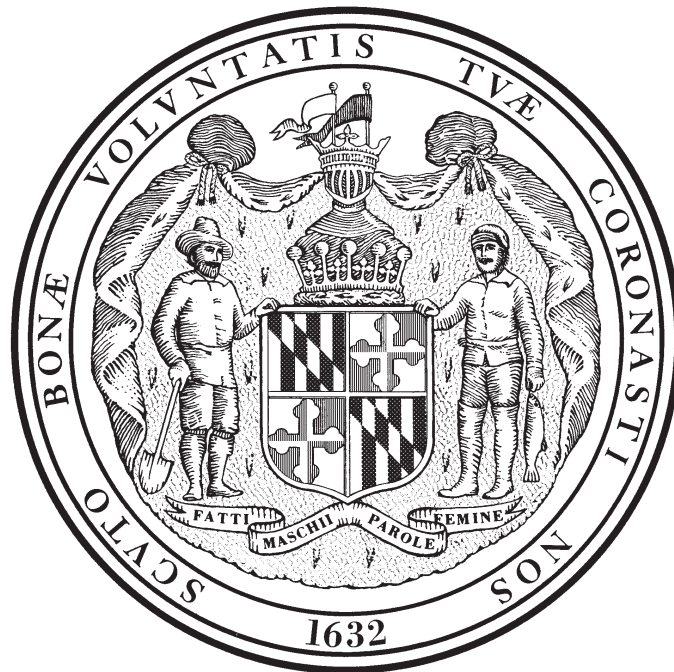


SPENDING AFFORDABILITY COMMITTEE

2008 Interim Report



ANNAPOLIS, MARYLAND
DECEMBER 2008

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December 17, 2008

The Honorable Martin O'Malley
Governor, State of Maryland
State House
Annapolis, Maryland 21401

Dear Governor O'Malley:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2008 interim. These recommendations were adopted by the committee at its meeting on December 16, 2008. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2010 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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

Sincerely,

Delegate John L. Bohanan, Jr
Presiding Chairman

Senator Ulysses Currie
Senate Chairman

JLB:UC/ESS/kjl

December 17, 2008

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

Ladies and Gentlemen:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2008 interim. These recommendations were adopted by the committee at its meeting on December 16, 2008. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report. The committee also reviewed the Budget Structure Study that was completed as required by Chapter 2 of the 2007 special session.

Recommendations were made concerning the fiscal 2010 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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Sincerely,

Delegate John L. Bohanan, Jr.
Presiding Chair

Senator Ulysses Currie
Senate Chair

JLB:UC/ESS/kjl

Maryland General Assembly Spending Affordability Committee 2008 Membership Roster

Delegate John L. Bohanan, Jr., House Chair
Senator Ulysses Currie, Senate Chair

Senators

David R. Brinkley
James E. DeGrange, Sr.
Edward J. Kasemeyer
Allan H. Kittleman
Rona E. Kramer
Richard S. Madaleno, Jr.
Nathaniel J. McFadden
Thomas M. Middleton
Thomas V. Mike Miller, Jr.
Donald F. Munson

Delegates

Kumar P. Barve
Talmadge Branch
Michael E. Busch
Norman H. Conway
Ann Marie Doory
Adelaide C. Eckardt
Sheila E. Hixson
Adrienne A. Jones
Anthony J. O'Donnell
James E. Proctor, Jr.

Citizens Advisory Committee

Dana M. Jones
Robert R. Neall
Frederick W. Puddester

Committee Staff

Erika S. Schissler

Support Staff

Kimberly J. Landry

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2008 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

The Spending Affordability Committee was created in 1982 (Chapter 585 of 1982). The committee is composed of 20 legislative members including the presiding officers, the majority and minority leaders, the chairmen of the fiscal committees (or their designees), and other members appointed by the presiding officers. A four-member citizen advisory committee assists the committee.

The committee's primary responsibility is to recommend to the Governor and the General Assembly a level of spending for the State operating budget that is reflective of the current and prospective condition of the State's economy. Consideration is given to constraining disproportionate growth in State-funded expenditures in any fiscal year which might necessitate or "build in" unsupportable levels of spending in future years. The committee's prior recommendations and legislative action on the operating budget are reflected in the table on the following page.

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic has fluctuated between 7.0 and 7.6%. Recent decisions, such as the unprecedented increases under the Bridge to Excellence in Public Schools Act, have raised spending to levels experienced in the mid-1980s. The chart on page 4 illustrates the historical pattern of spending versus personal income.

The committee notes that the State's budgetary outlook has worsened considerably due to the national and international economic downturn that began with the subprime mortgage crisis and the subsequent federal interventions and acute crises in the financial markets during 2008. In fact, the National Bureau of Economic Research concluded that the U.S. economy entered a recession in December 2007. Reduced current and projected revenue collections, coupled with increasing needs for social services as unemployment rises and wages stagnate, have created a dire budgetary picture.

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

**Spending Affordability Committee's Prior Recommendations and
Legislative Action on the Operating Budget
(\$ in Millions)**

<u>Session Year</u>	<u>Committee Recommendation</u>		<u>Legislative Action</u>	
	<u>Growth Rate</u>	<u>Amount</u>	<u>Growth Rate</u>	<u>Amount</u>
1983	9.00%	\$428.0	5.70%	\$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000*	6.90%	803.0	6.87%	800.0
2001**	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005***	6.70%	1,037.1	6.69%	1,036.3
2006***	9.60%	1,604.7	9.57%	1,599.0
2007	7.90%	1,450.0	7.51%	1,378.4
2008	4.27%	848.7	4.16%	826.8

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

**Data from the 2001 session and subsequent years reflect a revised methodology for calculating the spending affordability limitation.

***The committee initially approved a limit of 5.70% for 2005 and 8.90% for 2006.

Economy

The Maryland economy slowed in 2007 with employment advancing at about half the pace of 2006. Total personal income was up a strong 6.3% in 2007 due to a large 12.2% increase in income from dividends, interest, and rent. Wage income growth slowed between 2006 and 2007 (5.4% down to 5.0%). Economic conditions in 2008 have deteriorated further. Employment grew just 0.3% in the first half of the year. Initial claims for unemployment insurance are up almost 27.0% in the first 10 months of 2008. The unemployment rate rose from 3.6% in December 2007 to 5.0% in October 2008. Personal income growth has slowed substantially to just 4.0% in the first 6 months of the year. Growth in wage and salary income was just 3.6%. Vehicle sales have fallen almost 11.0% in the first 9 months of the year and taxable retail sales are down 2.8% in the January through October period. Home sales are down around 28.0% for January through October compared to the same period in 2007. The median home price has fallen 6.5% in the first 10 months of 2008.

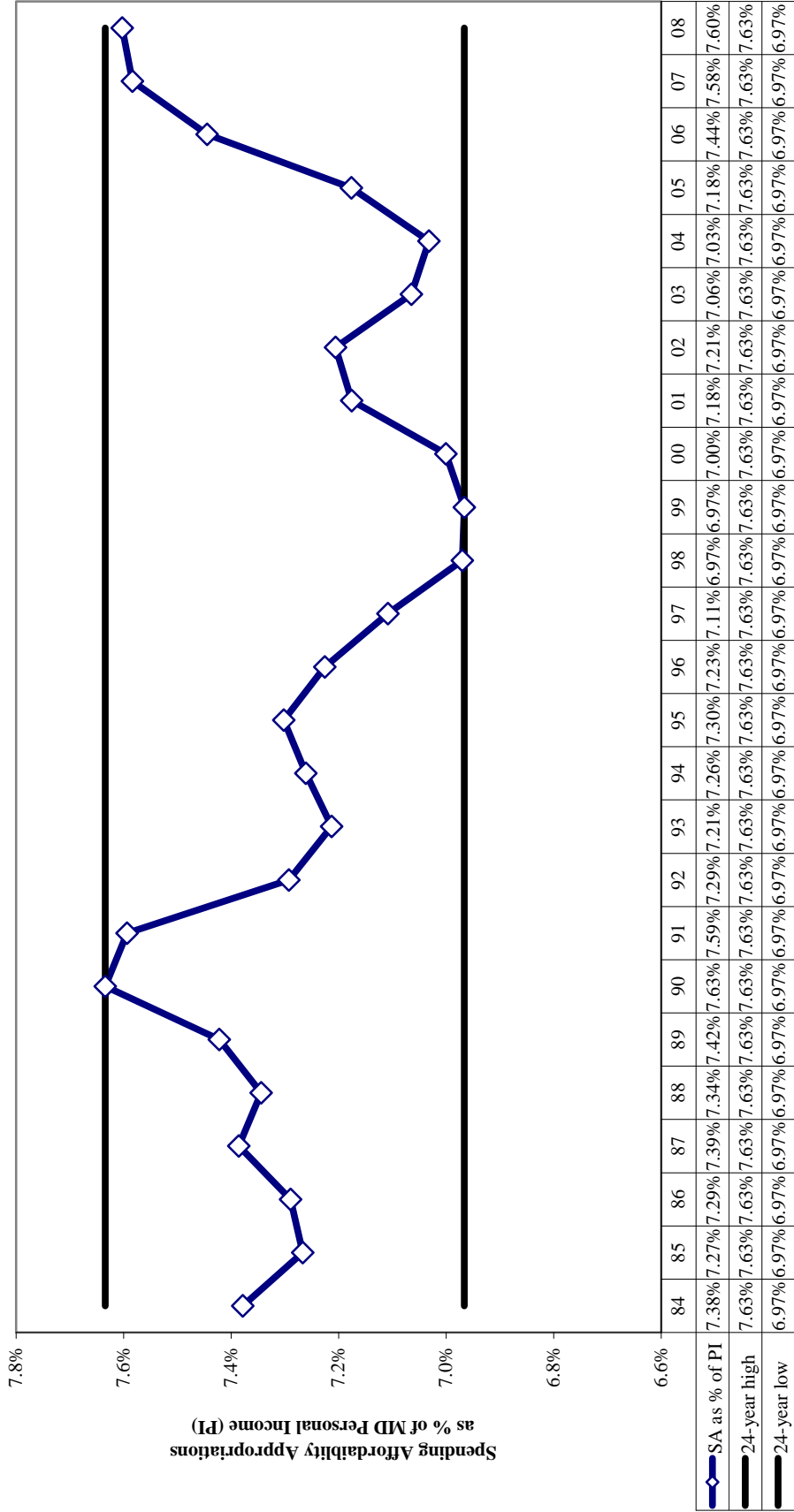
In September 2008, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland that was considerably weaker in 2008 through 2010 than the previous forecast, which dates from March. Given the global financial crisis that erupted in September and October 2008, along with the U.S. forecasts for a deeper, longer recession, the Department of Legislative Services (DLS) developed a new Maryland forecast. Employment and personal income growth is expected to be slightly slower than BRE's September 2008 forecast. Growth in 2009 and 2010 is considerably weaker. Employment is expected to fall in 2009, the first annual decline since 1992.

