# Spending Affordability Committee

2021 Interim Report

Annapolis, Maryland
December 2021

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House Chair

MARYLAND GENERAL ASSEMBLY

SPENDING AFFORDABILITY COMMITTEE

December 16, 2021

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 2021 interim. These recommendations were adopted by the committee at its meeting on December 15, 2021. 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 2023 spending limit and sustainability, the use of general fund cash balances, reserve fund balances, general obligation and higher education debt limits, priorities for pay-as-you-go capital spending, debt service, State employment, and priorities for the Infrastructure Investment and Jobs Act.

As required by law, the recommendations of the committee have been submitted to the Governor and the Legislative Policy Committee.

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

Sincerely,

Senator Jim Rosapepe
Presiding Chair

Delegate Marc Korman
House Chair

JR:MK/JAK/mrm

Enclosure

Jim Rosapepe
Senate Chair

Marc Korman
House Chair

MARYLAND GENERAL ASSEMBLY

SPENDING AFFORDABILITY COMMITTEE

December 16, 2021

The Honorable Bill Ferguson, Co-Chair
The Honorable Adrienne Jones, Co-Chair
Members of the Legislative Policy Committee

Dear Colleagues:

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Sincerely,

Senator Jim Rosapepe
Presiding Chair

Delegate Marc Korman
House Chair

JR:MK/JAK/mrm

Enclosure

# Maryland General Assembly
# Spending Affordability Committee
# 2021 Interim
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**Citizens Advisory Committee**
John L. Bohanan

**Committee Staff**
Jason A. Kramer

# Contents

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# 2021 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585). The committee is composed of equal numbers of senators and delegates and includes the Presiding Officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the Presiding Officers. A citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. 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 38 years ago, the recommendation of the committee has been adhered to by the legislature in all but 1 year.

Growth in personal income is often 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 7.5% over the past 30 years. The unprecedented increases under the Bridge to Excellence in Public Schools Act of 2002 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 6.9% 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 current and future budget requirements.

## Economy

The outbreak of the COVID-19 pandemic threw the U.S. economy into a deep but relatively brief contraction. With businesses and consumers sharply cutting spending and most states around the country imposing some level of closures to slow the virus spread, U.S. inflation-adjusted gross domestic product (GDP) fell 10.1% between the fourth quarter of calendar 2019 and the second quarter of calendar 2020. At that point, growth resumed, and GDP exceeded the prepandemic level by the second quarter of calendar 2021.

In Maryland, the economic impact of the pandemic has been similar to the country as a whole. Between January and April 2020, the State saw employment fall by 400,700 jobs, or almost

14.4%, while the unemployment rate jumped from 3.0% to 9.0%. In the second quarter of 2020 (April to June), Maryland wage income was 2.4% below 2019, while total personal income was up 9.5% due to federal fiscal support. On average, for all of 2020, Maryland employment fell 6.8% (188,000 jobs), while wage growth was 1.7%. By October 2021, the Maryland economy was still down almost 92,000 jobs from the January 2020 level, or 3.3%.

The forecasts for economic growth in calendar 2021 look very strong by historical standards but are a function of comparisons to the depressed level in 2020. Economists expect GDP to grow 5.5% in 2021 with U.S. employment up 2.8% and wage income rising 7.9%. Employment growth is expected to pick up in calendar 2022 as sectors most impacted by the pandemic fully recover.

In September 2021, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March 2021. The forecast expects employment growth of 2.9% in 2021 and 3.4% in 2022, with wages increasing 7.0% in 2021 and 5.2% in 2022. BRE expects employment in Maryland to reach its prepandemic level by the first quarter of calendar 2023. In December 2021, BRE revised their 2021 employment growth down slightly to 2.8% but revised growth in 2022 higher to 3.5%. BRE revised up their estimate of wage growth in 2021 to almost 9.0% based on strong year-to-date performance and revised down the 2022 estimate to 5.0%.

## Revenues

Fiscal 2021 general fund revenues were above the estimate by $1.7 billion, or 8.9%. General fund revenues totaled $20.8 billion in fiscal 2021, an increase of 11.8% over fiscal 2020, while ongoing revenues grew 9.9% in fiscal 2021. The top three revenue sources all exceeded the estimate by significant amounts: $903 million for the personal income tax; $397 million for the sales tax; and $323 million for the corporate income tax. Combined, they account for 95% of the overattainment. The personal income tax performance was the result of payments with tax year 2020 returns exceeding expectations, while refunds were below the estimate. Income tax withholding and quarterly estimated payments were also both above the estimate in fiscal 2021. The sales tax rebounded from the depressed level in fiscal 2020 as closures and capacity restrictions eased and consumers began to feel more comfortable returning to restaurants and shopping malls. The sales tax also benefited from a shift in consumer spending from services, which are generally not subject to the sales tax, to taxable goods. Strong fiscal support from the federal government via enhanced unemployment insurance benefits and multiple rounds of stimulus checks supplemented wage growth in calendar 2020 and the first half of 2021 to buoy consumer spending. Excluding certain online sales, fiscal 2021 sales tax gross receipts were not only up 6.9% over fiscal 2020 but also exceeded the fiscal 2019 level by 1.1%.

In September, BRE increased its estimate for fiscal 2022 general fund revenues by $995.1 million, or 5.0%. The personal income tax estimate was revised up by almost $400 million (3.5%) while the sales tax was revised higher by $280.5 million or 5.6%. In December, BRE revised up the fiscal 2022 estimate by $495 million (2.3%) and the fiscal 2023 estimate by $543 million (2.4%). While the revised economic projections were a factor, there were also some technical corrections. In September, when estimating tax year 2020 personal income tax refunds, BRE double-counted a portion of the refunds paid to date. This resulted in a significant overestimation of refunds that was corrected in the December estimate. In September, the Comptroller's Office estimated that $87.5 million in sales tax revenue in fiscal 2021 should have been distributed to the Blueprint for Maryland's Future Fund. The BRE September estimate for fiscal 2022 included an extra Blueprint distribution to make up for the underdistribution in fiscal 2021. The Comptroller's Office has since determined that the underdistribution was $49.2 million, and the BRE December sales tax estimate reflects this change.

## Budget Requirements

Taking into consideration the revenue projections by BRE in December 2021, the committee currently projects an ending general fund balance of nearly $4.1 billion at the close of fiscal 2022. The projected balance represents an historically high level of balance despite the impact of COVID-19 on some sectors of the State's economy. The projected balance also accounts for a swap of federal stimulus funds from the American Rescue Plan Act with general funds in fiscal 2022, which had originally been planned for fiscal 2021 to fund the Economic Recovery Initiative but could not occur due to rules around the uses of these funds. Fiscal 2022 general fund deficiency appropriations totaling $121.9 million are expected to partially offset that anticipated swap.

The largest anticipated area of deficiencies occurs in entitlement spending, particularly in the area of the behavioral health provider reimbursements due to both increased need and one-time costs associated with fiscal 2021 bills paid for in fiscal 2022. The other significant area of deficiencies occurs in statewide personnel expenses due to both higher than anticipated health insurance costs and the expenses associated with a one-time bonus and a 1% general salary increase for certain employees based on an agreement to provide those if revenues exceeded estimates by certain levels. These increases were partially offset by an additional quarter of the enhanced federal medical assistance percentage (FMAP) beyond the six months anticipated in the budget, due to the extension of the federal public health emergency into the first quarter of calendar 2022.

The baseline estimate for fiscal 2023 projects general fund growth of 16.3% ($3.4 billion) over the fiscal 2022 legislative appropriation after adjusting for anticipated deficiencies and the federal stimulus fund swap. The fiscal 2023 general fund ending balance is projected to be a surplus of nearly $2.8 billion.

The significant general fund growth reflects a $1.9 billion increase in the appropriation to the Reserve Fund resulting from unanticipated revenue overattainment at the close of fiscal 2021. The next largest increase is in the area of local aid, most notably for education/library aid, which is expected to increase by $634.4 million. This increase is primarily due to the final phase-out of using the Education Trust Fund for funding traditional education formulas, as well as higher than typical inflation and enrollment projections based on prepandemic estimates.

Changes in entitlement spending are driven by the use of federal stimulus funds in these programs in fiscal 2022. Medicaid and behavioral health spending is projected to increase by

$460.7 million, primarily due to the backfilling of the enhanced FMAP with general funds and special funds available to support the programs in fiscal 2022. Other entitlement spending is projected to decrease by a net of $22.6 million, primarily due to the availability of federal funds to support the Temporary Cash Assistance Program. These federal funds are available due to the use of federal stimulus funds in lieu of Temporary Assistance for Needy Families funds in fiscal 2021 and 2022.

State agency spending is projected to increase by $440.4 million, of which more than one-quarter ($152.2 million) is related to the non-higher education portions of anticipated compensation changes including a 2% general salary increase and merit increase, as well as health insurance and pension contributions. Public four-year higher education expenses are projected to increase by $90.2 million accounting for both growth in personnel expenses and mandates. Certain legislation accounts for increases of approximately $91 million, of which more than half relates to three pieces of legislation (the non-higher education institution costs related to Chapter 41 of 2021 (Historically Black Colleges and University Funding), Chapter 746 of 2021 (Residential Tenants Access to Counsel), and Chapter 59 of 2021 (Maryland Police Accountability Act of 2021– Police Discipline and Law Enforcement Programs and Procedures)). Backfilling of federal stimulus funding in the Maryland Department of Health for personnel costs, the enhanced FMAP in the Developmental Disabilities Administration, and costs related to increased need and provider rate increases in the Behavioral Health Administration result in an increase of $44.4 million.

The committee projects that the State will close fiscal 2023 with a balance of $3.6 billion in the Revenue Stabilization Account (Rainy Day Fund), which represents 15.7% of general fund revenues.

As previously noted, current baseline projections estimate the General Fund to have a cash surplus of $2.8 billion at the close of fiscal 2023. The structural surplus is projected to be $1.3 billion. As shown in **Exhibit 1**, which provides the cash and structural balance projections for the General Fund through fiscal 2028, the cash outlook is expected to remain strong through the forecast period. The structural surplus is projected to exceed $2.0 billion beginning in fiscal 2024 through 2027 before decreasing in fiscal 2028 due to the need for general funds to support costs related to the Blueprint for Maryland's Future in that year but remains greater than $1.8 billion.

**Exhibit 1**
**General Fund Budget Outlook**
**Fiscal 2022-2028 Est.**
**($ in Millions)**

| | Working Approp. 2022 | Baseline 2023 | Est. 2024 | Est. 2025 | Est. 2026 | Est. 2027 | Est. 2028 |
|---|---|---|---|---|---|---|---|
| Cash Balance | $4,089 | $2,771 | $5,650 | $7,509 | $9,599 | $11,447 | $12,806 |
| Structural Balance | 1,302 | 1,304 | 2,000 | 2,242 | 2,479 | 2,290 | 1,808 |

## Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2022 session:

### 1. Operating Budget Spending Limit and Sustainability

Unprecedented levels of federal assistance helped to sustain incomes and the economy during the COVID-19 pandemic, resulting in significantly more revenue than anticipated throughout the forecast period. The fiscal 2023 baseline estimate projects a structural surplus in excess of $1.3 billion. While this positive fiscal position allows policymakers some flexibility to utilize available resources to address the ongoing needs of the State, BRE notes that actual out-year revenue growth could be affected by economic uncertainties including inflation, which suggests that the State should approach decisions about how to use this surplus cautiously. **The committee recommends that the budget maintain structural balance in fiscal 2023 to support ongoing budget sustainability.**

### 2. General Fund Balance and Use of Surplus

Estimated cash balances, after assuming a 5% balance in the Rainy Day Fund, total $4.3 billion at the close of fiscal 2022. This surplus provides the State with the unique opportunity to invest resources toward unmet needs and priorities. Recognizing that the fund balance is one time in nature, the committee recommends against making ongoing investments with the cash surplus. Ongoing needs can be accommodated within the significant structural surplus forecast for fiscal 2023 and beyond. The committee recommends investing the cash surplus in the following one-time purposes:

- **achieving a minimum ending fiscal 2023 general fund balance of $200 million. Over the last five years, annual general fund deficiency appropriations have averaged about $150 million. A balance of $200 million is sufficient to cover a normal level of deficiencies and also provide a hedge against modest changes in revenue collections;**

- **increasing the Rainy Day Fund balance to 9.0% of general fund revenues. Allocating a portion of the surplus to the Rainy Day Fund positions the State to (1) avoid deep cuts and maintain social safety nets during periods of economic stress and (2) provide resources to protect government services and meet new needs in such periods. The General Assembly and the Governor should collaborate on implementing clear criteria for when the Rainy Day Fund should be used;**

- **committing $225 million toward the repayment of funds previously borrowed from the Local Income Tax Reserve Account, which reduces the outstanding unfunded liability by more than 30%:**

- **allocating a minimum of $300 million to address long-standing deferred maintenance and facility renewal needs in Department of General Services (DGS) operated facilities and at State parks and allocating $200 million to the public four-year institutions of higher education and regional higher education centers for deferred maintenance and facility renewal. Funds for each public four-year institution of higher education and each regional higher education center should be linked to a commitment to annually set-aside funds for facility renewal;**

- **investing in pay-as-you-go (PAYGO) capital to fund previous commitments, offset the impact of a recent spike in construction inflation, mitigate the planned reduction in the general obligation (GO) authorizations in fiscal 2023, and expand the capital program; and**

- **investing in one-time purposes such as improving cybersecurity, accelerating the replacement of outdated information technology systems, capitalizing investments that build capacity to provide ongoing programs and services including infrastructure for apprenticeships and other career pathways to reduce barriers to attracting and training workers in skill shortage occupations in government and the private sector, and offering hiring and retention bonuses to attract more workers to State government.**

## 3. Capital Budget

### A. General Obligation Debt

In September 2021, BRE increased its estimate of general fund revenues through fiscal 2027, which substantially reduced the State's debt service to revenues affordability ratio in all years of the planning period; the improved revenues reduced the State's debt service to revenues ratio from 7.7% in October 2020 to 7.1% in October 2021. Despite the improved debt affordability ratio, the Capital Debt Affordability Committee (CDAC) recommendation limits fiscal 2023 GO bond authorizations to $900 million, which is $215 million below both the level recommended by the Spending Affordability Committee (SAC) in December 2020 and the amount programmed in the 2021 *Capital Improvement Program* (CIP).

The committee is concerned that the CDAC recommendation does not provide a level of capital investment necessary to address the critical infrastructure needs of the State at a time when interest rates remain low but are projected to increase and construction inflation is quite high.

**While the committee finds reducing GO authorizations to $900 million unnecessary given the State's improved affordability ratio and low interest rates, the committee recognizes that substantial one-time cash balances are available to support a robust capital program. Therefore, the committee recommends that the General Assembly adhere to the $900 million limit proposed by CDAC if the Governor's PAYGO and GO proposals:**

- **fund all the projects preauthorized by the General Assembly for fiscal 2023;**

- **allocate funds to make strategic investments in facility renewal for State parks, State facilities managed by DGS, and higher education facilities; and**

- **set aside $300 million in GO bonds for allocation by the General Assembly.**

**The substantial amount for the General Assembly reflects a small share of the historic amount of resources (potentially in excess of $3 billion between GO authorizations, bond premiums, and general fund balances) available to the State for capital projects in fiscal 2023. If the Governor's budget submission does not adhere to these proposals, SAC will reconvene and consider a higher authorization level for fiscal 2023 only that keeps the State well within the affordability ratios.**

As to the long-range plan, the committee continues to support the CDAC debt affordability criteria, which limits debt service to 8% of State revenues and debt outstanding to 4% of State personal income. The committee is concerned, however, that the CDAC's recommendation through the planning period, which returns the authorization level to the amounts currently programmed beginning in fiscal 2024 ($1.125 billion), fails to account for recent increases in construction inflation. **Accordingly, the committee recommends that GO bond authorization levels be rebased beginning in fiscal 2024 to a level of $1.205 billion and include annual 4% increases as opposed to the 1% currently recommended by CDAC.**

## B. Higher Education Debt

The University System of Maryland (USM) intends to issue up to $30 million in academic debt for fiscal 2023, which is the same amount authorized in fiscal 2022 and is consistent with the amount programmed in the 2021 CIP for fiscal 2023. 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.

**The committee concurs in the recommendation of CDAC that $30 million in new academic revenue bonds may be authorized in the 2022 session for USM.**

## C. Payment of Debt Service

During the fiscal challenges of the last decade, the State has allocated premium revenue from the sale of GO bonds to paying debt service. Paying debt service with the proceeds from bond sales is not an efficient approach to paying debt service at a time when large general fund balances are forecast. **The committee recommends dedicating bond premiums from the sale of GO bonds solely to capital projects in fiscal 2023.**

## 4. State Employment

Personnel costs comprise approximately 20% of the State's operating budget. The committee anticipates a net increase of 757 positions in the fiscal 2023 budget compared to the fiscal 2022 legislative appropriation. This is comprised of 474 positions added in higher education, and 255 new positions in the Executive Branch, most of which are the result of recent legislation. The resulting authorized number of State employees would be 80,842 in fiscal 2023.

