
Spending Affordability Committee Technical Supplement

**Department of Legislative Services
Office of Policy Analysis
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Part 1: Fiscal 2009 Baseline Budget Technical Supplement Overview

The Baseline Process

The baseline budget is an estimate of the cost of government services in the next budget year assuming:

- current laws, policies, and practices are continued;
- legislation, federal mandates, and multi-year commitments supported by the legislature are implemented and funded;
- efficiency is maintained at current levels;
- nondiscretionary changes in workload are recognized;
- unavoidable shortfalls in budgeted expenditures during the current year are funded as deficiencies;
- inflationary increases in costs are provided;
- large one-time purchases and nonrecurring pay-as-you-go (PAYGO) expenditures are removed;
- full year costs of programs started during the previous year are included;
- positions and operating expenses associated with new facilities are recognized;
- selected salary increases are funded; and
- employee turnover is adjusted to reflect recent experience.

General Assumptions

Forecasts of individual agency budget requirements are based on amounts appropriated for fiscal 2008. Adjustments are made to remove funds allowed for one-time purposes and to add funds as required to recognize expenses associated with legislation, new facilities, changes in caseloads, and continuing expenses related to fiscal 2008 budget deficiencies. The baseline estimate also allows for changes in employee compensation and inflationary increases in the cost of operating expenses.

Employee Compensation Assumptions

With respect to State employees, the following assumptions are made:

- ***Merit Increases for State Employees:*** Providing merit increases in fiscal 2009 is expected to add \$59 million (\$36 million in general funds) to the baseline, excluding that attributable to higher education. In accordance with the State's salary plan, the baseline estimate assumes those State employees who "meet standards" will receive merit increases of between 2.0 and 4.0 percent, with most receiving 2.0 percent. Average wages are expected to increase 2.4 percent during fiscal 2009. Approximately half of employees receiving merit increases receive them in July, while the other half receive them in January. Annualizing merit increases for employees receiving them in January adds another \$20 million (\$11 million in general funds) to fiscal 2009 base expenditures, increasing the total annual effect of the merit increase to \$79 million (\$43 million in general funds). Additionally, higher education merit increases total \$43 million (\$23 million in general funds) in fiscal 2009.
- ***General Salary Increase for State Employees:*** The baseline budget assumes that State employees will receive a 2 percent salary increase. Excluding higher education, the general salary increase adds \$64 million, \$38 million of which is general funds, to the baseline budget. The higher education general salary increase totals \$43 million (\$24 million in general funds) in fiscal 2009.
- ***Employee and Retiree Health Insurance:*** State health insurance costs support employee and retiree PAYGO health insurance costs and the accrued but not yet due retiree health insurance costs, also referred to as Other Post Employment Benefits (OPEB). The baseline budget projects that the fiscal 2009 claims will exceed \$1 billion. This requires that the State's contribution will need to increase by \$168 million (25 percent) and general funds increase by \$101 million. (Because the State overbudgeted health insurance costs in prior years, the fiscal 2008 legislative appropriation is below costs to reduce the high fund balance.) OPEB-related health insurance costs are not budgeted among the personnel costs, but are instead budgeted in the State Reserve Fund's Dedicated Purpose Account to reduce the retiree health care unfunded liability. The baseline increases the general fund appropriation to reduce the unfunded liability from \$100 million to \$200 million.
- ***Workers' Compensation Assessments:*** The baseline budget assumes State payments to the Injured Workers' Insurance Fund (IWIF) for workers' compensation coverage will increase \$2.7 million, including approximately \$1.6 million in general funds. Assessments are primarily based on actual claims from two years proceeding the budget year, fiscal 2007. The estimated fiscal 2009 total assessment also includes a \$10.0 million contribution to the long-term liability account, consistent with contributions made since fiscal 2006.

- **Employees' Retirement and Pensions:** Fiscal 2009 baseline budget expenditures are expected to increase, when compared to fiscal 2008. Although contribution rates decline in some plans, increased salary costs result in additional overall expenditures. Specific estimates include:
 - an additional \$29.5 million (\$17.7 million in general funds) for the employees' State Retirement and Pension Systems in spite of the contribution rate declining from 8.86 to 8.73 percent;
 - State police retirement plan appropriations increasing by \$5.7 million (\$3.4 million in general funds) as the contribution rate increases from 15.44 to 20.53 percent;
 - the teachers' retirement plan appropriations increases by \$1.5 million, as the retirement rate increases from 11.60 to 11.70 percent;
 - less than \$1.0 million increase in the judges plan, although the contribution rate decreases from 44.12 to 43.61 percent; and
 - appropriations to the Law Enforcement Officers Pensions System decline by \$1.4 million as the contribution rate declines from 41.74 to 36.99 percent.

Nonpersonnel Operating Cost Assumptions

The baseline also assumes inflationary changes in specific subobjects. The most significant changes are reflected in food, which is underfunded in the fiscal 2008 appropriation, and prescription drugs for State facilities, which historically has grown by about 8 percent per year. Specific inflation assumptions are:

- food (10.0 percent);
- prescription drugs for State facilities (8.0 percent);
- medical contracts and supplies (5.0 percent);
- postage (2.1 percent);
- supplies and materials (2.0 percent); and
- utilities and electricity (0.4 percent).

Statewide Reductions in Spending

Realizing that a large structural deficit was looming, the General Assembly and the Governor have used several methods outside of the normal budget process to reduce spending. These methods are outlined below and are reflected in various agencies across the budget.

- Section 46 Position Abolitions:** Section 46 of the fiscal 2008 budget bill stipulated that agencies could not receive funding for new positions if their vacancy rate exceeded 8 percent on June 30, 2007. Exceptions were made for positions needed to staff facilities scheduled to open in fiscal 2008; necessary to implement legislation; rejected for deletion by the General Assembly during the 2007 legislative session; and at the University System of Maryland, St. Mary's College of Maryland, Morgan State University, or Baltimore City Community College. As a result, 66.5 positions, along with \$2.9 million in associated funding, were moved from the fiscal 2009 baseline. The number of positions and associated funding removed from the fiscal 2009 baseline for this purpose is summarized below.

Section 46 Reductions

<u>Agency</u>	<u>Positions</u>	<u>Funding</u>
Military Department	11.0	\$428,514
Department of Agriculture	1.0	66,448
Department of Health and Mental Hygiene	11.5	459,293
Department of Public Safety and Correction Services	37.0	1,071,527
Department of the Environment	6.0	298,750
Total	66.5	\$2,906,554

- Appropriations Withdrawn by the Board of Public Works:** In July 2007, the Governor withdrew appropriations from the fiscal 2008 budget as a cost containment measure. The Governor is able to make these reductions through the Board of Public Works per statute. In total, \$196.1 million of appropriations was withdrawn. This includes \$128.4 million in general funds, \$14.6 million in special funds, and \$53.1 million in federal funds. The reductions contained both one-time savings as well as ongoing cost saving measures. In each of the agencies, the appropriations are withdrawn from fiscal 2008. If the withdrawn appropriation was a one-time cost savings and will return again in fiscal 2009, these items were then added back into the fiscal 2009 baseline.

Baseline Results

Overall, the baseline budget forecast projects budget growth as indicated below by fund type:

Projected Baseline Budget Fiscal 2008 and 2009 (\$ in Millions)				
<u>Fund</u>⁽¹⁾	<u>2008 Adjusted Appropriation</u>⁽³⁾	<u>2009 Baseline</u>	<u>2008-2009 Increase</u>	<u>2008-2009 Percent Change</u>
General	\$14,530.6	\$15,747.1	\$1,216.5	8.4%
Special/Higher Education ⁽²⁾	8,766.8	8,886.9	120.1	1.4%
Federal	6,671.9	6,803.7	131.8	2.0%
Subtotal	\$29,969.3	\$1,437.8	\$,468.5	4.9%
Reversions	-30.0	-20.0	10.0	-33.3%
Total	\$29,939.3	\$1,417.8	\$,478.5	4.9%

⁽¹⁾ Excludes reimbursable and nonbudgeted funds.

⁽²⁾ Higher education funds include current restricted and unrestricted funds net of general and special fund appropriations.

⁽³⁾ Fiscal 2008 appropriation adjusted to reflect reductions taken by the Board of Public Works in July 2007.

Source: Department of Legislative Services

The tables on the following pages summarize the budgetary changes by major category of expenditure. Separate sections of the technical supplement dissect the assumptions used for estimates for general fund aid to local governments, entitlements, State agencies, debt service, capital programs, and general fund revenue projections.

The fiscal 2008 appropriation in the summary tables has been adjusted to reflect the reductions taken by the Board of Public Works in July 2007. Discussions of individual agency budgets reflect the 2008 legislative appropriation. In addition, the individual agency presentations do not reflect the proposed fiscal 2009 general salary increase.

State Expenditures – General Funds
Fiscal 2007-2009
(\$ in Millions)

<u>Category</u>	<u>FY 2007</u> <u>Working</u>	<u>FY 2008</u> <u>Adjusted</u> <u>Leg. Approp.</u>	<u>FY 2009</u> <u>Baseline</u>	<u>FY 2008-2009</u> <u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$29.3	\$40.0	\$10.7	36.3%
Aid to Local Governments					
County/Municipal	\$231.1	\$242.6	\$246.1	\$3.5	1.5%
Community Colleges	205.9	241.7	268.8	27.1	11.2%
Education/Libraries	4,534.6	5,224.2	5,561.0	336.8	6.4%
Health	63.7	66.6	68.3	1.8	2.7%
Subtotal	\$5,035.2	\$5,775.1	\$6,144.4	\$369.3	6.4%
Entitlements					
Foster Care Payments	\$248.8	\$246.3	\$254.3	\$7.9	3.2%
Assistance Payments	43.6	35.5	35.4	-0.1	-0.4%
Medical Assistance	2,189.7	2,220.1	2,477.6	257.5	11.6%
Property Tax Credits	61.0	62.4	62.4	0.0	0.0%
Subtotal	\$2,543.0	\$2,564.3	\$2,829.6	\$265.2	10.3%
State Agencies					
Health	\$1,324.6	\$1,377.6	\$1,473.8	\$96.2	7.0%
Human Resources	277.6	279.3	328.4	49.1	17.6%
Systems Reform Initiative	32.2	44.7	42.2	-2.5	-5.6%
Juvenile Services	238.8	230.6	253.1	22.5	9.7%
Public Safety/Police	1,207.5	1,187.4	1,277.7	90.3	7.6%
Higher Education	1,047.4	1,105.6	1,200.2	94.6	8.6%
Other Education	398.8	385.2	422.5	37.4	9.7%
Agric./Natl. Res./Environment	140.9	143.7	154.3	10.6	7.4%
Other Executive Agencies	614.6	559.3	611.4	52.1	9.3%
Judicial/Legislative	393.9	415.8	440.8	25.0	6.0%
Cost-of-living Allowance	0.0	59.7	61.8	2.1	3.5%
Subtotal	\$5,676.3	\$5,788.9	\$6,266.2	\$477.2	8.2%
Deficiencies	\$0.0	\$68.1	\$0.0	-\$68.1	-100.0%
Total Operating	\$13,254.5	\$14,225.8	\$15,280.1	\$1,054.2	7.4%
Capital/Heritage Reserve Fund	166.2	41.9	67.5	25.5	60.9%
Transfer to MdTA	53.0	0.0	53.0	53.0	n/a
Reversions	-20.0	-30.0	-20.0	10.0	-33.3%
Appropriations	\$13,453.7	\$14,237.8	\$15,380.6	\$1,142.8	8.0%
Reserve Funds	738.4	262.8	346.5	83.7	31.9%
Grand Total	\$14,192.1	\$14,500.6	\$15,727.1	\$1,226.5	8.5%

MdTA: Maryland Transportation Authority

Note: Fiscal 2008 reflects withdrawn appropriations of \$128.4 million approved by the Board of Public Works in July and anticipated deficiencies of \$68.1 million.

State Expenditures – Special and Higher Education Funds*
Fiscal 2007-2009
(\$ in Millions)

<u>Category</u>	<u>FY 2007 Working</u>	<u>FY 2008 Adjusted Leg. Approp.</u>	<u>FY 2009 Baseline</u>	<u>FY 2008-2009 \$ Change</u>	<u>% Change</u>
Debt Service	\$774.6	\$791.7	\$852.8	\$61.2	7.7%
Aid to Local Governments					
County/Municipal	\$760.2	\$699.9	\$674.2	-\$25.8	-3.7%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	0.0	0.0	0.2	0.2	n/a
Health	0.0	0.0	0.0	0.0	n/a
Subtotal	\$760.2	\$699.9	\$674.4	-\$25.6	-3.7%
Entitlements					
Foster Care Payments	\$0.4	\$0.1	\$0.1	\$0.0	34.3%
Assistance Payments	13.3	13.3	13.3	0.0	0.0%
Medical Assistance	158.7	212.1	225.3	13.2	6.2%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Subtotal	\$172.3	\$225.5	\$238.8	\$13.2	5.9%
State Agencies					
Health	\$234.1	\$229.0	\$236.2	\$7.3	3.2%
Human Resources	78.8	71.1	54.2	-16.9	-23.8%
Systems Reform Initiative	0.6	0.6	0.6	0.0	0.0%
Juvenile Services	4.1	0.2	0.2	0.0	4.2%
Public Safety/Police	187.8	198.3	210.5	12.1	6.1%
Higher Education	3,050.6	3,111.6	3,221.8	110.2	3.5%
Other Education	35.4	35.6	36.3	0.7	1.8%
Transportation	1,296.1	1,340.9	1,421.0	80.1	6.0%
Agric./Natl. Res./Environment	138.4	135.5	149.9	14.4	10.6%
Other Executive Agencies	517.3	511.4	489.0	-22.4	-4.4%
Judicial/Legislative	45.2	42.8	49.3	6.5	15.3%
Cost-of-living Allowance	0.0	33.9	34.9	1.0	2.8%
Subtotal	\$5,588.5	\$5,710.9	\$5,903.9	\$193.0	3.4%
Deficiencies	\$0.0	\$19.8	\$0.0	-\$19.8	-100.0%
Total Operating	\$7,295.6	\$7,447.8	\$7,669.9	\$222.1	3.0%
Capital	1,348.2	1,319.0	1,217.0	-102.0	-7.7%
Appropriations	\$8,643.8	\$8,766.8	\$8,886.9	\$120.1	1.4%
Reserve Funds	0.0	0.0	0.0	0.0	n/a
Grand Total	\$8,643.8	\$8,766.8	\$8,886.9	\$120.1	1.4%

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

Note: Fiscal 2008 reflects withdrawn appropriations of \$14.6 million approved by the Board of Public Works in July and anticipated deficiencies of \$19.8 million.

State Expenditures – Federal Funds
Fiscal 2007-2009
(\$ in Millions)

<u>Category</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2008-2009</u>	
	<u>Working</u>	<u>Adjusted</u> <u>Leg. Approp.</u>		<u>Baseline</u>	<u>\$ Change</u>
Debt Service	\$0.0	\$0.0	\$0.0	\$0.0	n/a
Aid to Local Governments					
County/Municipal	\$54.6	\$60.7	\$35.7	-\$25.0	-41.2%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	778.7	728.2	728.2	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
Subtotal	\$837.8	\$793.3	\$768.3	-\$25.0	-3.2%
Entitlements					
Foster Care Payments	\$96.8	\$104.6	\$107.5	\$2.8	2.7%
Assistance Payments	407.7	437.8	450.7	12.9	2.9%
Medical Assistance	2,303.0	2,382.3	2,614.8	232.6	9.8%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Subtotal	\$2,807.6	\$2,924.7	\$3,173.0	\$248.3	8.5%
State Agencies					
Health	\$782.7	\$820.8	\$872.1	\$51.3	6.2%
Human Resources	523.9	505.6	522.4	16.8	3.3%
Systems Reform Initiative	14.9	14.9	14.9	0.0	0.0%
Juvenile Services	15.7	14.7	10.3	-4.4	-29.9%
Public Safety/Police	20.5	14.7	17.8	3.1	21.1%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	237.8	226.5	232.8	6.4	2.8%
Transportation	77.6	78.1	80.1	2.0	2.6%
Agric./Natl. Res./Environment	61.1	60.1	59.5	-0.6	-1.0%
Other Executive Agencies	465.1	405.0	412.0	7.0	1.7%
Judicial/Legislative	3.6	3.2	3.4	0.2	6.8%
Cost-of-living Allowance	0.0	0.0	12.7	12.7	n/a
Subtotal	\$2,203.0	\$2,143.6	\$2,238.1	\$94.5	4.4%
Deficiencies	\$0.0	\$20.2	\$0.0	-\$20.2	-100.0%
Total Operating	\$5,848.4	\$5,881.9	\$6,179.5	\$297.6	5.1%
Capital	769.2	790.0	624.2	-165.8	-21.0%
Grand Total	\$6,617.6	\$6,671.9	\$6,803.7	\$131.8	2.0%

Note: Fiscal 2008 reflects withdrawn appropriations of \$53.1 million approved by the Board of Public Works in July and anticipated deficiencies of \$20.2 million.