Revenues

Fiscal 2008 general fund revenues were below the estimate by \$71.2 million. General fund revenues totaled \$13.5 billion in fiscal 2008, an increase of 4.7% over 2007. Legislation from the 2007 special session made changes in the income tax, the sales tax, the corporate income tax, the tobacco tax, and some miscellaneous revenues. In general these changes went into effect in January 2008, thus impacting half of fiscal 2008. Adjusting for these law changes, it is estimated that general fund revenues in 2008 grew 1.5%. For fiscal 2009, total general fund revenues through November are up 1.8% over the same period in 2008. However, the various law changes adopted at the 2007 special session and the 2008 session are in effect now but were not in effect this time last year. Adjusted for law changes, fiscal 2009 revenues through November are down an estimated 2.9% compared to fiscal 2008 revenues.

The significant underattainment in fiscal 2008, combined with the weak year-to-date performance and deteriorating economic conditions, results in a substantial downward revision to the general fund forecast for fiscal 2009. In total, the DLS estimate for fiscal 2009 is \$159.0 million below BRE's September forecast and \$591.0 million below the estimate from the

**Ongoing Spending in Relation to Personal Income
Under Spending Affordability Concept**



2008 Spending Affordability Committee Report

2008 session. The DLS estimate reflects total growth of 2.8% with a baseline decline of 0.4% relative to fiscal 2008. The DLS estimate for fiscal 2010 is \$288.3 million below the September estimate with growth of 3.5%.

BRE further reduced revenue estimates in December, revising fiscal 2009 current revenues downward by \$423.2 million from its September figures and \$855.0 million below the estimate from the 2008 session. Similarly, BRE's current forecast for fiscal 2010 assumes a reduction of \$963.5 million compared to its September estimates, resulting in revenues \$675.2 million below DLS' October projections.

Budget Requirements

Considering the actions taken by the Board of Public Works (BPW) in October 2008 to reduce the fiscal 2009 budget and the revenue projections adopted by BRE in December 2008, the committee is currently projecting an ending balance of -\$391 million at the close of fiscal 2009. This projection presumes additional reversions of \$24.8 million and legislative concurrence with \$74.7 million in fund transfers that were proposed by the Governor, but not specified, in October 2008.

Contributing to this projected negative balance are anticipated spending shortfalls totaling \$104.8 million. Areas which are expected to require deficiency funding include foster care, energy assistance, medical assistance payments, per diem placements in Juvenile Services, local jail reimbursements, and overtime and contractual staffing costs in Juvenile Services and Public Safety.

Increases in teacher retirement expenses – with the freeze in the per-pupil foundation amount, this component outpaces growth in other segments of education aid – and escalating Medicaid expenses contribute significantly to the increases in operating spending forecast for 2010. The forecast also assumes considerable increases in State agency costs, including a 2.0% general salary increase and full budgeting for employee and retiree health insurance costs.

The actions by BPW, while reducing the fiscal 2009 budget by \$297 million, have a much more modest impact on the fiscal 2010 budget. DLS estimates that only \$141 million of the reductions represent ongoing savings. The remaining items are deferrals of expenses that will come later and reductions to mandated formulas which will revert to full funding absent legislative action. These factors result in an estimated increase in operating spending of 7.6% compared to an estimated 6.4% as detailed in the committee's earlier work this interim.

The committee projects the State will close fiscal 2009 with a balance of \$732 million in the Rainy Day Fund, which represents 5.36% of general fund revenues. When combined with a general fund balance of -\$391 million, the total combined cash balance is projected at \$341 million.

Recommendations

In light of the considerations discussed above, the committee proposes the following recommendations for the 2009 session:

1. Operating Budget

A. Spending Limit and Sustainability

Appropriations subject to the spending affordability limit shall be limited to growth of no greater than 0.7% over those approved at the 2008 session. This limit would provide for a \$146 million increase in appropriations at the 2009 session, allowing for total expenditures subject to spending affordability of \$20,953 million.

B. Calculation Adjustments

Since the 2005 session, pass-through spending for medical malpractice insurance subsidies has been excluded from the Spending Affordability Committee calculation. **In that these funds have now been integrated into Medicaid spending, it is recommended that the calculation be adjusted to include these funds.**

The General Assembly added language to the fiscal 2007 budget bill directing the Department of Budget and Management (DBM) to establish policies and procedures to minimize reliance on budget amendments for appropriations that could be included in the budget bill as a deficiency appropriation. To encourage compliance with the new policy, the committee excluded from the calculation of the 2007 session spending limit, any deficiency appropriations that could otherwise be submitted as budget amendments. The practice to use deficiency appropriations in lieu of budget amendments is now established, so there is no longer any need for a specific exclusion related to this type of deficiency appropriation. **The committee recommends that all such deficiency appropriations be included in the affordability limit.**

2. Rainy Day Fund

In addition to its general fund recommendations, the committee also continues to recommend a prudent use of the Revenue Stabilization Account (“Rainy Day” Fund) to address general fund needs. The committee projects a Rainy Day Fund balance at the beginning of fiscal 2010 of \$731.6 million, which exceeds the statutory requirement for a balance of at least 5% of estimated general fund revenues by \$49.6 million. The Governor will be required to include \$175.7 million for the Rainy Day Fund in the fiscal 2010 allowance, based on the unappropriated general fund surplus above \$10.0 million from the fiscal 2008 closeout.

The committee continues to recommend prudent use of the Rainy Day Fund. The balance should be reduced below 5% of estimated revenue only as a last resort and only as

part of a multi-year plan to achieve structural balance. Other mechanisms, including fungible federal stimulus payments, should be used for short-term budget-balancing needs before tapping the Rainy Day Fund.

3. Capital Budget

A. General Obligation (GO) Debt

The committee concurs with the recommendation of the Capital Debt Affordability Committee (CDAC) that a maximum of \$1.11 billion in general obligation bonds may be authorized at the 2009 session. This level allows for a \$175 million increase in spending over the 2008 session authorization and includes \$5 million for the Tobacco Transition Program.

The recommendation to increase the authorization by \$175 million in the 2009 session reflects a change in CDAC's authorization policy. In response to high demand for capital spending, the committee increased the authorization by a one-time infusion of \$150 million and recommended that \$75 million of this be used for school construction so that the funding be maintained at \$325 million. This increase in debt authorization is affordable within CDAC's framework, which requires that State debt outstanding not exceed 4.0 % of State personal income and that State debt service not exceed 8.0% of State revenues supporting debt service.

The committee concurs in the recommendation of the Capital Debt Affordability Committee that up to \$1.11 billion in new general obligation bonds may be authorized at the 2009 session. Insofar as the State is facing an economic slowdown and a general fund budget deficit, the committee recommends that the additional \$150 million in GO bonds be used to relieve operating budget pressure and support projects that need immediate financing.

The committee is concerned that debt service requirements for GO bonds will potentially exceed the anticipated revenues to the Annuity Bond Fund in fiscal 2010 and certainly in fiscal 2011. Careful planning will be needed to meet debt service requirements given the current and projected status of the general fund and the Annuity Bond Fund.

B. Higher Education Debt

For fiscal 2010 the University System of Maryland intends to issue up to \$88 million in auxiliary debt and \$27 million in academic debt. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2010. **The committee concurs in the recommendation of CDAC that \$27 million in new academic revenue bonds may be authorized in the 2009 session for the University System of Maryland.**

C. Transportation Debt

Maryland's debt policies have earned the State AAA bond ratings from all three major rating agencies. Rating agencies have commented that one of Maryland's strengths is setting and abiding by debt affordability limits. CDAC is charged with recommending debt limits. Included in its calculation of State debt are bonds issued by the Maryland Department of Transportation. As such, these bonds compete with other State capital projects within debt affordability limits. **The committee recommends that the General Assembly continue to set an annual limit on the level of State transportation debt to keep debt outstanding within the 4% of personal income debt affordability criterion and debt service within the 8% of revenues debt affordability criterion.**

4. Operating Maintenance Exclusion

For the last eight years, operating spending by the Department of General Services (DGS) on facilities maintenance projects above a base funding level of \$2 million has been excluded from the spending affordability calculation. The exclusion was initially authorized in the committee's December 2000 report, which noted a backlog of operating maintenance projects at State facilities in the magnitude of \$47 million. Left unaddressed, the committee recognized that this could lead to further deterioration of the State's infrastructure and to higher costs in the long run.

Despite the exclusion, DGS reports that it currently has a \$36.0 million backlog of deferred maintenance and repair work, an increase of \$1.0 million since the report in 2007. DGS is making some progress in addressing needs rated as either high or medium priority (posing a high economic risk), reducing the backlog in that segment from \$22.4 million last year to \$20.4 million currently. In an October 2007 report to the budget committees, DGS estimated that the backlog could eventually be eliminated by fiscal 2021 with an annual deferred maintenance appropriation of \$5.0 million; annual appropriations of \$3.0 million would extend this time frame to fiscal 2023. These projections assume that new projects accumulate at the historical annual average of \$2.5 million a year. The DGS report indicated that current staffing levels would have to be increased in order to manage projects above a \$5.0 million funding level. **In an effort to reduce the backlog, the committee continues to support the exclusion from the spending affordability calculation of operating maintenance spending by DGS above the historical spending level of \$2.0 million.**

5. State Employment

Personnel costs comprise approximately one-fourth of the State operating budget; the use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 77,544 in fiscal 2005, before position counts began to rise again, reaching 81,582 in fiscal 2008. Recent actions to eliminate positions have brought the

2008 Spending Affordability Committee Report

total down to 81,247 in fiscal 2009. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in 2002 to 52,955 in 2009. The fiscal 2009 totals recognize the actions by BPW to eliminate 11.5 positions in June 2008 and 830 positions in October 2008, as well as the addition of 254 higher education positions (as authorized by statute) and the creation of 4 Executive Branch positions under the Rule of 50.

Despite the decline in the number of authorized positions, the committee notes that, exclusive of higher education, there are currently more than 3,340 vacant Executive Branch positions, approximately 523 of which are funded, in the 2009 budget. The high number of funded vacant positions suggests that many additional workforce needs may be addressed through full utilization and reallocation of existing resources.

The committee finds that the current complement of positions is not sustainable within the fiscal capacity of the State budget and recommends that the total be reduced by 1,000 positions, resulting in a position cap for fiscal 2010 of 80,247. The budget committees, as they consider executive agency, Judiciary, and higher education budgets during the 2009 session, should determine the necessary and appropriate reductions to reach this limit.

6. Study of Maryland's Budgetary Structure and Process

Chapter 2 of the 2007 special session includes a provision calling for the Spending Affordability Committee, in cooperation with DBM, to undertake a study of Maryland's budgetary structure and process. Specifically, the study is to "address how current laws and practices relate to national norms and best practices with respect to budget formulation, review, management, and oversight by the Executive and Legislative branches."

The committee received a report from DLS which examines the methods used by the General Assembly to express its budgetary priority in light of the strong executive budget power. Over time, the techniques of "fencing;" mandating appropriation levels; creating special funds; and passing supplementary appropriation bills have been used to varying degrees.