However, in the Executive Branch excluding higher education, 5,788 positions, or 12%, were vacant in October 2021. While specific departments, such as Public Safety, have struggled with high vacancy levels in the past, the issue is now persistent in most State agencies; five of the six largest State departments have vacancy rates above 12%. The lack of an adequate, professionally skilled workforce limits the State's ability to provide quality services, an issue that has been further exacerbated by the pandemic. According to the most recent jobs report from the U.S. Bureau of Labor Statistics, state and local government job openings (excluding in education) grew by 114,000 nationwide in the third quarter, indicating the issue is widespread and not isolated to Maryland State government. **The committee is concerned about the high level of vacancies in State government and the general deprofessionalization of its workforce. Considering the State's budget outlook, the committee recommends that the fiscal 2023 budget include funding for general salary increases as well as targeted salary enhancements to classes with significant vacancies. The Department of Budget and Management (DBM) should also consider one-time payments, such as recruitment and retention bonuses, in order to attract qualified employees to the State. DBM should explore the creation of subsidized apprenticeship and other career pathways in all agencies with hard-to-fill positions, focusing both on upskilling current employees and recruiting new employees beginning in high school.**

## 5. Infrastructure Investment and Jobs Act

Enactment of the federal Infrastructure Investment and Jobs Act of 2021 reflects historic investment in the nation's infrastructure priorities – funding improvements across all modes of transportation, water systems, and broadband. Of the $727 billion in grants of interest to states, it is anticipated that Maryland will receive more than $7.2 billion. As was witnessed with the swift, yet successful allocation of prior COVID-19 relief assistance during the 2021 session, resources are most efficiently and effectively utilized when there is a collaboration of priorities between the branches of government. **As such, the committee expects the Administration to work with the General Assembly to develop the State's plan for utilizing resources available through the Infrastructure Investment and Jobs Act, including resources allocated to Maryland via formula and specifically with regard to the planned uses of the funds and decisions regarding the pursuit of competitive grants that require a State match.**

## Appendix 1

# Prior Recommendations and Legislative Action on the Operating Budget

### ($ in Millions)

| Session Year | Committee Recommendation: Growth Rate | Committee Recommendation: Amount | Legislative Action: Growth | Legislative Action: Amount |
|---|---|---|---|---|
| 1983 | 9.00% | $428.0 | 5.70 | $269.8 |
| 1984 | 6.15% | 326.7 | 8.38 | 402.0 |
| 1985 | 8.00% | 407.2 | 7.93 | 404.6 |
| 1986 | 7.70% | 421.5 | 7.31 | 402.2 |
| 1987 | 7.28% | 430.2 | 7.27 | 429.9 |
| 1988 | 8.58% | 557.5 | 8.54 | 552.9 |
| 1989 | 8.79% | 618.9 | 8.78 | 618.2 |
| 1990 | 9.00% | 691.6 | 8.98 | 689.7 |
| 1991 | 5.14% | 421.8 | 5.00 | 410.0 |
| 1992 | No recommendation | | 10.00 | 823.3 |
| 1993 | 2.50% | 216.7 | 2.48 | 215.0 |
| 1994 | 5.00% | 443.2 | 5.00 | 443.2 |
| 1995 | 4.50% | 420.1 | 4.50 | 420.0 |
| 1996 | 4.25% | 415.0 | 3.82 | 372.8 |
| 1997 | 4.15% | 419.6 | 4.00 | 404.6 |
| 1998 | 4.90% | 514.9 | 4.82 | 506.6 |
| 1999 | 5.90% | 648.8 | 5.82 | 640.6 |
| 2000[1] | 6.90% | 803.0 | 6.87 | 800.0 |
| 2001[2] | 6.95% | 885.3 | 6.94 | 884.6 |
| 2002 | 3.95% | 543.2 | 3.40 | 468.1 |
| 2003 | 2.50% | 358.2 | 0.94 | 134.1 |
| 2004 | 4.37% | 635.2 | 4.33 | 629.0 |
| 2005[3] | 6.70% | 1,037.1 | 6.69 | 1,036.3 |
| 2006[3] | 9.60% | 1,604.7 | 9.57 | 1,599.0 |
| 2007 | 7.90% | 1,450.0 | 7.51 | 1,378.4 |
| 2008 | 4.27% | 848.7 | 4.16 | 826.8 |
| 2009[4] | 0.70% | 145.7 | 0.19 | 39.2 |
| 2010[4] | 0.00% | 0.0 | - | -626.9 |
| 2011 | Reduce fiscal 2012 structural deficit by 33⅓% | | 36.90%/46.00%[5] | |
| 2012 | Reduce fiscal 2013 structural deficit by 50.0% | | 50.60% | |
| 2013 | Reduce fiscal 2014 structural deficit by $200.0 million | | | -211.2 |
| 2014 | 4.00% | 937.8 | 2.76 | 646.4 |
| | Reduce fiscal 2015 structural deficit by $125.0 million | | | -126.1 |
| 2015 | Reduce fiscal 2016 structural deficit by 50.0% | | 68.27% | |
| 2016 | 4.85% | 1,184.2 | 4.55 | 1,111.2 |
| 2017 | Reduce fiscal 2018 structural deficit by at least 50.0% | | 90.19% | |
| 2018 | Eliminate 100% of the fiscal 2019 structural deficit | | 100% | |
| 2019 | 3.75% | 1,019.0 | 3.31 | 900.7 |
| | Maintain structural balance in fiscal 2020 | | | 76.0[6] |
| 2020 | Maintain structural balance in fiscal 2021 | | | 160.2 |
| 2021 | Limit fiscal 2022 structural deficit to $700 million or less | | | 63.0 |

[1] 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%.

[2] Methodology revised effective with the 2001 session.

[3] The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

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

[5] Spending reduction/total reduction.

[6] Amount reflects difference between the estimated structural deficit of $64 million in the Governor’s allowance and the structural surplus of $12 million in the legislative appropriation.

# Part 1

# Economic Outlook and General Fund Revenues

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

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

Source: Office of the Comptroller; Board of Revenue Estimates

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

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

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

Source: Board of Revenue Estimates

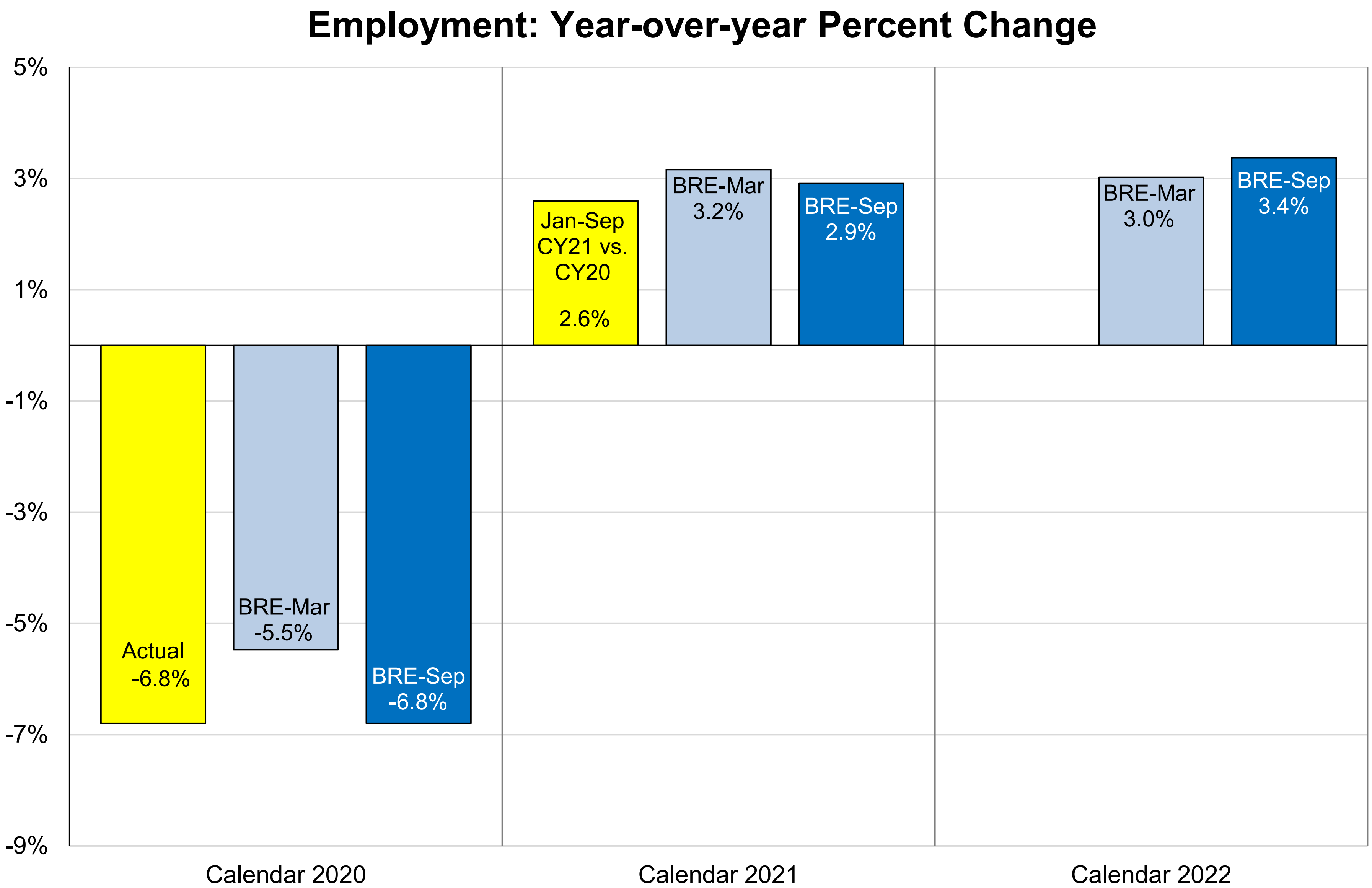
# General Fund Revenue Forecast
## ($ in Millions)

| | Fiscal 2022 Estimate | | | Percent Change vs. | Fiscal 2023 Estimate | | | Percent Change vs. |
|---|---|---|---|---|---|---|---|---|
| | Sep 2021 | Dec 2021 | $ Diff. | Fiscal 2021 | Sep 2021 | Dec 2021 | $ Diff. | Fiscal 2022 |
| Personal Income Tax (1) | $11,797 | $12,058 | $261 | 3.0% | $12,634 | $12,915 | $281 | 7.1% |
| Corporate Income Tax | 1,446 | 1,389 | -56 | -5.0% | 1,556 | 1,527 | -29 | 9.9% |
| Sales and Use Tax | 5,283 | 5,510 | 226 | 10.5% | 5,520 | 5,743 | 223 | 4.2% |
| State Lottery | 641 | 649 | 8 | 2.7% | 651 | 665 | 13 | 2.5% |
| Other | 2,009 | 2,066 | 56 | 22.5% | 1,985 | 2,040 | 55 | -1.2% |
| **Ongoing General Funds(2)** | **$21,176** | **$21,672** | **$495** | **5.9%** | **$22,346** | **$22,889** | **$543** | **5.6%** |
| Volatility Adjustment | -$80 | -$80 | 0 | n/a | -$100 | -$100 | 0 | 25.0% |
| **Total General Funds** | **$21,096** | **$21,592** | **$495** | **3.7%** | **$22,246** | **$22,789** | **$543** | **5.5%** |
| | | | | | | | | |
| **Selected Special Funds for Education** | | | | | | | | |
| Sales Tax | $671 | $612 | -$59 | 44.5% | $611 | $589 | -$22 | -3.7% |
| Casinos | 561 | 588 | 27 | 10.6% | 571 | 598 | 27 | 1.8% |
| | | | | | | | | |
| *Sales Tax – Blueprint Fund* | | | | | | | | |
| *Baseline Transfer* | *$583* | *$563* | *-$21* | | | | | |
| *Catch Up for Underdistribution in Fiscal 2021* | *88* | *49* | *-38* | | | | | |
| *Total Fiscal 2022 Transfer* | *$671* | *$612* | *-$59* | | | | | |

(1) The December estimate reflects an extra distribution of $50 million in fiscal 2022 to the Local Income Tax Reserve Account. The annual financial analysis of the account showed it to be underfunded by $816.5 million at the end of fiscal 2021 and by $77.9 million net of cancelled repayments for prior transfers.

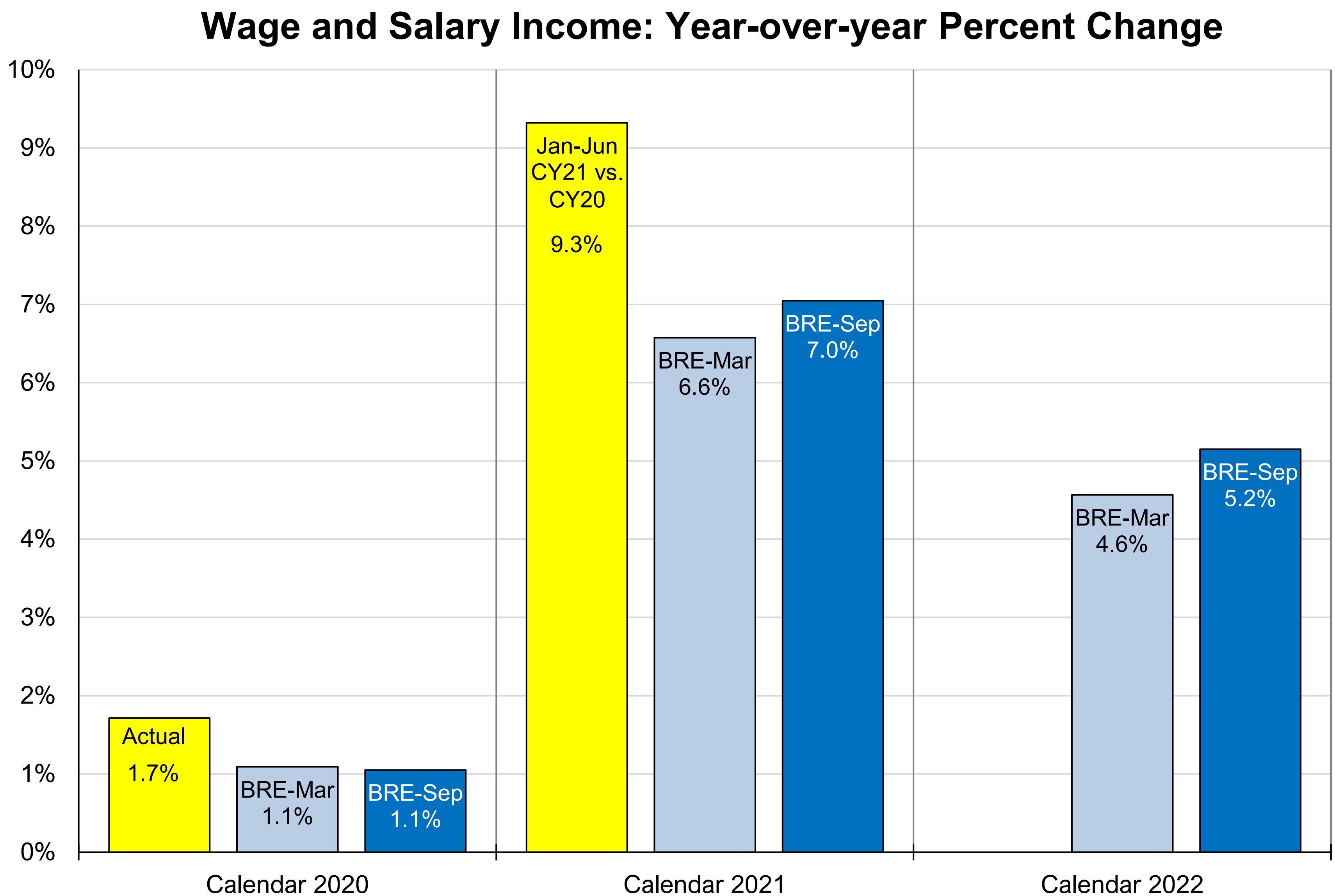
(2) The Budget Reconciliation and Financing Act of 2020 (Chapter 538) eliminated the Rate Stabilization Fund beginning in fiscal 2022. The insurance premiums tax revenue that was distributed to the fund will be directed to the General Fund. Adjusted for this law change, ongoing general fund revenue growth in fiscal 2022 would be about 4.4% over fiscal 2021.