State Expenditures – All Funds
Fiscal 2006-2008
(\$ in Millions)

<u>Category</u>	<u>FY 2007</u> <u>Working</u>	<u>FY 2008</u> <u>Adjusted</u> <u>Leg. Approp.</u>	<u>FY 2009</u> <u>Baseline</u>	<u>FY 2008-2009</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$774.6	\$821.0	\$892.8	\$71.8	8.7%
Aid to Local Governments					
County/Municipal	\$1,045.9	\$1,003.2	\$956.0	-\$47.2	-4.7%
Community Colleges	205.9	241.7	268.8	27.1	11.2%
Education/Libraries	5,313.3	5,952.4	6,289.4	337.0	5.7%
Health	68.2	71.1	72.8	1.8	2.5%
Subtotal	\$6,633.2	\$7,268.3	\$7,587.0	\$318.7	4.4%
Entitlements					
Foster Care Payments	\$346.0	\$351.1	\$361.9	\$10.8	3.1%
Assistance Payments	464.6	486.6	499.4	12.8	2.6%
Medical Assistance	4,651.3	4,814.6	5,317.8	503.2	10.5%
Property Tax Credits	61.0	62.4	62.4	0.0	0.0%
Subtotal	\$5,522.9	\$5,714.6	\$6,241.4	\$526.8	9.2%
State Agencies					
Health	\$2,341.5	\$2,427.4	\$2,582.1	\$154.7	6.4%
Human Resources	880.3	856.0	905.0	49.0	5.7%
Systems Reform Initiative	47.7	60.2	57.7	-2.5	-4.2%
Juvenile Services	258.6	245.5	263.6	18.1	7.4%
Public Safety/Police	1,415.8	1,400.4	1,506.0	105.6	7.5%
Higher Education	4,098.0	4,217.2	4,422.0	204.8	4.9%
Other Education	672.0	647.3	691.7	44.4	6.9%
Transportation	1,373.7	1,419.0	1,501.1	82.1	5.8%
Agric./Natl. Res./Environment	340.5	339.3	363.7	24.4	7.2%
Other Executive Agencies	1,597.0	1,475.7	1,512.4	36.7	2.5%
Judicial/Legislative	442.7	461.9	493.6	31.8	6.9%
Cost-of-living Allowance	0.0	93.6	109.4	15.8	16.8%
Subtotal	\$13,467.9	\$13,643.5	\$14,408.2	\$764.7	5.6%
Deficiencies	\$0.0	\$108.1	\$0.0	-\$108.1	-100.0%
Total Operating	\$26,398.5	\$27,555.6	\$29,129.5	\$1,573.9	5.7%
Capital/Heritage Reserve Fund	2,283.6	2,150.9	1,908.7	-242.2	-11.3%
Transfer to MDTA	53.0	0.0	53.0	53.0	n/a
Reversions	-20.0	-30.0	-20.0	10.0	-33.3%
Appropriations	\$28,715.1	\$29,676.5	\$31,071.2	\$1,394.7	4.7%
Reserve Funds	738.4	262.8	346.5	83.7	31.9%
Grand Total	\$29,453.5	\$29,939.3	\$31,417.8	\$1,478.5	4.9%

MdTA: Maryland Transportation Authority

Note: Fiscal 2008 reflects withdrawn appropriations of \$196.1 million approved by the Board of Public Works in July and anticipated deficiencies of \$108.1 million.

Aid to Local Governments

State aid includes direct grants to local governments for various public services such as education, libraries, community colleges, transportation, public safety, health, and recreation; and State paid retirement costs for public school teachers, librarians, and community college faculty. Although the grants may be for specific programs or purposes, local governments usually have considerable flexibility in the expenditures of these funds.

State Aid by Governmental Entity Fiscal 2006-2009 (\$ in Thousands)

<u>Entity</u>	2006	2007	2008	2009	2008-2009	
	<u>Actual</u>	<u>Working</u>	<u>Working</u>	<u>Baseline</u>	<u>Increase</u>	<u>% Change</u>
Public Schools	\$4,009,032.3	\$4,478,128.6	\$5,168,074.0	\$5,495,026.7	\$326,952.7	6.3%
County/Municipal	829,939.7	962,039.6	942,535.3	920,313.0	-22,222.2	-2.4%
Community Colleges	191,604.7	205,883.2	241,700.7	268,827.1	27,126.4	11.2%
Libraries	50,648.0	55,415.9	63,669.3	71,023.2	7,353.9	11.6%
Health	61,859.0	63,668.0	66,557.3	68,326.4	1,769.1	2.7%
Total	\$5,143,083.8	\$5,765,135.3	\$6,482,536.6	\$6,823,516.5	\$340,979.9	5.3%

Source: Department of Legislative Services

Overview

State aid is projected to total \$6.8 billion in fiscal 2009, representing a \$341.0 million (5.3 percent) increase over the prior year. This annual increase is the lowest since fiscal 2004 due primarily to the final phase-in of the “Thornton Legislation” that occurred in fiscal 2008. From fiscal 2002 and 2008, State aid increased at an average annual rate of 8.9 percent; and State education aid increased at a 10.2 percent average annual rate. As in prior years, most of the State aid increases in fiscal 2009 is targeted to public schools, libraries, and community colleges. State aid for public schools will increase by \$327.0 million (6.3 percent); library aid will increase by \$7.4 million (11.6 percent); and community college aid will increase by \$27.1 million (11.2 percent). County and municipal governments will realize a \$22.2 million (2.4 percent) decrease in State aid; and local health departments will realize a \$1.8 million (2.7 percent) increase.

Public Schools

Approximately 80.5 percent of State aid goes to support public schools. Public schools could receive an estimated \$5.5 billion in fiscal 2009, representing a \$327.0 million (6.3 percent) increase over the prior year. This level of growth would be less than half of the \$689.9 million increase local school systems received in fiscal 2008, which was the final year of the phase-in of the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288), commonly referred to as the “Thornton Legislation.” The Bridge to Excellence Act altered and enhanced the State’s education financing system and phased in State aid increases over six years, from fiscal 2003 to 2008. In fiscal 2009 and beyond, State funding continues at the higher level but annual increases are determined by inflation and enrollment changes rather than the phase-in of formula enhancements.

Foundation Program

The baseline includes \$2.9 billion for the State’s foundation program, a \$134.2 million (4.8 percent) increase over the fiscal 2008 appropriation. Foundation formula funding is based on student enrollment and the per pupil foundation amount. As the chart below shows, the enrollment count used to develop the baseline estimate is expected to decrease by approximately 3,500 students, and the fiscal 2009 per pupil foundation amount is expected to increase by approximately \$350. The 5.2 percent increase in the per pupil foundation amount represents inflation, as measured by the implicit price deflator for state and local government purchases, the inflation factor used in the Bridge to Excellence formulas.

Student Enrollment and Foundation Amount Fiscal 2005-2009

	<u>Actual 2005</u>	<u>Actual 2006</u>	<u>Actual 2007</u>	<u>Actual 2008</u>	<u>Estimated 2009</u>
Enrollment*	828,961	829,007	827,596	823,732	820,234
% Change	0.8%	0.0%	-0.2%	-0.5%	-0.4%
Foundation	\$5,029	\$5,497	\$5,959	\$6,695	\$7,042
% Change	5.5%	9.3%	8.4%	12.4%	5.2%

*Represents full-time equivalent enrollment.

The baseline also includes \$40.1 million for the geographic cost of education index (GCEI) formula. The formula was established by Chapter 430 of 2004, but funding for the formula was not mandated and has not been provided in any year since that legislation was enacted. The Administration proposed legislation during the 2007 session that would have mandated funding for the GCEI beginning in fiscal 2009 and would have established a three-year

implementation schedule for the formula, with phase-in levels of 30 percent in fiscal 2009, 60 percent in fiscal 2010, and 100 percent in fiscal 2011 and thereafter. In keeping with the Administration's proposal, the baseline funding level assumes a 30 percent phase-in of the formula in fiscal 2009.

Compensatory Aid Formula

The compensatory aid program is expected to reach \$949.4 million in fiscal 2009, representing a \$47.3 million (5.2 percent) increase. This program provides additional funding to local school systems based on their enrollments of students eligible for free and reduced price meals. The statewide funding level is calculated using the number of eligible students multiplied by a factor of the per pupil foundation amount. The projected funding increase is almost entirely attributable to the inflation factor used to increase the per pupil foundation amount. The enrollment count used for the program is expected to remain stable. Because of the strong inverse correlation between student performance and the proportion of the student body eligible for free and reduced price meals, these students were identified in the Bridge to Excellence legislation as one of three at-risk populations. The Act targeted more resources to school systems with large populations of at-risk students.

Students with Disabilities Funding

The Bridge to Excellence legislation identified students with disabilities as a second population with higher needs. The Act replaced the prior special education formula with one in which funding is a function of the special education enrollment, the per pupil foundation amount, and a weighting factor. Funding for the special education formula is expected to increase by \$13.1 million (4.7 percent), to a total of \$293.2 million in fiscal 2009. The increase is again attributable to inflation in the per pupil foundation amount as enrollment in this program is expected to decline by approximately 0.6 percent.

An increase of \$3.4 million is anticipated for the nonpublic placement of special education students. This would bring the State's contribution to the program to \$128.6 million in fiscal 2009, a 2.7 percent increase. Funding for the infants and toddlers program increases from \$5.8 million in fiscal 2008 to \$14.0 million in fiscal 2009. The increase is not mandated but would represent full funding of the infants and toddlers formula that was established by Chapter 312 of 2002.

Limited English Proficiency Formula

The third at-risk population identified for additional resources in the Bridge to Excellence Act is students for whom English is a second language. Funding is based on estimated limited English proficient (LEP) enrollment counts and the per pupil foundation amount. This program is expected to increase by \$15.8 million (12.5 percent), to a total of \$142.0 million in fiscal 2009. This increase is driven by anticipated LEP enrollment growth of 6.9 percent and 5.2 percent inflation in the per pupil foundation amount.

Guaranteed Tax Base Program

The baseline budget includes \$83.4 million in funding for the guaranteed tax base program, a 5.7 percent increase over the fiscal 2008 appropriation of \$78.9 million. This program provides additional State funding to local education agencies with less than 80.0 percent of statewide wealth per pupil through a formula that uses local wealth and the amount of local funding each jurisdiction provides the local school system. As currently estimated, 11 local school systems will receive funding under this program in fiscal 2009, the same number as fiscal 2008. The projected fiscal 2009 funding increases are mostly driven by increases in local funding for public schools.

Student Transportation Funding

The baseline estimate for student transportation includes \$200.8 million under the transportation formula, an increase of \$6.4 million (3.3 percent) over the fiscal 2008 appropriation. In addition, \$24.5 million is included for the transportation of disabled students, representing a \$164,000 (0.7 percent) decrease in funding. Changes in the student transportation formula are attributable to projected increases in full-time equivalent enrollment in 10 school systems and the 3.0 percent minimum inflationary increase established for the formula. Inflation is measured by the change in the Consumer Price Index for transportation services in the Washington-Baltimore area, but annual changes to the transportation formula may not be less than 3.0 percent or more than 8.0 percent. The decrease in the disabled student transportation formula reflects an expected drop in the enrollment of students with special transportation needs. The State provides \$1,000 annually per qualifying pupil.

Retirement

Increases in the State grant for teachers' retirement reflect changes in payroll costs for local education agencies and a slight increase in the State's retirement contribution rate from 11.6 to 11.7 percent. State retirement costs for public school teachers will total \$621.8 million in fiscal 2009, representing a \$55.3 million (9.8 percent) increase from the prior year.

Operating Funding for Public School Facilities

Funding for public school facilities in the operating budget includes the Aging Schools Program and lease payments for the Technology in Maryland Schools (TIMS) Program. Funding for the aging schools program is expected to decrease by \$1.4 million (11.2 percent). The projected decrease results from \$1.7 million in program enhancements that were provided in fiscal 2008 but are not anticipated in fiscal 2009. This decrease in enhancement funding is partially offset by an inflationary increase of \$291,000 in the base aging schools formula. Estimated lease repayments for the TIMS program decrease from \$10.3 million in fiscal 2008 to an estimated \$8.3 million in fiscal 2009, a decrease of \$2.0 million (19.0 percent).

County and Municipal Governments

Approximately 13.5 percent of State aid is allocated to county and municipal governments to finance transportation, public safety, public works, and recreation projects. County and municipal governments will receive \$920.3 million in fiscal 2009, a decrease of \$22.2 million (2.4 percent) over the prior year. The major State aid programs assisting county and municipal governments include: highway user revenues, disparity grants, police aid, Program Open Space, and the electric utility generating property tax grant.

Transportation

The local government share of the distribution of highway user revenues is projected to total \$585.0 million in fiscal 2009, an \$18.2 million increase when compared to the fiscal 2008 legislative appropriation. This estimate is based on projected Transportation Trust Fund revenue of motor fuel taxes, motor vehicle titling taxes, motor vehicle registration fees, and corporate income taxes. Local aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2009 at \$7.1 million.

Disparity Grant

Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which is the third largest revenue source for counties after State aid and property taxes. Counties with per capita local income tax revenues less than 75.0 percent of the statewide average receive grants, assuming all counties impose a 2.5 percent local income tax rate. Aid received by a county equals the dollar amount necessary to raise the county's per capita income tax revenues to 75.0 percent of the statewide average. Based on the statutory formula, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) will qualify for disparity grants in fiscal 2009. The fiscal 2009 grant is based on 2006 population estimates and tax year 2006 income tax revenues. Funding for this program is projected to total \$115.5 million in fiscal 2009, a \$0.7 million (0.6 percent) increase over the prior year.

Public Safety

Maryland's counties and municipalities receive grants for police protection through the police aid formula and special crime grants. The police aid formula allocates funds on a per capita basis and jurisdictions with higher population density receive greater per capita grants. Municipalities receive additional grants based on the number of sworn officers. Police aid grants in fiscal 2009 are projected to total \$67.5 million, representing a \$1.6 million (2.4 percent) increase. Other public safety grants (targeted crime grants, fire and rescue aid, vehicle theft prevention, 9-1-1 grants, etc.) are level funded in the fiscal 2009 baseline.

Program Open Space

Under Program Open Space, the State provides grants to counties and Baltimore City for land acquisition and the development of parks and recreation facilities. State transfer tax revenues fund Program Open Space and related programs. For fiscal 2009, funding for the program is projected at \$53.1 million, which includes the \$1.5 million special grant to Baltimore City. This represents a \$44.0 million decrease over the fiscal 2008 legislative appropriation. This decrease is due to the slow down in the real estate market which has resulted in a downturn in State transfer tax collections.

Property Tax Grant

Legislation restructuring Maryland's electric utility tax system was enacted in 1999 (Chapters 5 and 6 of 1999). Beginning with fiscal 2001, the legislation phases in over two years a 50 percent personal property tax exemption for machinery and equipment used to generate electricity for sale. To partially offset the revenue losses, the legislation provides grants to the 11 counties impacted by the exemption. The dollar amounts of the grants when the exemption is fully phased in are written into the statute. The fiscal 2009 grant amount totals \$30.6 million, a \$1.0 million increase over the prior year. The fiscal 2008 legislative appropriation was reduced by \$1.0 million by the Board of Public Works as part of the Governor's cost containment measures.

Community Colleges

Most funding for community colleges is based on per pupil State support provided to selected public four-year institutions of higher education in Maryland. The baseline includes \$218.3 million for the Senator John A. Cade Funding Formula, which provides aid to the 15 community colleges that are operated locally. Baltimore City Community College is a State agency and receives funding through a separate formula. For fiscal 2009, the Cade formula is equal to 26.25 percent of the fiscal 2008 State aid per student at the selected four-year institutions (\$9,581) multiplied by the audited fiscal 2007 full-time equivalent enrollment (86,780) at community colleges. By fiscal 2013, the percentage used in the formula will increase to 30.00 percent of the per pupil funding provided to selected public four-year institutions.

The fiscal 2009 baseline also includes \$3.3 million for the English for Speakers of Other Languages program, a \$141,000 decrease, and \$4.9 million for statewide and regional programs, an increase of approximately \$121,000 over the amount funded in fiscal 2008. In addition, colleges will receive \$3.7 million through small college grants and an estimated \$1.6 million through the innovative partnerships program. The baseline also contains \$35.0 million for benefits to employees of community colleges, a \$2.8 million (8.4 percent) increase over the fiscal 2008 appropriation.

Libraries

The baseline estimates an increase of \$2.6 million (7.8 percent) in the State library aid formula, with total funding in fiscal 2009 estimated at \$36.6 million. The estimates assume an increase of 0.3 percent in Maryland's population, but most of the growth in the funding level is due to an increase in the formula's per capita funding level from \$14 in fiscal 2008 to \$15 in fiscal 2009. The per capita amount will increase to \$16 in fiscal 2010, but no further increases are scheduled after that.

The baseline also reflects an anticipated increase in the State Library Network of \$1.0 million (6.1 percent), bringing total funding for this program to \$17.3 million in fiscal 2009. The network includes the Central Library of the Enoch Pratt Free Library System in Baltimore City, regional resource centers and regional libraries, and metropolitan cooperative service programs. Like the library aid formula, \$1.00 annual increases in per capita aid for regional resource centers are being phased in for fiscal 2009 and 2010. In fiscal 2009, the regional resource centers receive \$7.50 per resident of each region.

Finally, retirement costs for librarians will total an estimated \$12.2 million, representing a \$743,000 (6.5 percent) increase. As with teachers' retirement payments, the growth is attributable to an increased salary base and an increase in the State's retirement contribution rate from 11.6 percent in fiscal 2008 to 11.7 percent in fiscal 2009.

Local Health Departments

The general fund portion of core public health funds is expected to total \$68.3 million in fiscal 2009, representing a \$1.8 million increase over the prior year which reflects growth in population and inflation. These funds will be distributed to local health departments based on need (derived from poverty and mortality statistics) and local effort (incentive grants).

Entitlement Programs

Entitlements include the Department of Assessments and Taxation's tax credit programs, Department of Health and Mental Hygiene's (DHMH) Medicaid program, and the Department of Human Resources' (DHR) foster care and cash assistance programs.

Expenditures, Funds, and Positions for Entitlement Programs

Fiscal 2006-2009

(\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Department of Assessments and Taxation	\$51,970	\$72,082	\$64,390	\$65,217	\$827	1.3%
DHMH – Medical Care Programs Administration	4,393,657	4,668,339	4,920,426	5,330,957	410,531	8.3%
DHR – Child Welfare	313,951	346,003	353,072	361,877	8,806	2.5%
DHR – Family Investment	478,484	464,577	494,653	499,366	4,713	1.0%
Total	\$5,238,061	\$5,551,001	\$5,832,541	\$6,257,418	\$424,877	7.3%
Fund						
General Fund	\$2,371,823	\$2,564,023	\$2,614,359	\$2,832,377	\$218,018	8.3%
Special Fund	151,015	172,390	234,866	238,819	3,953	1.7%
Federal Fund	2,697,194	2,807,562	2,970,884	3,173,044	202,160	6.8%
Reimbursable Fund	18,029	7,026	12,432	13,178	746	6.0%
Total	\$5,238,061	\$5,551,001	\$5,832,541	\$6,257,418	\$424,877	7.3%
Personnel						
Regular Positions	37.0	37.0	41.0	41.0	0.0	0.0%

Medicaid Enrollment and Expenditure Trends

Overview

Maryland's Medicaid and Children's Health Programs provide eligible low-income individuals with comprehensive health care coverage. Funding is derived from both federal and State sources with a federal fund participation rate of 50 percent for Medicaid and 65 percent for the Maryland Children's Health Program (MCHP).

The Medical Assistance (Medicaid/MCHP) budget accounts for about 15.0 percent of State general fund expenditures and is one of the fastest growing segments of the State budget. Over the next five years, Medicaid costs are expected to rise at a rate of about 7.6 percent annually while general fund revenues are forecast to grow at a rate of 5.4 percent.