The committee appreciates the research conducted by DLS and the recommendations that were made. The highest priority for the State at this time, however, is addressing the current fiscal crisis. **The committee recommends that consideration of changes to the State's budgetary process and structure be taken up by the budget committees once a stable fiscal situation is established.**

2008 Spending Affordability Committee Report

Part 1

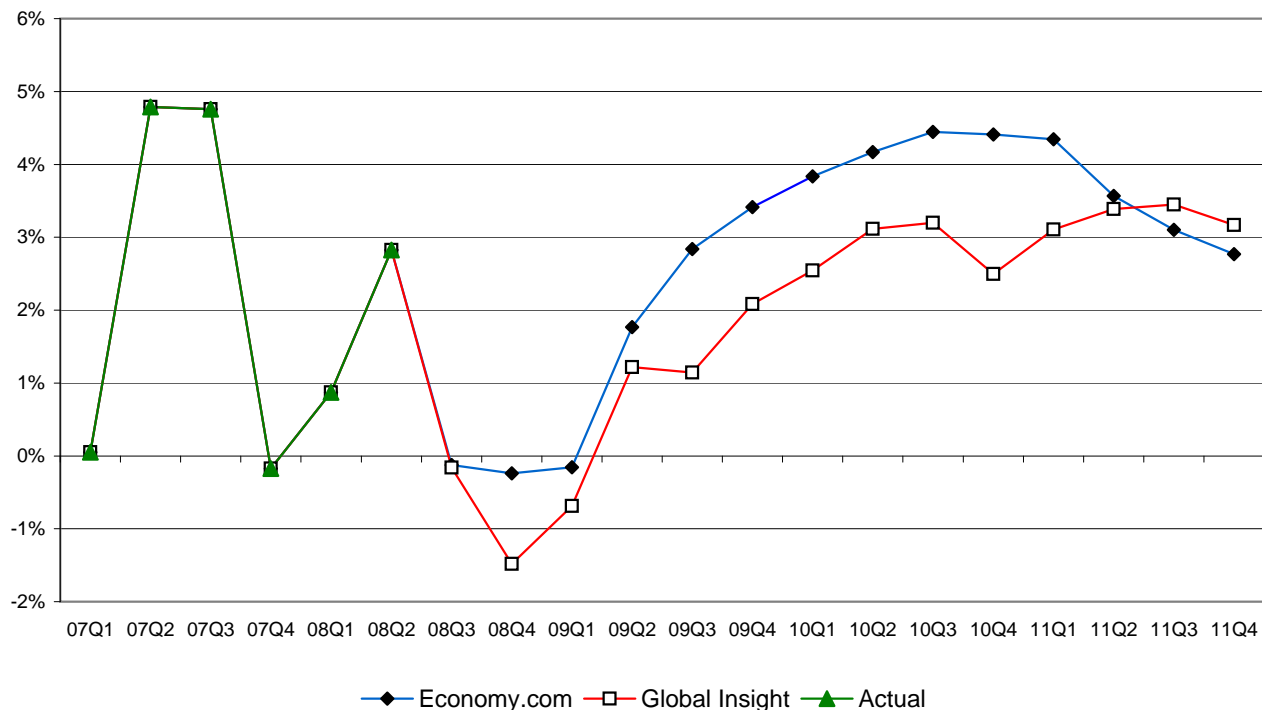
Economic Outlook

U.S. Economic Outlook

Year-over-year Percent Change

Calendar Year	Real GDP		Employment		Personal Income		
	<u>E.com</u>	<u>Global Insight</u>	<u>E.com</u>	<u>Global Insight</u>	<u>E.com</u>	<u>Global Insight</u>	
2005	2.9%	2.9%	1.7%	1.7%	5.6%	5.6%	
2006	2.8%	2.8%	1.8%	1.8%	7.1%	7.1%	
2007	2.0%	2.0%	1.1%	1.1%	6.1%	6.1%	
2008	E	1.6%	1.5%	0.0%	-0.1%	4.1%	4.4%
2009	E	1.0%	0.2%	-0.7%	-1.0%	3.2%	2.7%
2010	E	3.7%	2.4%	1.3%	0.8%	4.6%	3.7%
2011	E	4.0%	3.1%	2.3%	1.7%	5.0%	5.1%

Inflation-adjusted U.S. Gross Domestic Product Annualized Percent Change



Note: The forecasts from Economy.com and Global Insight were both last updated October 6, 2008.

Real GDP: inflation-adjusted gross domestic product

E.com: Moody's Economy.com, Inc.

Maryland Economic Performance

Year-over-year Percent Change*

<u>Month-Year</u>	<u>Unemployment Rate</u>	<u>Initial UI Claims</u>	<u>Existing Home Sales</u>	<u>Median Home Price</u>	<u>Vehicle Sales</u>	<u>Sales Tax</u>
Jan-08	3.5%	10.6%	-41.3%	-5.7%	-9.2%	-2.2%
Feb-08	3.4%	6.9%	-39.4%	-7.6%	0.8%	3.5%
Mar-08	3.6%	39.1%	-36.9%	-6.3%	-12.0%	-6.8%
Apr-08	3.6%	23.4%	-30.0%	-6.0%	-3.9%	2.6%
May-08	4.0%	19.6%	-31.1%	-5.9%	-13.8%	-5.8%
Jun-08	4.0%	26.8%	-29.6%	-5.4%	-12.8%	-3.9%
Jul-08	4.3%	26.6%	-29.3%	-6.2%	-8.5%	0.9%
Aug-08	4.5%	21.5%	-25.8%	-6.5%	-19.8%	-1.0%
Sep-08	4.6%	62.6%	8.5%	-8.0%	-5.8%	-7.8%
Oct-08			-12.5%	-7.1%	-19.9%	

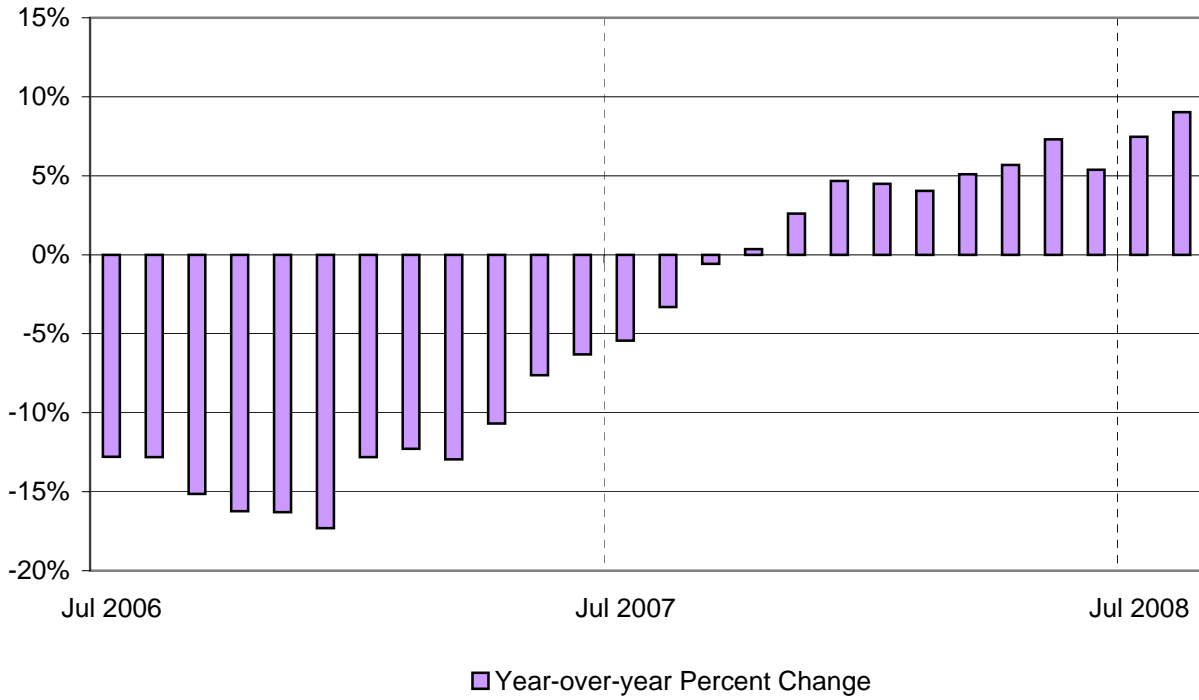
UI: Unemployment Insurance

* Except the unemployment rate

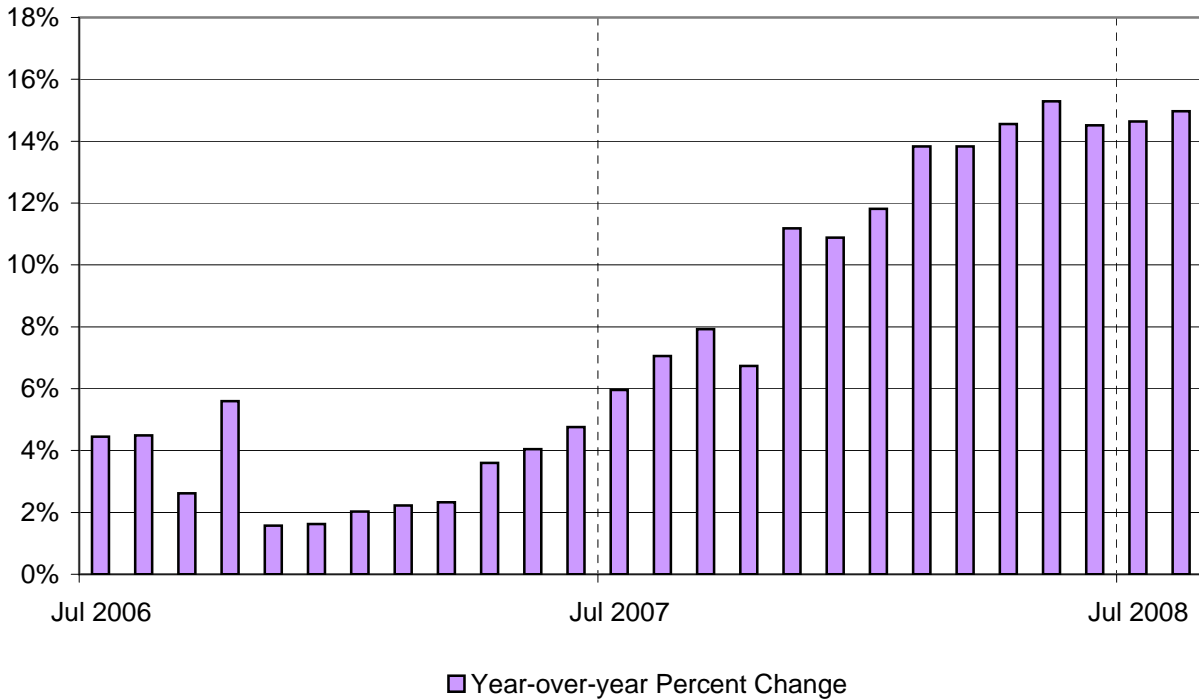
Note: The unemployment rate and the initial unemployment insurance claims are seasonally adjusted data. The sales tax is gross receipts (excluding assessments) adjusted for law changes.