Source: Board of Revenue Estimates




BRE: Board of Revenue Estimates

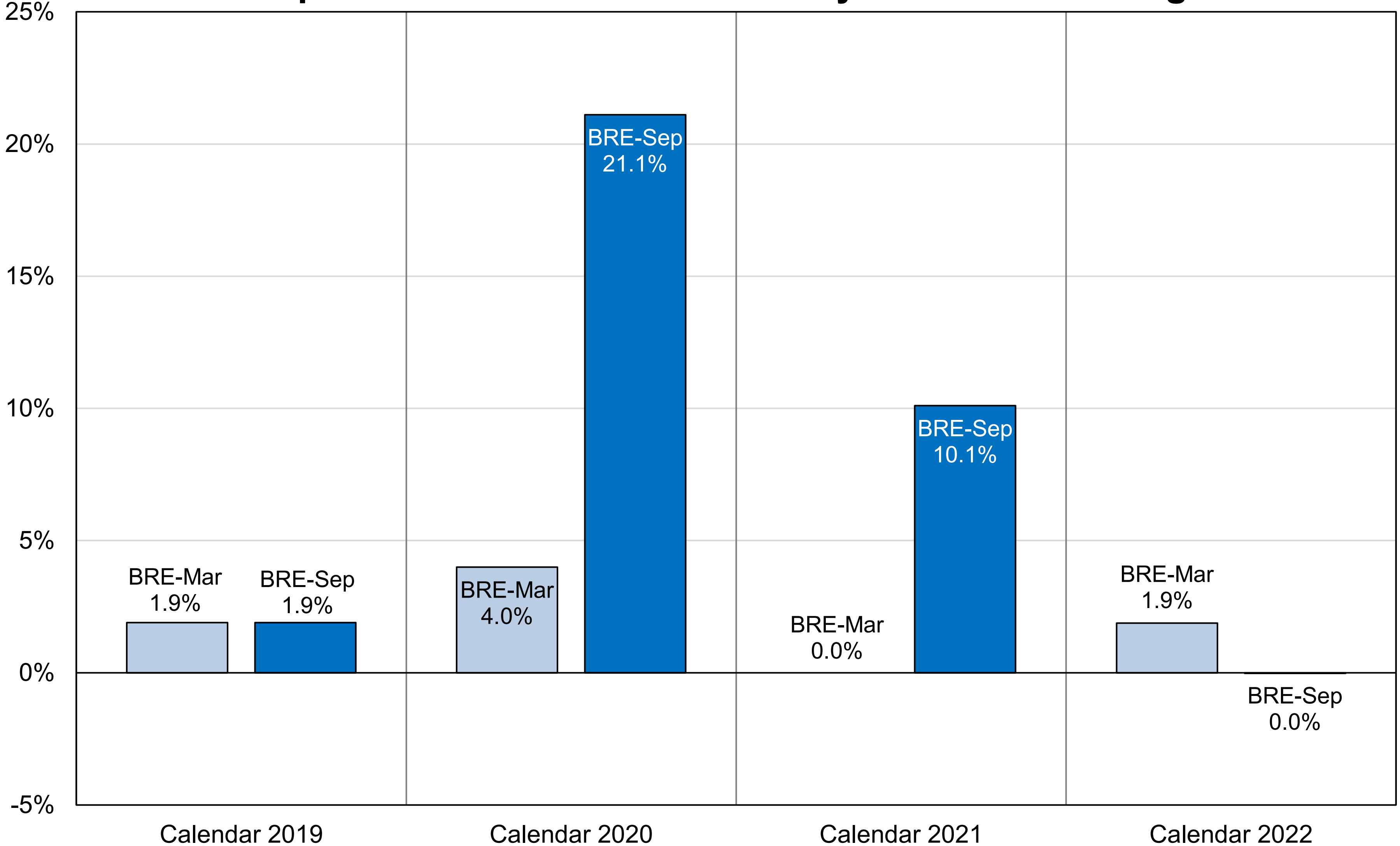
Source: U.S. Department of Labor, Bureau of Labor Statistics (historical data); Board of Revenue Estimates (forecasts)




BRE: Board of Revenue Estimates

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

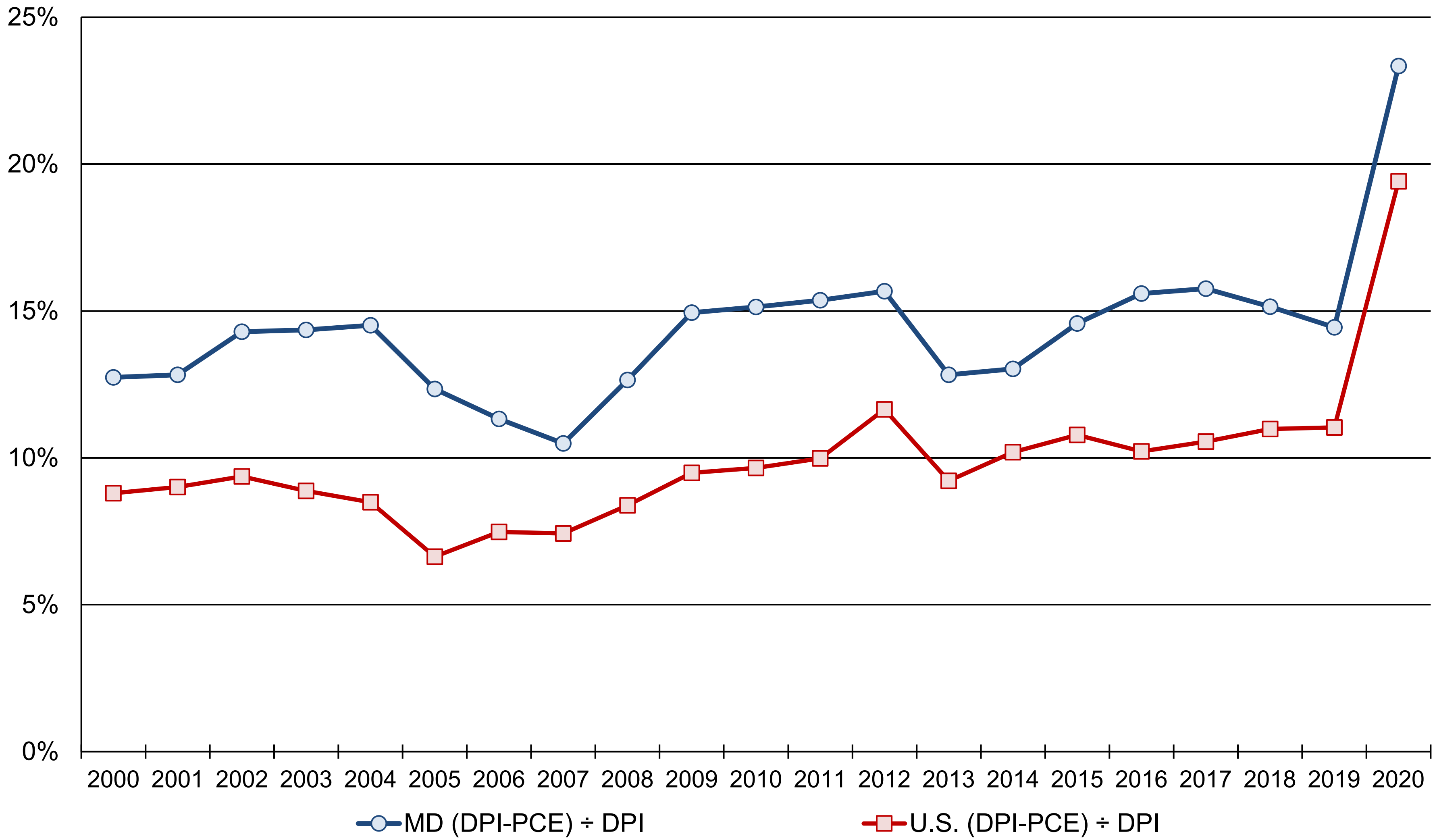
## Capital Gains Income: Year-over-year Percent Change




BRE: Board of Revenue Estimates

Source: Board of Revenue Estimates

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




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

# Part 2

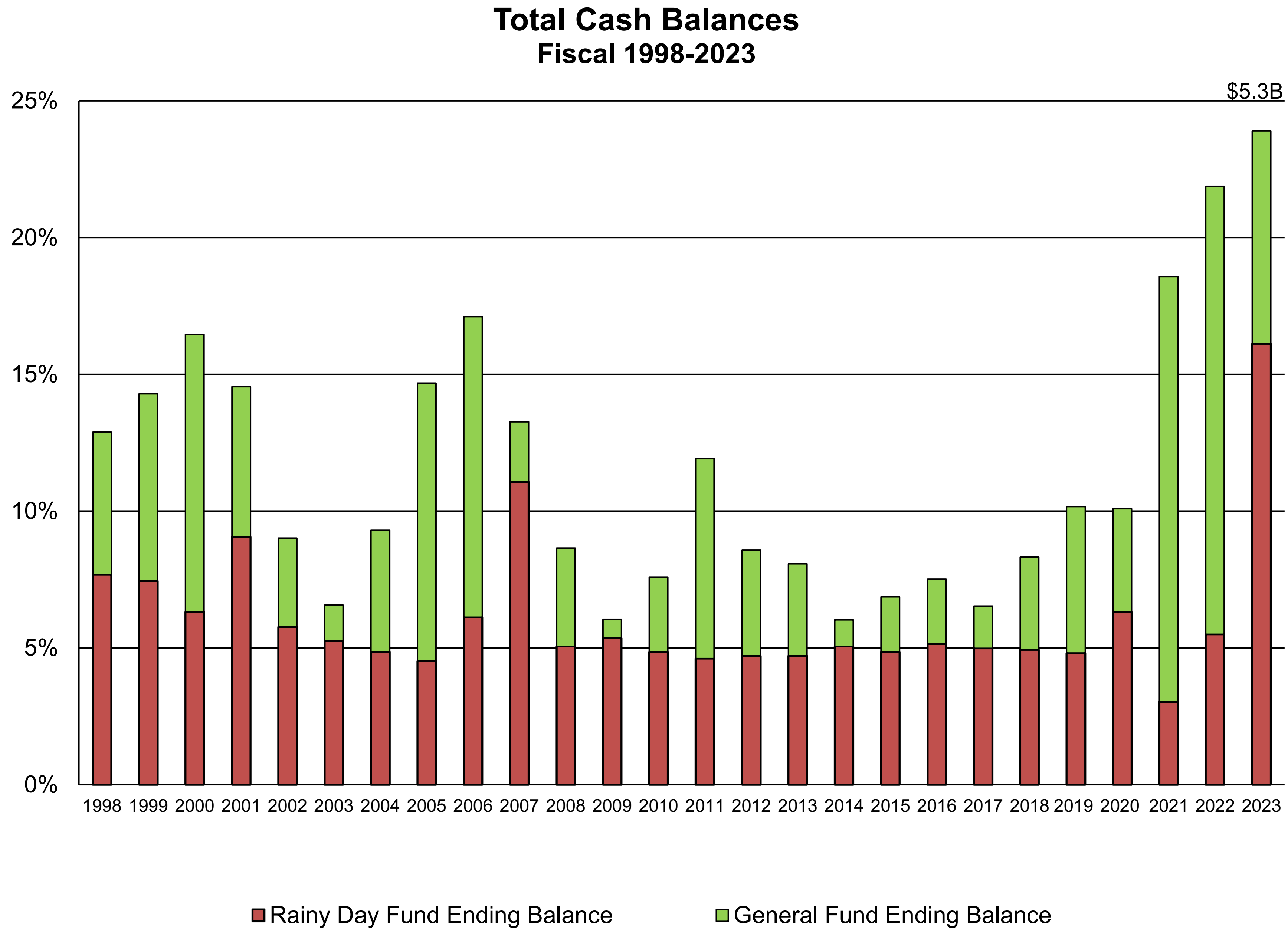
# General Fund Budget and Forecast

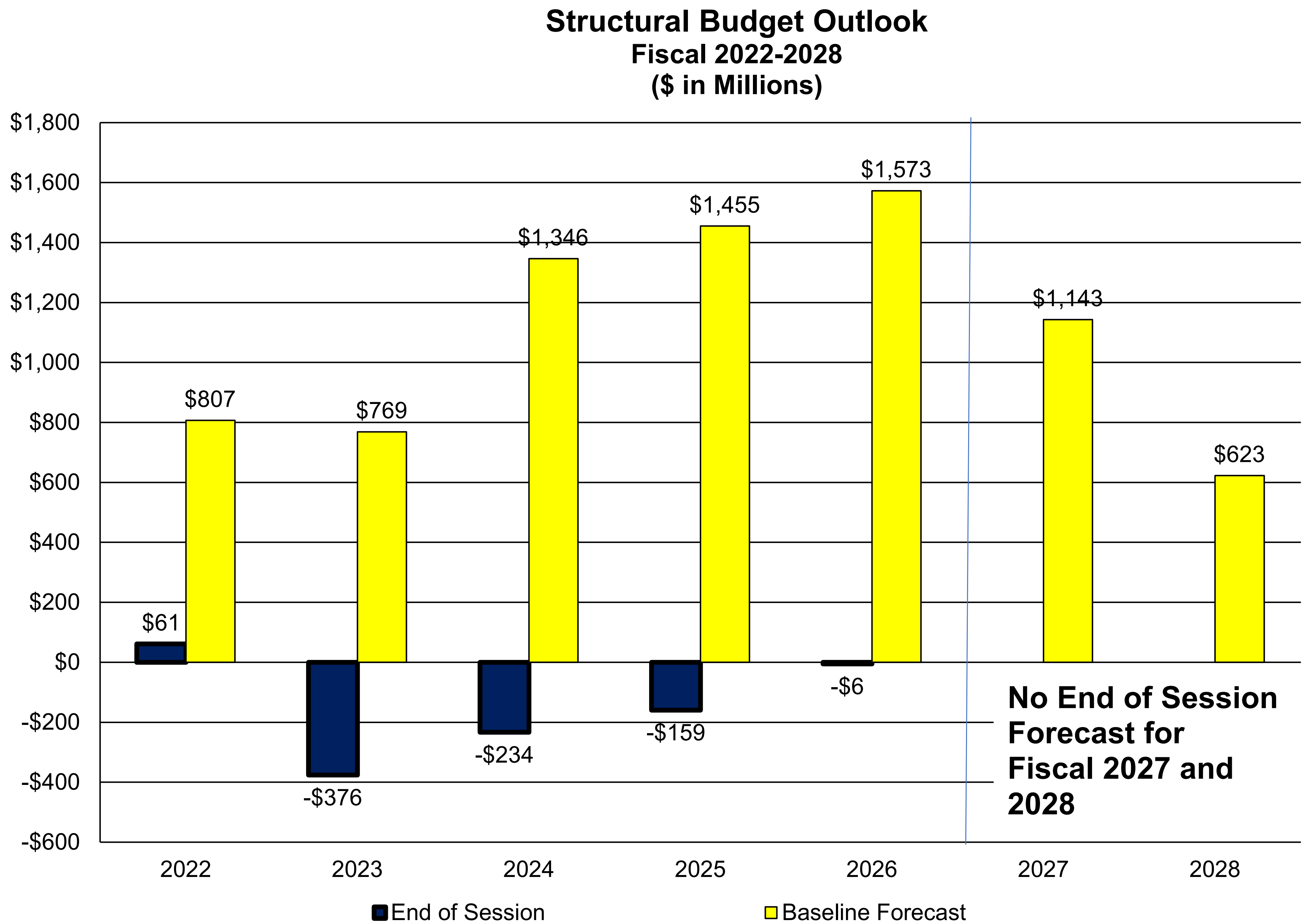
## General Fund: End-of-year Balances
### Fiscal 2021-2023
### ($ in Millions)

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

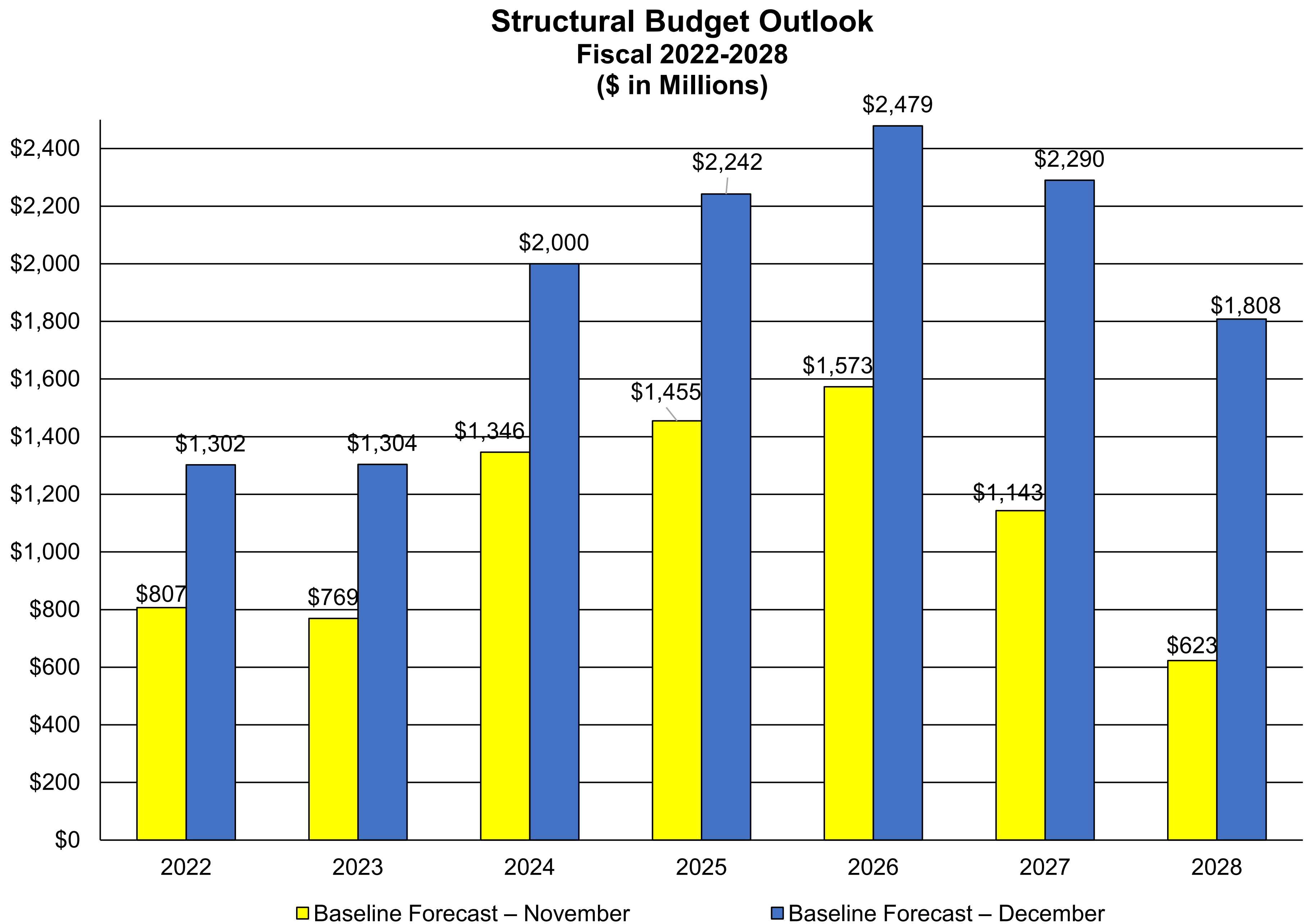
# General Fund: End-of-year Balances
## Fiscal 2021-2023
## ($ in Millions)