Fiscal 2008 Outlook

The fiscal 2008 Medical Assistance budget of \$4.8 billion (\$2.2 billion of general funds) appears to be \$30.2 million (\$18.5 million in general funds) less than the anticipated need. The additional need for fiscal 2008 funding above what was originally assumed to be adequate is attributed to:

- a 4.4 percent calendar 2008 managed care rate increase (\$19.8 million of general funds);
- in-patient hospital costs for fee-for-service enrollees in fiscal 2007 increased significantly higher than originally assumed in fiscal 2007. This was a function of both the cost and utilization factors of the in-patient services. The actual experience of in-patient costs in fiscal 2007 increased the fiscal 2008 estimate by \$14.1 million in general funds;
- the Temporary Cash Assistance (TCA) caseload is anticipated to remain level from fiscal 2007 to 2008, whereas it had been assumed that the TCA caseload would decrease 5 percent as it has in recent years. The most recent actual data for TCA enrollment indicates a leveling off of the downward trend in enrollment. Also, economic forecasts for Maryland are predicting a slowdown, which usually indicates that TCA enrollment will increase; and
- the budget reductions approved by the Board of Public Works removed \$9.3 million in special funds from the Medicaid budget. It is expected these funds will need to be replaced with general funds.

These increased costs were somewhat offset by the impact of the federal requirement for citizenship documentation and lower than anticipated enrollment in the Primary Adult Care, Employed Individuals with Disabilities, and the Medicare Premium Assistance Programs.

Expenditures for fiscal 2008 services are expected to exceed fiscal 2007 costs due to medical inflation (5.0 percent) and enrollment growth (2.5 percent).

Fiscal 2009 Forecast

For fiscal 2009, Medical Assistance expenditures of \$5.3 billion are anticipated of which almost half will be general funds. Overall costs will increase by 9.8 percent while general fund spending is expected to grow by about \$238.9 million, or 10.7 percent, over projected fiscal 2008 costs. Factors contributing to the anticipated expenditure growth include enrollment increases of

almost 2.7 percent and changes in medical inflation/utilization (5.0 percent). Enrollment growth is spurred by a continued rise in the number of children qualifying for MCHP and the enrollment for TCA remaining level rather than decreasing. The forecast also assumes the State will:

- ***End Hospital Day Limits:*** Medicaid regulations currently limit the number of days of hospital coverage for adults to 120 percent of the average length of stay by diagnosis related groups. When the day limits were first implemented in fiscal 2004, they were scheduled to sunset at the close of fiscal 2005. While the target savings from day limits has been reduced since fiscal 2005, the limits have not been eliminated. The fiscal 2008 allowance included funding to end hospital day limits, but cost containment measures continued hospital day limits through fiscal 2008. Since pressure has been mounting to end day limits, the fiscal 2009 Department of Legislative Services (DLS) forecast assumes the inclusion of \$61.4 million (\$30.7 million in general funds) to end day limits in the Medicaid budget.
- ***Exhaust MCHP Dollars:*** The State will exhaust all available federal block grant dollars for MCHP before the close of the fiscal year. Dropping the federal match from 65 to 50 percent for part of the year is expected to increase general fund expenses by \$23.9 million.
- ***Enhance Physician Rates (\$31.7 Million Increase):*** Chapter 5 of the 2004 special session and Chapter 1 of 2005 earmark an increasing portion of the revenue from the Health Maintenance Organization premium tax to raising Medicaid physician rates. In fiscal 2008, the Medical Assistance Program will spend about \$130 million (\$65 million in State special funds from the premium tax) to raise physician rates and reimburse Medicaid Managed Care Organizations for their tax payments; this amount will increase to \$150 million in fiscal 2009.

Enrollment and Service Year Expenditures*
Fiscal 2007-2009

	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Estimate</u>	<u>2009</u> <u>Estimate</u>	<u>2008-2009</u> <u>% Change</u>
Enrollment by Category				
Medicaid	519,688	528,243	541,486	2.51%
MCHP	105,935	113,175	117,348	3.69%
Total	625,623	641,418	658,834	2.72%
Cost Per Enrollee	\$7,396	\$7,573	\$8,092	6.85%
Total Funds (\$ in Millions)	\$4,627	\$4,857	\$5,331	9.76%

*Expenditures by fiscal year are based on the cost of providing services during that fiscal year rather than the year that the bills were actually paid. Cases and funding associated with the Maryland Pharmacy Program, the Maryland Primary Adult Care Program, and the Kidney Disease Program are excluded from the chart.

Source: Department of Legislative Services

Department of Human Resources

Foster Care and Subsidized Adoption Caseloads

The State's foster care and subsidized adoption programs provide temporary and permanent homes for children in need of out-of-home placements due to abuse, neglect, or abandonment. Foster care placement – such as family homes, group homes, and institutions – offer temporary, out-of-home care until achievement of a permanency plan. Permanency options include reunification with family and adoption. Families that accept legal custody of a child with special needs may receive monthly payments under the subsidized adoption program.

The following table shows an anticipated decrease of 0.3 percent per year in the combined foster care/subsidized adoption caseload from fiscal 2007 to 2009. This results from a projected decrease of 4.0 percent per year in the foster care caseload offset partially by a projected increase of 3.0 percent per year in the subsidized adoption caseload. In fiscal 2002, the combined caseload was over 60.0 percent foster care, but since fiscal 2006 subsidized adoptions have made up over half the total caseload.

**Foster Care and Subsidized Adoption Caseload and Expenditures
Fiscal 2006-2009**

<u>Caseload</u>	<u>FY 2006</u>	<u>FY2007</u>	<u>DLS Estimate FY 2008</u>	<u>DLS Estimate FY 2009</u>	<u>Avg. Annual % Change FY 2007-09</u>
Foster Care	6,561	6,591	6,327	6,074	-4.0%
Adoptions	6,878	7,153	7,296	7,588	3.0%
Total	13,439	13,744	13,623	13,662	-0.3%
Expenditures					
Monthly Cost Per Case	\$1,855	\$1,980	\$2,057	\$2,094	0.6%
Total Cost (\$ in Millions)	\$299.1	\$326.6	\$336.2	\$343.3	2.5%

Source: Department of Human Resources; Department of Legislative Services

Funding

Total program costs are expected to increase at a slower rate between 2007 and 2009 than was experienced between 2006 and 2007. Total program costs are expected to increase \$7.1 million between fiscal 2008 and 2009 compared with increases of \$27.5 million and \$9.6 million between fiscal 2006-2007 and 2007-2008, respectively.

Temporary Cash Assistance Caseload and Expenditure Trends

Background

TCA provides monthly cash grants to needy children and their parents or relative caretakers. The program is funded with general funds, federal Temporary Assistance for Needy Families (TANF) block grant dollars, and certain child support collections.

Caseload Trends

In the early years of welfare reform, efforts to transition individuals from welfare to work and a growing economy lead to a rapid reduction in the number of TCA recipients. After dropping at rates exceeding 20.0 percent per year during the 1990s, the pace of caseload decline slowed considerably in the early years of this decade. With the recovering economy and the implementation of a universal engagement policy in fall 2003, the caseload decline accelerated again falling by 3.7 percent in fiscal 2004, 11.0 percent in fiscal 2005 and 14.7 percent in fiscal 2006. The caseload decline slowed in fiscal 2007 with a decline of 6.3 percent. Universal

engagement requires participation in activities such as up-front job search, orientation, assessment of employability, development of an Independence Plan, training, and subsidized employment.

Fiscal 2008 Forecast

As shown in the next table, DLS estimates an annual average caseload of 50,138 for fiscal 2008, nearly identical to the previous year's actual number. This caseload projection is based on the slowing decline experienced during fiscal 2007; especially, the final three months of the year which all experienced increases in the caseload.

TCA Enrollment and Funding Trends Fiscal 2007-2009

	<u>2007</u> <u>Actual</u>	<u>2008</u> <u>Approp.</u>	<u>2008</u> <u>Estimate</u>	<u>2009</u> <u>Estimate</u>	<u>2008-2009</u> <u>% Change</u>
Average Monthly Enrollment	50,149	50,847	50,138	50,138	0.0%
Average Monthly Grant	\$164.43	\$173.45	\$185.42	\$190.04	2.5%
Funds in Millions					
General Funds	\$11.8	\$11.8	\$7.0	\$7.0	0.0%
Total Funds	\$105.8	\$105.8	\$111.6	\$114.4	2.5%

Source: Department of Human Resources; Department of Legislative Services

Fiscal 2009 Forecast

DLS expects the caseload to remain unchanged in fiscal 2009 based on the general economy and because the core caseload – those cases not headed by an employable adult – makes up a greater percentage of the caseload as the caseload declines. DLS estimates a caseload of 50,138, an average grant of \$190.04, and total expenditures of \$114.4 million. The estimate of the average grant and total expenditures reflect an increase in the grant amount of 3.3 percent in fiscal 2009 which is equal to the recent increase in the Maryland Minimum Living Level. General funds remain the same between fiscal 2008 and 2009 because Maryland is nearing the minimum Maintenance of Effort (MOE) requirement under the TANF program.

Department of Health and Mental Hygiene

The Department of Health and Mental Hygiene (DHMH) regulates Maryland's health care system, coordinates the delivery of public health services, and acts as a direct care provider. For the purposes of this section, provider reimbursements made under the Medical Care Programs Administration are excluded from the budget information provided below and are instead discussed in the Entitlements section. Thus, for example, Medicaid payments for somatic health care are excluded, although Medicaid payments for specialty mental health care are included. Also excluded are core public health funds distributed by formula to local health departments. They are discussed under Local Aid.

Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene Fiscal 2006-2009 (\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$40,936	\$49,397	\$83,391	\$86,476	\$3,085	3.7%
Office of Health Care Quality	14,089	15,378	15,641	16,403	762	4.9%
Health Occupation Boards	19,602	23,634	23,998	24,542	544	2.3%
Community and Family Health						
Administration	190,858	224,061	208,122	208,523	401	0.2%
AIDS Administration	54,443	73,612	72,578	75,946	3,368	4.6%
Office of the Chief Medical Examiner	8,228	8,205	8,451	9,006	555	6.6%
Chronic Disease Services	41,843	44,919	43,951	47,008	3,057	7.0%
Laboratories Administration	22,371	22,767	22,076	24,101	2,025	9.2%
Alcohol and Drug Abuse						
Administration	131,885	137,721	143,174	145,811	2,638	1.8%
Mental Hygiene Administration	809,996	865,786	894,349	963,638	69,290	7.8%
Developmental Disabilities						
Administration	641,846	703,928	743,071	790,316	47,245	6.4%
Medical Care Programs						
Administration	56,300	58,668	56,898	60,147	3,249	5.7%
Health Regulatory Commissions	89,707	113,291	118,162	121,615	3,453	2.9%
Total	\$2,122,105	\$2,341,368	\$2,433,860	\$2,573,531	\$139,671	5.7%
Fund						
General Fund	\$1,258,828	\$1,333,536	\$1,386,307	\$1,473,793	\$87,486	6.3%
Special Fund	169,435	234,108	232,807	236,239	3,432	1.5%
Federal Fund	698,295	782,730	823,829	872,090	48,261	5.9%
Reimbursable Fund	17,923	15,477	14,764	15,454	690	4.7%
Total	\$2,144,481	\$2,365,851	\$2,457,707	\$2,597,577	\$139,870	5.7%
Personnel						
Regular Positions	7,631.0	7,680.0	7,663.0	7,631.0	(32.0)	-0.4%
Full-time Equivalent Contractuals	462.0	458.0	479.0	479.0	0.0	0.0%

Major Program Changes

Other than increases in personnel costs, which can be very significant in any given program given the direct care mission of many programs within the department, the most significant baseline changes within the various programs in DHMH are detailed below:

DHMH Administration

The DHMH Administration baseline budget includes a variety of changes, the largest of which is technical in nature. Specifically, the fiscal 2008 appropriation reflected a reduction in general fund expenditures of \$1.25 million contingent on legislation allowing DHMH to assess the regulatory commissions for indirect costs but did not include the corresponding increase in special fund expenditures. Those funds are added to the fiscal 2008 appropriation as allowed by statute. Other changes reflect cost containment actions taken by the Board of Public Works (BPW) in July 2007.

Office of Health Care Quality

Chapter 147 of 2007 is intended to increase oversight of forensic laboratories. Costs associated with this legislation increases the baseline of the Office of Health Care Quality by just over \$63,000.

Family Health Administration

Two changes are anticipated in the Family Health Administration in fiscal 2009, both related to legislation passed in the 2007 session:

- Chapter 435 of 2007 established a Statewide Steering Committee on Services for Adults with Sickle Cell Disease. The costs related to this committee are expected to increase fiscal 2009 general fund expenditures by \$345,000 for staff and a contract to create a web-based education program.
- Chapter 527 of 2007 established an Oral Health Safety Net Program within the department's Office of Oral Health. The program will award grants to local health departments, federally qualified health centers, and entities providing dental services within State facilities to increase dental provider capacity for the underserved. The program is expected to add \$1.2 million in general funds to the fiscal 2009 budget.

AIDS Administration

In order to preserve \$28.6 million in federal funding, the AIDS Administration is transitioning from a code-based to a name-based HIV reporting system. This transition is

expected to be completed during fiscal 2009, and the transition will require general fund expenditures in the amount of \$802,400 in fiscal 2008 and \$517,500 in fiscal 2009.

Alcohol and Drug Abuse Administration

There are two major baseline changes for the Alcohol and Drug Abuse Administration:

- \$840,000 in cost containment reductions to the fiscal 2008 appropriation as made by the BPW in July 2007. However, the baseline also assumes that the bulk of this reduction (\$750,000 to a fiscal 2008 initiative to expand the use of Buprenorphine therapy) is one-time and is thus built back into the fiscal 2009 baseline.
- The baseline also assumes a 2 percent provider cost-of-living adjustment (COLA) for prevention and treatment grants and contracts. This amounts to a \$2.7 million increase.

Mental Hygiene Administration

The Mental Hygiene Administration's (MHA) fiscal 2009 baseline budget includes several significant items:

- Adjustments totaling almost \$7.5 million are made to reflect BPW cost containment actions from July 2007. Most of this (\$6.0 million) relates to savings from the imposition of hospital day limits (limiting payments to hospitals only for stays below 120 percent of the average length of stay for that procedure). This cost containment action built on an action taken by the legislature during the 2007 session. However, the fiscal 2009 baseline assumes that all cost containment relating to hospital day limits is removed, an increase of almost \$11.0 million (split between general and federal funds) in MHA. A similar adjustment is made in Medicaid.
- For the Medicaid-eligible population, an 8.2 percent growth in expenditures is anticipated between fiscal 2008 and 2009, an increase of just over \$40.4 million. This increase reflects an anticipated growth in enrollment and utilization of 2.5 percent and an increase in rates of 5.7 percent as preliminarily recommended by the Community Services Reimbursement Rate Commission (CSRRC). This recommendation is the guideline to be followed under Chapter 256 of 2006, although this guideline is not mandatory. The fiscal 2009 preliminary recommendation includes a fiscal 2009 component and that percentage of the fiscal 2008 recommendation that was not included in the fiscal 2008 budget.
- No enrollment growth is assumed in MHA's discretionary program that serves the non-Medicaid-eligible population. However, a similar 5.7 percent rate increase results in expenditure growth of just under \$1.3 million.

- The baseline assumes a 2 percent provider COLA on grants and contracts for mental health services that are not provided through the community services fee-for-service system. This amounts to a \$4.4 million increase.
- An additional baseline adjustment reflects lower federal fund attainment under the Community Mental Health Services Block Grant, a \$400,000 reduction.
- Adjustments are also made to fund two pieces of legislation: Chapter 519 of 2007 that requires certain evaluations of sex offenders prior to sentencing (\$179,100); and Chapter 595 of 2007 that requires certain assessments of, and appropriate provision of medication to, incarcerated individuals prior to release (\$303,000).

Developmental Disabilities Administration

The fiscal 2009 baseline anticipates an almost \$49.0 million increase in funding for the Developmental Disabilities Administration. Significant increases include:

- The cost of annualizing mid-year fiscal 2008 community placements is expected to total \$5.1 million in fiscal 2009 (\$3.1 million in general funds/\$2.0 million in federal funds).
- Just over \$38.6 million was added to the baseline to adjust the fees paid to community developmental disabilities service providers as preliminarily recommended by CSRRC (again under the non-mandatory guidelines established by Chapter 256 of 2006). The baseline assumes an update factor of 5.87 percent which again includes both a fiscal 2009 component and that percentage of the fiscal 2008 recommendation that was not included in the fiscal 2008 budget.

The baseline also reflects adjustments of over \$2.1 million to reflect BPW cost containment actions of July 2007.

Health Regulatory Commissions

The major baseline change to the Health Regulatory Commissions is the level of collections for the Uncompensated Care Program administered by the Health Services Cost Review Commission. Those collections are estimated at just over \$85.8 million in fiscal 2009, an increase of \$3.0 million over the fiscal 2008 estimate.

Department of Human Resources

The Department of Human Resources (DHR) administers its programs through a State-supervised and locally administered system. DHR is responsible for programs related to child welfare, adult and community services, child support enforcement, and family investment. Budget spending related to cash assistance, food stamps, and foster care maintenance payments is discussed in the Entitlements section.

Expenditures, Funds, and Positions for the Department of Human Resources Fiscal 2006-2009 (\$ in Thousands)

	<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Leg. Approp.</u>	<u>2009 Baseline</u>	<u>2006-2009 Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$133,128	\$152,744	\$149,012	\$148,833	-\$179	-0.1%
Child Welfare	184,324	214,108	216,392	225,829	9,437	4.4%
Adult and Community Services	167,354	215,942	191,977	214,290	22,313	11.6%
Child Support Enforcement	80,603	92,571	94,538	94,627	89	0.1%
Family Investment	182,310	212,835	211,676	221,768	10,092	4.8%
Total	\$747,718	\$888,201	\$863,595	\$905,346	\$41,751	4.8%
Fund						
General Fund	\$257,035	\$281,187	\$283,339	\$328,367	\$45,029	15.9%
Special Fund	54,828	78,824	71,082	54,166	-16,916	-23.8%
Federal Fund	422,786	523,914	508,799	522,436	13,637	2.7%
Reimbursable Fund	13,070	4,275	375	376	1	0.3%
Total	\$747,718	\$888,201	\$863,595	\$905,346	\$41,751	4.8%
Personnel						
Regular Positions	6,997.0	7,021.0	7,052.0	7,049.0	-3.0	0.0%
Full-time Equivalent Contractuals	70.0	136.0	135.0	135.0	0.0	0.0%

Administration

In fiscal 2009, the department's information and technology funds will decrease by \$1.7 million in federal funds. These funds were provided in fiscal 2008 for one-time enhancements and modifications to the Maryland Children's Electronic Social Services Information Exchange.