Sources: The unemployment rate and the initial UI claims are from the U.S. Department of Labor. The seasonal adjustment for the UI claims was done by Moody's Economy.com, Inc. Home sales and the median home price are from the Maryland Association of Realtors. Vehicle sales come from the Maryland Motor Vehicle Administration. Sales tax data comes from the Maryland Office of the Comptroller.

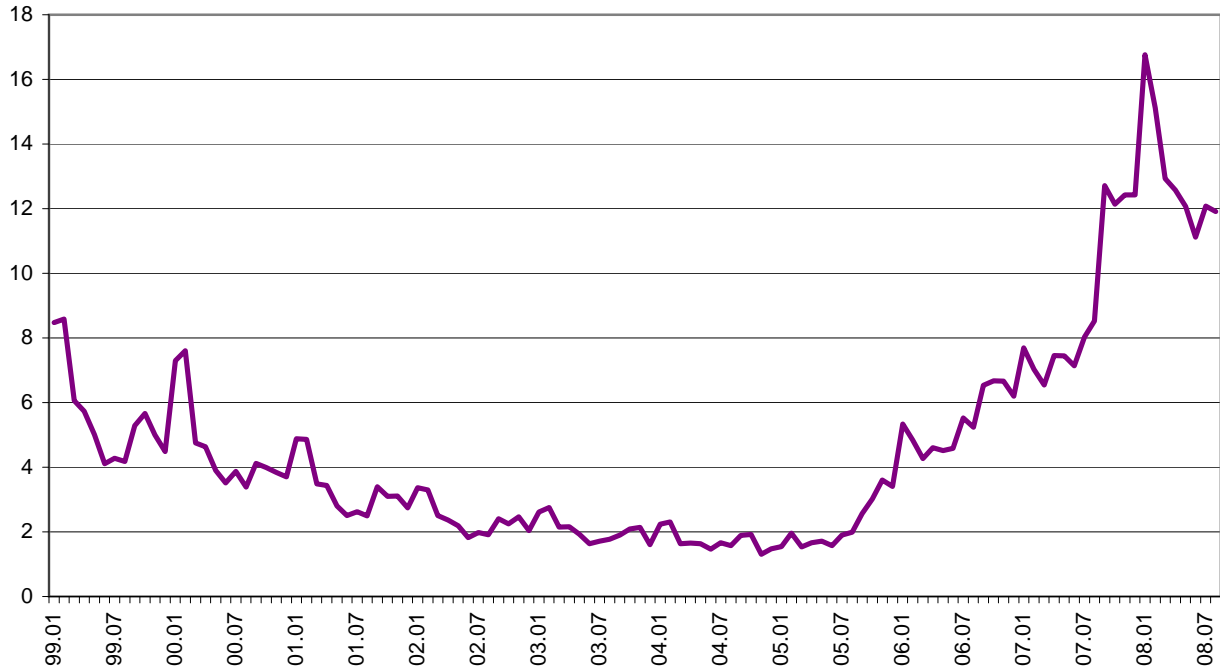
Temporary Cash Assistance Caseloads July 2006 to August 2008



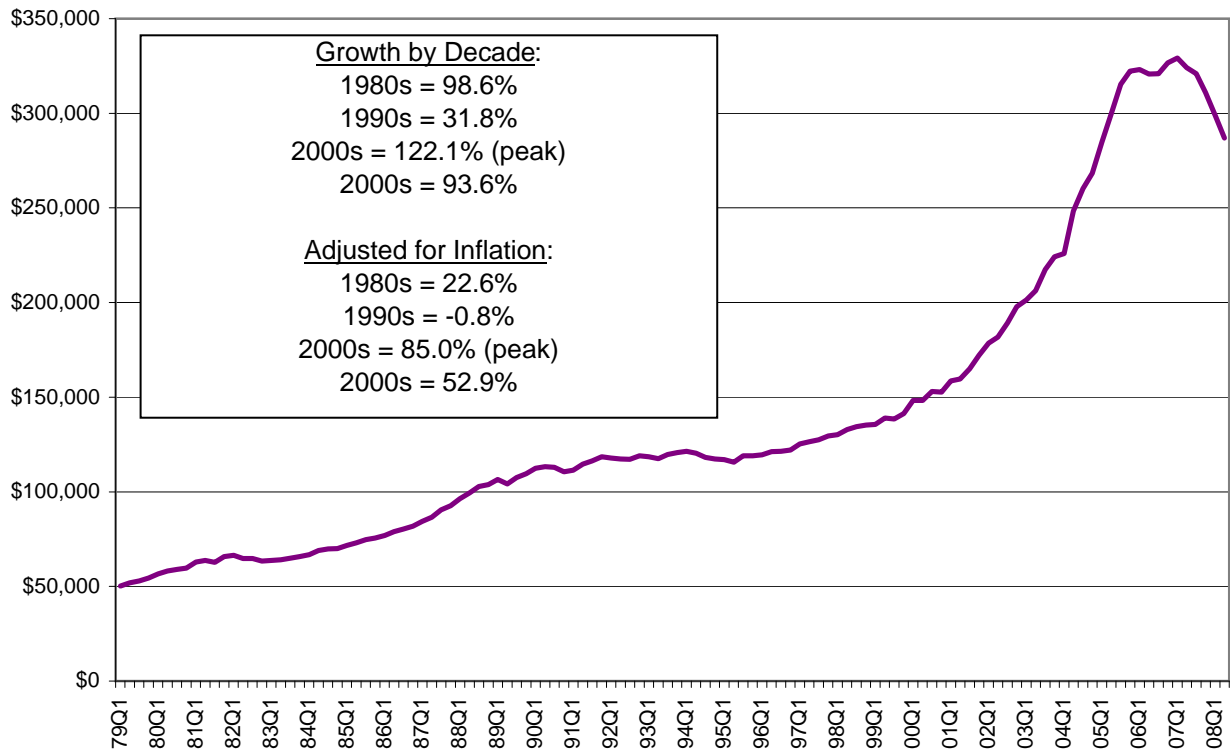
Food Stamps Caseloads July 2006 to August 2008



**Maryland Existing Homes – Ratio of Inventory to Sales
January 1999 to August 2008**



**Maryland Existing Single-family Median Home Price
1979Q1 to 2008Q2**



Maryland Economic Forecasts

Year-over-year Percent Change

Calendar Year	Employment		Personal Income	
	<u>Mar. 2008</u>	<u>Sep. 2008</u>	<u>Mar. 2008</u>	<u>Sep. 2008</u>
2005	1.5%	1.5%	5.7%	5.5%
2006	1.2%	1.3%	5.7%	5.7%
2007	0.8%	0.8%	5.7% *	5.4%
2008E	1.1%	0.6%	4.7%	4.4%
2009E	1.8%	0.3%	5.0%	3.4%
2010E	1.9%	1.2%	5.5%	4.9%
2011E	1.8%	1.8%	6.0%	5.5%

* Estimate

Source: March and September from Board of Revenue Estimates; October from Department of Legislative Services

Calendar Year	<u>Employment</u>	<u>Personal Income</u>
1989	2.5%	8.0%
1990	0.8%	5.9%
1991	-3.3%	3.4%
1992	-0.9%	4.8%
1993	1.0%	3.4%
1994	2.1%	4.6%

Part 2

General Fund Revenues

Fiscal 2008 General Fund Revenues (\$ in Millions)

<u>Source</u>	<u>FY 2007</u>	<u>Fiscal 2008</u>		<u>FY 2007-2008</u>
	<u>Actual</u>	<u>Estimate*</u>	<u>Actual</u>	<u>% Change</u>
Personal Income Tax	\$6,679.2	\$6,986.4	\$6,940.1	3.9%
Sales and Use Tax	3,420.1	3,751.7	3,675.3	7.5%
State Lottery ⁽¹⁾	473.1	497.1	497.1	5.1%
Corporate Income Tax	589.8	558.8	551.7	-6.5%
Business Franchise Taxes	206.6	209.1	208.0	0.7%
Insurance Premiums Tax	283.3	289.6	301.8	6.5%
Estate and Inheritance Taxes	224.3	220.5	243.5	8.6%
Tobacco Tax	278.2	393.3	376.1	35.2%
Alcohol Beverages Tax	28.7	29.6	29.0	1.0%
Motor Vehicle Fuel Tax	13.2	13.3	13.2	0.0%
District Courts	97.0	99.0	91.3	-5.9%
Clerks of the Court	52.3	46.9	42.6	-18.6%
Hospital Patient Recoveries	84.9	85.1	86.6	1.9%
Interest on Investments	178.9	122.6	166.5	-6.9%
Miscellaneous	330.5	313.8	322.9	-2.3%
Grand Total	\$12,940.2	\$13,616.8	\$13,545.6	4.7%
Estimated Baseline Growth			-\$71.2	1.5%

* From the Board of Revenue Estimates, March 2008, with adjustments for action at the 2008 legislative session.

⁽¹⁾ Fiscal 2008 net receipts after the distribution to the Maryland Stadium Authority totaled \$507.9 million, \$10.8 million above the estimate. The \$10.8 million overattainment was transferred to a special fund per Senate Bill 545 (2008 session).

Note: Fiscal 2008 revenues reflect numerous changes enacted at the 2007 special session impacting the personal income tax, sales tax, corporate income tax, and the tobacco tax. In general these changes went into effect in January 2008 thus impacting half of fiscal 2008 revenues.

Fiscal 2009 General Fund Revenues (\$ in Millions)

<u>Source</u>	<i>Fiscal Year through October</i>		
	<u>FY 2008</u>	<u>FY 2009</u>	<u>\$ Difference</u> <u>% Difference</u>
Personal Income Tax	\$1,752.3	\$1,758.2	\$5.9 0.3%
Sales and Use Tax ⁽¹⁾	867.6	947.5	79.9 9.2%
State Lottery	152.7	135.0	-17.7 -11.6%
Corporate Income Tax	91.1	125.1	34.0 37.4%
Business Franchise Taxes	44.0	44.5	0.5 1.2%
Insurance Premiums Tax	69.5	67.3	-2.2 -3.1%
Estate and Inheritance Taxes	83.5	78.4	-5.1 -6.1%
Tobacco Tax	79.7	116.2	36.5 45.9%
Alcohol Beverages Tax	7.2	7.3	0.1 1.3%
Motor Vehicle Fuel Tax	2.3	2.2	-0.2 -6.9%
District Courts	32.9	30.9	-2.1 -6.3%
Clerks of the Court	18.1	14.2	-3.9 -21.3%
Hospital Patient Recoveries ⁽²⁾	3.2	10.2	7.0 217.6%
Interest on Investments ⁽³⁾	39.9	24.0	-16.0 -40.0%
Miscellaneous	57.8	42.2	-15.6 -27.0%
Total Revenues	\$3,301.8	\$3,403.1	\$101.3 3.1%
Estimated Baseline Growth			-2.5%

⁽¹⁾ Data reflects sales tax revenue remitted to the Comptroller in August, September and October which were collected by retailers in July, August and September.