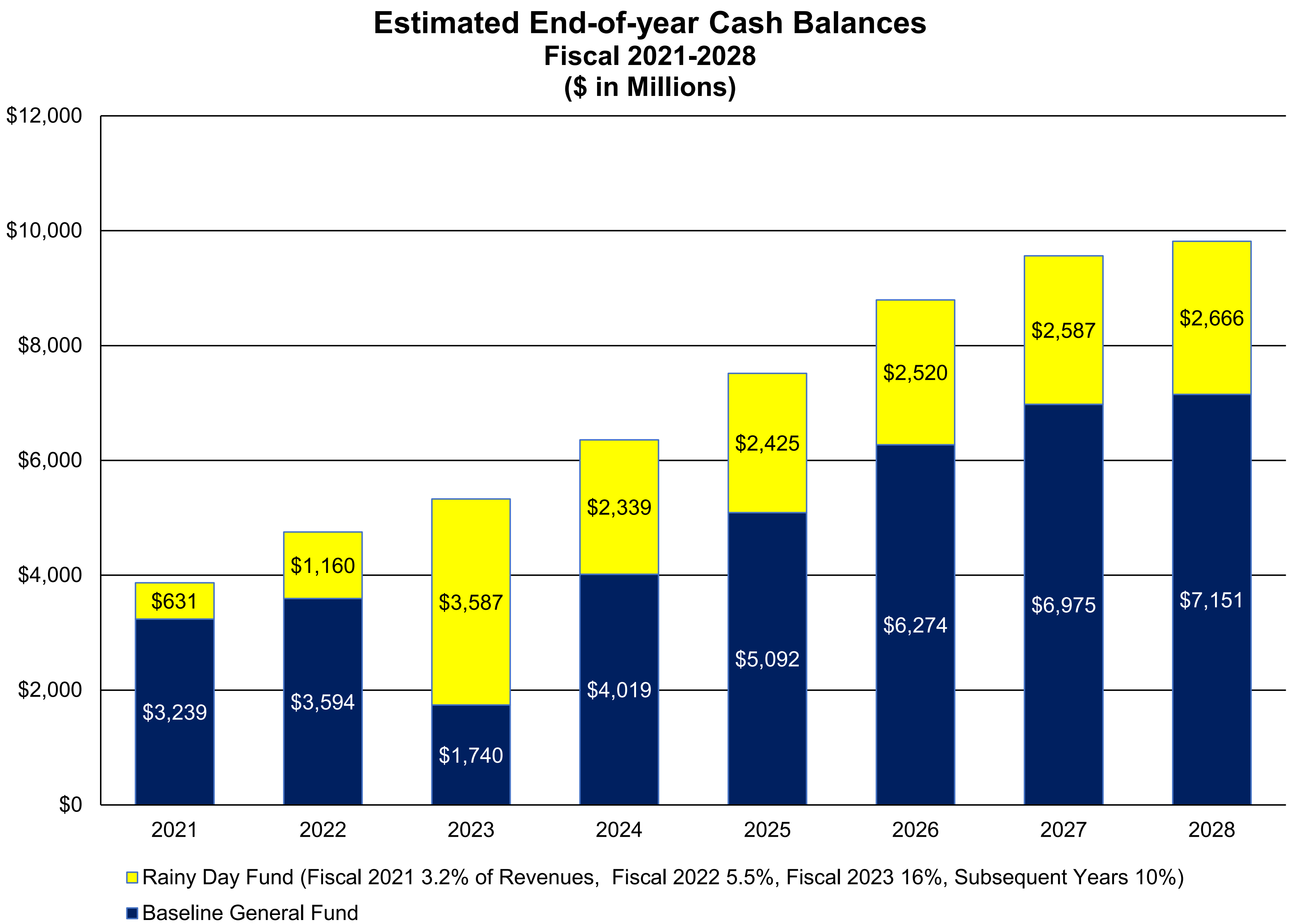
| | 2021 Actual | 2022 Working | 2023 Baseline |
|---|---|---|---|
| **Funds Available** | | | |
| Total Funds Available | $21,904 | $24,858 | $26,926 |
| Total Spending | 18,665 | 20,769 | 24,155 |
| **Cash Balance/(Shortfall)** | **$3,239** | **$4,089** | **$2,771** |
| **Structural Balance (Ongoing Revenues Less Ongoing Spending)** | **$1,795** | **$1,302** | **$1,304** |
| Ratio (Ongoing Revenues/Ongoing Operating Costs) | 109.5% | 106.4% | 106.1% |
| Estimated Rainy Day Fund Balance – June 30 | $631 | $1,160 | $3,587 |
| **Available Cash Balance** (General Funds + Rainy Day Fund Above 5%) | **$2,829** | **$4,259** | **$5,218** |


Total Cash Balances
Fiscal 1998-2023
$5.3B
25%
20%
15%
10%
5%
0%
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Rainy Day Fund Ending Balance
General Fund Ending Balance


Structural Budget Outlook
Fiscal 2022-2028
($ in Millions)
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
-$200
-$400
-$600
$61
$807
-$376
$769
-$234
$1,346
-$159
$1,455
-$6
$1,573
$1,143
$623
No End of Session Forecast for Fiscal 2027 and 2028
2022
2023
2024
2025
2026
2027
2028
End of Session
Baseline Forecast

REVISED as of December 15, 2021

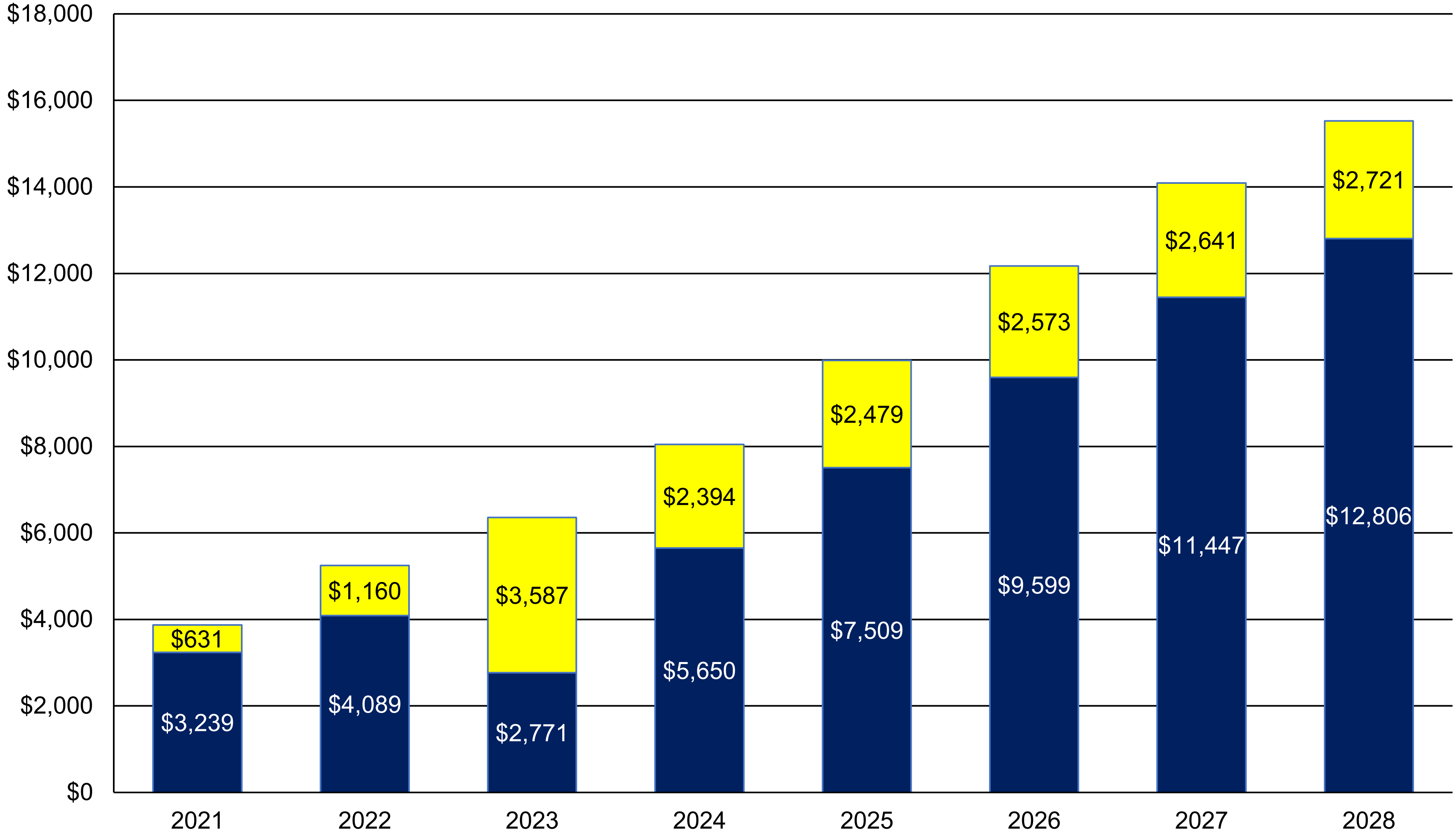




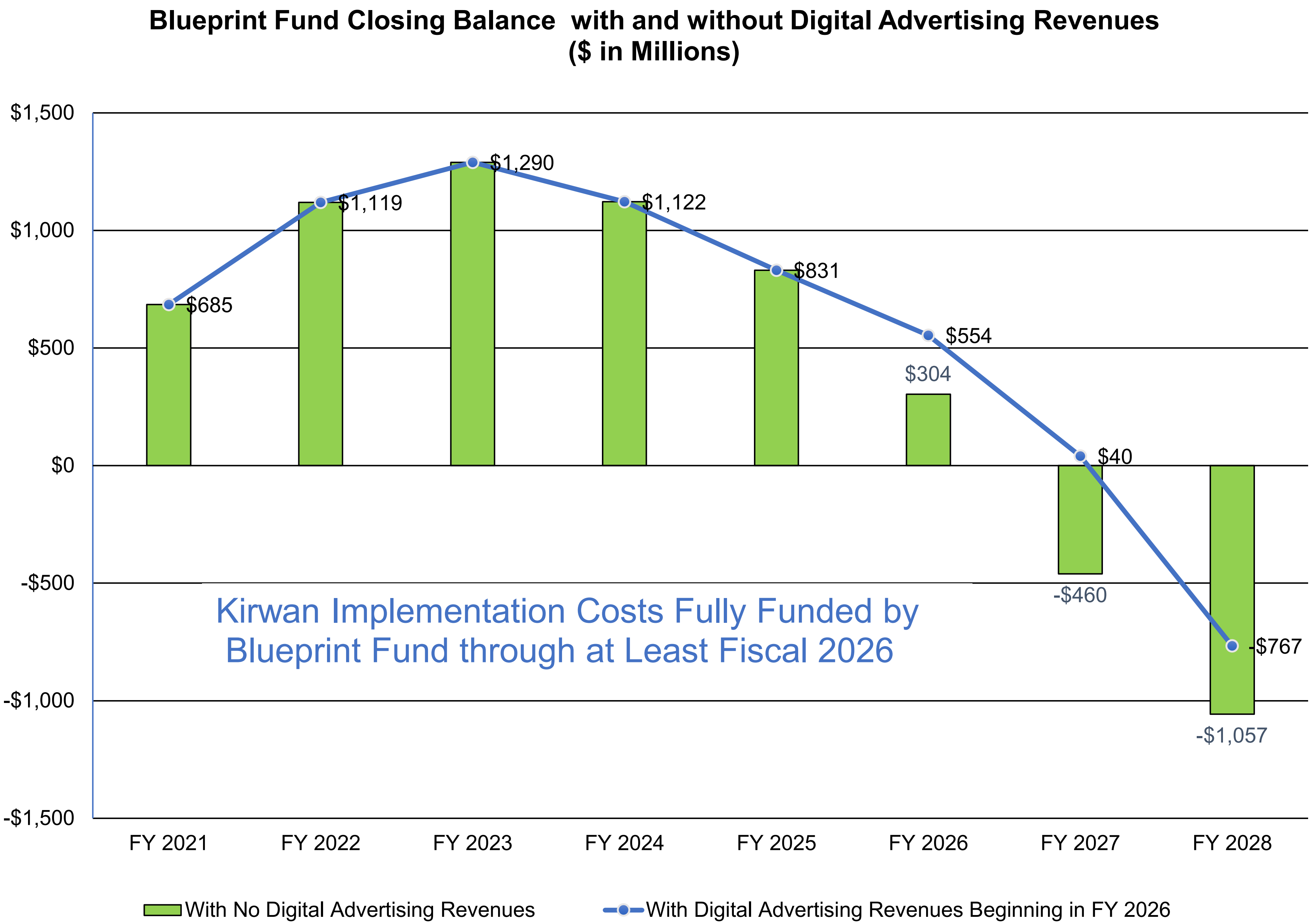
Estimated End-of-year Cash Balances
Fiscal 2021-2028
($ in Millions)
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$631
$3,239
$1,160
$3,594
$3,587
$1,740
$2,339
$4,019
$2,425
$5,092
$2,520
$6,274
$2,587
$6,975
$2,666
$7,151
2021
2022
2023
2024
2025
2026
2027
2028
Rainy Day Fund (Fiscal 2021 3.2% of Revenues, Fiscal 2022 5.5%, Fiscal 2023 16%, Subsequent Years 10%)
Baseline General Fund

REVISED as of December 15, 2021

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




Rainy Day Fund (Fiscal 2021 3.2% of Revenues,  Fiscal 2022 5.5%, Fiscal 2023 16%, Subsequent Years 10%)
Baseline General Fund


Blueprint Fund Closing Balance with and without Digital Advertising Revenues
($ in Millions)
$1,500
$1,000
$500
$0
-$500
-$1,000
-$1,500
$685
$1,119
$1,290
$1,122
$831
$554
$304
$40
-$460
-$767
-$1,057
FY 2021
FY 2022
FY 2023
FY 2024
FY 2025
FY 2026
FY 2027
FY 2028
Kirwan Implementation Costs Fully Funded by Blueprint Fund through at Least Fiscal 2026
With No Digital Advertising Revenues
With Digital Advertising Revenues Beginning in FY 2026

# Part 3

# Fiscal 2023 Baseline Budget Estimate

# Key Baseline Budget Assumptions

- The baseline budget is an estimate of the cost of government services in the next budget year based on a set of assumptions. Assumptions include that current laws, policies, and practices are continued; federal mandates and multi-year commitments are observed; legislation adopted at the prior session is funded; and full-year costs of programs, rate increases, and any other enhancements started during the previous year are included.

- Enhanced Medicaid match will expire after March 2022.

- The Behavioral Health Administration continues with the reconciliation process for the estimated payments, recovering $110 million in total funds over fiscal 2022 and 2023.

- K-12 enrollment is projected to increase to estimates developed prepandemic; however, actual enrollment will not be known until December 1, 2021, when the Maryland State Department of Education is required to release the official enrollment counts for the current school year.

- Entitlement caseload trends reflect current experience and are aligned with economic assumptions underpinning the official Board of Revenue Estimates (BRE) revenue forecast.

  - Medicaid and related caseloads assume the end of the requirement for continuous enrollment in Medicaid in March 2022, and recertifications beginning in April 2022, with initial phase-in lasting 12 months.

  - Other public assistance caseloads are assumed to begin recertifications in January 2022, after the end of current waivers allowing for extensions of recertifications in December 2021.