Child Welfare

The baseline budget reflects carry through of the \$1.4 million reduction to the fiscal 2008 budget made by the Board of Public Works (BPW) as a cost containment measure.

Adult and Community Services

The baseline budget anticipates a \$9.2 million general fund deficiency appropriation for the Electric Universal Services Program (EUSP) in fiscal 2008. The demand for energy assistance is expected to significantly increase throughout fiscal 2008, due to the 47 percent increase in electricity rates for Baltimore Gas & Electric customers implemented in July 2007.

Expenditures related to EUSP are expected to increase by 4 percent from fiscal 2008 to 2009, which will bring the EUSP budget to \$63.2 million. The only available funding source for EUSP is the \$36.0 million collected from ratepayers because special funds available through the Dedicated Purpose Account will be exhausted in fiscal 2008. As a result, EUSP will need \$27.2 million in general funds in fiscal 2009. The general funds will supplant the loss of special funds (\$16.5 million), continue the level of general fund support from fiscal 2008 (\$9.2 million), and cover the growth of the program (\$1.5 million).

Child Support Enforcement

The fiscal 2009 baseline anticipates a \$1.8 million decrease (\$1.0 million in special funds and \$0.8 million in federal funds) for the Child Support Enforcement Administration, due to one-time computer enhancements made to the Child Support Enforcement System in fiscal 2008.

Family Investment

The baseline budget reflects carry through of the \$1.1 million reduction to the fiscal 2008 budget made by BPW as a cost containment measure.

Department of Juvenile Services

The Department of Juvenile Services (DJS) has responsibility for handling the admission of most juveniles who come into contact with the criminal justice system. DJS staffs detention facilities for juveniles awaiting court hearings as well as juveniles adjudicated delinquent but pending placement in a residential facility. The department also staffs residential facilities for juveniles who have been adjudicated delinquent as well as funding residential and nonresidential placements for adjudicated youth. DJS also offers programs to develop a level of competency in juvenile offenders to reduce the risk of recidivism.

Expenditures, Funds, and Positions for the Department of Juvenile Services Fiscal 2006-2009 (\$ in Thousands)

	<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Leg. Approp.</u>	<u>2009 Baseline</u>	<u>2008-2009 Increase</u>	<u>% Increase</u>
Expenditures						
Department of Juvenile Services	\$211,200	\$263,670	\$247,242	\$264,066	\$16,824	6.8%
Total	\$211,200	\$263,670	\$247,242	\$264,066	\$16,824	6.8%
Fund						
General Fund	\$194,334	\$240,711	\$231,853	\$253,069	\$21,216	9.2%
Special Fund	2,157	4,143	203	212	9	4.2%
Federal Fund	14,211	15,683	14,737	10,328	-4,409	-29.9%
Reimbursable Fund	498	3,132	449	457	8	1.9%
Total	\$211,200	\$263,670	\$247,242	\$264,066	\$16,824	6.8%
Personnel						
Regular Positions	2,081.0	2,080.0	2,134.0	2,239.0	105.0	4.9%
Full-time Equivalent Contractuals	177.0	144.0	144.0	144.0	0.0	0.0%

Continuing Deficits

During fiscal 2007 close-out, DJS reported that over \$8.8 million in fiscal 2007 bills were rolled over into fiscal 2008 because the department had no funds to cover these expenditures. This roll-over of deficits has become a regular occurrence for DJS. Most of the deficit related to higher than budgeted expenditures for per diem committed placements (private provider residential placements for youth adjudicated delinquent).

Added to this known deficit, the Department of Legislative Services anticipates a variety of other deficits:

- A significant deficiency in per diem expenditures (over \$16 million) based on current levels of per diem expenditures as compared to the legislative appropriation and the fact that federal fund attainment for these expenditures is anticipated to be only half that assumed in the budget. At this point, it is unclear why this spending pattern would change significantly in fiscal 2009. Thus, this anticipated level of spending on per diem placements is also a significant driver of expenditures in the fiscal 2009 baseline.
- A \$6.6 million deficiency related to the re-opening of the Victor Cullen Academy. Although the Governor included \$6.8 million in a supplemental budget for the re-opening of Cullen, the actual cost of re-opening the facility and operating it in fiscal 2008 is anticipated to be almost \$19.0 million. Some of these costs will be borne by other agencies or spread out over several years through the use of lease-purchase agreements, but a significant deficiency is still anticipated. The baseline also includes an additional \$2.0 million to annualize operating costs in fiscal 2009 beyond the amount provided for fiscal 2008. This reflects the phased build-up of the population to its anticipated high of 48 residents throughout fiscal 2008.

Other Changes

In addition to the ongoing changes noted above, the other significant increase in the baseline is in personnel costs (employee and retiree health insurance, salary adjustments, and so forth). The baseline also reflects a significant growth in positions, primarily 100 positions created by the Board of Public Works to staff Victor Cullen. The fiscal 2008 appropriation including funding for Cullen but no positions as it was unclear at that time if the State or a contractor would operate the facility. Ultimately DJS decided to staff the facility.

Other changes incorporated in the fiscal 2009 baseline include:

- Savings of over \$1.2 million from actions taken by the Board of Public Works in July, much of which is ongoing.
- Costs associated with the implementation of Chapter 526 of 2007, implementing a mentoring program (\$409,000).
- The removal of one-time funding (\$500,000) for a management study.

Department of Public Safety and Correctional Services

The Department of Public Safety and Correctional Services (DPSCS) is a unit of State government whose primary focus is the supervision and management of Maryland's criminal population. Three agencies focus on those criminals sentenced to terms of confinement by the courts: the Division of Correction, the Patuxent Institution, and the Division of Pretrial and Detention and Services (DPDS). Additionally, DPDS also manages those awaiting trial in Baltimore City. The Division of Parole and Probation focuses on criminals sentenced to probation by the courts or released from a correctional facility. The other agencies within the department include the Office of the Secretary, the Maryland Parole Commission, the Inmate Grievance Office, the Police and Correctional Training Commissions, the Criminal Injuries Compensation Board, and the Maryland Commission on Correctional Standards.

Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services Fiscal 2006-2009 (\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Office of the Secretary	\$122,134	\$144,260	\$125,441	\$131,380	\$5,939	4.7%
Division of Correction	659,840	759,420	765,849	814,593	48,745	6.4%
Maryland Parole Commission	4,539	4,871	5,050	5,167	116	2.3%
Division of Parole and Probation	85,343	91,431	93,564	101,724	8,160	8.7%
Patuxent Institution	37,819	42,096	42,191	44,717	2,527	6.0%
Inmate Grievance Office	575	646	556	580	24	4.4%
Police and Correctional Training Commissions	8,792	8,047	8,249	8,910	661	8.0%
Criminal Injuries Compensation Board	5,607	6,100	6,116	6,229	113	1.9%
Maryland Commission on Correctional Standards	433	486	515	583	68	13.2%
Division of Pretrial Detention and Services	132,455	147,835	143,085	150,189	7,104	5.0%
Total	\$1,057,537	\$1,205,191	\$1,190,617	\$1,264,074	\$73,457	6.2%
Fund						
General Fund	\$890,305	\$1,039,572	\$1,025,063	\$1,090,690	\$65,626	6.4%
Special Fund	145,274	144,399	148,211	152,638	4,427	3.0%
Federal Fund	10,525	12,844	10,138	13,007	2,870	28.3%
Reimbursable Fund	11,433	8,375	7,205	7,738	534	7.4%
Total	\$1,057,537	\$1,205,191	\$1,190,617	\$1,264,074	\$73,457	6.2%
Personnel						
Regular Positions	11,279.0	11,503.0	11,709.0	11,747.0	38.0	0.3%
Full-time Equivalent Contractuals	266.0	411.0	396.0	396.0	0.0	0.0%

Projected Deficiencies

The baseline for fiscal 2009 includes \$7 million in anticipated deficiency appropriations for fiscal 2008.

Public Safety Death Benefit

Due to an unforeseen increase in the number of Maryland veterans who are killed in Iraq or Afghanistan during the current military action in those countries, the fiscal 2009 baseline includes a \$3 million deficiency appropriation for provision of payments from the Public Safety Death Benefit. This is an ongoing expenditure for fiscal 2009, as the department anticipates a continuation of the increased number of individuals eligible for the benefit.

Renegotiation of Federal Per Diem Rate

As the result of a finding from an Office of Legislative Audits report of the Division of Correction's Baltimore City region, DPSCS has engaged in renegotiations with the U.S. Department of Justice to increase the per diem rate for housing federal offenders. An adjustment to increase federal funds by \$3 million is made in the fiscal 2009 baseline in the form of an anticipated deficiency to reflect the additional revenue from the increased per diem rate and that the new rate will be retroactive to July 1, 2008. The increase in federal funds is expected to be ongoing for fiscal 2009.

Drinking Driver Monitor Program

The Drinking Driver Monitor Program, within the Division of Parole and Probation, has required supplemental general fund appropriations since fiscal 2006. Due to problems with proper fee collection and distribution, inadequate special funds have been collected to support the program. As such, the baseline for fiscal 2009 includes a \$1 million anticipated general fund deficiency, to be continued in the fiscal 2009 allowance, in order to adequately support the operation of the program.

Office of the Secretary

Although growth in personnel expenses, such as employee increments, retiree health payments, and health insurance accounts for the majority of the overall increase, the Office of the Secretary's fiscal 2009 baseline budget includes three additional significant adjustments:

- a \$750,000 reduction to remove federal funds that had been included in the fiscal 2008 allowance for the one-time purchase of LiveScan fingerprinting equipment;
- a \$300,000 reduction for alterations in the department's Master Equipment Lease Purchase program; and

- a \$300,000 increase in the local portion of fees collected for 9-1-1 operations. This increase is due to a 10 cent increase in the fee assessed by Howard County.

Division of Correction

Growth in personnel expenses, including employee increments, retiree health payments, and health insurance comprise the majority of the increase in the fiscal 2009 baseline budget for the Division of Correction. Additional significant adjustments include:

- \$7.0 million to fund inmate medical contracts. This reflects a 5 percent increase over the total fiscal 2008 appropriation. The percentage increase is consistent with what is budgeted for medical care increases statewide;
- a \$1.2 million increase for general cost increases in the reimbursements the State provides to local jails for housing offenders sentenced to State facilities; and
- approximately \$4.8 million and 105 positions for the opening of the final two housing units at the North Branch Correctional Institution.

Division of Parole and Probation

Although employee personnel growth accounts for the majority of the overall increase, the fiscal 2009 baseline does include a reduction in the general fund appropriation for the Division of Parole and Probation by approximately \$540,000. The division included funds in the fiscal 2008 allowance for office equipment and rent for five field offices which were either renovated or relocated. The office equipment was a one-time purchase and rent is no longer required for the office spaces that were vacated. Therefore, the funds will not be needed in fiscal 2009.

Maryland Department of Transportation

The Maryland Department of Transportation (MDOT) is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. It is involved in all modes of transportation within the State including owning and operating the public terminals at the Helen Delich Bentley Port of Baltimore (Port) as well as the Baltimore/Washington International Thurgood Marshall Airport; constructing and maintaining State roads; regulating and licensing drivers and vehicles; and operating bus and rail transit systems.

MDOT is funded through the Transportation Trust Fund, a non-lapsing special fund revenue account whose revenue sources include motor fuel tax receipts, titling tax revenues, vehicle registration fees, a portion of the State's corporate income tax, revenues generated by the individual modes, and proceeds from the sale of bonds.

This section discusses MDOT's operating budget. Debt service, local highway user revenue grants, and capital programs are discussed in respective sections elsewhere in the analysis. Changes in the baseline budgets of the individual modes are discussed in more detail below.

Expenditures, Funds, and Positions for the Maryland Department of Transportation Fiscal 2006-2009 (\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
The Secretary's Office	\$64,528	\$78,016	\$74,980	\$76,108	\$1,128	1.5%
Washington Metropolitan Area						
Transit Administration	167,041	174,503	191,185	202,685	11,500	6.0%
State Highway Administration	203,728	204,509	210,647	235,630	24,983	11.9%
Maryland Port Administration	95,423	98,827	109,693	112,585	2,892	2.6%
Motor Vehicle Administration	133,666	142,201	145,666	156,271	10,605	7.3%
Maryland Transit Administration	470,453	503,398	512,035	537,031	24,997	4.9%
Maryland Aviation Administration	166,707	180,401	182,941	188,934	5,994	3.3%
Total	\$1,301,546	\$1,381,855	\$1,427,147	\$1,509,245	\$82,099	5.8%
Fund						
Special Fund	\$1,230,719	\$1,304,236	\$1,349,030	\$1,429,133	\$80,103	5.9%
Federal Fund	70,827	77,619	78,117	80,113	1,996	2.6%
Reimbursable Fund	0	0	0	0	0	0%
Total	\$1,301,546	\$1,381,855	\$1,427,147	\$1,509,245	\$82,099	5.8%
Personnel						
Regular Positions	7,108.0	7,112.0	7,175.0	7,175.0	0.0	0.0%
Full-time Equivalent Contractuals	131.0	157.0	161.0	161.0	0.0	0.0%

The Secretary's Office

Special funds increase \$250,000 for environmental law contracts due to the department's efforts to increase its compliance efforts. In addition, there is another \$250,000 increase for contract increases associated with the Financial Management Information System. Finally, there is a \$1.0 million decrease in federal funds due to local metropolitan planning organizations being unable to fully expend the annual grant provided to them for capital planning.

Washington Metropolitan Area Transit Authority

The operating grant subsidy for the Washington Metropolitan Area Transit Authority is expected to increase \$11.5 million, or 6 percent, in the fiscal 2009 baseline budget which funds the difference between farebox revenue and Maryland's share of the operating budget. The increase is largely due to the fact that operating expenses for fuel, utilities, and personnel are growing faster than fare revenue growth.

State Highway Administration

Historically, the State Highway Administration has budgeted \$21.0 million annually for snow removal expenditures without any increases for inflation or weather changes. \$15.0 million was added to the fiscal 2009 baseline budget for snow removal costs to more accurately reflect the actual cost of snow removal based upon the historical average. In addition, there was a \$1.5 million adjustment in contract costs to account for inflationary increases. Finally, with the completion of one span of the Woodrow Wilson Bridge and associated projects there is a \$2.5 million increase for the maintenance costs associated with the new interchanges.

Maryland Port Administration

The following increases were included in the fiscal 2009 baseline budget:

- \$300,000 for third party insurance for the Port based on new rates;
- \$340,000 for fire safety regulations compliance due to the ongoing nature of this funding that was included as a fiscal 2007 deficiency;
- \$500,000 for debt service payments for the 2006 Certificates of Participation and the lease payment to the Maryland Transportation Authority (MdTA) for Seagirt Marine Terminal based on established payment schedules;
- \$166,809 for the security contract with the MdTA Police to reflect the cost-of-living increase for the officers; and

- \$251,707 for the contract with Securitas, the private security company that mans the gates at the terminals, based on prior contract increases.

Motor Vehicle Administration

The fiscal 2008 legislative appropriation saw a reduction in funding for the fee that the Motor Vehicle Administration pays for credit card transactions based upon projected savings from a renegotiated contract. Those projected savings have not materialized; therefore, \$1.25 million was included in the baseline to rebuild and inflate the cost associated with credit card transactions. In addition, there is an adjustment for \$1.5 million for the increased contract cost of the Vehicle Emissions Inspection Program.

Maryland Transit Administration

The following adjustments were made in the fiscal 2009 baseline budget:

- \$5.0 million increase for MARC contracts due to increased ridership and inflation;
- \$3.0 million for Mobility paratransit contracts due to increased ridership;
- \$2.0 million for the increased contract cost for the implementation and maintenance of a regional smartcard for transit services;
- \$1.5 million for increased contract costs for the commuter bus service; and
- \$500,000 for increased fuel costs for core bus services in Baltimore.

Maryland Aviation Administration

The fiscal 2009 baseline budget includes the following increases:

- \$512,386 for all repair and maintenance contracts, based on 3 percent inflation to reflect historical growth;
- \$689,995 for security contracts with the MdTA Police and the private security firm, based on the inclusion of cost-of-living increases for the MdTA Police officers and a 2.5 percent increase in the contract with the private security firm;
- \$447,500 for the shuttle bus contract, based on a 2.5 percent contract increase; and
- \$1.5 million for debt service for Maryland Economic Development Corporation bonds used to fund construction of Concourse A.

Higher Education — State Colleges and Universities

The baseline budget is comprised of estimated unrestricted revenues for the University System of Maryland (USM), Morgan State University (MSU), St. Mary's College of Maryland (SMCM), and Baltimore City Community College (BCCC). Unrestricted funds are based on estimated general funds, tuition and fee revenues, and the sale of auxiliary services at each institution. The following table shows total State support for USM institutions, MSU, SMCM, and BCCC.