⁽²⁾ Includes revenues from Medicare, insurance, and sponsors only. Fiscal 2009 includes \$6.5 million from a Medicaid cost settlement.

⁽³⁾ Adjusted to reflect accrued interest earnings.

Note: Legislation adopted at the 2007 special session and the 2008 session impacted the personal income tax, sales tax, corporate income tax, tobacco tax, motor fuel tax, and certain miscellaneous revenues. In general, these changes went into effect in January 2008 thus impacting the second half of fiscal 2008 revenues but all of fiscal 2009.

Fiscal 2009 General Fund Revenue Projections (\$ in Millions)

<u>Source</u>	---- BRE Estimates ----			FY 2008-2009		DLS		Over BRE		FY 2008-2009	
	<u>May*</u>	<u>Sept.</u>	<u>\$ Chg.</u>	<u>% Change</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Sept.</u>	<u>% Change</u>	<u>Estimate</u>	<u>Sept.</u>	<u>% Change</u>
Personal Income Tax	\$7,444.9	\$7,309.8	-\$135.0	5.3%	\$7,249.9	\$7,249.9	-\$59.9	4.5%	\$7,249.9	-\$59.9	4.5%
Sales and Use Tax	4,052.6	3,787.4	-265.3	3.1%	3,776.8	3,776.8	-10.6	2.8%	3,776.8	-10.6	2.8%
State Lottery ⁽¹⁾	511.3	495.2	-16.1	-0.4%	495.2	495.2	0.0	-0.4%	495.2	0.0	-0.4%
Corporate Income Tax	672.7	672.7	0.0	21.9%	612.0	612.0	-60.7	10.9%	612.0	-60.7	10.9%
Business Franchise Taxes	206.5	200.9	-5.6	-3.4%	200.9	200.9	0.0	-3.4%	200.9	0.0	-3.4%
Insurance Premiums Tax	295.8	309.4	13.6	2.5%	309.4	309.4	0.0	2.5%	309.4	0.0	2.5%
Estate and Inheritance Taxes	213.0	210.4	-2.6	-13.6%	210.4	210.4	0.0	-13.6%	210.4	0.0	-13.6%
Tobacco Tax	451.0	433.0	-18.0	15.1%	433.0	433.0	0.0	15.1%	433.0	0.0	15.1%
Alcohol Beverages Tax	30.3	28.7	-1.6	-1.0%	28.7	28.7	0.0	-1.0%	28.7	0.0	-1.0%
Motor Vehicle Fuel Tax	6.5	6.5	0.0	-50.8%	6.5	6.5	0.0	-50.8%	6.5	0.0	-50.8%
District Courts	101.1	93.5	-7.6	2.4%	93.5	93.5	0.0	2.4%	93.5	0.0	2.4%
Clerks of the Court	46.8	40.8	-6.0	-4.1%	40.8	40.8	0.0	-4.1%	40.8	0.0	-4.1%
Hospital Patient Recoveries	75.3	75.3	0.0	-13.0%	75.3	75.3	0.0	-13.0%	75.3	0.0	-13.0%
Interest on Investments	97.1	122.0	24.9	-26.7%	93.7	93.7	-28.3	-43.7%	93.7	-28.3	-43.7%
Miscellaneous	316.1	303.5	-12.6	-6.0%	303.5	303.5	0.0	-6.0%	303.5	0.0	-6.0%
Total	\$14,521.0	\$14,089.2	-\$431.9	4.0%	\$13,929.7	\$13,929.7	-\$159.4	2.8%	\$13,929.7	-\$159.4	-0.4%
Estimated Baseline Growth				1.4%							
May 2008 Estimate growth over fiscal 2008				6.6%							

* From the Board of Revenue Estimates, March 2008, with adjustment for actions taken at the 2008 session.

⁽¹⁾ Fiscal 2008 net receipts after the distribution to the Maryland Stadium Authority totaled \$507.9 million, \$10.8 million above the estimate. The \$10.8 million overattainment was transferred to a special fund per Senate Bill 545 (2008 session). The fiscal 2009 estimate is about 2.5% below the total net receipts in fiscal 2008 of \$507.9 million.

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

Note: Legislation enacted at the 2007 special session and the 2008 session impacted the personal income tax, sales tax, corporate income tax, tobacco tax, motor fuel tax, and certain miscellaneous revenues. In general, these changes went into effect in January 2008 thus impacting half of fiscal 2008 revenues and all of fiscal 2009. Provisions of this legislation also resulted in different fund distributions for some revenue sources beginning in fiscal 2009 although in some cases those new distributions are limited in fiscal 2009 and become fully effective in fiscal 2010.

Fiscal 2010 General Fund Revenue Projections (\$ in Millions)

Source	BRE		FY 2009-2010		DLS		FY 2009-2010	
	Sept.	% Change	Oct.	% Change	Oct.	% Change	\$ Chg.	% Change
Personal Income Tax	\$7,697.7	5.3%	\$7,532.2				-\$165.5	3.9%
Sales and Use Tax ⁽¹⁾	3,932.8	3.8%	3,837.6				-95.2	1.6%
State Lottery	507.8	2.5%	507.8				0.0	2.5%
Corporate Income Tax ⁽²⁾	746.5	11.0%	737.0				-9.5	20.4%
Business Franchise Taxes	209.4	4.2%	209.4				0.0	4.2%
Insurance Premiums Tax	317.1	2.5%	317.1				0.0	2.5%
Estate and Inheritance Taxes	214.1	1.7%	214.1				0.0	1.7%
Tobacco Tax	427.9	-1.2%	427.9				0.0	-1.2%
Alcohol Beverages Tax	29.3	2.0%	29.3				0.0	2.0%
Motor Vehicle Fuel Tax ⁽³⁾	0.0	-100.0%	0.0				0.0	-100.0%
District Courts	95.8	2.4%	95.8				0.0	2.4%
Clerks of the Court	40.4	-1.0%	40.4				0.0	-1.0%
Hospital Patient Recoveries	62.0	-17.7%	62.0				0.0	-17.7%
Interest on Investments	115.0	-5.7%	97.0				-18.0	3.4%
Miscellaneous	306.0	0.8%	306.0				0.0	0.8%
Total	\$14,701.7	4.3%	\$14,413.5				-\$288.3	3.5%
Estimated Baseline Growth		3.9%						3.4%

⁽¹⁾ In fiscal 2009, \$18.5 million of the short-term rental vehicle tax went to the general fund. In fiscal 2010, the entire amount of the tax is split between the Transportation Trust Fund and the Chesapeake Bay 2010 Fund.

⁽²⁾ In fiscal 2009, the Higher Education Investment Fund will receive an estimated \$50.7 million from the corporate income tax. In fiscal 2010 there is no distribution and the money remains in the general fund.

⁽³⁾ The distribution of motor fuel tax revenue to the general fund ends in fiscal 2010.

BRE: Board of Revenue Estimates

DLS: Department of Legislative Services

Part 3

General Fund Budget

2010 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

- Current laws, policies, and practices are continued.
- Inflationary increases are recognized.
- Large one-time purchases and nonrecurring PAYGO expenditures are removed.
- Anticipated deficiencies are identified.
- Federal mandates and multi-year commitments are observed.
- Legislation adopted at the prior session is funded.
- Nondiscretionary changes in workload are recognized.
- Full year costs of programs started during the previous year are included.
- Positions and operating expenses associated with new facilities are recognized.
- Employee turnover is adjusted to reflect recent experience.

Caseload Assumptions

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>Percent Change FY 2009-2010</u>
Pupil Enrollment*	823,732	815,742	811,363	-0.5%
Medicaid	531,635	540,865	550,456	1.8%
Medicaid Exp. to Parents	0	36,420	38,075	4.5%
Medicaid Exp. to Childless Adults	0	0	36,344	N/A
Children's Health	108,504	112,368	116,402	3.6%
Temporary Cash Asst.	51,554	53,358	53,892	1.0%
Foster Care/Adoption	14,795	15,048	15,334	1.9%
Adult Prison Population	22,943	22,750	23,046	1.3%

* Data for 2008, 2009, and 2010 reflect 9/06, 9/07, and 9/08(est.) full-time equivalent enrollments.

2010 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance (7.0% increase).
- Medical contracts and supplies (5.1%).
- Prescription drugs for State facilities (5.1%).
- Natural gas, propane, and electricity (3.6%).
- Postage (2.1%) and supplies (2.0%).

Employee Compensation

- Merit increases (increments) of 2.0 or 4.0% based on salary schedule.
- 2.0% general salary increase for fiscal 2010.

Other Assumptions

- Cost increases for the University System of Maryland and Morgan State University are allocated between general funds and tuition and fees based on the fiscal 2008 ratio of general funds to tuition and fees.
- The fiscal 2010 forecast includes the full anticipated costs for both employee and retiree health insurance, including the use of a \$54 million projected surplus in the State Employees and Retirees Health and Welfare Benefits Fund.

PAYGO: pay-as-you-go

Fiscal 2009 General Fund Deficiencies (\$ in Millions)

	<u>Dollars</u>
Human Resources: Underfunding of foster care (\$22.1 million), low-income energy assistance (\$19.1 million), and legal services (\$0.7 million)	\$41.9
Juvenile Services: Underfunding of per diem placements (\$10.1 million), contractual staffing (\$4.6 million), and overtime and other personnel expenses (\$3.5 million)	18.2
Medicaid: Medicaid and children's health program costs (\$16.7 million).	16.7
Public Safety: Overtime (\$7.0 million), local jail reimbursements (\$6.3 million), inmate transportation (\$0.5 million), Drinking Driver Monitor Program fee shortfall (\$0.5 million)	14.3
Health Department: Breast and Cervical Cancer (\$2.6 million), newborn screening (\$1.1 million), Mental Hygiene Administrative Service Organization contract (\$0.9 million), gambling study (\$0.5 million)	5.1
Higher Education Commission: Community College Optional Retirement Program underfunding (\$3.6 million)	3.6
Education: Teacher Quality stipend (\$2.8 million), out-of-county living arrangements (\$0.7 million)	3.4
Other	1.5
Total	\$104.8

