programmed funding levels by as much as \$308 million for fiscal 2021.
-

Commitments in Excess of Programmed GO Bond Authorization Levels Fiscal 2021-2024 (\$ in Millions)

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
CDAC Recommended GO Bond Authorization Levels Fully Programmed in 2019 CIP	\$1,095	\$1,105	\$1,115	\$1,125
Additional Commitments				
Projects Accelerated/Enhanced/Deferred	\$23.600	\$15.500	-\$17.400	-\$3.100
Mandates	12.000	12.000	12.000	12.000
Projects Preauthorized	65.7	-0.616	0.000	0.000
Expressions of Intent – Fund Public School Construction at \$400 million annually (Chapter 14 of 2018) and Fund UMMS Cancer Treatment and Organ Transplant Center at \$175 million (Chapter 14 of 2019)	92.500	92.500	92.500	92.500
Legislative – Local Initiatives	15.000	15.000	15.000	15.000
Subtotal	\$208.800	\$134.384	\$102.100	\$116.400
Potential Bond Replacement for General Fund PAYGO (mandates and POS Repayments)	\$99.170	\$58.500	\$37.300	\$33.200
Total	\$307.970	\$192.884	\$139.400	\$149.600

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

PAYGO: pay-as-you-go
 POS: Program Open Space
 UMMS: University of Maryland Medical System

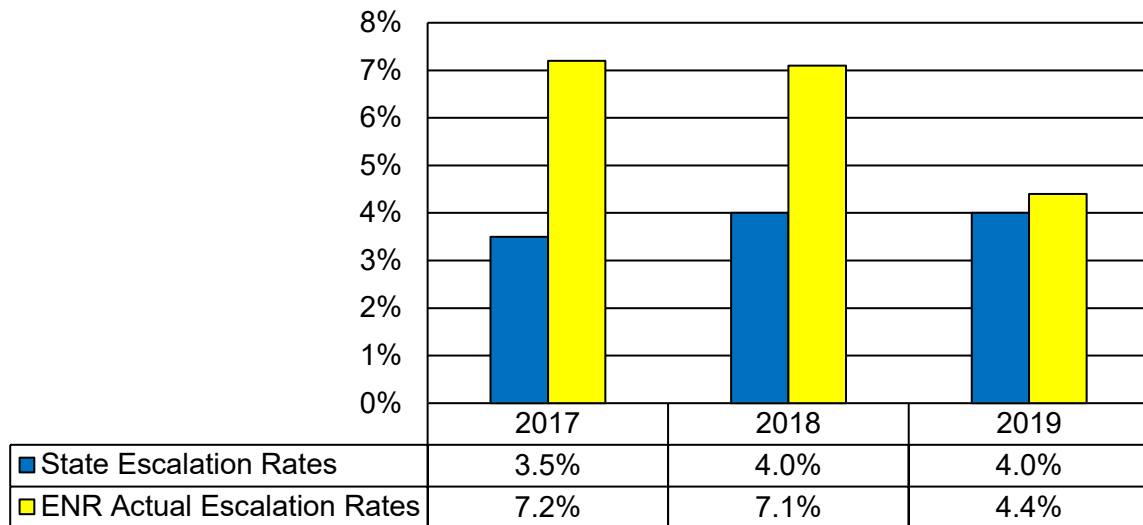
Note: Estimated out-year funding impacts for accelerated projects assumes that items will be funded in useable phases such that no gaps exist in estimated project delivery timelines. Estimates for deferred projects reflect one-year deferral and funding in useable phases such that no gaps exist in the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

Source: 2019 *Capital Improvement Program*; Department of Legislative Services

Impact of Construction Inflation

- Actual Escalation Rates Exceed Budgeted Levels:** Recent measures of year-over-year construction escalation have exceeded levels used by the Department of Budget and Management (DBM). DBM is considering increasing the calendar 2020 escalation rate from the planned 4% rate to 9% to more accurately reflect project costs.
- State-owned Projects:** This adjustment could add as much as \$30 million in costs annually for projects currently programmed in the CIP.
- Grant and Loan Programs:** The impact on grant and loan programs, including the Public School Construction Program, means that less can be done with the level of funds currently programmed in the CIP.