## Caseload Assumptions
**Fiscal 2021-2023**

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

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

- $250 million of American Rescue Plan Act (ARPA) funds are substituted for general funds in fiscal 2022. The resulting State savings backfill the savings lost by federal ARPA guidance prohibiting the planned use of federal funds to pay for the Governor's fall 2020 economic recovery initiative.

- Required appropriation to the Rainy Day Fund in fiscal 2023 totals $2.4 billion, resulting in a balance of 16% of general fund revenues. No transfer from the Rainy Day Fund balance is assumed in fiscal 2023 as the budget is balanced without a transfer.

- Personnel assumptions include:

  - 2% general salary increase effective July 2022 funded for all State employees.

  - Merit increase for fiscal 2023.

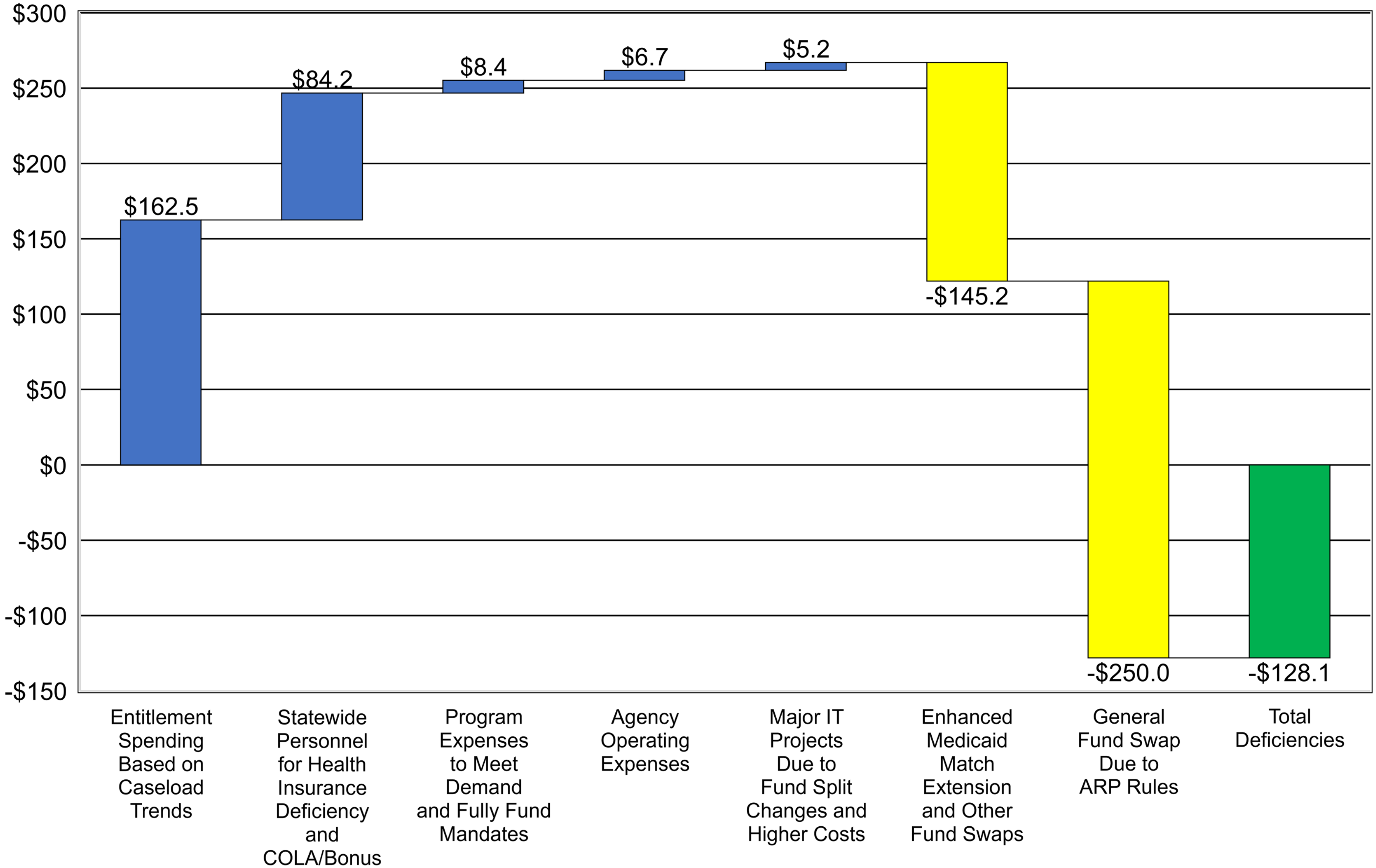
  - $500 bonus paid out January 1, 2022, and 1% general salary increase effective April 1, 2022, for certain bargaining units and exempt and nonrepresented employees (which were conditional on revenues exceeding BRE estimates by certain amounts).

  - 14% increase in employee and retiree health insurance costs for fiscal 2023 and a one-time deficiency appropriation ($60.9 million general funds) in fiscal 2022 due to higher than expected fiscal 2021 expenses.

  - Funding is included to fill about 1,700 of the 5,600 currently vacant Executive Branch positions.

- Major inflation assumptions include natural gas (3.2%), medicine/drugs at State facilities (8.5%), utilities/electricity (2.8%), food (10.0%), gas and oil (5.0%), and postage (-1.3%).

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

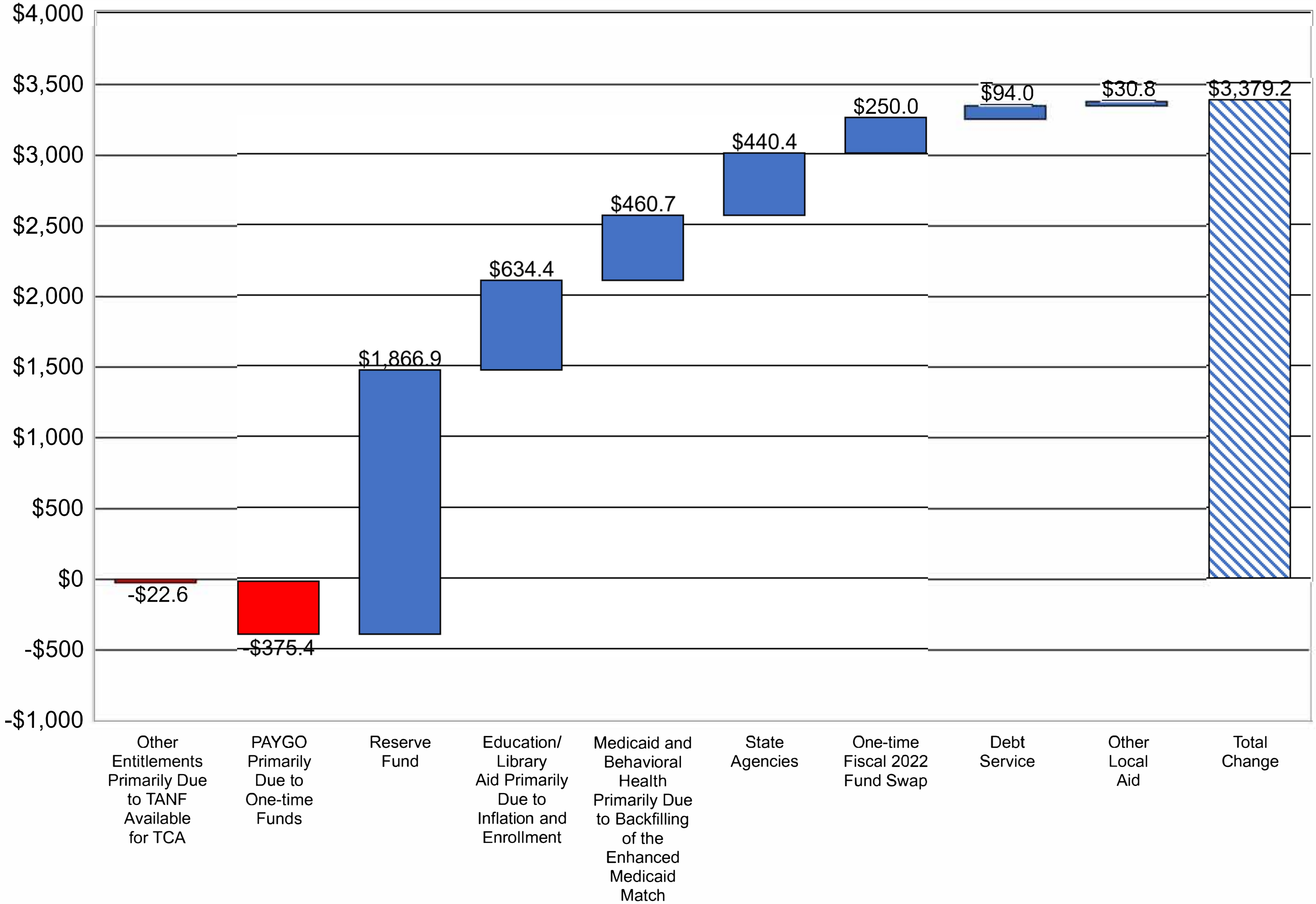



ARP: American Rescue Plan

COLA: cost-of-living adjustment

IT: information technology

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

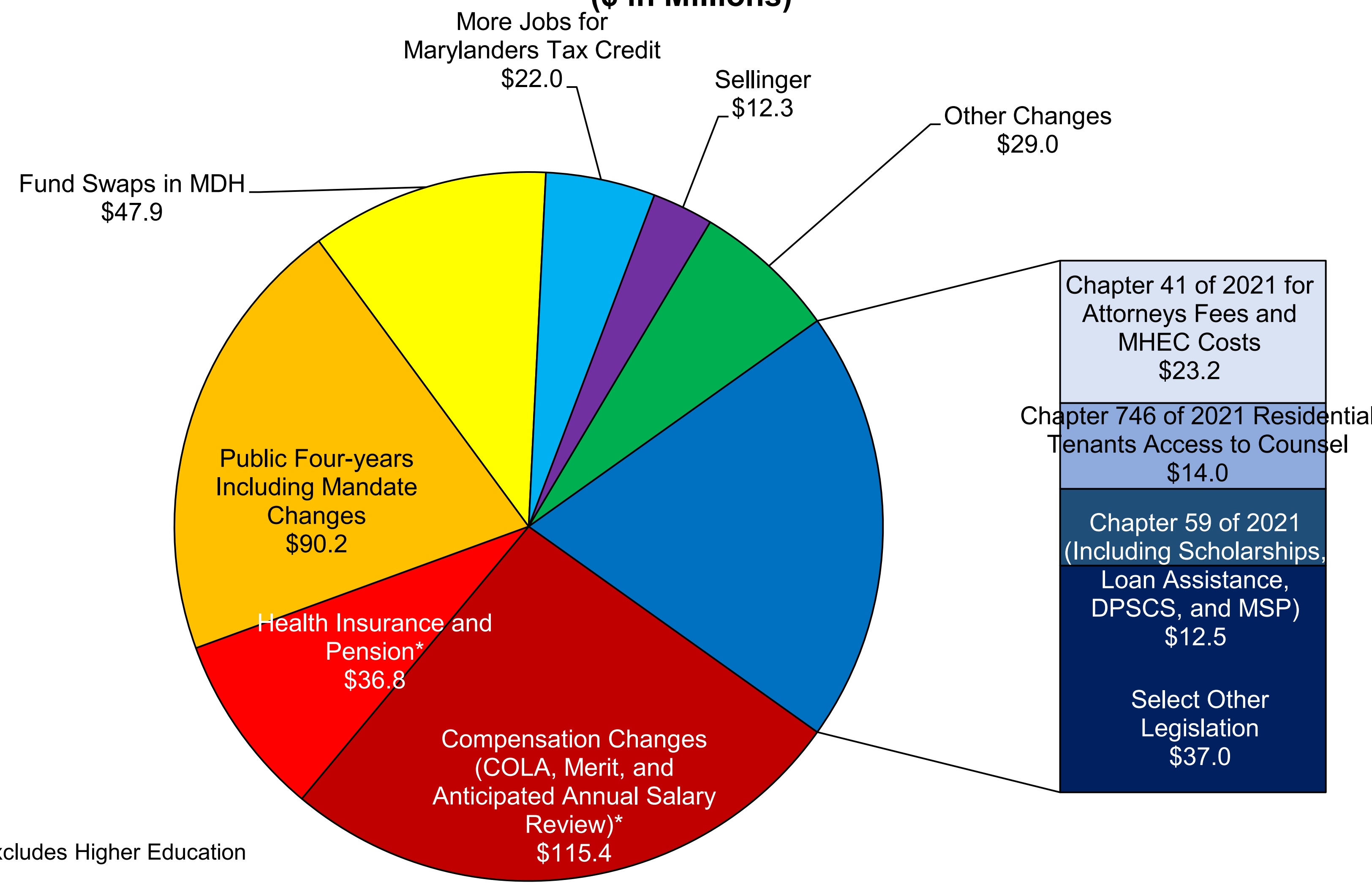



PAYGO: pay-as-you-go

TANF: Temporary Assistance for Needy Families

TCA: Temporary Cash Assistance

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




*Excludes Higher Education

COLA: cost-of-livng adjustment
DPSCS: Department of Public Safety and Correctional Services

MDH: Maryland Department of Health
MHEC: Maryland Higher Education Commission
MSP: Maryland State Police

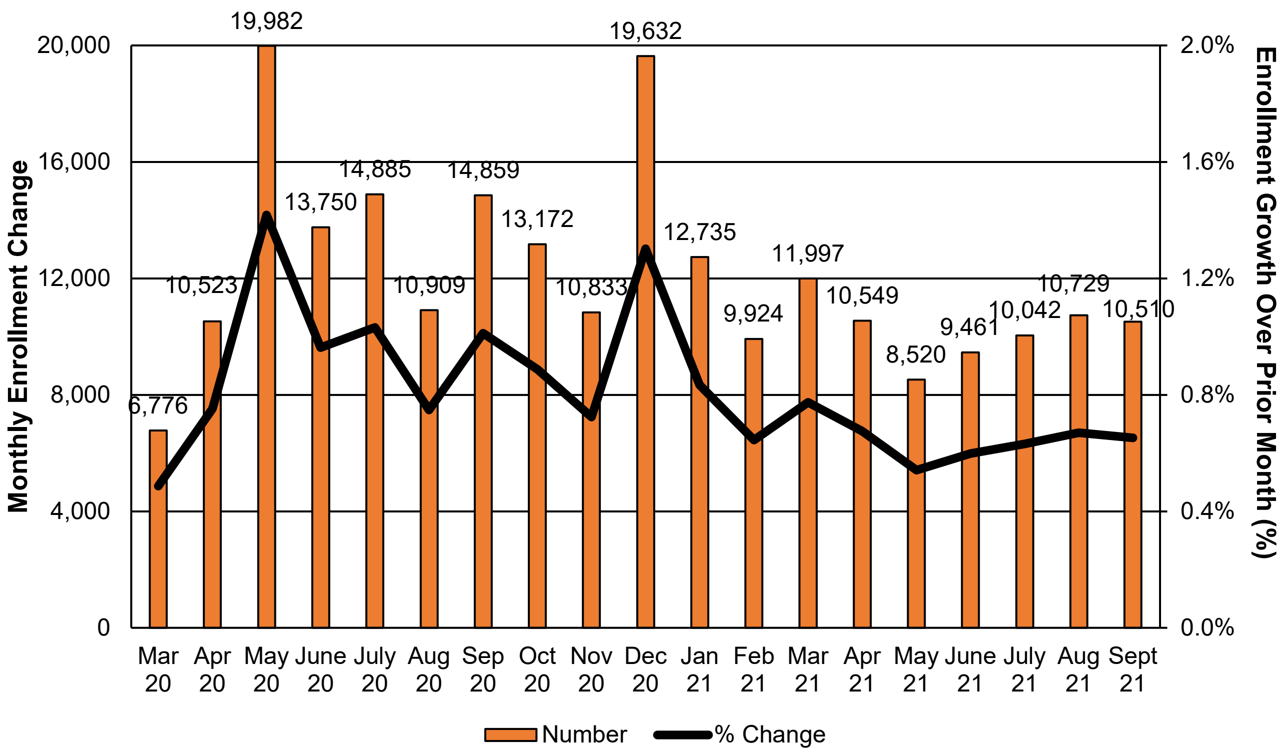
# Medicaid

- Since the national declaration of the COVID-19 public health emergency (PHE) in March 2020, Medicaid monthly enrollment growth has been strong. This reflects both the economic impacts from the pandemic and the freeze on annual eligibility redeterminations (a condition for states to receive enhanced federal matching funds during the national PHE).

- Although the national PHE remains in effect, monthly enrollment growth has slowed slightly to a range of 8,520 to 11,997 enrollees beginning in February 2021 through September 2021.