State Expenditures – General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2008</u>	<u>Adjusted</u> <u>Leg. Appr.</u> <u>FY 2009</u>	<u>Baseline</u> <u>FY 2010</u>	<u>FY 2009 to FY 2010</u> <u>\$ Change</u> <u>% Change</u>	
Debt Service	\$29.3	\$0.0	\$0.0	\$0.0	n/a
Aid to Local Governments					
County/Municipal	242.6	215.5	222.5	7.1	3.3%
Community Colleges	241.7	262.9	303.7	40.8	15.5%
Education/Libraries	5,224.0	5,418.9	5,632.5	213.5	3.9%
Health	67.0	68.8	70.6	1.8	2.6%
	\$5,775.2	\$5,966.0	\$6,229.3	\$263.3	4.4%
Entitlements					
Foster Care Payments	246.3	239.6	268.3	28.6	11.9%
Assistance Payments	35.5	35.5	48.8	13.3	37.6%
Medical Assistance	2,236.0	2,353.2	2,542.9	189.8	8.1%
Property Tax Credits	61.0	64.3	65.5	1.2	1.9%
	\$2,578.9	\$2,692.6	\$2,925.6	\$233.0	8.7%
State Agencies					
Health	1,371.0	1,415.0	1,497.7	82.7	5.8%
Human Resources	294.8	326.5	349.4	22.9	7.0%
Systems Reform Initiative	44.7	39.4	40.1	0.8	1.9%
Juvenile Services	265.2	261.4	289.4	28.0	10.7%
Public Safety/Police	1,218.7	1,293.5	1,395.2	101.7	7.9%
Higher Education	1,129.4	1,165.9	1,320.9	155.0	13.3%
Other Education	387.4	414.9	420.2	5.3	1.3%
Agric./Natl. Res./Environment	147.9	137.8	145.8	8.0	5.8%
Other Executive Agencies	565.8	602.9	674.7	71.8	11.9%
Judicial/Legislative	419.3	451.1	468.4	17.3	3.8%
Cost-of-living Allowance	0.0	0.0	64.2	64.2	n/a
	\$5,844.2	\$6,108.3	\$6,665.9	\$557.5	9.1%
Deficiencies	0.0	104.8	0.0	-104.8	-100.0%
Total Operating	\$14,227.6	\$14,871.8	\$15,820.8	\$949.0	6.4%
Capital/Heritage Reserve Fund	41.9	30.9	40.2	9.3	30.1%
Transfer to MDTA	0.0	85.0	63.0	-22.0	-25.9%
Reversions	-70.8	-30.0	-30.0	0.0	0.0%
Appropriations	\$14,198.7	\$14,957.7	\$15,893.9	\$936.3	6.3%
Reserve Funds ⁽¹⁾	262.8	146.5	175.7	29.2	19.9%
Grand Total	\$14,461.5	\$15,104.2	\$16,069.7	\$965.5	6.4%

MDTA: Maryland Transportation Authority

⁽¹⁾ Excludes \$85 million in fiscal 2009 and \$63 million in fiscal 2010 appropriated to the Dedicated Purpose Account that is to be transferred to MDTA. These monies are included in the transfer to MDTA line.

Note: Fiscal 2008 includes \$46.5 million in targeted reversions and \$77.5 million in deficiencies. Fiscal 2009 reflects withdrawn appropriations of \$50.1 million approved by the Board of Public Works in June and anticipated deficiencies of \$104.8 million.

Components of Budget Change (\$ in Millions)

Summary of Budget Change Compared to Working Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$483.5	45.9%
Legislation	9.0	0.9%
Commitments	81.4	7.7%
State Agency Costs	479.9	45.5%
Subtotal Operating Budget	\$1,053.8	
Pay-as-you-go (PAYGO)/Transfer to Maryland Transportation Authority	-12.7	
Appropriation to Reserve Fund	29.2	
Total Baseline Increase in State Expenditures	\$1,070.3	
Ongoing Requirements/Entitlements	\$483.5	
Medical Assistance – Enrollment, Inflation, and Managed Care Organization Rates	182.8	
Teachers’ and Librarians’ Retirement	130.4	
Education Formulas	35.4	
Community Colleges	35.8	
Foster Care – Cost Up in Fiscal 2009/Lower Federal Fund Attainments	28.6	
Mental Hygiene – Enrollment, Inflation, and Utilization	21.1	
Temporary Cash Assistance – Caseloads Up in 2008	13.3	
Selling Aid for Private Higher Education Institutions	10.8	
Local Jail Reimbursements	7.6	
Disparity Grant for Low Wealth Counties	6.8	
St. Mary’s College/Baltimore City Community College	5.2	
Local Libraries – Formula Aid	3.5	
Formula Aid to Local Governments for Police Protection and Health	2.5	
Mandated Increases for the MARBIDCO and Soil Conservation Districts	1.2	
Private Donation Incentive Grant Program	-1.4	
Legislation Adopted at 2008 Session	\$9.0	
Prince George’s Hospital Authority	4.0	
Reimbursement to Local Governments for BRAC Zone Tax Credits	2.5	
Other Legislation with Impact Less Than \$1 million	2.5	
Commitments	\$81.4	
Geographic Cost of Education – Second Year of Phase-in	49.3	
Increased Cost of Electric Universal Service Program	15.6	
Annualization of Costs for New Fiscal 2009 Services – DDA	9.5	
Medicaid – Phase-two of the Dental Rate Increases	7.0	
State Agency Costs	\$479.9	
University System of Maryland (USM) and Morgan State University	83.0	
Higher Education Investment Funds Replaced with General Funds (USM/Morgan)	66.9	
2% General Salary Increase (Includes Higher Education)	64.2	
Employee Retirement	48.7	
Employee and Retiree Health Insurance	42.0	
Provider Rate Increase of 3.58% (DDA, MHA, ADAA)	38.0	
Employee Increments	35.0	
Major Information Technology Projects	28.2	

Components of Budget Change (Cont.)

Summary of Budget Change Compared to Working Appropriation	<u>Dollars</u>
Juvenile Services – Fiscal 2009 Underfunding and Ineligibility for Federal Funds	18.2
Correctional Institutions Overtime Costs	12.0
Increase in Electricity, Natural Gas, and Propane	10.6
Clifton T. Perkins Hospital Center – Opening of New 48-bed Ward	9.7
Correctional Institutions – Inmate Medical Contract	7.0
Increase in Vehicle Fuel	6.3
Workers’ Compensation Premiums	5.0
New Judgeships and Related Personnel for Circuit and District Courts	4.8
Additional Public Defenders and Related Personnel to Meet Caseload Standards	4.6
Need-based Scholarships	3.8
Breast and Cervical Cancer Program – Cost Growing 5% Per Year	3.5
Higher Ed. Investment Funds for Workforce Dev. Grants Replaced with GF	3.0
Correctional Institutions – Increased Prison Population and Food Contracts	2.4
Other Changes	1.5
Closure of Rosewood Hospital – Net Savings	-18.5
PAYGO	\$9.3
Public Safety Communication System	10.0
Housing Programs	3.4
Drinking Water and Water Quality Programs – Less Federal Funds to Match	-1.9
Other PAYGO	-2.2
Transfer to Maryland Transportation Authority for the InterCounty Connector	-\$22.0
State Reserve Fund	\$29.2
Unappropriated Fund Balance from Fiscal 2008	175.7
Remove Appropriation to Rainy Day Fund of Fiscal 2007 Fund Balance in Excess of \$10 Million	-146.5

ADAA: Alcohol and Drug Abuse Administration

BRAC: Base Realignment and Closure

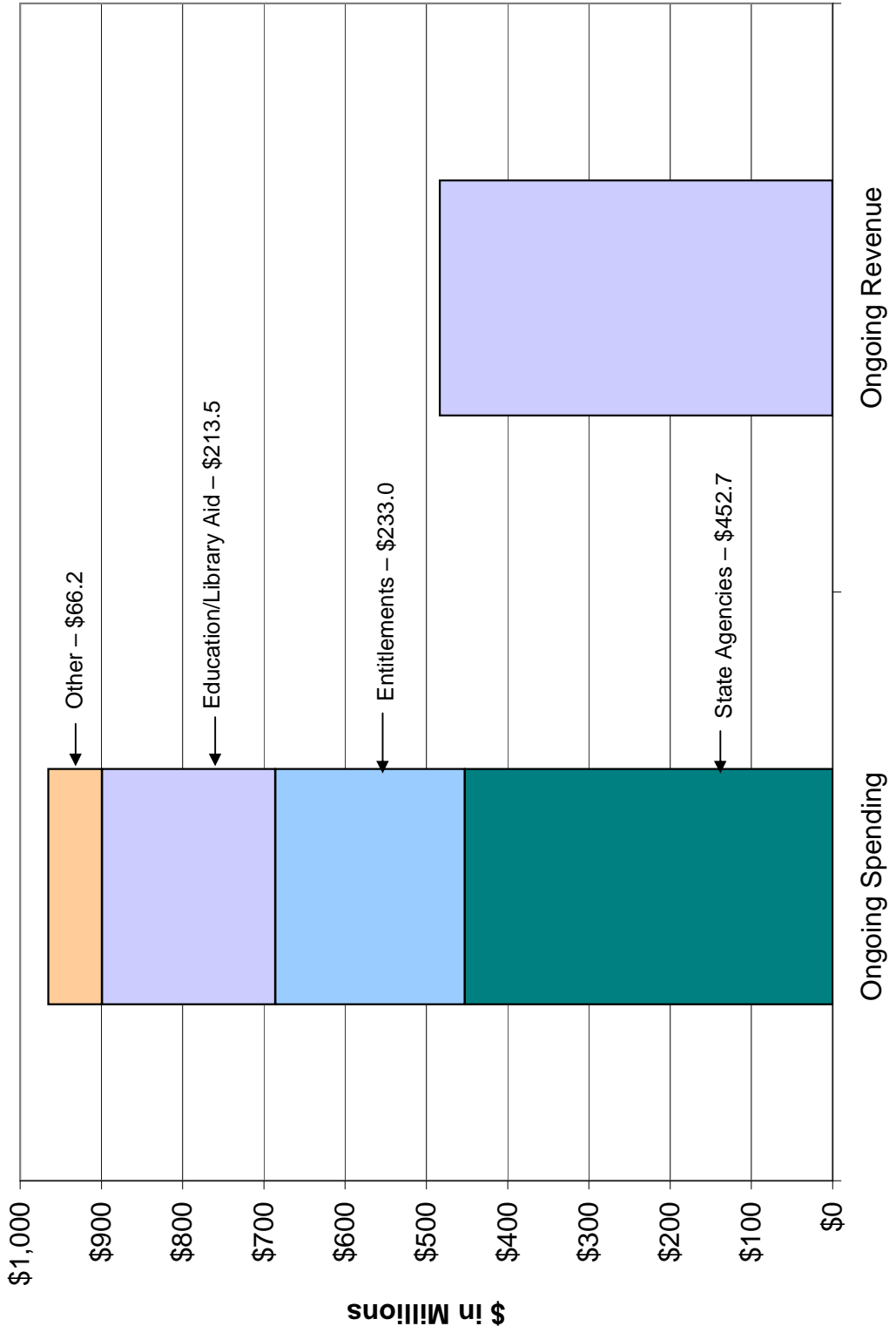
DDA: Developmental Disabilities Administration

GF: General Funds

MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

MHA: Maryland Hygiene Administration

Fiscal 2010 Ongoing Spending Exceeds Projected Growth in Ongoing Revenue



October 15, 2008 Board of Public Works Summary of Budget Reductions

- On October 15, 2008, the Board of Public Works (BPW) adopted \$347.8 million in reductions to the fiscal 2009 appropriation and abolished 830.2 positions (40 filled).
- The Administration is assuming nearly \$100 million in projected one-time fund balance transfers and reversions to be proposed at the 2009 session.