State Escalation Projections and Actual Building Cost Index Escalation Calculations from Engineering News Record Calendar 2017-2019



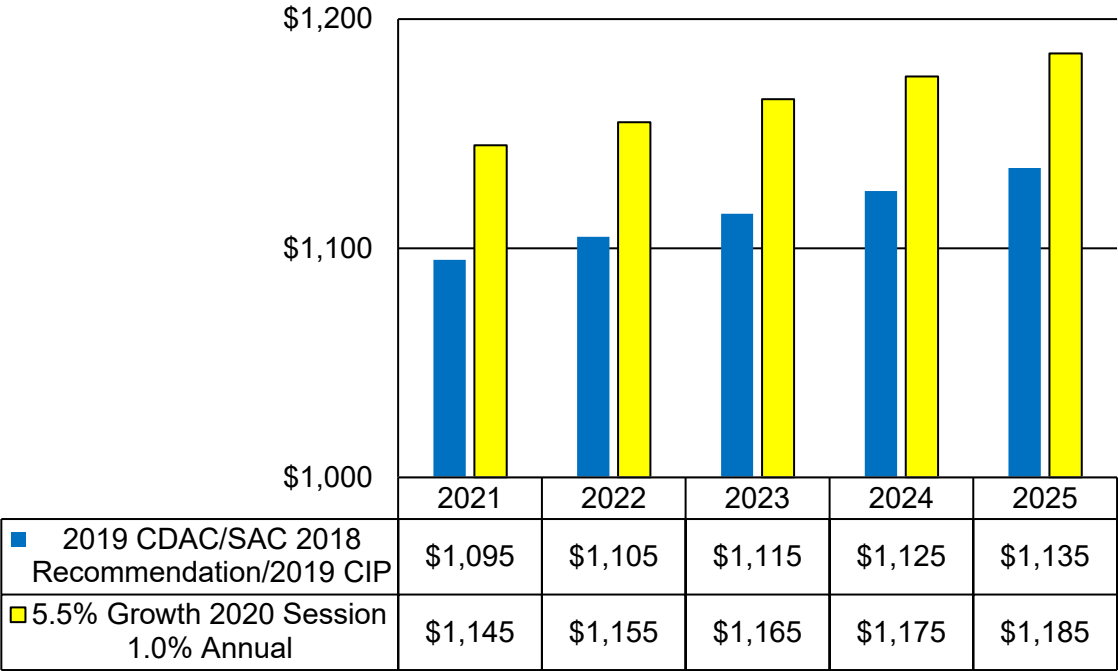
ENR: Engineering News Record

Note: Calendar 2019 ENR escalation rate as of June 2019 (July through September rates are preliminary).

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

- Impact of Construction Inflation on Bond Authorization Levels:** GO bond authorization levels are programmed to increase 1% annually. However, year-over-year construction inflation has increased at an average annual rate of 6.5% since the beginning of calendar 2017, and while the growth in construction inflation is showing signs of leveling off in the past three months, the funding levels as programmed are not keeping pace with rising construction costs.
- The committee may wish to consider rebasing authorization levels beginning in fiscal 2021 to account for the high level of construction inflation in 2017 and 2019 and to grow authorizations in subsequent years by 1% annually off of the new base.