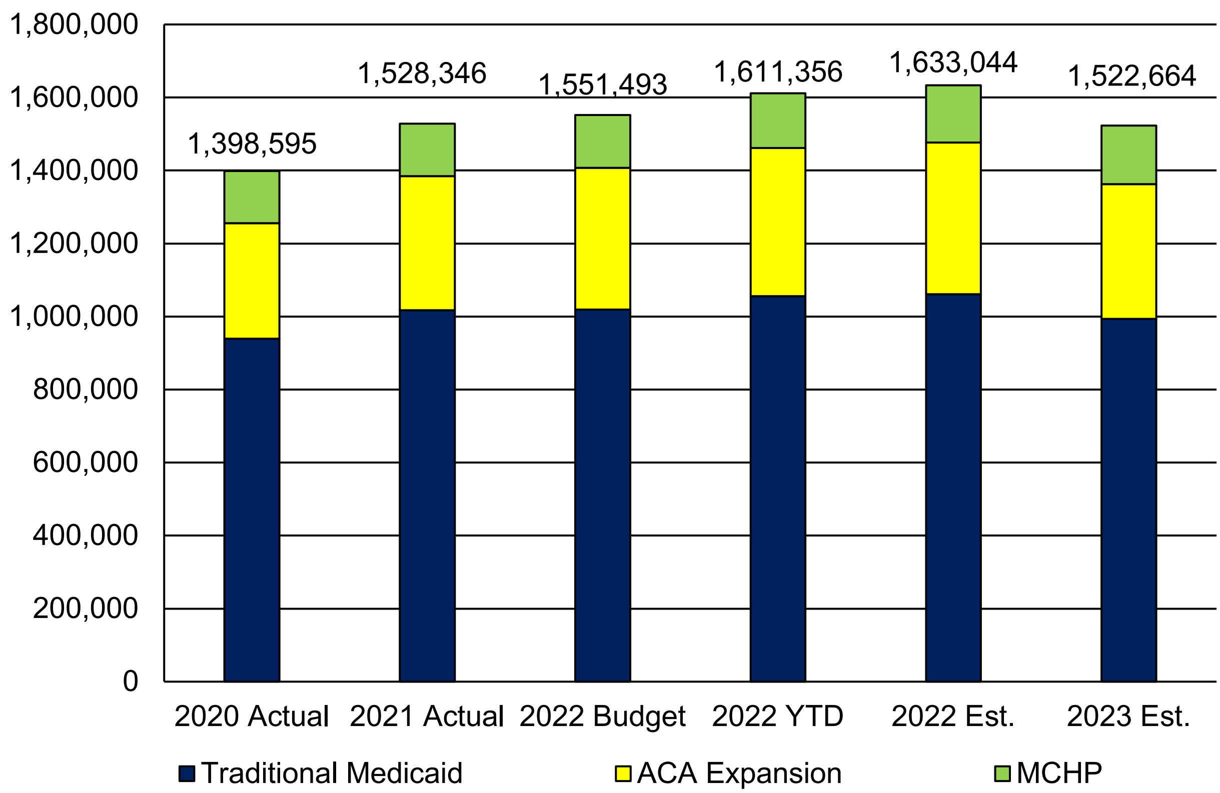
- On October 15, 2021, the Secretary of the U.S. Department of Health and Human Services renewed the PHE so that it expires mid-January 2022. Enhanced federal matching funds are authorized through the last quarter in which the PHE ends, so the baseline assumes that Maryland will receive enhanced matching funds through March 31, 2022, and that eligibility redeterminations resume April 1, 2022.

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



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

**Medicaid and MCHP Average Monthly Enrollment**
**Fiscal 2020-2023 Estimate**




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

- Despite 4% provider rate increases adding $212.3 million in total funds (required in Chapters 10 and 11 of 2019) and other rate increases adding $122.0 million in total funds, declining enrollment resulting from the end of the national PHE almost fully offsets the growth in total expenditures in fiscal 2023.

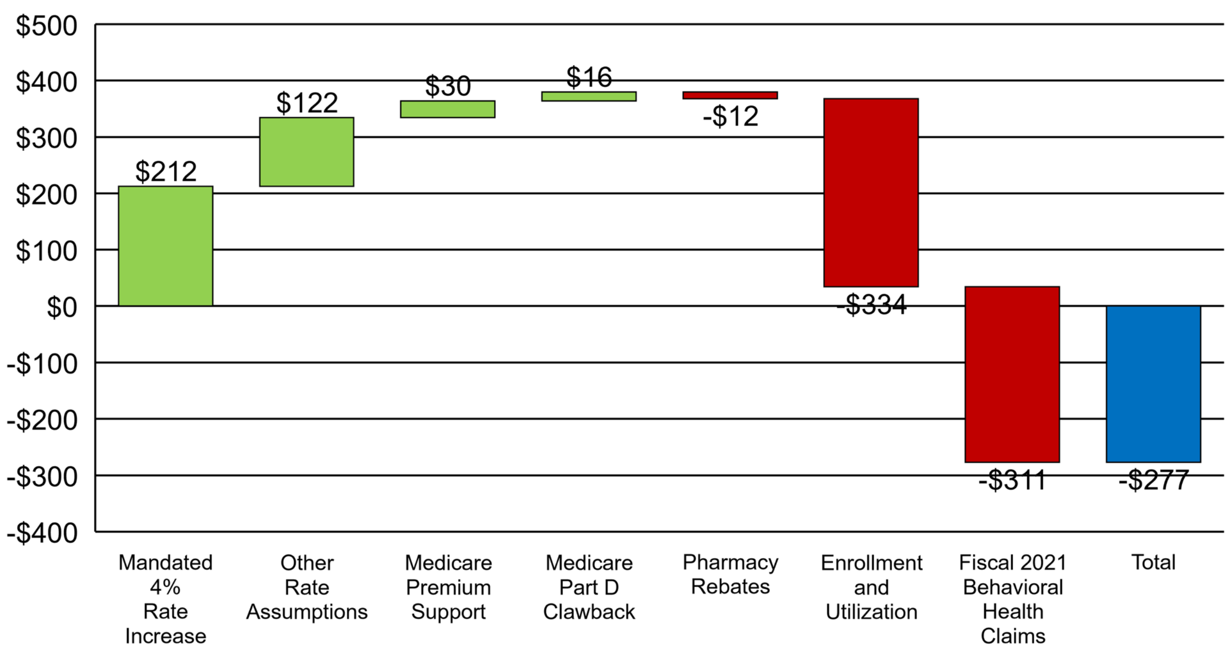
- The baseline assumes that $311.0 million in total funds will be spent on fiscal 2021 claims for behavioral health services carried forward to fiscal 2022, which further offsets provider rate increases and contributes to an overall 2.0% decline in fiscal 2023 total spending.

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

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

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

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



- General funds will backfill the 6.2% enhanced federal matching funds that MDH received while the national PHE was still in effect during the first three quarters of fiscal 2022. This is the largest driver of net general fund growth in fiscal 2023.

- A net reduction of $94.5 million in special fund availability will also be backfilled with general funds in fiscal 2023 as the Budget Reconciliation and Financing Act of 2021 required $100.0 million in special funds from the health insurance provider fee assessment be transferred to Medicaid in fiscal 2021 and 2022.

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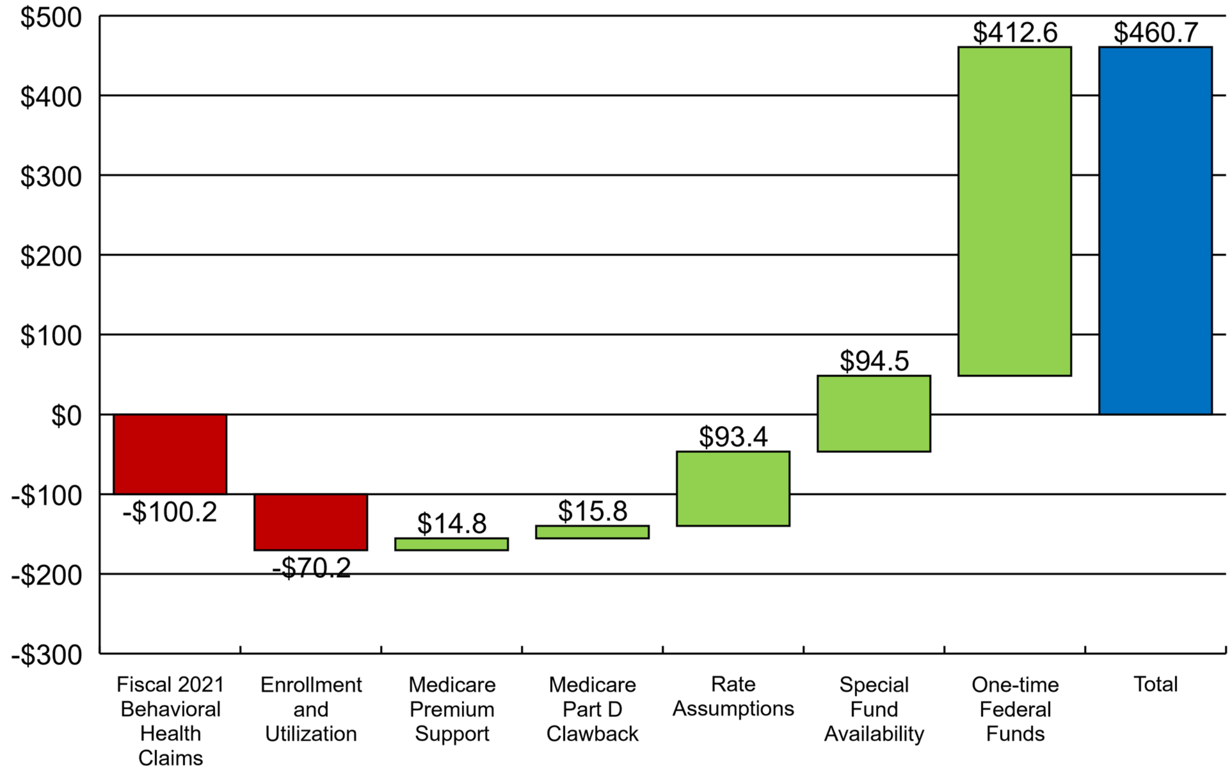
**Replacing One-time Fiscal 2022 Funding Drives Fiscal 2023 General Fund Growth**
**($ in Millions)**

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# State Expenditures – General Funds

## Fiscal 2021-2023

## ($ in Millions)

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

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

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

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

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

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

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

# State Expenditures – State Funds

## Fiscal 2021-2023
## ($ in Millions)

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

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

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

# Summary of Baseline Budget Growth Compared to Adjusted Legislative Appropriation

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

**Impact of Legislation (cont.)**

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

**Other Major Agency Programmatic and Operating Expenses**

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

| | |
|---|---|
| **Other Major Agency Programmatic and Operating Expenses (cont.)** | |
| Turnover and Other Agency Personnel and Operating Expenses | -1.7 |
| | **$224.8** |
| **Reserve Fund and PAYGO** | |
| Reserve Fund: Rainy Day Fund Appropriation ($1.89 billion); Dedicated Purpose Account ($26.9 million), Partially Offset by One-time Dedicated Purpose Account Appropriation for State Center Relocation (-$50.0 million) | $1,866.9 |
| IAC PAYGO: Healthy Schools Facility Fund to Meet Mandated Level from Built to Learn Act ($40.0 Million) Partially Offset by Public School Safety Grant (-$10.0 million) and Nonpublic School Safety Grant (-$1.5 million), which are assumed to be funded with general obligation bonds in fiscal 2023 | 28.5 |
| DHCD PAYGO: Primarily Due to Mandated Levels of Funding for Baltimore Regional Neighborhood Initiative ($6.0 million); SEED Community Anchor Institution Fund ($5.0 million); and National Capital Economic Development Fund ($3.0 million) | 14.0 |
| MDP PAYGO: Historic Revitalization Tax Credit Due to Ch. 332 of 2021 | 5.0 |
| Community College Facilities Fund | 3.5 |
| DNR PAYGO: Waterway Improvement Program (-$1.35 million) and Critical Maintenance Program (-$2.0 million) | -3.4 |
| MDOT: One-time Grant to Prince George's County for Infrastructure Along Blue Line Corridor | -8.7 |
| One-time Board of Public Works PAYGO | -414.6 |
| | **$1,491.2** |
| **One-time Fund Swap Due to ARP Funds Not Being Available to Replace Fall 2020 Economic Recovery Initiative as Planned** | $250.0 |
| **Total** | **$3,379.2** |

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

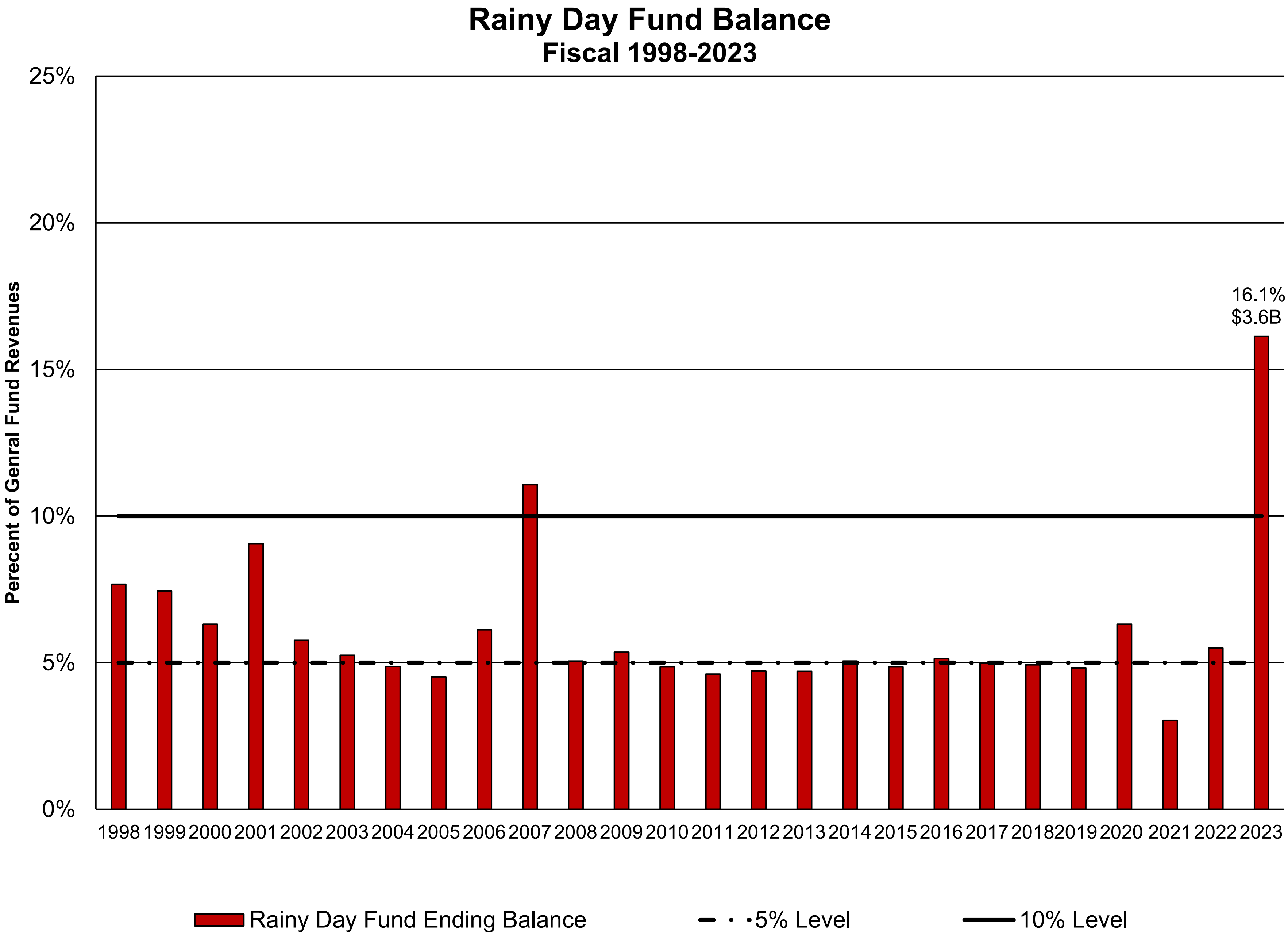
# Part 4

# Potential Uses of Cash Surplus

## Potential Uses of Cash Balance
### ($ in Millions)

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

PAYGO: pay-as-you-go


Rainy Day Fund Balance
Fiscal 1998-2023
25%
20%
15%
10%
5%
0%
Perecent of Genral Fund Revenues
16.1%,
$3.6B
1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023
Rainy Day Fund Ending Balance
5% Level
10% Level