Administration's Fiscal 2009 Fiscal Actions and Proposal by Fund (\$ in Millions)

<u>Fiscal 2009 Actions</u>	<u>General Funds</u>	<u>Special Funds</u>	<u>Federal Funds</u>	<u>Total</u>	<u>Positions</u>
October BPW Actions	\$297.2	\$19.4	\$31.1	\$347.8	830.15
Executive Reversions	11.6			11.6	
Judicial and Legislative Reversions	7.5			7.5	
Judicial and Legislative OPEB Reversion	5.7			5.7	
Projected Transfers	74.7			74.7	
Subtotal	\$396.7	\$19.4	\$31.1	\$447.3	830.15

BPW: Board of Public Works
OPEB: Other Post Employment Benefits

Examples of Larger Reductions

- \$73.5 million from the Department of Health and Mental Hygiene, including \$28.2 million in one-time fund swaps from the Rate Stabilization Fund and Cigarette Restitution Fund (CRF) for Medicaid, \$20.7 million in provider rate increases, and \$5.6 million associated with 194 position abolitions;
- \$46.1 million toward the State's Other Post Employment Benefits (OPEB) unfunded liability;
- \$20.0 million from the Reserve Fund for the InterCounty Connector, with the intention to increase the payment by \$10 million each in fiscal 2010 and 2011;

- \$17.5 million from the Department of Public Safety and Correctional Services with \$6.0 million from local jail reimbursements, \$4.0 million in federal per diems, and \$4.5 million associated with abolishing 161 positions;
- \$16.3 million from higher education; and
- \$15.3 million from the Maryland State Department of Education, largely replacing child care subsidy payments with \$5.3 million in federal funds.

Issues

- ***Eliminating remaining OPEB contributions*** defers efforts to address the retiree health care unfunded liability.
- ***Reductions to mandated items*** do not produce ongoing savings. \$95.6 million will be needed in fiscal 2010 and \$10.0 million in fiscal 2011.
- ***Proposed transfers of \$74.7 million require legislative approval.***
- ***Abolition of positions*** in State-operated psychiatric facilities and State prisons exacerbates already understaffed conditions.

CRF

- BPW action in June and October withdrew \$9.0 million from the CRF, with the intent to provide a deficiency for the Medicaid program.
- The cuts include \$5.4 million from Statewide Academic Health Centers, \$1.9 million from tobacco prevention, \$1.5 million from tobacco transition grants, and \$0.2 million in other cancer prevention and screening activities.

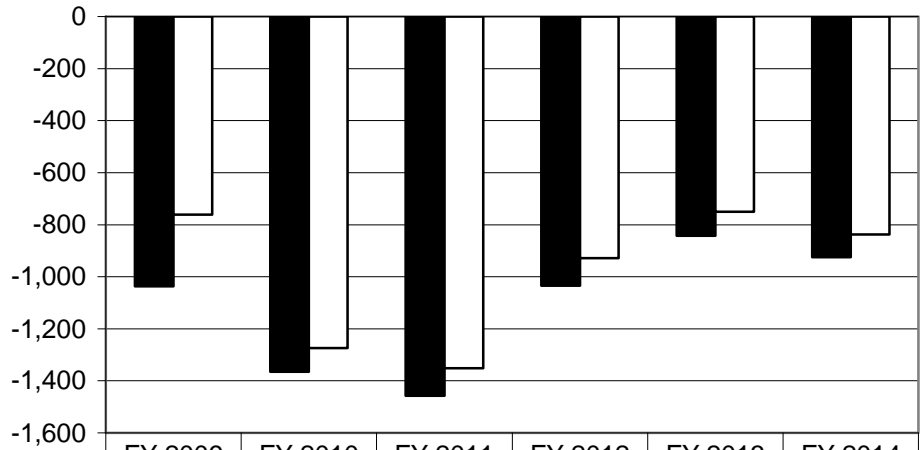
Long-term General Fund Outlook

- The Department of Legislative Services estimates that \$141.0 million of the withdrawals represent ongoing general fund savings, growing to \$169.3 million by fiscal 2014.
- The fiscal 2010 structural deficit is reduced to \$1.273 billion. By 2014, assuming full implementation of slots, the deficit is reduced to \$838 million.

Part 4

General Fund Forecast

**Projected General Fund Shortfalls under DLS Forecast
Fiscal 2009-2014
(\$ in Millions)**



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
■ SAC Briefing Structural Balance	-1,037	-1,365	-1,457	-1,035	-842	-924
□ Post-BPW Structural Balance	-762	-1,274	-1,352	-928	-750	-837

DLS: Department of Legislative Services
 SAC: Spending Affordability Committee
 BPW: Board of Public Works

General Fund Budget Outlook
DLS October Revenue Estimates
Fiscal 2009-2014
(\$ in Millions)

	FY 2006 <u>Actual</u>	FY 2007 <u>Actual</u>	FY 2008 <u>Actual</u>	FY 2009 <u>Working</u>	FY 2010 <u>Baseline</u>	FY 2011 <u>Est.</u>	FY 2012 <u>Est.</u>	FY 2013 <u>Est.</u>	FY 2014 <u>Est.</u>	Avg Annual Change 2010-2014
Revenues										
Opening Fund Balance	\$1,174	\$1,362	\$285	\$487	\$0	\$0	\$0	\$0	\$0	
Transfers	139	157	996	149	248	59	45	49	55	
BPW Transfers from October 15, 2008	0	0	0	99	0	0	0	0	0	
One-time Revenues/Legislation	15	36	150	51	0	0	0	0	0	
Subtotal One-time Revenue	\$1,328	\$1,554	\$1,430	\$786	\$248	\$59	\$45	\$49	\$55	
Ongoing Revenues	\$12,390	\$12,935	\$13,545	\$13,905	\$14,413	\$15,266	\$16,074	\$16,942	\$17,753	
Net Video Lottery Terminal Revenues	0	0	0	0	90	70	453	605	623	
Subtotal Ongoing Revenue	\$12,390	\$12,935	\$13,545	\$13,905	\$14,503	\$15,336	\$16,527	\$17,547	\$18,377	6.1%
Total Revenues and Fund Balance	\$13,718	\$14,489	\$14,975	\$14,691	\$14,751	\$15,395	\$16,572	\$17,597	\$18,432	
Ongoing Spending										
Operating Spending	\$11,981	\$13,247	\$14,183	\$14,842	\$15,818	\$16,698	\$17,427	\$18,258	\$19,169	
Health Care Expansion *	0	0	0	0	0	68	187	204	214	
BPW Reductions from October 15, 2008**	0	0	0	-275	-119	-141	-160	-165	-169	
Multi-year Commitments	70	183	115	100	78	64	0	0	0	
Subtotal Ongoing Spending	\$12,051	\$13,430	\$14,298	\$14,666	\$15,777	\$16,688	\$17,455	\$18,297	\$19,214	5.1%
One-time Spending										
PAYGO Capital	\$6	\$136	\$27	\$16	\$25	\$38	\$38	\$37	\$37	
Appropriation to Reserve Fund	299	638	163	147	176	50	50	50	50	
Subtotal One-time Spending	\$305	\$775	\$190	\$163	\$201	\$88	\$88	\$87	\$87	
Total Spending	\$12,356	\$14,204	\$14,488	\$14,829	\$15,978	\$16,776	\$17,543	\$18,384	\$19,301	
Ending Balance	\$1,362	\$285	\$487	-\$138	-\$1,226	-\$1,381	-\$971	-\$788	-\$870	
Rainy Day Fund Balance	\$759	\$1,432	\$685	\$732	\$721	\$767	\$827	\$877	\$918	
Balance over 5% of GF Revenues	139	785	3	36	0	0	0	0	0	
As % of GF Revenues	6.12%	11.07%	5.02%	5.26%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	\$339	-\$495	-\$753	-\$762	-\$1,273	-\$1,352	-\$928	-\$750	-\$838	

* Chapter 7 of the 2007 special session expresses the intent that the expansion of health care services continue beyond fiscal 2009 subject to specified general fund and education trust fund (from video lottery terminals) revenue attainments. Current revenue estimates fall short of the attainment specified in the bill.

** BPW reduced \$22.3 million in Medicaid expenditures. However, the Department of Legislative Service's baseline already assumed \$22.3 million in Medicaid funds would be used to offset the fiscal 2009 estimated Medicaid deficiencies.

DLS: Department of Legislative Services
 BPW: Board of Public Works
 PAYGO: pay-as-you-go
 GF: general fund

**General Fund Budget Outlook
Subsequent to December BRE Estimates
Fiscal 2009-2014
(\$ in Millions)**

	FY 2006		FY 2007		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012		FY 2013		FY 2014		Avg. Annual Change 2010-2014	
	Actual	Est.	Actual	Est.	Actual	Working	Baseline	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.			
Revenues																				
Opening Fund Balance	\$1,174	\$1,362	\$285	\$487	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Transfers	139	157	996	152	277	59	38	61	58	0	0	0	0	0	0	0	0	0	0	0
BPW Transfers from October 15, 2008	0	0	0	99	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
One-time Revenues/Legislation	15	36	150	58	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Subtotal One-time Revenue	\$1,328	\$1,554	\$1,430	\$797	\$277	\$59	\$38	\$61	\$58											
Ongoing Revenues	\$12,390	\$12,935	\$13,545	\$13,641	\$13,738	\$14,408	\$15,170	\$15,819	\$16,516											
Net Video Lottery Terminal Revenues	0	0	0	0	90	76	494	660	680											
Subtotal Ongoing Revenue	\$12,390	\$12,935	\$13,545	\$13,641	\$13,828	\$14,484	\$15,665	\$16,479	\$17,196											5.6%
Total Revenues & Fund Balance	\$13,718	\$14,489	\$14,975	\$14,438	\$14,106	\$14,543	\$15,703	\$16,540	\$17,254											
Ongoing Spending																				
Operating Spending	\$11,981	\$13,247	\$14,183	\$14,842	\$15,820	\$16,702	\$17,431	\$18,262	\$19,173											
Health Care Expansion *	0	0	0	0	0	68	187	204	214											
BPW Reductions from October 15, 2008**	0	0	0	-275	-119	-141	-160	-165	-169											
Multi-year Commitments	70	183	115	100	78	64	0	0	0											
Subtotal Ongoing Spending	\$12,051	\$13,430	\$14,298	\$14,666	\$15,779	\$16,692	\$17,459	\$18,301	\$19,218											5.1%
One-time Spending																				
PAYGO Capital	\$6	\$136	\$27	\$16	\$25	\$38	\$38	\$37	\$37											
Appropriation to Reserve Fund	299	638	163	147	176	50	50	50	50											
Subtotal One-time Spending	\$305	\$775	\$190	\$163	\$201	\$88	\$88	\$87	\$87											
Total Spending	\$12,356	\$14,204	\$14,488	\$14,829	\$15,980	\$16,780	\$17,546	\$18,388	\$19,305											
Ending Balance	\$1,362	\$285	\$487	-\$391	-\$1,874	-\$2,237	-\$1,844	-\$1,848	-\$2,051											
Rainy Day Fund Balance	759	1,432	685	732	687	724	784	825	860											
Balance over 5% of GF Revenues	139	785	3	50	0	0	1	1	0											
As % of GF Revenues	6.12%	11.07%	5.02%	5.36%	5.00%	5.00%	5.01%	5.01%	5.00%											
Structural Balance	\$339	-\$495	-\$753	-\$1,025	-\$1,950	-\$2,208	-\$1,794	-\$1,822	-\$2,022											