Expenditures, Funds, and Positions for Higher Education Fiscal 2006-2009 (\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
University of Maryland, Baltimore	\$735,342	\$798,320	\$813,429	\$850,191	\$36,762	4.5%
University of Maryland, College Park	1,256,484	1,382,323	1,423,511	1,498,102	74,591	5.2%
Bowie State University	74,645	87,549	89,364	93,523	4,158	4.7%
Towson University	273,854	311,617	313,357	325,434	12,077	3.9%
University of Maryland Eastern Shore	88,935	101,219	98,449	102,886	4,436	4.5%
Frostburg State University	79,178	86,480	85,535	89,414	3,879	4.5%
Coppin State University	61,512	78,385	79,500	83,910	4,410	5.5%
University of Baltimore	78,390	86,147	86,906	92,243	5,337	6.1%
Salisbury University	98,363	123,363	118,573	122,849	4,276	3.6%
UM University College	235,288	266,218	320,013	328,546	8,533	2.7%
UM Baltimore County	304,255	319,601	325,096	342,532	17,437	5.4%
UM Center for Environmental Science	35,531	39,845	41,046	42,556	1,510	3.7%
UM Biotechnology Institute	58,958	68,758	66,358	70,853	4,496	6.8%
University System of Maryland Office	19,623	24,232	27,149	39,644	12,495	46.0%
Morgan State University	160,725	183,282	191,262	203,888	12,626	6.6%
St Mary's College of Maryland	50,505	59,010	62,946	64,557	1,611	2.6%
Baltimore City Community College	78,529	81,651	87,672	90,633	2,962	3.4%
Total	\$3,690,116	\$4,098,001	\$4,230,168	\$4,441,762	\$211,594	5.0%
Fund						
General Fund	\$912,423	\$1,047,383	\$1,118,599	\$1,200,192	\$81,593	7.3%
Special Fund	6,108	6,437	6,751	6,751	0	0.0%
Federal Fund	1,876,867	2,031,465	2,096,025	2,177,763	81,738	3.9%
Reimbursable Fund	894,718	1,012,716	1,008,792	1,057,055	48,263	4.8%
Total	\$3,690,116	\$4,098,001	\$4,230,168	\$4,441,762	\$211,594	5.0%
Personnel						
Regular Positions	21,702.63	22,783.49	23,260.98	23,234.98	-26.0	-0.1%
Full-time Equivalent Contractuals	5,783.76	5,928.87	6,273.71	6,273.71	0.0	0.0%

UM: University of Maryland

Sources: Fiscal Digest, Maryland State Budget Books, Department of Legislative Services

General Fund Changes

- General funds for the fiscal 2008 general salary increase for State employees were included in the budget of the Department of Budget and Management (DBM). Higher education's share of the funds (\$23 million) will be transferred from DBM during fiscal 2008 and is reflected in the fiscal 2009 estimate.
- Additionally, a 2 percent, or \$43.4 million, cost-of-living adjustment (COLA) was assumed for USM and MSU. Of this amount, a total of \$23.6 million was presumed to be the general fund share of the COLA. The remaining share was presumed to be other unrestricted funds.
- USM estimates its mandatory costs to be \$57.1 million in fiscal 2009, not including new student enrollments and not including a COLA. To estimate new enrollment costs, USM's projected enrollment in fiscal 2008 was multiplied by the fiscal 2008-2009 growth rate reflected in the Maryland Higher Education Commission enrollment projections.
- The baseline budget provides the general fund portion of USM's mandatory cost. The general funds for USM institutions, which includes the estimated fiscal 2009 COLA increase and enrollment growth, increases 8.3 percent, or \$83.7 million, over fiscal 2008. Of this amount, \$4.4 million is from new enrollment.
- For MSU, general funds increase 6.7 million or 10.0 percent and tuition and fee revenues increase 7.5 percent. These funds cover MSU's mandatory cost increases, enrollment growth and a COLA for fiscal 2009. New enrollment costs are calculated using the same method as USM's. In MSU's case, general funds are assumed to cover 60.0 percent of the new mandatory costs and tuition and fee revenues cover 40.0 percent, representing the ratio of general funds to tuition and fee revenues in its fiscal 2008 budget.
- For SMCM, general funds increase 2.5 percent and tuition and fee revenues increase 4.2 percent. SMCM receives general funds through a statutory formula that increases the prior year appropriation by the funds required to offset inflation. The calculation involves multiplying the prior year appropriation by the implicit price deflator for State and local government.
- Baseline projections for BCCC yield a general fund increase of 10 percent, or about \$4 million. The increase includes \$549,560 for the English for Speakers of Other Languages program.

Other Unrestricted Fund Changes

- A 2 percent, or \$43.4 million, COLA was assumed for all higher education institutions. Of this amount, \$19.8 million was presumed to be other unrestricted funds. The remaining share was presumed to be general funds.
- In the past, USM proposed its tuition rate plan before the baseline budget was calculated. In absence of this information, the Department of Legislative Services estimates that USM tuition and fee revenues will increase 5.3 percent, or \$55.6 million. This represents the tuition revenues needed to cover 45.0 percent of increased mandatory costs, enrollment growth, and a COLA increase. A tuition revenue increase of 7.5 percent is used for MSU based on the same approach.
- Of the \$55.6 million in USM tuition and fee revenues, \$9.2 is attributable to new enrollments, based on each institution's projected enrollment growth and fiscal 2009 in-state undergraduate tuition and fee rate. The fiscal 2009 in-state undergraduate tuition and fee rate increase was calculated to be 4 percent based on new tuition and fee revenues needed to cover 45 percent of USM's mandatory costs and a COLA increase, but not including enrollment growth.
- Auxiliary revenues for USM and MSU increase 1.5 and 3.4 percent, respectively, which is based on enrollment growth.

Restricted Fund Changes

- Restricted revenues come from grants and contracts that are tied to specific purposes.

Maryland Higher Education Commission Changes

- The Educational Excellence Awards are set to receive \$75.7 million, or a 4 percent increase over fiscal 2008.
- The Sellinger appropriation to private institutions is calculated at \$62.3 million. These institutions receive general funds through a statutory formula based on the prior year general fund appropriation per full-time equivalent student at selected four-year public institutions.

Other State Agencies

This section describes significant general, special, and federal fund baseline activity in State agencies not included in other sections. Expenditures and funds in other State agencies are outlined in the exhibit starting on the next page.

C00A Judiciary

The Judiciary is composed of four courts and six agencies which support the administrative, personnel, and regulatory functions of the judicial branch of government. Significant increases to the fiscal 2009 baseline include the following:

- **Judicial Compensation:** During the 2005 legislative session, the Judicial Compensation Commission (JCC) recommended a four-year phased-in compensation plan for judges beginning in fiscal 2006. House Joint Resolution 1 of 2005 took effect when the General Assembly failed to act on the proposed plan within a specified time frame. Fiscal 2009 reflects the final year of judicial salary increases under the resolution pending any further recommendations of JCC. The fiscal 2009 baseline includes an additional \$1.3 million in general funds for judicial salaries.
- **New Judgeships:** Each year, the Chief Judge of the Court of Appeals formally certifies to the General Assembly the need for additional judges in the State. This certification is based upon a statistical analysis of the workload of the courts and the comments of the circuit administrative judges and the Chief Judge of the District Court. During the 2006 legislative session, the Judiciary requested two new circuit court judgeships; however, the bills authorizing these judgeships failed. Similarly, bills authorizing four new judgeships (two circuit court and two District Court) failed during the 2007 legislative session. The fiscal 2009 baseline includes \$1.1 million in general funds for four new judgeships and eight judicial-related staff and contractual positions.
- **Land Records Improvement Fund:** In 1991, the General Assembly enacted legislation creating the Circuit Court Real Property Records Improvement Fund (Fund). The Fund, which is non-lapsing, consists of revenues derived from a \$20 surcharge on recordable instruments. Clerks of the Circuit Courts are responsible for recording and maintaining all land records. Land records include deeds, mortgages, releases, leases, assignments, powers of attorney, agreements, easements, and other instruments affecting title to an interest in real property. Expenditures under the Fund represent costs to repair, replace, improve, modernize, and update office equipment and related services in the land records offices of the Clerks of the Circuit Court for each subdivision. Beginning in 2003, the Judiciary formed a partnership with the Maryland State Archives to ensure the preservation of images while providing online public access to land record instruments.

Expenditures and Funds in Other State Agencies
Fiscal 2006-2009
(\$ in Thousands)

<u>Budget Assignment</u>		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>08-09</u>	<u>08-09</u>
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>Increase</u>	<u>% Increase</u>
B00	General Assembly	\$64,184	\$69,228	\$71,544	\$75,106	\$3,562	5.0%
C00A00	Judiciary	335,569	377,293	390,311	418,502	28,192	7.2%
C80B00	Office of the Public Defender	78,983	85,229	84,754	98,079	13,325	15.7%
C81C	Office of the Attorney General	20,539	23,890	25,629	26,585	955	3.7%
C82D00	Office of the State Prosecutor	1,157	1,298	1,305	1,333	28	2.2%
C85E00	Maryland Tax Court	552	618	604	638	34	5.6%
C90G00	Public Service Commission	11,539	13,011	13,024	16,602	3,578	27.5%
C91H00	Office of People's Counsel	2,582	3,172	2,716	3,299	583	21.5%
C94I00	Subsequent Injury Fund	1,774	1,877	1,848	1,946	99	5.3%
C96J00	Uninsured Employers' Fund	954	1,093	1,045	1,104	58	5.6%
C98F00	Workers' Compensation Commission	12,730	13,768	13,138	13,949	811	6.2%
D05E01	Board of Public Works	4,579	9,954	7,520	7,604	84	1.1%
D10A01	Executive Department – Governor	8,636	9,498	9,274	9,758	484	5.2%
D11A0401	Office of the Deaf and Hard of Hearing	221	261	271	279	8	2.8%
D12A02	Department of Disabilities	6,974	4,846	4,476	4,583	107	2.4%
D13A13	Maryland Energy Administration	2,446	4,900	3,891	5,865	1,975	50.8%
D15A05	Executive Dept. – Boards, Commissions, and Offices	49,953	50,441	46,130	46,542	412	0.9%
D16A06	Secretary of State	2,655	2,748	2,725	2,904	179	6.6%
D17B0151	Historic St Mary's City Commission	2,544	3,615	2,764	2,866	102	3.7%
D18A18	Governor's Office for Children	2,740	1,892	2,589	2,697	107	4.1%
D25E03	Interagency Committee on School Construction	1,231	1,453	1,467	1,602	134	9.2%
D26A07	Department of Aging	47,018	51,875	50,425	50,630	205	0.4%
D27L00	Maryland Commission on Human Relations	3,259	3,555	3,520	3,713	193	5.5%
D28A03	Maryland Stadium Authority	34,426	34,889	36,314	32,143	-4,171	-11.5%
D38I01	State Board of Elections	27,519	30,519	25,561	33,810	8,249	32.3%

<u>Budget Assignment</u>		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>08-09</u>	<u>08-09</u>
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>Increase</u>	<u>% Increase</u>
D39S00	Maryland State Board of Contract Appeals	588	594	568	600	33	5.7%
D40W01	Department of Planning	13,654	20,121	19,813	20,809	996	5.0%
D50H01	Military Department	65,051	67,584	78,903	80,254	1,351	1.7%
D53T00	MD Institute Emergency Medical Services Systems	12,543	11,841	11,284	11,831	547	4.8%
D55P00	Department of Veterans Affairs	14,892	18,035	16,849	17,139	291	1.7%
D60A10	State Archives	9,851	11,295	10,022	8,557	-1,465	-14.6%
D80Z01	Maryland Insurance Administration	118,684	167,158	175,708	149,610	-26,097	-14.9%
D90U00	Canal Place Preservation and Development Authority	520	526	462	464	2	0.4%
D99A11	Office of Administrative Hearings	11	407	48	51	2	5.1%
E00A	Comptroller of the Treasury	81,992	90,383	87,956	93,619	5,662	6.4%
E20B	State Treasurer	5,208	5,960	6,769	6,634	-134	-2.0%
E50C	Department of Assessments and Taxation	44,266	48,041	47,204	50,381	3,177	6.7%
E75D	State Lottery Agency	54,631	58,449	57,956	56,705	-1,251	-2.2%
E80E	Property Tax Assessment Appeals Boards	894	917	931	1,003	72	7.8%
E90G	Registers of Wills	0	25	0	0	0	0.0%
	Department of Budget and Management (DBM) –						
F10A	Secretary	17,485	19,464	19,060	19,799	740	3.9%
F10A02	DBM – Personnel	21,844	22,776	82,902	8,376	-74,526	-89.9%
F10A04	DBM – Information Technology	32,094	53,209	35,383	34,430	-953	-2.7%
G20J01	State Retirement Agency	27,595	27,929	22,189	26,720	4,531	20.4%
G50L00	Maryland Supplemental Retirement Plans	1,304	1,365	1,392	1,465	73	5.3%
H00	Department of General Services	53,700	66,099	64,244	64,095	-149	-0.2%
K00A	Department of Natural Resources	152,809	179,441	175,604	177,715	2,110	1.2%
L00A	Department of Agriculture	44,457	56,834	58,413	64,323	5,910	10.1%
P00	Department of Labor, Licensing, and Regulation	156,749	189,995	159,405	165,887	6,483	4.1%
R00A01	MSDE – Headquarters	222,877	251,702	222,265	247,926	25,662	11.5%
R00A03	MSDE – Funding for Educational Organizations	23,288	27,462	28,915	29,056	141	0.5%
R00A04	Children’s Cabinet Interagency Fund	54,271	47,675	64,185	57,668	-6,517	-10.2%
R00A99	MSDE – Early Childhood Development	30,906	35,078	41,743	43,009	1,266	3.0%
R15P00	Maryland Public Broadcasting Commission	27,858	30,975	27,364	27,559	195	0.7%
R55Q00	Aid to University of Maryland Medical System	7,442	9,637	9,819	9,701	-117	-1.2%

<u>Budget Assignment</u>		<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Leg. Approp.</u>	<u>2009 Baseline</u>	<u>08-09 Increase</u>	<u>08-09 % Increase</u>
R62I0001	Maryland Higher Education Commission	73,421	84,350	91,343	95,024	3,681	4.0%
R62I0010	MHEC – Scholarship Programs	94,072	110,312	109,511	108,011	-1,501	-1.4%
R99E	Maryland School for the Deaf	24,980	26,568	28,715	30,170	1,455	5.1%
S00A	Department of Housing and Community Development	199,742	251,587	218,341	219,978	1,637	0.7%
S50B	Maryland African American Museum Corporation	3,025	2,714	2,149	2,149	0	0.0%
T00	Department of Business and Economic Development	101,857	141,658	121,901	118,606	-3,295	-2.7%
T50T01	TEDCO – Maryland Technology Development Corp.	4,811	20,861	28,526	28,026	-500	-1.8%
U00A	Department of the Environment	92,503	106,863	108,940	122,377	13,437	12.3%
W10A00	Maryland State Police	228,976	249,817	245,410	265,555	20,146	8.2%
Y01A	State Reserve Fund	358,582	791,382	262,795	399,543	136,748	52.0%
Total Expenditures		\$3,204,196	\$4,108,015	\$3,547,829	\$3,726,966	\$179,137	5.0%

	<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Leg. Approp.</u>	<u>2009 Baseline</u>	<u>08-09 Increase</u>	<u>08-09 % Increase</u>
General Funds	\$1,903,825	\$2,560,230	\$2,068,328	\$2,244,162	\$175,834	8.5%
Special Funds	660,352	829,819	837,950	828,737	-9,213	-1.1%
Federal Funds	640,020	717,966	641,551	654,067	12,516	2.0%
Total Funds	\$3,204,196	\$4,108,015	\$3,547,829	\$3,726,966	\$179,137	5.0%

The baseline projection for fiscal 2009 includes \$30.0 million for the recording and archival of land records, which consists of \$17.0 million for the operating expenses of the Land Record Offices and \$13.0 million in information technology expenditures associated with the recordation and archival of land record transactions. The Fund, which is scheduled to sunset on June 30, 2009, had a closing balance of \$65.0 million in fiscal 2007. Revenues are projected to decline by \$9.2 million to \$23.8 million in fiscal 2008 and 2009. Land record expenditures are projected to total \$30.4 and \$30.0 million in fiscal 2008 and 2009, respectively.

- ***Maryland Legal Services Fund:*** The Maryland Legal Services Fund, which is administered by the Administrative Office of the Courts and distributed by the Maryland Legal Services Corporation, provides grants to nonprofit organizations that offer legal assistance to income eligible defendants who are unable to pay for counsel. The fiscal 2009 baseline includes an additional \$3 million in special funds to reflect additional costs associated with ongoing operating and grant expenditures.
- ***Circuit Court Operations:*** Chapter 453 of 2002 required the State to pay rent directly to the counties for space occupied in county facilities (the courthouse) by clerks of the court. In fiscal 2007, State assumption of lease payments began on a phased-in basis. The fiscal 2009 baseline includes an additional \$500,000 in general funds for circuit court lease space.
- ***Truancy Reduction Pilot Program:*** The fiscal 2009 baseline includes an additional \$501,544 in general funds for Maryland's truancy courts. Chapter 648 of 2007 authorized the establishment of a Truancy Reduction Pilot Program (TRPP) in the juvenile courts in Harford and Prince George's counties and extended the authorization for existing truancy reduction programs in Dorchester, Somerset, Wicomico, and Worcester counties. The TRPP is scheduled to terminate on June 30, 2009.
- ***Major Information Technology Projects:*** The fiscal 2009 baseline includes \$11 million in general funds to finance the next phase of implementation for seven major information technology projects.

C80B Office of the Public Defender

The Office of the Public Defender provides counsel and related services for indigent persons. Significant increases to the fiscal 2009 baseline include:

- ***Panel Attorney Fees:*** The fiscal 2009 baseline includes an additional \$2.2 million in general funds for panel attorney fees. State regulations provide that panel attorneys are to be compensated at the same hourly rate as federal panel attorneys. The \$25 per hour

increase, which will raise panel attorney fees to \$75 per hour, represents the second step of a three-step increase to restore parity with the federal standard.

- **New Attorneys:** The fiscal 2009 baseline includes an additional \$4.2 million in general funds for 57 new attorneys, the amount needed to bring attorney caseloads in compliance with Maryland caseload standards. During the 2006 legislative session, the General Assembly endorsed the implementation of Maryland-specific attorney caseload standards. Under the Maryland standard, the maximum number of cases Maryland public defenders may handle each year without jeopardizing effective assistance of counsel varies based upon the geographic location and types of cases handled.

C81C Office of the Attorney General

The Office of the Attorney General (OAG) represents the State in all matters of interest to the State, including civil litigation and criminal appeals in all State and federal courts. Significant increases to the fiscal 2008 baseline include an additional \$390,028 in general funds for five new positions within OAG's Legal Counsel and Advice and Consumer Protection Divisions. Legislation passed during the 2007 session requires OAG to regulate warrantors of vehicle protection devices, aid in the prosecution of criminal gang activity, and enforce certain provisions of the Homeowners Association Act.

C82D Office of the State Prosecutor

The Office of the State Prosecutor is an independent agency within the Executive Branch of government. The State Prosecutor investigates and prosecutes certain criminal offenses committed by public officials. The fiscal 2009 baseline assumes a \$123,220 reduction in Federal Asset Forfeiture funds from the U.S. Departments of Homeland Security and Justice. The fiscal 2009 baseline assumes that general funds will be required to backfill a portion of the federal fund loss.

C90G Public Service Commission

The Public Service Commission (PSC) regulates gas, electric, telephone, water, sewage disposal, and certain passenger transportation companies doing business in Maryland. The fiscal 2009 baseline includes an increase of approximately \$3 million in special funds to reflect operating expenditures associated with the ongoing activities of PSC. Legislation passed during the 2007 session requires PSC to examine several issues, including the re-regulation of the electric utility industry and the costs and benefits of re-acquiring divested utility assets.

C91H Office of the People's Counsel

The Office of the People's Counsel (OPC) represents the interests of residential and noncommercial users of gas, electricity, telephones, water, and sewer before the Public Service Commission, various federal agencies, and the courts. The fiscal 2009 baseline includes an additional \$500,000 in special funds for consultant expenditures. Chapter 549 of 2007 expanded the scope of hearings and studies required by Chapter 5 of the 2006 special session. The baseline includes additional funding for OPC to complete the required studies by December 2008.