# Policies Governing the Use of the Rainy Day Fund

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

# Part 5

# State Employment

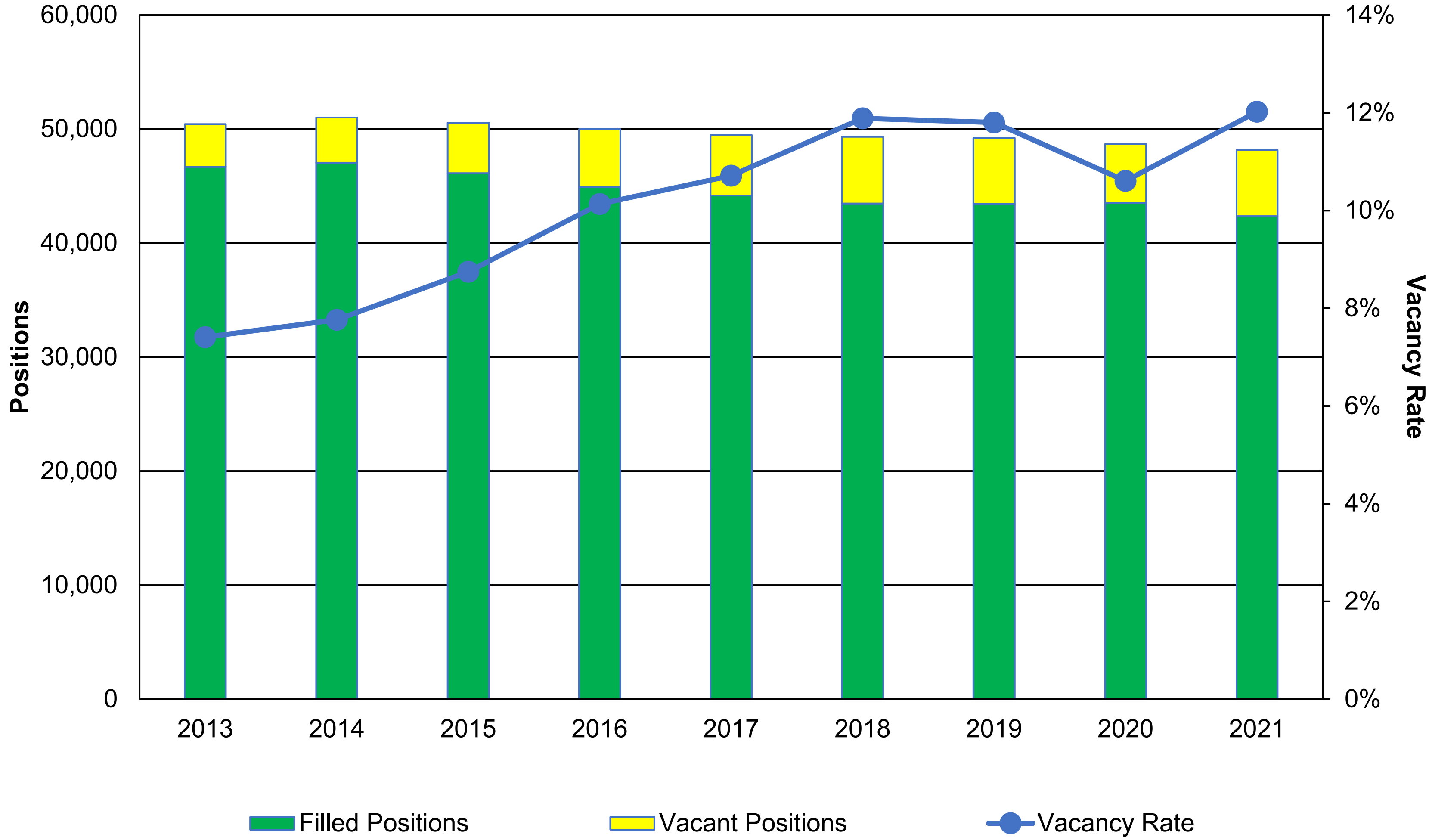
## Analysis of Vacancies and Turnover Rate
## Executive Branch, Excluding Higher Education
### Fiscal 2022 Working Appropriation Compared to October 2021 Vacancies

| Department/Service Area | Positions | Budgeted Turnover Rate | Vacancies to Meet Turnover | October Vacancies | Vacancies Above (or Below) Turnover | October Vacancy Rate |
|---|---|---|---|---|---|---|
| **Largest Six State Agencies** | | | | | | |
| Public Safety and Correctional Services | 9,253 | 12.2% | 1,130 | 1,244 | 114 | 13.4% |
| Human Services | 5,991 | 7.2% | 429 | 809 | 380 | 13.5% |
| Health | 6,373 | 8.8% | 564 | 768 | 205 | 12.1% |
| Police and Fire Marshal | 2,484 | 7.2% | 178 | 321 | 143 | 12.9% |
| Juvenile Services | 1,979 | 6.6% | 131 | 241 | 110 | 12.2% |
| Transportation | 9,058 | 5.3% | 481 | 868 | 386 | 9.6% |
| ***Subtotal*** | ***35,137*** | ***7.2%*** | ***2,913*** | ***4,252*** | ***1,339*** | ***12.1%*** |
| **Other Executive** | | | | | | |
| Legal (Excluding Judiciary) | 1,459 | 8.2% | 119 | 169 | 50 | 11.6% |
| Executive and Administrative Control | 1,579 | 5.3% | 84 | 176 | 92 | 11.1% |
| Financial and Revenue Administration | 2,060 | 7.3% | 151 | 260 | 109 | 12.6% |
| Budget and Management and DoIT | 498 | 6.3% | 31 | 62 | 31 | 12.5% |
| Retirement | 188 | 6.5% | 12 | 26 | 14 | 13.8% |
| General Services | 649 | 8.0% | 52 | 68 | 16 | 10.5% |
| Natural Resources | 1,352 | 5.8% | 78 | 151 | 72 | 11.1% |
| Agriculture | 412 | 6.1% | 25 | 68 | 43 | 16.5% |
| Labor | 1,355 | 7.3% | 98 | 145 | 46 | 10.7% |
| MSDE and Other Education | 1,972 | 7.1% | 141 | 297 | 157 | 15.1% |
| Housing and Community Development | 333 | 6.0% | 20 | 15 | -5 | 4.5% |
| Commerce | 188 | 7.3% | 14 | 18 | 4 | 9.6% |
| Environment | 880 | 7.0% | 62 | 82 | 20 | 9.3% |
| ***Subtotal*** | ***12,925*** | ***6.9%*** | ***887*** | ***1,536*** | ***649*** | ***11.9%*** |
| **Executive Branch Subtotal** | **48,063** | **7.8%** | **3,800** | **5,788** | **1,987** | **12.0%** |

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

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

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




Note: For October of each year, excluding Higher Education

# Baseline Position Changes
## Fiscal 2021-2022

| Department/Service Area | 2022 Leg Approp | 2023 Baseline | 2022-2023 Change |
|---|---|---|---|
| **Executive** | | | |
| Juvenile Services | 1,996 | 2,180 | 184 |
| MSDE and Other Education | 1,982 | 1,877 | -106 |
| Financial and Revenue Administration | 2,075 | 2,128 | 53 |
| Public Safety and Correctional Services | 9,253 | 9,287 | 34 |
| Police and Fire Marshal | 2,484 | 2,517 | 33 |
| Executive and Administrative Control | 1,589 | 1,619 | 31 |
| Legal (Excluding Judiciary) | 1,484 | 1,498 | 14 |
| Health | 6,373 | 6,385 | 12 |
| Other Executive | 20,916 | 20,945 | 29 |
| ***Executive Subtotal*** | ***48,152*** | ***48,436*** | ***255*** |
| Higher Education | 27,092 | 27,566 | 474 |
| Judiciary | 4,068 | 4,068 | 0 |
| Legislature | 772 | 772 | 0 |
| **Total** | **80,084** | **80,842** | **757** |

**Significant Changes Include:**

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

DJS: Department of Juvenile Services
MSDE: Maryland State Department of Education
OHCQ: Office of Health Care Quality
P.R.O.T.E.C.T: Public Resources Organizing to End Crime Together

# Part 6

# Local Government Assistance

# State Aid by Governmental Entity

## Amount and Percent of Total

### ($ in Millions)

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

---

## Change in State Aid

### ($ in Millions)

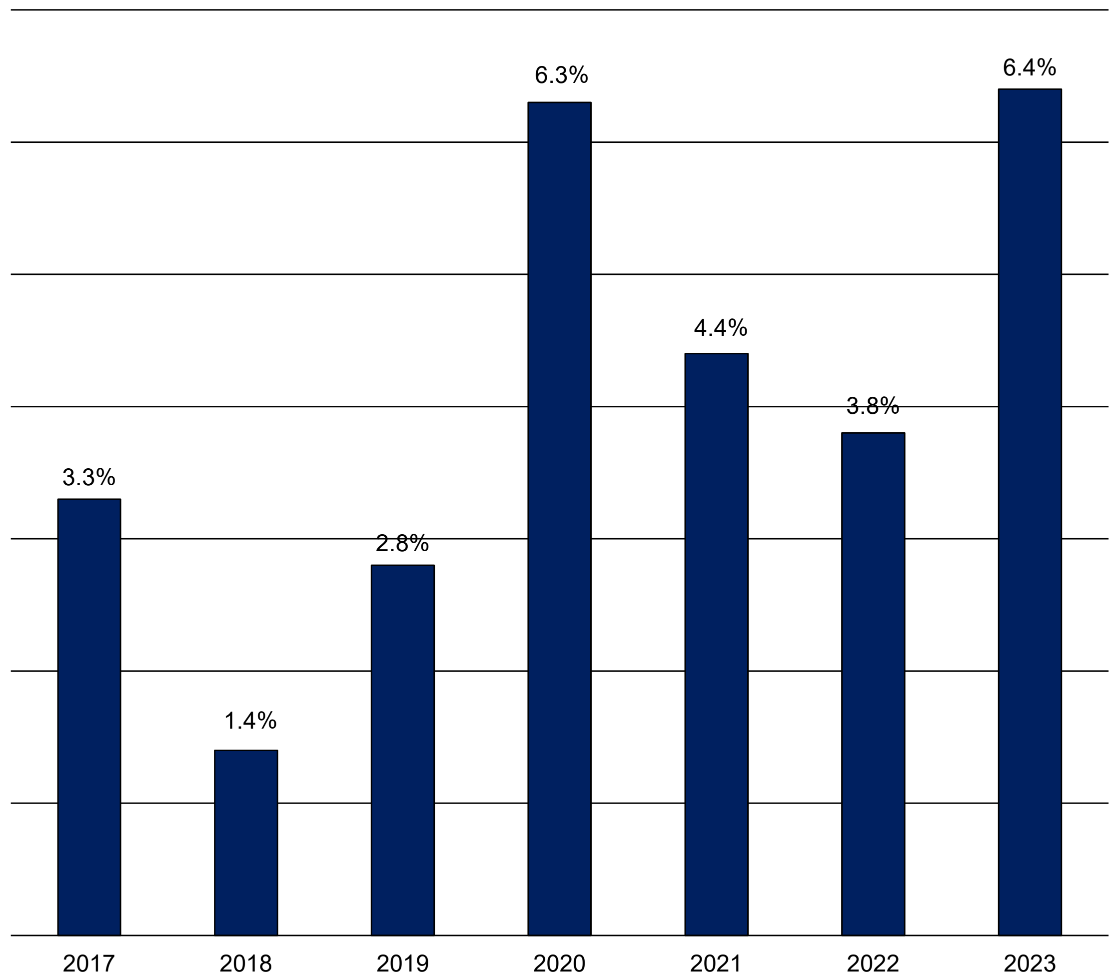
| | FY 2023 Aid Change | Percent Change |
|---|---|---|
| Public Schools | $517.6 | 6.9% |
| County/Municipal | 23.2 | 3.0% |
| Community Colleges | 15.1 | 4.1% |
| Libraries | 2.9 | 3.4% |
| Local Health | 2.8 | 4.2% |
| **Total** | **$561.6** | **6.4%** |

## State Aid by Major Programs
### Fiscal 2020-2023
### ($ in Millions)

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

Source: Department of Legislative Services

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



# Part 7

# Transportation

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

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

- Federal stimulus aid accounts for nearly half the increase in revenues in the Maryland Department of Transportation (MDOT) draft 2022-2027 forecast compared to the prior six-year forecast

- Use of debt to support the capital program is lower in the draft forecast due to debt service coverage ratios approaching minimum acceptable levels

- Compared to the MDOT draft forecast, the Department of Legislative Services forecast

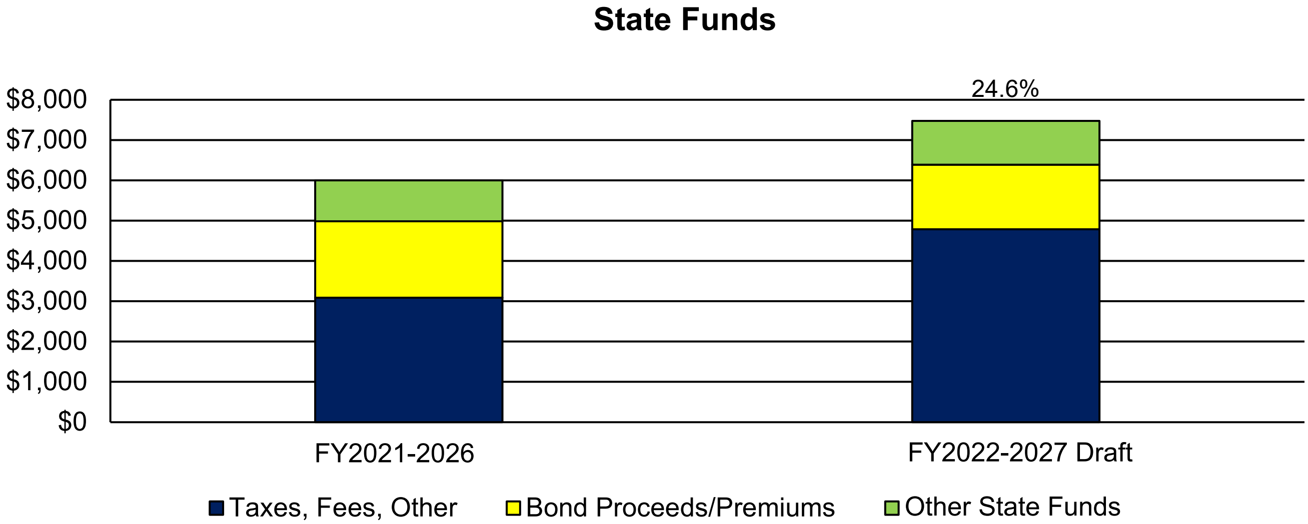
  - Reflects a higher change in fund balance based on the actual fiscal 2021 closeout balance

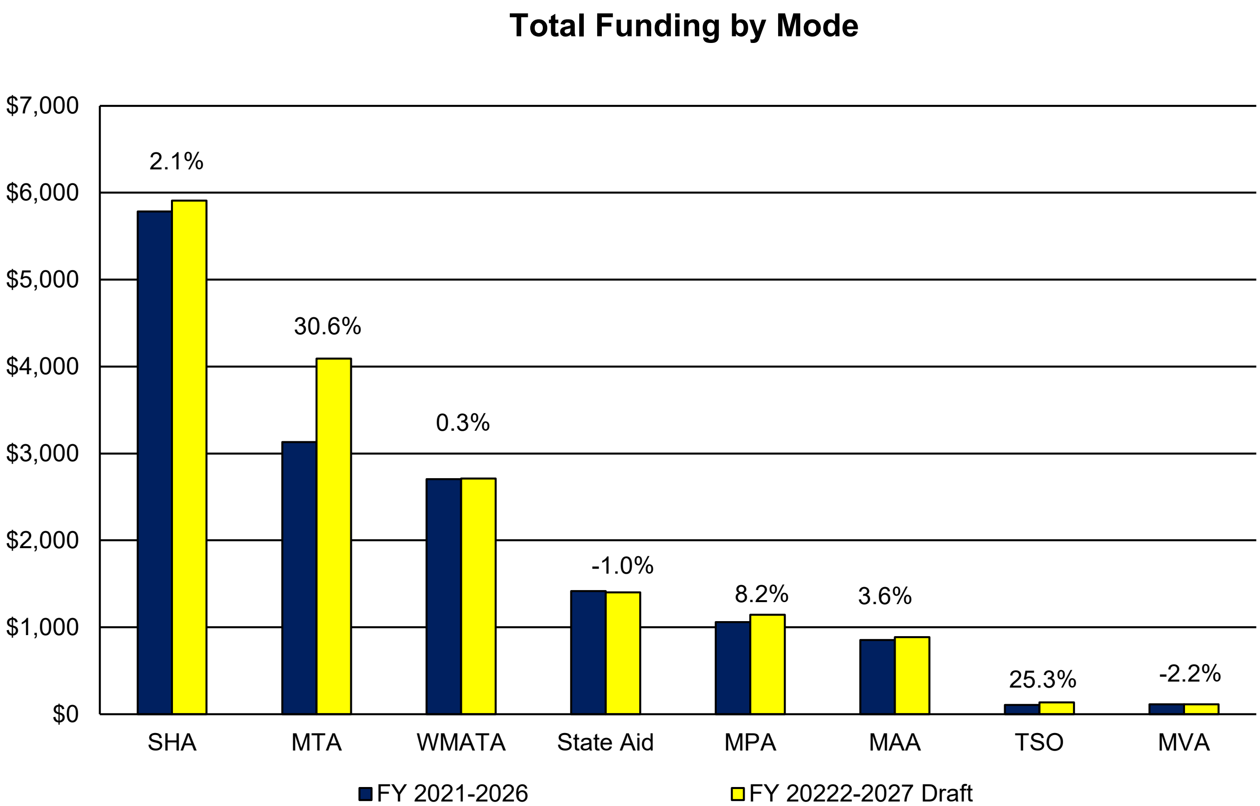
  - Projects slightly higher revenue attainment

  - Projects slightly higher operating costs

  - Includes more capital spending supported in part by additional debt that may be issued due to higher starting fund balance and revenues