**Construction Inflation and GO Bond Authorization Levels
Fiscal 2021-2025
(\$ in Millions)**



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

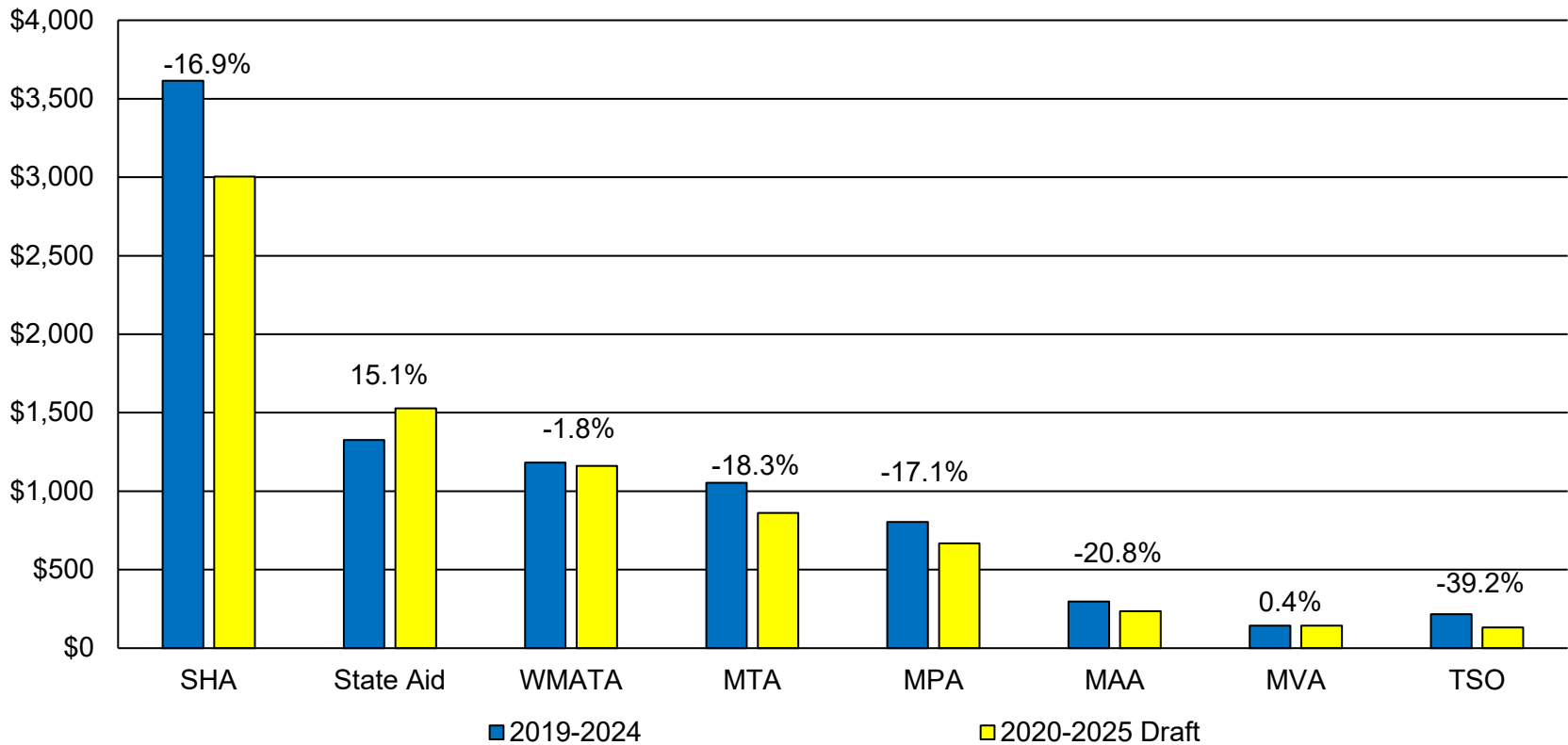
Source: Engineering News Record Building Cost Index

Transportation Trust Fund Forecast Comparison
Fiscal 2019-2024 v. Fiscal 2020-2025 Six-year Totals
(\$ in Millions)

	<u>MDOT Final</u> <u>2019-2024</u>	<u>MDOT Draft</u> <u>2020-2025</u>	<u>Final/</u> <u>Draft</u> <u>Variance</u>	<u>DLS</u> <u>2020-2025</u>	<u>MDOT/DLS</u> <u>Variance</u>
Revenues					
Taxes and Fees					
Motor Vehicle Fuel Taxes	\$7,350	\$7,541	\$191	\$7,377	-\$164
Titling Taxes	5,655	5,792	137	5,874	82
Sales Tax – Rental Vehicles	204	208	4	208	0
Corporate Income Tax	1,208	1,265	57	1,265	0
Registration Fees	2,439	2,488	49	2,488	0
Miscellaneous Motor Vehicle Fees	1,825	1,827	2	1,827	0
Subtotal – Taxes and Fees	\$18,681	\$19,121	\$441	\$19,040	-\$82
Other Revenues					
Operating Revenues	\$3,031	\$3,122	\$91	\$3,122	\$0
Federal Operating Assistance	626	633	7	633	0
Bond Proceeds/Premiums	2,920	2,155	-765	1,947	-208
Other	472	395	-77	395	0
Change in Fund Balance	-33	69	102	144	75
Subtotal – Other Revenues	\$7,016	\$6,374	-\$642	\$6,241	-\$133
Total Revenues	\$25,697	\$25,495	-\$201	\$25,281	-\$215
Expenditures					
Debt Service	\$2,589	\$2,670	\$81	\$2,641	-\$29
Operating Budget	13,568	14,218	650	14,620	403
P3 Availability Payments	304	424	120	424	0
Deductions to Other Agencies	441	449	8	449	0
Highway User Revenues and Local Grants	1,507	1,527	20	1,528	2
State Capital Program	7,289	6,208	-1,081	5,618	-590
Total Expenditures	\$25,697	\$25,495	-\$201	\$25,281	-\$215

DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation
P3: public-private partnership

Consolidated Transportation Programs – Special Funds by Mode
Fiscal 2019-2024 v. Fiscal 2020-2025 Draft
Six-year Funding and Percent Change between Programs
(\$ in Millions)



21

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

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

Note: Does not include general funds programmed to support the dedicated capital grant to WMATA.