C94I00 Subsequent Injury Fund

The Subsequent Injury Fund compensates injured workers whose pre-existing injuries, diseases, or congenital conditions are substantially worsened by current injuries. An increase of \$15,000 was made to the fiscal 2009 baseline reflecting replacement costs for the Fund's LAN server.

C98F00 Workers' Compensation Commission

The Workers' Compensation Commission receives, processes, and adjudicates all workers' compensation claims and refers appropriate claimants for medical and rehabilitation vocational services. One adjustment was made to the fiscal 2009 baseline. Rent payments related to the renegotiated contract at the Abingdon Disaster Recovery site have been increased by \$10,000.

D05E01 Board of Public Works

The budget for the Board of Public Works (BPW) contains funds for the administrative staff of the board, a contingency fund to supplement general fund appropriations when necessary, grant funds for private nonprofit groups, funds to pay settlements and judgments against the State, and funds for certain capital purposes including the State Public School Construction Program. The baseline for BPW has been adjusted upward by \$5,171 in response to an increase in dues payable to the Council of State Governments.

D13A13 Maryland Energy Administration

The Maryland Energy Administration is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy-related policies and activities among State and local agencies. The baseline estimate was adjusted for a piece of legislation and funding associated with the Governor's new EmPOWER

Maryland Initiative. A \$36,679 general fund adjustment was made to the fiscal 2009 baseline to reflect half a position necessary for adoption of regulations associated with the Maryland Energy Efficiency Standards Act of 2007 (Chapter 568 of 2007).

The Governor's new EmPOWER Maryland Initiative was announced on July 2, 2007, and set the goal of reducing per capita energy consumption 15 percent by 2015. Adjustments to the fiscal 2009 baseline were also made for a projected fiscal 2008 budget amendment for \$1,000,000 in Energy Overcharge Restitution Fund special funds for projects and a fiscal 2008 deficiency for \$56,223 in general funds for three new positions. In addition, an adjustment to the fiscal 2009 baseline was made for \$529,863 in general funds for eight new positions also associated with the initiative.

D28A03 Maryland Stadium Authority

The Maryland Stadium Authority manages facilities for professional baseball and football teams and it studies, constructs, and finances other projects such as convention centers. The fiscal 2009 baseline eliminates the State's payment toward the Baltimore City Convention Center operating deficit, which is budgeted at \$4 million for fiscal 2008, because the legislation that requires the contribution expires in fiscal 2008.

D38I01 State Board of Elections

The State Board of Elections supervises elections to ensure compliance with State and federal laws. A baseline increase of almost \$6.5 million (split equally between general and special funds) was made to implement Chapter 548 of 2007 which requires a voter verifiable paper record for elections in Maryland. That legislation is contingent on the Governor providing an appropriation in fiscal 2009 to implement the new system. The fiscal 2009 baseline assumes funding for the purchase of equipment only through a five-year lease-purchase agreement with the costs shared by the State and the local jurisdictions. It is assumed that the budget for operations and maintenance of the existing touch-screen system will be adequate to operate and maintain any new system.

The baseline also notes higher costs to support existing lease-purchase agreements financed through the State Treasurer's Office (an increase of just under \$1.5 million), primarily related to the purchase of e-pollbooks.

D40W01 Maryland Department of Planning

The Maryland Department of Planning develops, coordinates, reviews, and monitors public and private sector plans for growth and development in the State. The fiscal 2009

baseline includes an adjustment of \$72,151 in general funds for a position and contractual services associated with analyzing the impacts of the Bay Restoration Fund as required in Chapter 257 of 2007. Additionally, a \$133,186 general fund adjustment was made for contractual position costs associated with creation of the Task Force on Future Growth and Development by Chapter 626 of 2007.

The Office of Smart Growth was reconstituted in the fiscal 2008 budget. The office was anticipated to begin operations in October 2007 (during fiscal 2008), and therefore, an \$8,333 general fund adjustment was made to the baseline to reflect the annualization of costs for the office. In addition, BPW made reductions totaling \$294,846 in general funds to the fiscal 2008 budget in July 2007.

D60A10 State Archives

The Maryland State Archives is the central depository for government and certain designated private records of permanent value. Such records include colonial and State executive, legislative, and judicial records; county probate, land, and court records; and publications of State, county, and municipal governments. The fiscal 2009 baseline includes a net reduction of approximately \$1.5 million. This decrease is primarily attributed to a reduction in operating expenditures associated with the *mdlandrec.net* initiative. *Mdlandrec.net* serves as the principal archival repository and retrieval system for land record documents within Clerk of Court offices.

D80Z01 Maryland Insurance Administration

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations as well as implements laws that affect Maryland's insurance industry. MIA also administers the Rate Stabilization Account which is used to pay health care provider medical malpractice rate subsidies. Within MIA organizationally, although not managerially, is the Health Insurance Safety Net Program which includes the Maryland Health Insurance Program (MHIP) and the Senior Prescription Drug Assistance Program. The baseline assumes the removal of one-time funding for office moving expenses (\$1.70 million); a decrease of \$10.35 million for the Rate Stabilization Account to comply with the statutory funding limit for fiscal 2009; and a decrease of \$15.60 million for MHIP to fund the program at the estimated activity level.

D90U00 Canal Place Preservation and Development Authority

The Canal Place Preservation and Development Authority works to preserve, develop, and manage the Canal Place heritage area in downtown Cumberland. The fiscal 2009 baseline

maintains the overall Canal Place fiscal 2009 budget at the same level as 2008. However, the amount of general funds is reduced from \$208,000 to \$100,000, which reflects the budget committees' intent that general funds should be phased out at the agency. Accordingly, it is assumed that special funds will increase to compensate for the general fund decrease.

D99A11 Office of Administrative Hearings

The Office of Administrative Hearings (OAH) is an independent unit within the Executive Branch that is responsible for holding hearings in contested cases involving State agencies. These agencies reimburse OAH based on the proportion of time spent by administrative law judges and staff on their cases. The fiscal 2009 baseline assumes that OAH will execute a three-year contract renewal for court reporting services in the amount of \$300,000. The baseline also reflects lease payments totaling \$116,165 for laptop computers and a telephone system upgrade.

E00A Comptroller of the Treasury

The Comptroller of the Treasury is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. Large increases in the fiscal 2009 baseline are largely attributable to personnel increases, primarily salaries and health insurance, related to its 1,100 employees. Additionally, an increase of \$800,000 in general funds was made to reflect Chapter 284 of 2007, which requires a living wage for State contracts.

F10A Department of Budget and Management

Personnel

The decline in personnel expenditures is attributable to changes in statewide personnel compensation described in the Overview at the beginning of this report.

Office of Information Technology

The major baseline adjustment in DBM's Office of Information Technology is a reduction of just under \$1 million from the fiscal 2008 appropriation level. This reduction reflects the lesser amount of funds required in fiscal 2009 to support ongoing major information technology projects as noted in the Governor's fiscal 2008 budget submission. Significantly, however, the baseline does make an important fund switch. In fiscal 2008, general funds were not used to support major information technology projects because the State received a large

one-time payment to reflect prior year miscalculation of rebates and commissions owed to the State. For fiscal 2009, it is assumed that general fund support will be required.

Other assumptions behind the baseline's reduction include:

- No significant changes in the general fund requests as noted in the fiscal 2008 budget submission. In practice, other significant changes will occur as project scope and timelines change, but these are not known at this time.
- The Major Information Technology Development Project Fund balance will be significantly spent down to offset general fund requirements.

G20J01 State Retirement Agency

The State Retirement Agency (SRA), under the supervision of a board of trustees, manages a \$40 billion pension fund. It also administers retirement, death, and disability benefits for more than 250,000 current and former teachers and State and municipal employees. The changes in the fiscal 2009 baseline are attributable to the following factors:

- the agency's contract for actuarial audit services concludes, consequently removing \$130,000 from the baseline;
- the agency's Management Study contract is also being completed prior to the start of fiscal 2009, resulting in a \$100,000 subtraction from the baseline budget;
- the latter stages of the agency's MPAS-1 information technology system project will add \$3,377,327 to the baseline budget. This figure encompasses project contingency funding and post-development operating and maintenance costs with the lead firm Saber, Inc., as well as complementary code revision and security support service from auxiliary contractors; and
- Chapter 368 of 2007 gave SRA independent compensation setting ability with regards to the Chief Investment Officer (CIO) position. The compensation packet will result in increased expenditures in this position of \$140,000, above the former \$110,000 base salary allotted to the CIO position.

K00A Department of Natural Resources

The Department of Natural Resources (DNR) manages the protection, enhancement, and use of the State's natural resources. The fiscal 2009 baseline includes an adjustment of \$57,918

in general funds for contractual services associated with staffing the new Oyster Advisory Commission, created as part of Chapter 114 of 2007. In addition, reductions totaling \$1,096,343 in general funds were made to reflect reductions to the agency's fiscal 2008 budget made by BPW in July 2007. The fiscal 2009 baseline also decreases from \$110,411 to \$26,577 in general and special funds for the Master Lease program.

The fiscal 2009 baseline increases by \$71,000 in general funds to reflect operating expenses for the following new facilities: Assateague State Park – Nature Center Replacement; Dan's Mountain Wildlife Management Area – Access Road and Storage Building; Myrtle Grove Maintenance Shop; North Point State Park – Shore Erosion Control; Pocomoke River State Park – Milburn Landing Area – Bathhouse Replacement; Rocky Gap Bathhouse and Concession Building; Rocky Gap Water Treatment Plant Upgrade; and Upper Chesapeake Rail Trail Connector.

In the fiscal 2008 budget, DNR received one-time Port Security Grant Program federal funding of \$3,165,594, which required a one-time \$803,283 general fund match. These one-time expenses have been taken out of the fiscal 2009 baseline.

L00A Maryland Department of Agriculture

The Maryland Department of Agriculture supervises, administers, and promotes agricultural activities throughout the State. Several adjustments were made to the fiscal 2009 baseline. These include an adjustment to reflect reductions of \$535,000 in general fund estimates made by BPW in July 2007, a reduction of \$66,448 for the Section 46 position abolition, and a reduction of \$7,298 in general and special funds for the Master Lease program.

Additionally, adjustments were made to reflect general fund increases required by the Agricultural Stewardship Act of 2006 (Chapter 289 of 2006). This includes \$500,000 for the Maryland Agricultural and Resource-Based Industry Development Corporation and \$400,000 for Soil Conservation District funding.

The drought and consequent suppression of a gypsy moth parasite as well as the loss of federal funds has led to a significant fiscal 2008 deficiency request, reflected in the fiscal 2009 baseline. The baseline assumes that virtually no funding is available for gypsy moth spraying, that 100,000 acres will need to be sprayed, and that the per acre cost to spray is \$33. The fiscal 2009 baseline is increased by \$3,300,000 for chemicals and contractual positions to spray 100,000 acres (\$2,900,000 in general funds and \$400,000 in special funds from counties), by \$400,000 for between 14 and 20 contractual positions (\$340,000 general funds and \$60,000 special funds from counties), and by \$300,000 to fund seven federal positions that would otherwise have to be eliminated (\$260,000 general funds and \$40,000 special funds from counties).

The fiscal 2009 baseline was adjusted for two reductions to the cover crop program: a one-time commodity cover crop grant and a reduction in anticipated Bay Restoration Fund septic fee revenue. In fiscal 2008, the cover crop program received a one-time grant of \$272,400 in special funds from the Chesapeake Bay Trust for commodity cover crops in the Tuckahoe and Monocacy watersheds, which has been reduced for the fiscal 2009 baseline. In addition, an adjustment of \$600,000 in special funds was made to reflect the new decreased estimate for the amount of the Bay Restoration Fund septic fee revenue available for cover crops.

P00 Department of Labor, Licensing, and Regulation

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. DLLR also administers a variety of federally funded employment service programs. The large increase in the fiscal 2009 baseline is due almost exclusively to salary increments, cost-of-living adjustments and health insurance costs for the department's 1,500 employees. Additionally, a fiscal 2008 budget amendment marginally increased special fund baseline estimates by expanding the enforcement unit under the department's mortgage originator program.

R00A01 Maryland State Department of Education Headquarters

The Maryland State Department of Education (MSDE) coordinates the State's education policies. Baseline projections for the Headquarters budget include the following significant changes:

- an estimated increase of \$2.7 million to conduct a survey assessing public school facilities, as required by Chapter 307 of 2004;
- \$14.5 million to restore the one-time fiscal 2008 reduction to assessment costs based on the use of fiscal 2007 encumbered funds;
- an estimated increase of \$2.5 million, including the addition of 11 positions, for expanding MSDE's educational programs into two of the Department of Juvenile Services' (DJS) residential facilities. Chapter 431 of 2004 requires that MSDE assume responsibility for all educational programs in DJS facilities by 2012; and
- a projected \$474,147 deficiency to cover the cost of the Autism Waiver Program.

R00A04 Children's Cabinet Interagency Fund

The Interagency Fund is used to support Local Management Boards, which are part of a comprehensive, interagency service delivery system of children and families. The fiscal 2009 baseline removes one-time funding for services to children with disabilities available through the Medicaid Rehab Option Waiver. The fiscal 2008 legislative appropriation included \$6.5 million in one-time funding. BPW withdrew \$4.0 million of this as part of the July 2007 cost-cutting effort. The baseline adjustment removes the additional \$2.5 million and assumes \$10.0 million in continuing funding for this program.

T00 Department of Business and Economic Development

The Department of Business and Economic Development aims to increase business investment and promote job creation. In the operating budget, the Enterprise Investment and Challenge Fund decreases by \$3 million in special funds to reflect agency estimates of the fund's earnings. The State Arts Council appropriation increases each year by the rate of the estimated statewide general fund increase, which added \$652,031 to the estimate.

U00A Maryland Department of the Environment

The Maryland Department of the Environment is responsible for planning, monitoring, controlling, and regulating air, solid, and hazardous wastes; radiation, sewage sludge, sediment, and stormwater; toxics, sewage treatment, and water supply facilities; and environmental disease control programs. The fiscal 2009 baseline was adjusted to account for the fiscal 2008 impact of four 2007 session laws:

- a \$144,200 general fund adjustment for two contractual positions associated with the Stormwater Management Act of 2007 (Chapter 121 of 2007);
- a \$19,927 special fund adjustment for mailing supplies associated with the requirements of Chapter 538 of 2007 regarding groundwater contamination notification;
- a \$61,184 special fund adjustment for a position for electronics recycling per Chapter 239 of 2007; and
- \$56,250 in general funds for implementing the Maryland Clean Cars Act of 2007 (Chapter 112 of 2007).

Additionally, several reductions were made to the fiscal 2008 budget. These include a \$735,038 general fund adjustment for the BPW reductions made in July 2007 and a \$298,750

special fund adjustment for six positions abolished as part of Section 46 of the fiscal 2008 budget bill. A \$157,000 general fund adjustment was made to the baseline for the one-time expense of replacing equipment stolen from the Montgomery Park laboratory and an adjustment was made to reflect the decrease from \$321,208 to \$193,490 in general and special funds for equipment purchased through the Master Lease program.

In addition, adjustments were made for a grant to the Maryland Environmental Service and an increase in debt service payments for Bay Restoration Fund bonds. The Maryland Environmental Service is scheduled to receive a \$1.7 million special fund grant from the Used Tire Fund in fiscal 2009 in order to pay off a Grant Anticipation Note connected with its crumb rubber recycled tire facility. The baseline estimate was also adjusted for the additional \$7.0 million in special funds for a debt service reserve required for the fiscal 2009 Bay Restoration Fund bond issuance.

W10A00 Maryland State Police

The Maryland State Police exists to safeguard persons within the State, protect property, and assist in providing all persons equal protection under the law. The department has almost 2,500 employees, which creates large increases in personnel costs, such as salaries, health insurance, and retirement in the fiscal 2009 baseline. The majority of this increase is in general funds.

The State Aid for Police Protection Fund is also included as a separate program in the department. An adjustment was made to increase general funds by \$235,800 to reflect legislation enacted during the 2007 session (Chapter 493 of 2007) affecting one of the local aid programs.

Y01A State Reserve Fund

The State Reserve Fund consists of the Revenue Stabilization Account (“Rainy Day” Fund), Dedicated Purpose Account, Catastrophic Event Account, and the Joseph Fund Account. There has been no activity in the Catastrophic Event or Joseph Fund accounts in recent years.

Revenue Stabilization Account

The fund was created to retain revenues to meet future needs. Section 7-311 of the State Finance and Procurement Article requires that any unappropriated general fund surplus exceeding \$10 million from the most recently closed fiscal year shall be appropriated in the next year’s allowance. The fiscal 2007 unappropriated general fund surplus totaled \$156,543,342. Thus, as required by law, the baseline assumes a \$146,543,342 appropriation into the Rainy Day Fund in fiscal 2009.

Dedicated Purpose Account

The Dedicated Purpose Account was established to retain appropriations for major, multi-year expenditures where the magnitude and timing of cash needs are uncertain. There are two multi-year appropriations shown in the fiscal 2009 baseline budget forecast. First, Chapter 471 of 2005 requires the Governor to appropriate at least \$50 million per year in general funds toward the cost of the InterCounty Connector highway construction project through fiscal 2010, until full repayment of \$264.9 million is provided. This represented the balance of monies transferred from the Transportation Trust Fund to the general fund in fiscal 2003 and 2004. In past years, the Administration appropriated \$53 million per year in the Dedicated Purpose Account for this purpose, with the intention of providing the outstanding balance in fiscal 2010. The baseline assumes a \$53 million appropriation. Secondly, the State appropriated \$100 million toward the cost of its unfunded retiree health care liability in fiscal 2007 and 2008 in the Dedicated Purpose Account. Prior forecasts assumed that this amount would increase to \$200 million in fiscal 2009, to further address these costs. Thus, the baseline increases by \$100 million for this purpose. A Postretirement Health Benefits Trust Fund was established under Chapter 466 of 2004, and Chapter 355 of 2007 requires the prior appropriations to the Dedicated Purpose Account be transferred to this new special fund after June 1, 2008.

Debt Service

The State tax supported debt includes general obligation (GO) bonds sold by the State Treasurer and Consolidated Transportation Bonds (CTB) sold by the Maryland Department of Transportation (MDOT). GO bonds are secured by the full faith and credit of the State and are supported by property taxes and general funds. Revenues to pay GO bond debt service are deposited in the Annuity Bond Fund. Transportation bonds are supported by pledged taxes (motor fuel taxes, vehicle excise taxes, motor vehicle registration fees, and a portion of the corporate income tax) and other Transportation Trust Fund revenues (such as modal operating revenues).