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




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

# Part 8

# Capital Program and State Debt Policy

# Capital Program

## Capital Debt Affordability Committee Recommends Increased Use of General Fund PAYGO

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

### Estimated Fiscal 2023 General Fund PAYGO Needed at CDAC Recommended GO Bond Authorization Levels
**($ in Millions)**

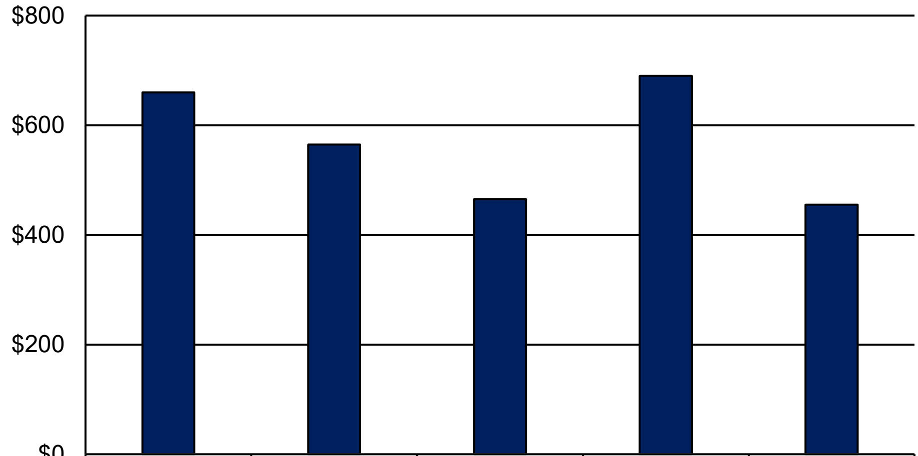
| | 2023 |
|---|---|
| Lower CDAC Recommended GO Bond Authorization Levels | $215.0 |
| Current General Fund PAYGO Forecast (including $24.7 million in the Dedicated Purpose Account for POS Replacement and $42 million for WMATA grants) | 155.0 |
| Preauthorizations Above What Is Programmed in 2021 CIP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

CDAC: Capital Debt Affordability Committee
CIP: *Capital Improvement Program*
GO: general obligation
PAYGO: pay-as-you-go
POS: Program Open Space
WMATA: Washington Metropolitan Area Transit Authority

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

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

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




| | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|
| Amount GO Bond Request Exceeds CDAC Limit | $660 | $565 | $465 | $690 | $455 |

CDAC: Capital Debt Affordability Committee
GO: general obligation

Source: Department of Legislative Services

- The budget surplus is an opportunity to bridge the gap between authorization levels and agency requests. It is also an opportunity to make strategic capital investments including:

  - ***Facility Renewal:*** Multi-year investment in addressing the backlog of facility renewal projects estimated in excess of $200 million and $800 million, respectively, at Department of General Services and University System of Maryland managed facilities.

    - This includes investments in the tools that produce data-driven facility assessments, and investments in facility management systems and facilities management positions.

  - ***Enhanced State Park Investments:*** The State Park Investment Commission is working on a number of recommendations to improve the system of State parks. This will require a sustained multi-year effort to enhance investments in State park facilities, including an estimated $80 million backlog of facility renewal.

## Impact of Construction Inflation on Bond Authorization Levels

- ***COVID-19 Impact on Construction Price Inputs:*** The pandemic has seriously disrupted the construction material supply chain. Prices for materials and labor used in construction increased 9.9% in calendar 2020 and an additional 20% from January 2021 through September 2021.

  - ***State-owned Projects:*** This could add as much as $50 million in costs above what is programmed for projects scheduled to be bid in fiscal 2023.

  - ***Grant and Loan Programs:*** The impact on grant and loan programs, including the Public School Construction Program, means that less can be done with the level of funds currently programmed in the CIP.

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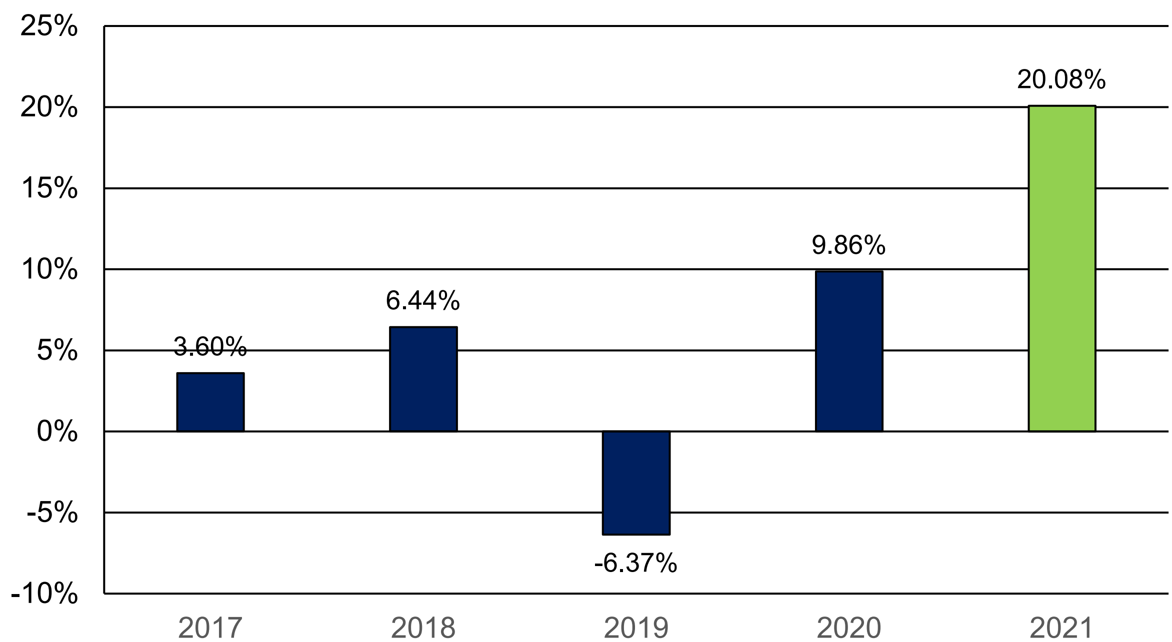
**Building Cost Index Escalation**
**Baltimore Region**
**Calendar 2017-2021**




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

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

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

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

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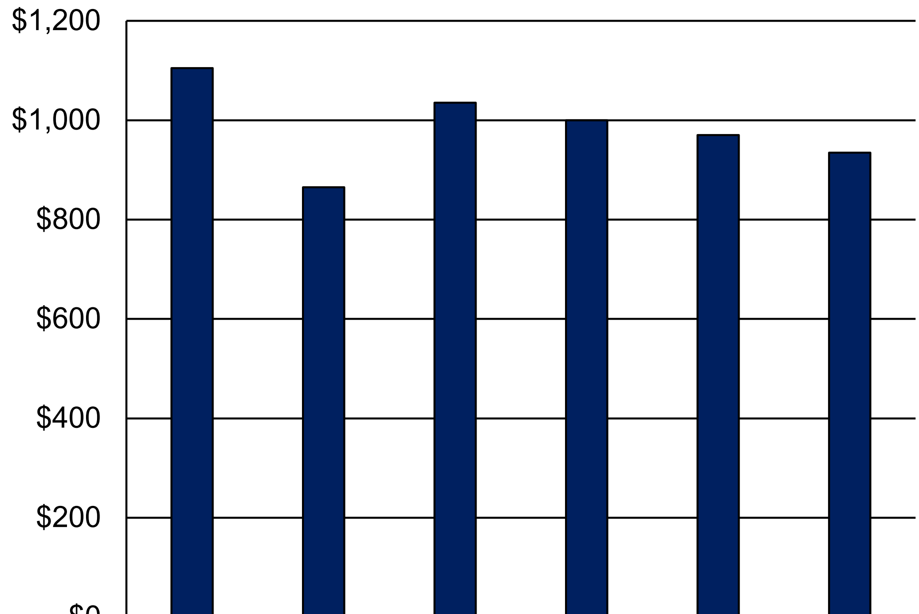
**CDAC Recommended Authorization Levels – Inflation Adjusted**
**Fiscal 2022-2027**
**($ in Millions)**




| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| CDAC Recommended Authorization Levels (4% Inflation Adjusted) | $1,105 | $865 | $1,035 | $1,000 | $970 | $935 |

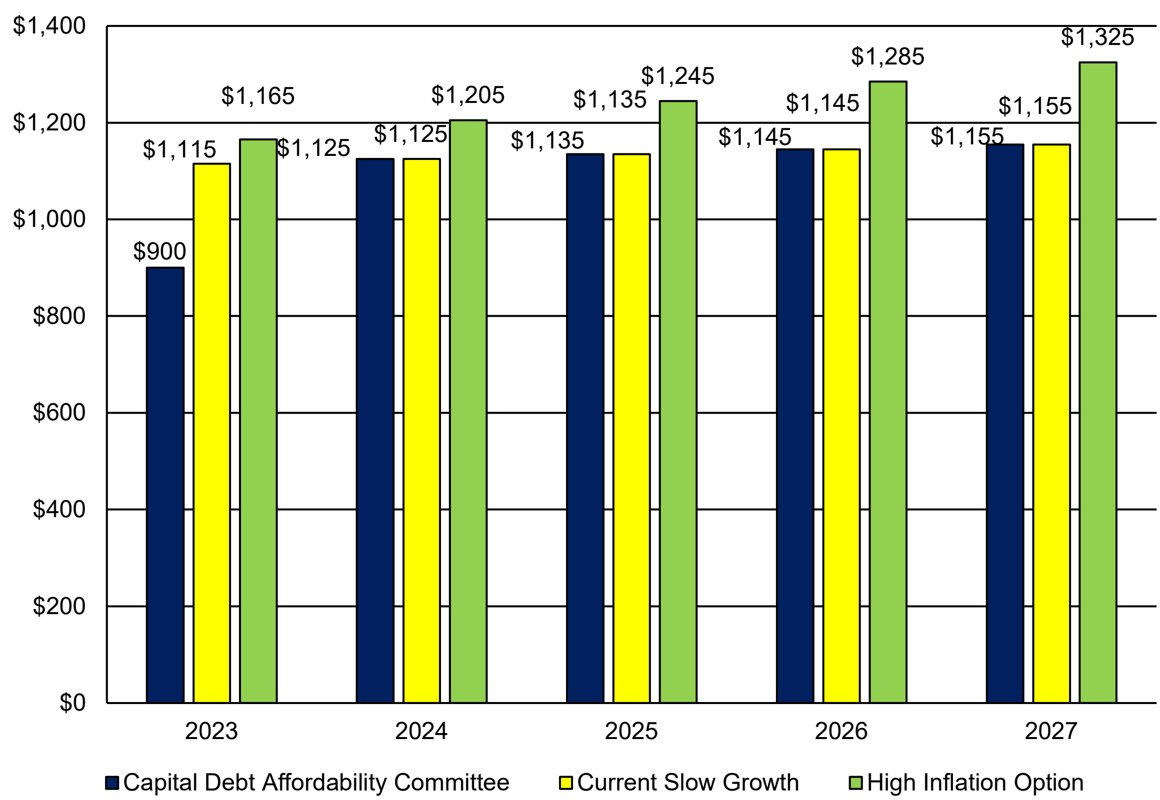
CDAC: Capital Debt Affordability Committee

Source: Engineering News-Record Building Cost Index

# State Debt Policy – Authorization Options

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

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




Source: Capital Debt Affordability Committee; Department of Legislative Services

# State Debt Policy – Debt Service Costs

- The Annuity Bond Fund (ABF) supports general obligation bond debt service costs. State property tax revenues are deposited into the ABF. General funds are required if there is a shortfall in dedicated revenues.

- The ABF forecast uses the authorizations planned by SAC, so the fiscal 2023 authorization is $1,115 million.

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

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

ABF: Annuity Bond Fund

[1] The forecast assumes that the State property tax rates remains at $0.112 per $100 of assessable base.
[2] Estimated bond sale premiums total $127 million in March 2022, $109 million in summer 2022, $93 million in March 2023, $79 million in summer 2023, $70 million in March 2024, and $61 million in summer 2024. Amounts available for debt service are less than the total premium on sales from March 2022 to March 2024. The premium estimated for the summer 2024 sale is less than capitalized interest.

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

# State Debt Policy – Recent Use of Premiums

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

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

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

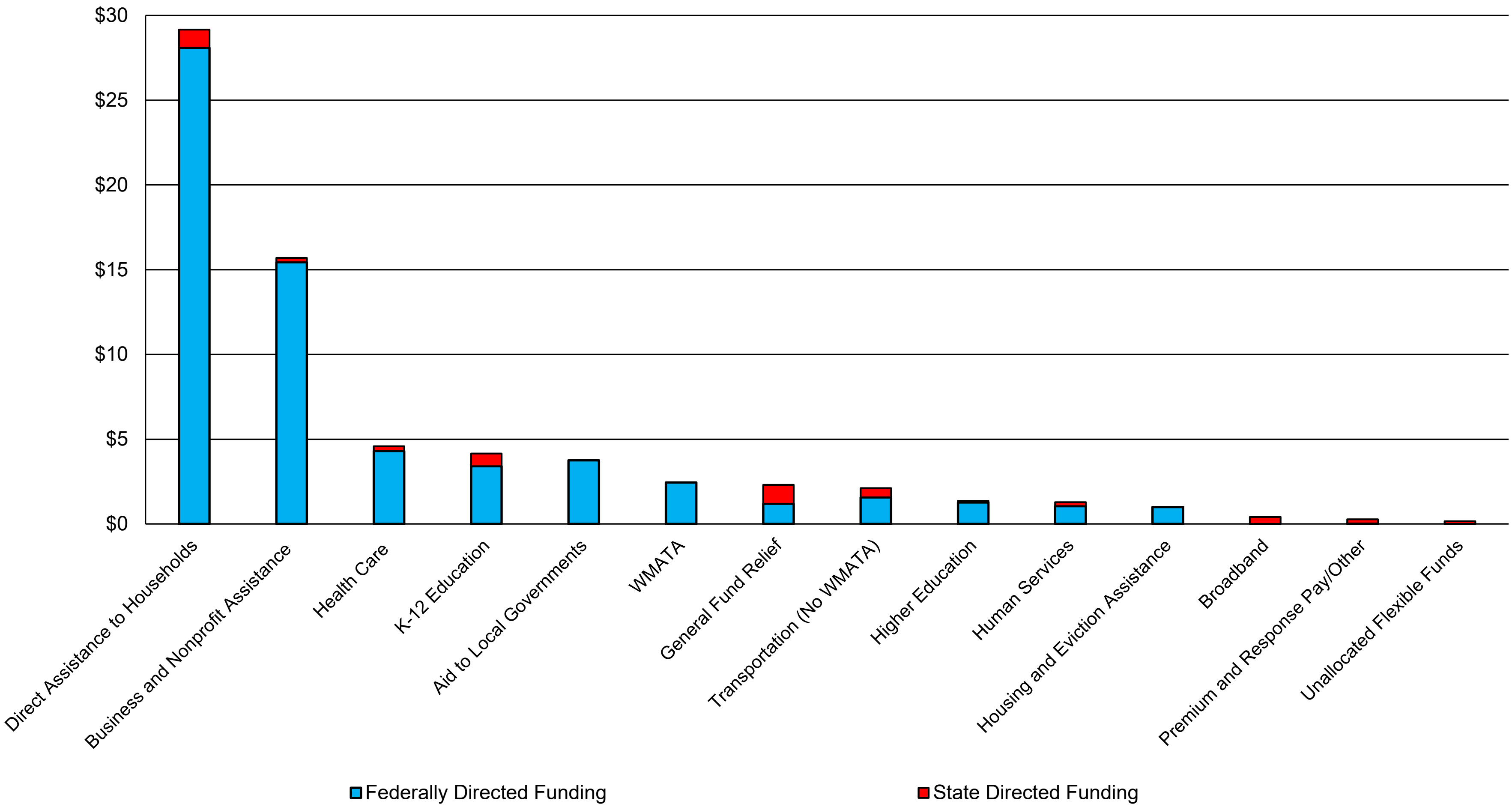
Notes: Since 2019, premiums have ranged from $92 million to $180 million. Numbers may not sum to total due to rounding.

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

# Part 9

# Federal Funds

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




WMATA: Washington Metropolitan Area Transit Authority

**Substantial Amounts of Federal COVID Relief Funding Not Yet in Budget**
**($ in Millions)**

| 10 Largest Sources of Funds Not Yet Added to Budget | |
|---|---|
| State Fiscal Recovery Fund* | $956.2 |
| K-12 Education Stabilization Fund | 758.4 |
| Federal Transit-formula Grants | 537.8 |
| Epidemiology and Laboratory Capacity for Infectious Diseases | 337.3 |
| Emergency Rental Assistance | 317.7 |
| Homeowner Assistance Fund | 248.6 |
| Child Care and Development Block Grant | 242.5 |
| Public Assistance Grants | 202.9 |
| Capital Projects | 171.2 |
| Coronavirus Relief Fund (COVID) | 168.1 |

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

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

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

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

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