Expenditures, Funds, and Positions for Debt Service Fiscal 2006-2009 (\$ in Thousands)

	<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Leg. Approp.</u>	<u>2009 Baseline</u>	<u>2008-2009 Increase</u>	<u>% Increase</u>
Expenditures						
Public Debt – GO Bond Debt Service	\$625,208	\$654,616	\$692,695	\$745,847	\$53,152	7.7%
CTB Debt Service Requirements	141,217	119,945	128,319	147,000	18,681	14.6%
Total	\$766,425	\$774,561	\$821,014	\$892,847	\$71,833	8.8%
Fund						
General Fund	\$0	\$0	\$29,349	\$40,000	\$10,651	36.3%
Special Fund	766,425	774,561	791,665	852,847	61,183	7.7%
Total	\$766,425	\$774,561	\$821,014	\$892,847	\$71,833	8.8%

The fiscal 2009 baseline budget for GO bond debt service reflects recent increases in bond authorizations as debt service costs are expected to increase to \$746 million. Beginning in fiscal 2008, general funds are necessary to support GO bond debt service. This is attributable to a reduction in the State property tax rate, which the Board of Public Works reduced from \$0.132 to \$0.112 per \$100 of assessable base in April 2006. The projected general fund appropriation is expected to increase from \$29 million in fiscal 2008 to \$40 million in fiscal 2009.

MDOT's debt service requirements are projected to increase \$19 million (14.6 percent) in fiscal 2009. This is attributable to an additional \$11 million in interest payments associated with a projected \$370 million fiscal 2008 bond sale and \$7 million in interest payments due to a projected \$360 million bond sale in fiscal 2009. The remaining increase is due to the amortization patterns of prior debt issuances.

PAYGO Capital Programs

The baseline for capital programs includes programs funded with pay-as-you-go (PAYGO) funds for economic development, housing, and environmental programs for which the use of tax-exempt general obligation (GO) debt is limited under federal tax guidelines. In addition, the baseline includes estimated funding for transportation programs supported by Transportation Trust Fund revenues, federal funds, and transportation revenue bonds.

Expenditures and Funds for PAYGO Capital Program Fiscal 2006-2009 (\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008 Leg.</u> <u>Approp.</u>	<u>2009</u> <u>Baseline</u>	<u>2008-2009</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Board of Public Works (BPW)	\$1,890	\$72,349	\$9,410	\$7,500	-\$1,910	-20.3%
Public School Construction	2,400	2,400	2,400	2,400	0	0.0%
BPW – Public Safety Communication System	0	10,000	0	2,500	2,500	0.0%
Maryland Energy Administration	2,500	3,000	2,500	2,500	0	0.0%
Department of Planning	20,000	30,000	15,200	25,200	10,000	65.8%
Department of Veterans Affairs	631	8,453	7,122	1,700	-5,422	-76.1%
Department of General Services	300	345	0	0	0	0%
Maryland Department of Transportation (MDOT) – Secretary’s Office	22,865	37,353	20,243	21,200	957	4.7%
Washington Metropolitan Area Transit Administration	70,857	70,982	80,261	82,661	2,400	3.0%
MDOT – State Highway Administration	1,100,616	1,041,039	1,106,180	864,612	-241,568	-21.8%
MDOT – Maryland Port Administration	72,974	130,926	123,858	122,917	-941	-0.8%
MDOT – Motor Vehicle Administration	14,438	24,411	34,341	40,426	6,085	17.7%
MDOT – Maryland Transit Administration	239,690	240,534	308,056	314,063	6,007	2.0%
MDOT – Maryland Aviation Administration	68,886	80,236	80,123	72,790	-7,333	-9.2%
Department of Natural Resources	125,116	329,207	243,365	140,881	-102,484	-42.1%
Department of Agriculture	43,800	95,619	76,842	48,330	-28,512	-37.1%
Department of Labor, License, and Regulation – Capital Acquisition Fund	2,722	0	348	675	327	94.0%
Department of Public Safety and Correctional Services	37,996	1,392	0	0	0	0.0%
Maryland State Department of Education – County Library Grant Program	0	0	2,250	0	-2,250	-100.0%
Department of Housing and Community Development	52,789	87,766	60,850	61,350	500	0.8%
Department of Business and Economic Development	0	3,839	0	4,000	4,000	0.0%
Department of the Environment	146,887	179,662	115,850	153,079	37,229	32.1%
Department of Juvenile Services	3,350	0	0	0	0	0.0%
Maryland State Police	0	0	0	10,700	10,700	0.0%
Total	\$2,030,707	\$2,449,514	\$2,289,199	\$1,979,484	-\$309,715	-13.5%

Expenditures and Funds for PAYGO Capital Program (Cont.)

Fund	2006	2007	2008 Leg.	2009	2008-2009	
	<u>Actual</u>	<u>Working</u>	<u>Approp.</u>	<u>Baseline</u>	<u>Increase</u>	<u>% Increase</u>
General Fund	\$25,521	\$161,840	\$42,458	\$67,465	\$25,007	58.9%
Special Fund	1,138,631	1,463,838	1,396,102	1,250,135	-145,968	-10.5%
Federal Fund	860,249	823,836	850,639	659,885	-190,754	-22.4%
Reimbursable Fund	6,306	0	0	2,000	2,000	0.0%
Total	\$2,030,707	\$2,449,514	\$2,289,199	\$1,979,484	-\$309,715	-13.5%
Personnel						
Regular Positions	1,904.0	1,909.0	1,916.0	1,916.0	0.0	0.0%
Full-time Equivalent Contractuals	10.0	19.0	22.0	22.0	0.0	0.0%

Board of Public Works

The baseline estimate for PAYGO funds appropriated through the Board of Public Works for miscellaneous capital projects and programs reflects the elimination of \$2.0 million of general funds for the State's Asbestos Abatement Program administered by the Department of General Services. This reduction reflects the planned use of GO bonds in fiscal 2009 to fund asbestos abatement projects at various State facilities as referenced in the 2007 *Capital Improvement Program (CIP)*. The baseline also includes an adjustment that adds \$2.5 million of general funds to support the State's continuing efforts to build out a statewide interoperable public safety communication system. This restores the funding level to \$10.0 million comprised entirely of general funds which is the amount planned for fiscal 2009 as reflected in the 2007 CIP.

Board of Public Works – Public School Construction

The baseline estimate includes \$2.4 million of special funds to support the Public School Construction Program. These funds are made available from the Maryland Stadium Authority as required under Section 13-715.2 of the Financial Institutions article.

Maryland Energy Administration

The fiscal 2009 baseline assumes that expenditures associated with the Administration's three capital programs – the Community Energy Loan Program, State Agency Loan Program, and Energy Efficiency and Economic Development Loan Program (EEEDLP) – remain level with the fiscal 2008 legislative appropriation of \$1.5 million, \$1.0 million, and \$0 in special funds, respectively. With the exception of the lack of funding for EEEDLP, this is consistent with the 2007 CIP.

Department of Planning

The baseline estimate for the Department of Planning includes \$25 million in general funds for the Maryland Heritage Structure Rehabilitation Tax Credit Program. This level of funding represents a \$10 million increase over the fiscal 2008 appropriation. However, when deciding the fiscal 2008 appropriation, the General Assembly took into account approximately \$10 million in fund balance, which allowed for \$25 million in project activity with just \$15 million of appropriations. The baseline, therefore, assumes level funding at \$25 million comprised entirely of general funds. It is worth noting that while Chapter 567 of 2007 requires a fiscal 2009 appropriation for the tax credit program, the legislation does not specify an appropriation amount. The baseline assumes that there will be no change in the \$200,000 in special funds available in the Maryland Historical Trust Revolving Loan Fund for loans to assist in the protection of historic property. This program is anticipated to be further supplemented with \$250,000 in GO bonds as planned for in the 2007 CIP.

Department of Veterans Affairs

The baseline includes \$1.7 million comprised entirely of federal funds. These funds are planned for the renovation and construction of the Garrison Forrest Veterans Cemetery administrative maintenance complex. The federal funds are derived from the U.S. Department of Veterans Affairs (DVA) which funds the construction of veteran cemeteries. However, the State must provide the funds necessary for planning at the outset of a project with these funds being reimbursed by DVA when federal construction funds are awarded. The baseline deletes the \$210,000 of general funds appropriated in the fiscal 2008 budget for the planning of the administrative maintenance complex project. The baseline also deletes the \$6.9 million of fiscal 2008 federal funds provided to fund the construction of additional burial capacity at the Garrison Forest Veterans Cemetery.

Maryland Department of Transportation

The PAYGO capital budget for the Maryland Department of Transportation is expected to total approximately \$1.5 billion, a decrease of \$234.8 million compared to the fiscal 2008 legislative appropriation. Special funds decrease \$46.0 million and federal funds decrease \$189.0 million, respectively, compared to the fiscal 2008 legislative appropriation.

The largest decline in the capital budget is in the State Highway Administration which decreases \$242 million relative to the legislative appropriation. As with every fiscal year, part of this decline can be attributed to cash flow changes in projects due to changes in scope or delays. Other reasons for the decline include:

- \$40 million of this decline is attributable to higher Grant Anticipated Revenue Vehicle debt service payments in fiscal 2009 that reduce the level of federal aid;

- special federal funds for the Woodrow Wilson Bridge project are slowly declining as the project nears completion; and
- a number of large construction projects have been completed or are nearing completion, and there is not a corresponding increase in new construction projects in the fiscal 2009 allowance.

The remaining modes overall level of spending is expected to remain relatively unchanged from fiscal 2008 to 2009. Following is a summary of some of the major modal changes.

- The Motor Vehicle Administration's funding level increases \$6.0 million due to an increase in system preservation funding.
- The Maryland Transit Administration also increases \$6.0 million; however, the construction program decreased relative to the fiscal 2008 appropriation largely due to cash flow changes in projects with funding for system preservation increasing relative to fiscal 2008.
- The Maryland Aviation Administration decreases \$7.3 million largely due to a decrease in system preservation and minor project funding.

Department of Natural Resources

Available revenue for the Waterway Improvement Program is expected to decrease \$6.4 million from the fiscal 2008 legislative appropriation to a total of \$21.3 million. The significant decrease in funds between fiscal 2008 and the baseline can be attributed to the one-time use of available fund balance to accommodate increased requests from local governments to finance projects which expend or improve recreational boating infrastructure. The baseline estimate is not consistent with the CIP, which estimated \$20.0 million in general funds and \$0.5 million in federal funds for a total of \$20.5 million. The \$0.8 million difference between the federal fund amounts in the 2007 CIP and the baseline estimate can be attributed to additional Boating Infrastructure grants program funding provided by the U.S. Fish and Wildlife Service. The Waterway Improvement Program provides grants and loans to local, State, and federal government agencies for projects that improve and promote recreational and commercial capabilities, conditions, and safety of Maryland's waterways for the benefit of the general boating public.

The Department of Natural Resources' Program Open Space (POS) funding is expected to decrease relative to the fiscal 2008 legislative appropriation to a total of \$118.1 million. This decrease primarily reflects the \$127.5 million difference between the fiscal 2006 (\$75.5 million) overattainment which was budgeted in the fiscal 2008 budget and the fiscal 2007 (\$52.0 million)

underattainment which statutorily must be reflected in the amount of funds budgeted for fiscal 2009. In addition, POS is expected to receive \$1.0 million under the original fiscal 2009 estimate for federal funds because federal authorizations have not matched State federal fund appropriations in recent years. However, this decrease in federal funds is offset by \$2.0 million in reimbursable funds from the Transportation Enhancement Program to fund an easement acquisition. POS funds are split between the State and local governments. The State uses these funds for land acquisition, capital improvements, maintenance, and operations, while local recreation and parks departments use their share for planning, land acquisition, and recreation facilities.

The estimate assumes \$15.1 million in special fund expenditures associated with the Rural Legacy Program, which provides funds for the acquisition of conservation easements.

Funding for the Shoreline Erosion Control Program is expected to remain level with the fiscal 2008 legislative appropriation of \$0.5 million. This is consistent with the 2007 CIP. This capital program provides loans to complete structural shore erosion control projects.

Ocean City Beach Maintenance Program funding remains at \$1 million and, as in previous years, \$1 million is also available as part of Program Open Space's State land acquisition funds for a total of \$2 million. The last beach sand nourishment project occurred in 2006, the next anticipated project will be in 2010.

Department of Agriculture

Maryland Agricultural Land Preservation Program funding is expected to decrease by \$28.0 million due primarily to a \$20.0 million decrease in the amount of special fund transfer tax allocation available for fiscal 2009. This program purchases conservation easements on agricultural lands and woodlands.

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program is permanently decreased by \$0.50 million due to the Board of Public Works reductions on July 11, 2007. Therefore, the estimate for the program is \$6.33 million in special funds in fiscal 2009, which is \$0.97 million less than the level of funding planned in the 2007 CIP. The Tobacco Transition Program provides funds for the voluntary tobacco buyout program and agricultural land preservation efforts.

Department of Labor, Licensing, and Regulation

The baseline includes \$675,000 of special funds, made available from the Special Administrative Expense Fund to fund the capital equipping of the Eastern Shore Regional Call Center located in Salisbury. This compares to \$358,000 appropriated for fiscal 2008 to complete the construction of the facility and fund capital equipment requiring an extended procurement period

Maryland State Department of Education

Established by Chapter 494 of 2006, the Public Library Capital Grants Program provides capital grants to local governments for public library projects. This program received a fiscal 2008 general fund appropriation of \$2,225,000 that was subsequently reduced to \$2,025,000 through Board of Public Works reductions on July 11, 2007. The 2007 CIP programs the use of general obligation bond funds for fiscal 2009; therefore, the baseline reflects the deletion of all PAYGO funds for this program.

Department of Housing and Community Development

The Department of Housing and Community Development works to encourage homeownership, expand affordable rental housing, and revitalize communities. The baseline estimate includes changes in various PAYGO capital grant and loan programs based on the agency's estimates of revenues, encumbrances, and fund balances as well as the 2007 CIP. Overall, the baseline assumes that PAYGO funds will increase slightly from \$56.85 million in fiscal 2008 to \$57.35 in fiscal 2009.

For the Community Legacy program, level funding at \$6.5 million is assumed but the funds are estimated to be entirely general funds rather than including a \$2.0 million special fund transfer from the Neighborhood Business Development Program as was authorized for fiscal 2008. The federally funded Community Development Block Grant Program is expected to decrease from \$10.0 million to \$9.0 million, as indicated in the 2007 CIP. Rental Housing Programs are expected to see an increase in activity from \$16.8 million in fiscal 2008 to \$18.8 million in fiscal 2009. Rental Housing Programs are projected to have sufficient fund balance to cover the increase and so the baseline assumes that all of the increase will be in special funds except for \$392,000 in general funds.

Homeownership Program activity is expected to decrease from \$8.6 million in fiscal 2008 to \$8.5 million in fiscal 2009; at the same time, the program expects to receive \$1.0 million less in special funds revenues and so the baseline assumes a \$900,000 general fund increase. Special Loan Programs are anticipated to decrease from \$9.5 million in fiscal 2008 to \$8.6 million in fiscal 2009; of the decrease, \$250,000 is in general funds and \$650,000 is in special funds, as indicated in the 2007 CIP. Activity in the Partnership Rental Housing Program

is expected to drop from \$8.0 million in fiscal 2008 to \$6.0 million in fiscal 2009. The decrease is due to a \$2.0 million reduction in special funds that were one-time revenues available for fiscal 2008; this program usually receives only general obligation bond funds.

Department of Business and Economic Development

The baseline estimate includes \$2 million in general funds and \$2 million in special funds for a legislatively mandated rural broadband network. In fiscal 2008, this program was funded with \$4 million in special funds, all of which is authorized to be transferred from the Maryland Economic Development Assistance Fund (MEDAF). The fiscal 2009 estimate assumes that the program will receive \$2 million in general funds and a \$2 million transfer from MEDAF, as stipulated in Chapter 269 of 2006.

Department of the Environment

The baseline assumes that Water Quality Revolving Loan Fund program expenditures will be greater than what is planned in the 2007 CIP. A projected \$8.9 million increase in federal funds and \$30.0 million increase in revenue bonds offset a \$26.1 million decrease in special funds. General funds are adjusted upward by \$1.8 million to reflect the 20 percent required match of federal funds. Due to the approximately \$680.0 million in loan requests, the Maryland Department of the Environment intends to issue \$30.0 million in revenue bonds in fiscal 2009. The Water Quality Revolving Loan Fund program provides low interest loans to local governments and eligible private entities for water quality improvement projects such as upgrading wastewater treatment plants and capping closed landfills. The Drinking Water Revolving Loan Fund baseline estimate of \$14.1 million is slightly greater than the 2007 CIP amount of \$14.0 million. In addition, \$18.0 million in revenue bonds are projected. This program provides low interest loans to local governments and eligible private entities for drinking water projects such as the construction of water distribution mains, water storage facilities, and water treatment plant upgrades.

The Hazardous Substance Clean-up Fund baseline estimate increases \$150,000 from the Maryland Department of the Environment's fiscal 2008 request of \$850,000. This increase is consistent with the 2007 CIP.

The baseline estimates for two of the four capital grant programs associated with the Bay Restoration Fund (Chapter 428 of 2004) are consistent with the 2007 CIP. The Septic System Upgrade Program funding is projected to remain level with the fiscal 2008 appropriation of \$6.0 million, and the Sewer Rehabilitation Program baseline estimate of \$5.0 million remains the same as the fiscal 2008 appropriation. The Enhanced Nutrient Removal Program baseline estimate of \$138.0 million is comprised of \$68.0 million in special funds and \$70.0 million in revenue bonds. The total estimate of \$138.0 million is less than the 2007 CIP estimate of \$179.0 million, mostly due to a \$60.0 million decrease in anticipated revenue bonds issued offset

partially by a \$19.0 million increase in special funds. The Biological Nutrient Removal Program received \$2.2 million in general funds budgeted in the Board of Public Works in fiscal 2007, but is expected to receive only GO bond funds, \$23.0 million, in fiscal 2009.

General Fund Revenue Projections Fiscal 2008-2013

Introduction

Each fall, the Department of Legislative Services (DLS) prepares projections of general fund revenues for the current year and the next five fiscal years. The projections are done by revenue source and reflect a combination of modeling and trend analysis. The major revenue sources are modeled based on the historical relationship between the sources and various economic factors. Therefore, the revenue projection process begins with developing an economic forecast.

U.S. and Maryland Economic Projections

The State contracts with two private economic consulting firms to provide economic projections for the U.S. – Global Insight, Inc. and Moody’s Economy.com. While these firms update their U.S. forecasts monthly, for the purposes of the DLS revenue projections we used their forecasts from October 2007. The U.S. forecasts are important because we assume that the Maryland economy will generally follow the broad trends in the U.S. economy.

In 2006, the U.S. economy experienced its third straight year of strong growth posting, the best income and employment increases of the current expansion. Inflation adjusted gross domestic product, the broadest measure of the economy, advanced 2.9 percent in 2006. Personal income growth accelerated from 5.9 percent in 2005 to 6.6 percent in 2006. Income from wages and salaries picked up sharply, rising 6.2 percent in 2006 up from 5.1 percent in 2005. Income from dividends/interest/rent was also up strongly (11.5 percent) but the business income of individuals slowed to 3.8 percent growth down from 6.4 percent in 2005. Employment growth also picked up slightly, rising 1.9 percent in 2006 compared to 1.7 percent in 2005.

The economic story in 2007 has been dominated by higher energy prices and a contracting residential housing market. Crude oil prices topped \$90/barrel for the first time in late October. National gas prices averaged \$3.20/gallon in May of 2007 but prices fell over the summer. Despite the run-up in crude prices, as of late October gasoline prices remain well below their peak. Falling demand seems to be keeping a check on gasoline prices for now.

The housing market recession that began in 2006 continued and deepened in 2007. Existing home sales have fallen for 19 straight months. In September, existing home sales were almost 2.2 million below the peak two years earlier. The median home price has fallen on a year-over-year basis in 13 of the last 14 months. The inventory of homes for sales has increased by almost 60 percent in the last two years and both new homes sales and housing starts have plunged.

Over the summer, a major financial crisis hit Wall Street as the rising delinquencies and foreclosures among sub-prime mortgage borrowers began to undercut the value of billions of dollars of mortgage-backed securities, roiling stock and credit markets. In response, the Federal Reserve cut interest rates by 50 basis points, a move which seems to have calmed the markets for the time being. However, the impact on the housing market will continue as mortgage lenders continue to go out of business, the remaining lenders tighten lending standards and financing for non-prime lending (via the ability to sell mortgage-backed securities) dries up. In addition, foreclosures will continue to rise as resets on adjustable rate mortgages combined with declining prices further squeeze borrowers.

The contracting housing market, directly and through its impact on consumers, will be a significant drag on the economy but most economists do not forecast a recession. Strong corporate profits are expected to support business investment and some modest employment growth outside of housing-related industries. The falling U.S. dollar combined with strong overseas economies will boost exports. Nevertheless, the U.S. economy is expected to grow below trend (around 3 percent) from the end of 2007 through most of 2008. The Federal Reserve is expected to cut interest rates by another 25 basis points in response to the slowing economy, more if there are further problems in the credit markets.

U.S. Economic Outlook Year-over-year Percent Change*

	Actual <u>2006</u>	Estimate <u>2007</u>	Estimate <u>2008</u>	Estimate <u>2009</u>	Estimate <u>2010</u>	Estimate <u>2011</u>	Estimate <u>2012</u>
Real Gross Domestic Product							
Economy.com	2.9%	2.0%	2.3%	3.2%	3.1%	2.8%	2.8%
Global Insight	2.9%	2.0%	2.0%	2.9%	2.8%	2.8%	2.6%
U.S. Payroll Employment							
Economy.com	1.9%	1.3%	0.7%	1.1%	1.3%	1.1%	1.3%
Global Insight	1.9%	1.3%	0.7%	1.2%	1.2%	1.1%	1.0%
U.S. Personal Income							
Economy.com	6.6%	6.4%	4.7%	4.9%	5.0%	4.8%	4.6%
Global Insight	6.6%	6.5%	4.8%	5.1%	5.2%	5.1%	5.1%
Consumer Price Index							
Economy.com	3.2%	2.8%	2.0%	1.9%	2.2%	2.3%	2.3%
Global Insight	3.2%	2.7%	1.8%	1.8%	1.9%	1.8%	1.8%
30-Year Fixed Mortgage Rate							
Economy.com	6.4%	6.4%	6.8%	7.1%	7.1%	6.9%	6.9%
Global Insight	6.4%	6.4%	6.3%	6.8%	6.9%	7.0%	7.0%

* Except mortgage rate. The projections for Economy.com and Global Insight are from their respective October 2007 forecasts.

Source: Moody's Economy.com and Global Insight

The Maryland economy marked its third year in a row of healthy growth in 2006. Total personal income grew 5.7 percent in 2006, the same as the growth in 2005. Income from wages and salaries grew slower in 2006 as did the business income of individuals. But income from dividends, interest, and rent was up substantially from 2005. Employment rose by 1.2 percent, slowing from the 1.5 percent pace in 2005. Industries related to the housing market, such as real estate agents and certain finance companies, experienced job losses especially in the second half of 2006. The retail trade sector also posted a year-over-year drop in employment in the second half of 2006.

The data available for 2007 presents a somewhat mixed picture of the Maryland economy. Through September, employment is up 1.1 percent but growth has picked up in recent months. Employment grew 0.9 percent in the first quarter, 1.1 percent in the second quarter and 1.3 percent in the third quarter. Total personal income grew 5.8 percent in the first half of 2007. Wage and salary income is up 5.7 percent compared to growth of 5.4 percent in 2006. The Maryland housing market continues to contract sharply. According to data from the Maryland Association of Realtors, sales have fallen 20 percent through September on top of a 21 percent decline in 2006. The median price has fallen on a year-over-year basis in three of the last five months.

The economic outlook is for slower growth compared to the forecast from December 2006 that was the basis of the revenue projections from the Board of Revenue Estimates. Part of this is due to a substantial downward revision to the personal income history. Also important is the weaker employment growth in 2006 and year-to-date in 2007 than was previously estimated. The continuing contraction in the residential housing market will weigh on the economy, resulting in projected employment growth of less than 1.0 percent in 2008. Personal income growth is expected to slow to 5.4 percent in 2008. Economic growth should rebound in 2009 in response to further interest rate cuts from the Federal Reserve and a bottoming out of the housing market. The impact of the U.S. Department of Defense's Base Realignment and Closure (BRAC) process, which is expected to bring a net 15,800 direct and indirect jobs to Maryland, will begin to be felt in 2010.

General Fund Revenue Projections

The process of doing long-term revenue projections begins with the close-out of the recently completed fiscal year, fiscal 2007 in this case. Based on the revenue performance in fiscal 2007, relative to the estimate, as well as revised economic assumptions, the revenue estimate for the current fiscal year (fiscal 2008) is revised. Future fiscal years (2009-2013) are then built off the newly revised estimate for the current fiscal year.

Maryland Economic Outlook

Forecasted Year-over-year Percentage Change

Calendar Year	Employment		Personal Income	
	<u>Dec. 2006</u>	<u>Oct. 2007</u>	<u>Dec. 2006</u>	<u>Oct. 2007</u>
2004	1.2%	1.2%	7.2%	6.9%
2005	1.4%	1.5%	6.3%	5.7%
2006	1.4%	1.2%	6.6%	5.7%
2007E	1.3%	1.0%	5.8%	5.7%
2008E	1.5%	0.8%	5.7%	5.4%
2009E	1.8%	1.6%	5.8%	5.7%
2010E	1.8%	1.6%	6.0%	5.6%

Source: December 2006 is from the Board of Revenue Estimates; the October 2007 is from the Department of Legislative Services; figures for 2006 are estimates in the Dec. 2006 columns

Fiscal 2007 Close-Out

Fiscal 2007 general fund revenues exceeded the estimate by \$75.0 million, or 0.6 percent. General fund revenues totaled \$12.9 billion in fiscal 2007, an increase of 4.4 percent over 2006. Excluding one-time revenues, ongoing revenues grew 4.6 percent in 2007. The personal income tax grew 7.7 percent over 2006 and exceeded the estimate by \$85.3 million. Gross receipts (State and local) exceeded the estimate by \$90.6 million while refunds were under the estimate by \$55.3 million.

The sales tax was the biggest source of weakness, falling short of the estimate by \$37.1 million and growing just 1.9 percent over 2006. Law changes relating to the tax-free week for back-to-school items in fiscal 2007, and the reduced vendor credit in fiscal 2006 distort the year-over-year comparison. Adjusted for law changes, sales tax receipts grew around 2.6 percent in 2007, the weakest growth since 2003. The construction sector fell 4.6 percent reflecting the contracting housing market. Both the capital goods and consumer sectors grew more slowly, rising a little over 3.0 percent compared to around 5.5 percent in 2006. Utilities were up strongly, growing 11.0 percent, just slightly slower than in 2006.

Fiscal 2007 was a difficult year for the lottery. General fund revenues fell 1.5 percent, the first decline since fiscal 1999. Sales grew just 1.1 percent while prize payouts were up 2.3 percent. Agent commissions were increased from 5.0 to 5.5 percent per HB 147 (2005 session). As a result, agent earnings in fiscal 2007 were up 9.2 percent. The Mega Millions game had just one large jackpot in 2007 and sales consequently fell 15.5 percent. Sales for the Instant game were up 2.4 percent, the slowest pace since 1998. A new vendor contract and conversion to a new inventory system created some issues but sales picked up considerably toward the end of the fiscal year.

The corporate income tax exceeded the estimate by \$16.3 million but fell 5.4 percent from 2006. Gross receipts were down 2.2 percent while refunds were up almost 14 percent. Revenue from the business franchise taxes exceeded the estimate by \$12.4 million, growing 5.3 percent over fiscal 2006. Legislation from the 2006 session (SB 335) caps the total amount of the Maryland-mined coal credit that utilities can claim beginning in tax year 2007 and several companies increased their estimated payments as a result, boosting receipts in fiscal 2007 relative to fiscal 2006.

Fiscal 2008 has gotten off to a slow start. Total general fund revenues through September are up just 0.4 percent over the same period in 2007. However, a number of things are distorting the year-over-year comparison. Fiscal 2007 reflects the impact of the tax-free week for back-to-school items. There was no tax-free week in fiscal 2008. Fiscal 2007 also reflects extraordinarily large estate tax payments from a small number of estates. And fiscal 2008 reflects the payment of a large one-time refund in the corporate income tax. The year-to-date growth in general fund revenues is about 3.1 percent after adjusting for these items.

Fiscal 2007 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<u>Actual</u>	----- FY 2007 -----		<u>Percent Change</u>	
	<u>FY 2006</u>	<u>Estimate*</u>	<u>Actual</u>		<u>Difference</u>
Personal Income	\$6,200.2	\$6,593.9	\$6,679.2	\$85.3	7.7%
Sales and Use Tax	3,355.2	3,457.2	3,420.1	-37.1	1.9%
State Lottery	480.5	477.4	473.1	-4.3	-1.5%
Corporate Income Tax	623.2	573.5	589.8	16.3	-5.4%
Business Franchise Taxes	196.2	194.2	206.6	12.4	5.3%
Insurance Premiums Tax	274.9	286.1	283.3	-2.8	3.1%
Estate and Inheritance Taxes	221.9	220.1	224.3	4.2	1.1%
Tobacco Tax	280.3	285.1	278.2	-6.9	-0.8%
Alcohol Beverages Tax	28.0	28.5	28.7	0.2	2.6%
Motor Vehicle Fuel Tax	13.2	13.3	13.2	-0.1	-0.1%
District Courts	91.3	104.2	97.0	-7.1	6.3%
Clerks of the Court	58.7	45.3	52.3	7.0	-10.9%
Hospital Patient Recoveries	85.8	83.1	84.9	1.8	-1.0%
Interest on Investments	162.5	172.8	178.9	6.1	10.1%
Miscellaneous	298.1	330.4	330.5	0.1	10.9%
Total Current Revenues	\$12,369.9	\$12,865.2	\$12,940.2	\$75.0	4.6%
MCI Settlement	20.4	0.0	0.0	0.0	n/a
Grand Total	\$12,390.3	\$12,865.2	\$12,940.2	\$75.0	4.4%

* From the Board of Revenue Estimates, March 2007 with adjustments for actions at the 2007 legislative session.

Fiscal 2008 Revised Estimate

The significant under-attainment in the sales tax in fiscal 2007 combined with the weak year-to-date performance and the expectation of slowing economic growth results in a general fund forecast of less than 5.0 percent growth for both fiscal 2008 and 2009. The DLS estimate of \$13.4 billion is 3.3 percent higher than the fiscal 2007 level.

The personal income tax is expected to be \$31 million higher than the current estimate, substantially lower than the \$85 million over-attainment in fiscal 2007. Growth is expected to be 5.9 percent, down from 7.7 percent in 2007. The slowing economy is the key factor in the revised forecast. The contraction in the residential housing market should temper the growth in capital gains income for 2007. According to data from the Maryland Association of Realtors, through September the value of existing home sales (sales times average price) has fallen 18.4 percent compared to the same period last year.

The DLS estimate for the sales tax in fiscal 2008 is \$106 million lower than the current estimate. Compared to fiscal 2007, sales tax revenues are expected to grow 2.8 percent in fiscal 2008 down from the current estimate which calls for growth of 4.8 percent. The contracting housing market will continue to weigh on the sales tax, pulling down the construction sector by an estimated 5.0 percent in fiscal 2008. The consumer sector is expected to grow 4.4 percent in fiscal 2008. This is a little bit stronger than growth in fiscal 2007 (3.3 percent) due to the lack of a tax-free week but it is below the projected growth in income.

The Lottery seems poised to have a much better year in fiscal 2008. Sales in the first three months of the year are up 13.7 percent and general fund revenues are up 8.4 percent. A large jackpot has boosted sales in the Mega Millions game which are up 81.3 percent, or \$16.3 million, over this time last year. Sales for the Instant game have also rebounded, up 21.0 percent (\$20.0 million) through September. The large increase in sales somewhat overstates the strength of the lottery since the comparison is being made to a very weak period last year. Even so, sales for all of fiscal 2008 are expected to rise 5.0 percent, a significant acceleration from the 1.1 percent growth in 2007. Net revenues are projected to grow even stronger at 7.2 percent as prize payouts return to a more normal level. In fiscal 2007, the lottery made heavy use of balances in the unclaimed prize fund, tapping \$25.0 million to support promotions and offset prize expenses. The lottery expects to have about \$15.0 million from the unclaimed prize fund to support fiscal 2008 revenues. As a result, net revenue, including the unclaimed prize fund money, is expected to grow 4.8 percent in fiscal 2008.

The DLS estimate for corporate income tax revenue in fiscal 2008 is \$22.5 million lower than the current estimate and reflects a decline of 2.4 percent compared to fiscal 2007. This downward revision reflects the very large refunds that have already been paid out in fiscal 2008. Partially offsetting that is the impact of legislation from the 2007 session (SB 945/HB 1257) that altered the tax treatment of captive real estate investment trusts. That legislation is expected to increase general fund revenues by \$7.6 million in fiscal 2008 and \$10.1 million in 2009.

Among the smaller revenues sources, DLS is expecting substantially more revenue than the current estimate for interest earnings (\$55.7 million) reflecting the large \$978.0 million transfer from the Rainy Day Fund to the general fund. At the same time, DLS has lowered the estimate for the estate and inheritance taxes (\$16.0 million) and the tobacco tax (\$13.8 million). These changes reflect attainment in fiscal 2007 and year-to-date performance.

Fiscal 2009 to Fiscal 2013 Revenue Projections

General fund revenues are projected to grow 4.9 percent in fiscal 2009 up from 3.3 percent in 2007. An improving economy in 2009 should help the income and sales taxes to post better growth rates. DLS estimates that general fund personal income tax revenues will increase 6.3 percent in fiscal 2009, up from 5.9 percent in 2008. The sales tax is projected to grow 4.6 percent in 2009 compared to 2.8 percent this year. The expectation is that the construction sector would begin to show some growth in fiscal 2009 although downside risks remain. Lottery sales are projected to grow 3.5 percent in fiscal 2009, down from 5.0 percent in 2008. Growth in 2008 is above trend because of the comparison to the very weak performance in 2007. The forecast for 2009 to 2013 reflects a return to trend lottery sales growth. The drawdown of general fund and reserve fund balances is expected to result in a sizeable 17.2 percent drop in general fund interest earnings in 2009.

Over the long-term horizon, fiscal 2010 to 2013, total general fund revenues should grow between 5.1 and 5.7 percent as the economy recovers and the impact of the Defense Department's BRAC realignment begins to be felt.

Department of Legislative Services
General Fund Revenue Projections
(\$ in Millions)

<u>Revenue Source</u>	<u>Actual</u> <u>FY 2007</u>	<u>Estimate</u> <u>FY 2008</u>	<u>Estimate</u> <u>FY 2009</u>	<u>Estimate</u> <u>FY 2010</u>	<u>Estimate</u> <u>FY 2011</u>	<u>Estimate</u> <u>FY 2012</u>	<u>Estimate</u> <u>FY 2013</u>
Personal Income Tax	\$6,679.2	\$7,021.1	\$7,517.3	\$8,035.1	\$8,573.3	\$9,131.0	\$9,707.7
Sales and Use Tax	3,420.1	3,516.7	3,680.0	3,881.8	4,079.2	4,285.9	4,490.3
State Lottery	473.1	496.5	510.0	523.5	537.7	552.6	568.4
Corporate Income Tax	589.8	575.6	597.9	614.2	611.7	608.2	602.6
Business Franchise Taxes	206.6	207.2	211.6	211.8	212.2	215.6	216.2
Tax on Insurance Premiums	283.3	290.1	301.7	314.4	326.4	338.0	349.5
Estate and Inheritance Taxes	224.3	184.3	200.7	217.2	231.1	246.8	260.2
Tobacco Tax	278.2	274.5	273.8	273.1	272.5	271.9	271.3
Alcohol Beverages Tax	28.7	29.6	30.3	30.9	31.6	32.2	32.9
Motor Vehicle Fuel Tax	13.2	13.3	13.5	13.6	13.7	13.9	14.0
District Courts	97.0	98.6	100.2	101.8	103.4	105.1	106.8
Clerks of the Court	52.3	45.8	46.4	47.5	48.5	49.2	49.6
Hospital Patient Recoveries	84.9	85.3	86.4	87.6	88.8	90.1	91.4
Interest on Investments	178.9	150.7	124.7	132.6	145.1	155.3	168.6
Miscellaneous	330.5	322.9	321.3	326.0	331.0	335.4	339.9
Total Revenues	\$12,940.2	\$13,363.2	\$14,015.5	\$14,811.2	\$15,606.1	\$16,431.2	\$17,269.2
<i>Percent Change</i>		3.3%	4.9%	5.7%	5.4%	5.3%	5.1%