BRE: Board of Revenue Estimates
BPW: Board of Public Works
PAYGO: pay-as-you-go
GF: general fund

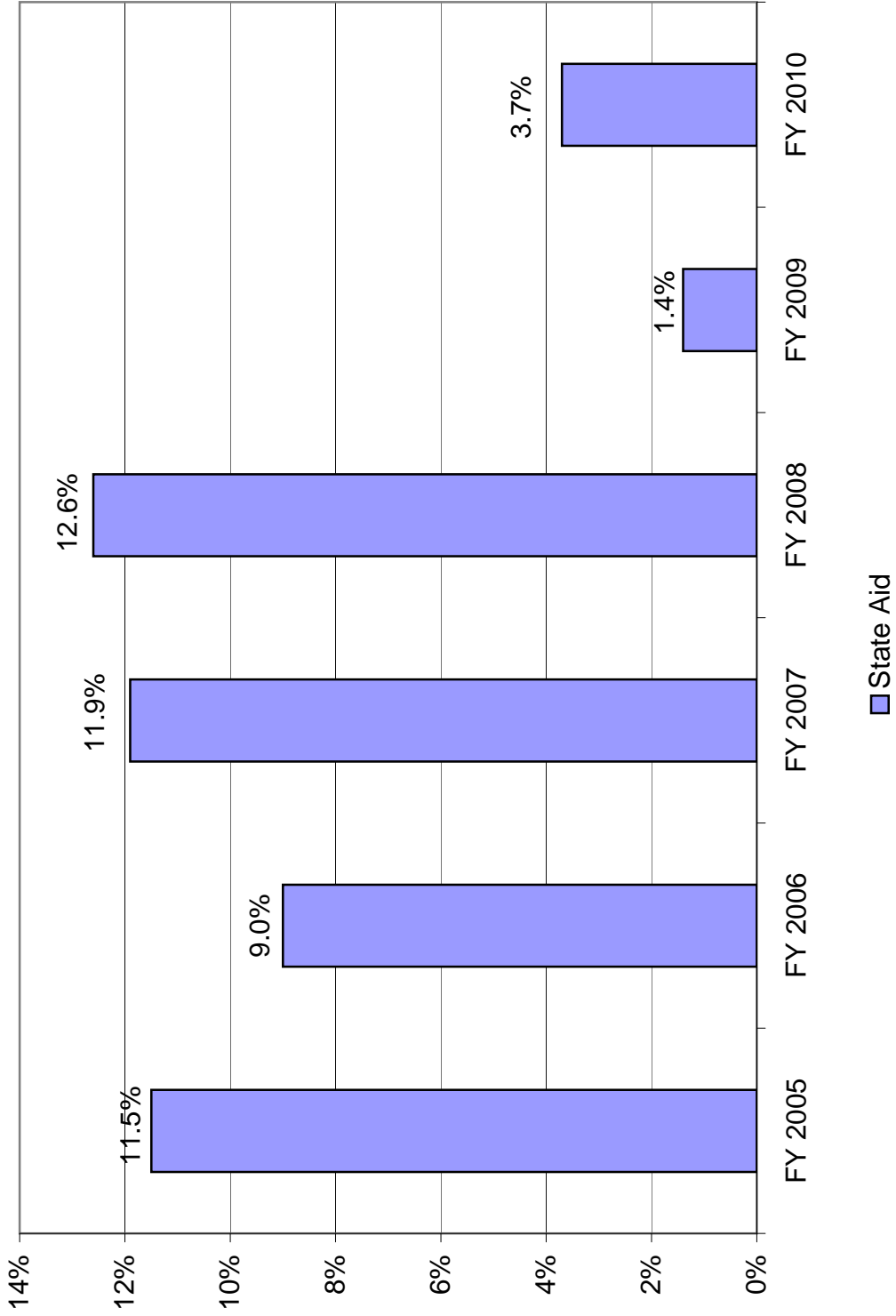
* Chapter 7 of the 2007 special session expresses the intent that the expansion of health care services continue beyond fiscal 2009 subject to specified general fund and education trust fund (from video lottery terminals) revenue attainments. Current revenue estimates fall short of the attainment specified in the bill.

** BPW reduced \$22.3 million in Medicaid expenditures. However, the Department of Legislative Service's baseline already assumed \$22.3 million in Medicaid funds would be used to offset the fiscal 2009 estimated Medicaid deficiencies.

Part 5

Local Government Assistance

Annual Growth in State Aid to Local Governments General and Special Funds



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

	<u>FY 2010</u> <u>State Aid Amount</u>	<u>Percent</u> <u>of Total</u>
Public Schools	\$5,563.4	81.6%
County/Municipal	807.3	11.8%
Community Colleges	303.7	4.5%
Local Health	70.6	1.0%
Libraries	69.8	1.0%
Total	\$6,814.8	100.0%

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

	<u>FY 2010</u> <u>Aid Change</u>	<u>Percent</u> <u>Change</u>
Public Schools	\$207.5	3.9%
County/Municipal	-14.6	-1.8%
Community Colleges	40.8	15.5%
Local Health	1.8	2.6%
Libraries	6.0	9.5%
Total	\$241.6	3.7%

State Aid by Major Programs
State Funds
Fiscal 2008-2010
(\$ in Millions)

	<u>FY 2008</u>	<u>FY 2009</u>	<u>Baseline FY 2010</u>	<u>\$ Change 2009-2010</u>	<u>% Change 2009-2010</u>
Public Schools					
Foundation Program	\$2,782.7	\$2,793.6	\$2,781.4	-\$12.2	-0.4%
Compensatory Aid	902.1	914.2	915.0	0.8	0.1%
Student Transportation	219.0	225.1	241.4	16.3	7.2%
Special Education – Formula Aid	280.0	272.7	271.0	-1.7	-0.6%
Special Education – Nonpublic Placements	125.2	127.6	132.8	5.2	4.1%
Limited English Proficiency Grants	126.2	144.0	154.6	10.6	7.3%
Guaranteed Tax Base	78.9	90.0	100.4	10.4	11.5%
Geographic Cost Index	0.0	75.8	125.1	49.3	65.1%
Other Education Programs	87.5	91.0	97.2	6.1	6.7%
Subtotal Direct Aid	\$4,601.6	\$4,734.1	\$4,818.8	\$84.7	1.8%
Retirement Payments	566.4	621.8	744.6	122.8	19.7%
Total Public School Aid	\$5,168.1	\$5,355.8	\$5,563.4	\$207.5	3.9%
Libraries					
Library Aid Formula	\$33.9	\$34.5	\$37.1	\$2.6	7.5%
State Library Network	16.3	16.4	17.3	1.0	5.8%
Subtotal Direct Aid	\$50.2	\$50.9	\$54.4	\$3.5	6.9%
Retirement Payments	11.5	12.9	15.4	2.5	19.4%
Total Library Aid	\$61.6	\$63.8	\$69.8	\$6.0	9.5%
Community Colleges					
Community College Formula	\$194.5	\$210.8	\$247.7	\$36.9	17.5%
Other Programs	24.9	27.9	27.4	-0.5	-1.9%
Subtotal Direct Aid	\$219.4	\$238.7	\$275.1	\$36.3	15.2%
Retirement Payments	22.3	24.2	28.7	4.5	18.6%
Total Community College Aid	\$241.7	\$262.9	\$303.7	\$40.8	15.5%
Local Health Grants	\$67.0	\$68.8	\$70.6	\$1.8	2.6%
County/Municipal Aid					
Transportation	\$573.9	\$557.8	\$541.1	-\$16.7	-3.0%
Public Safety	108.5	109.2	112.7	3.5	3.2%
Program Open Space/Environment	97.8	20.7	12.9	-7.9	-38.0%
Disparity Grant	114.8	115.5	122.3	6.8	5.9%
Utility Restructuring Grant	29.6	0.0	0.0	0.0	
Other Grants	15.7	16.6	16.1	-0.5	-2.9%
Subtotal Direct Aid	\$940.3	\$819.8	\$805.1	-\$14.7	-1.8%
Retirement Payments	2.2	2.2	2.2	0.0	2.0%
Total County/Municipal Aid	\$942.5	\$822.0	\$807.3	-\$14.6	-1.8%
Total State Aid	\$6,480.9	\$6,573.3	\$6,814.8	\$241.6	3.7%

Local Government Tax Actions Fiscal 2008 and 2009

	2008		2009	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Property Taxes	1	5	0	5
Income Taxes	1	0	1	0
Recordation Taxes	2	0	1	0
Transfer Taxes	0	0	0	0
Admissions Taxes	0	0	0	0
Lodging Taxes	0	0	1	0

Local Government Salary Actions Fiscal 2008 and 2009

<u>COLA Amount</u> ¹	County Government		Public Schools	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>
No COLA	0	3	0	1
1.0% to 2.9%	11	7	0	6
3.0% to 3.9%	8	9	2	6
4.0% to 4.9%	3	3	9	5
5.0% to 5.9%	1	0	8	3
6.0% and Greater	1	1	5	2
Still Pending	0	1	0	1

COLA Amount	State Government		CPI-Urban Consumers	
	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u> ²
	2.0%	2.0%	3.7%	3.8%

COLA: cost-of-living adjustment

CPI: Consumer Price Index

¹ The COLA amount includes market adjustments.

² Forecast of the CPI for fiscal 2009 comes from Moody's Economy.com.

Local Government Salary Actions in Fiscal 2009

County	County Government		Board of Education		Step	COLA	Teachers
	Generally	Step	COLA	Step			
Allegany ¹	3.0%	Yes	6.0%	Yes	Yes	Yes	Yes
Anne Arundel ²	3.0%	Yes	5.0%	Yes	Yes	Yes	Yes
Baltimore City ³	Pending	Pending	4.0%	Yes	Yes	Yes	Yes
Baltimore	0.0%	Yes	0.0%	Yes	Yes	Yes	Yes
Calvert	3.3%	Yes	4.5%	Yes	Yes	Yes	Yes
Caroline	0.0%	Yes	2.0%	Yes	Yes	Yes	Yes
Carroll	2.0%	Yes	2.0%	No	No	No	No
Cecil	3.0%	Yes	4.0%	Yes	Yes	Yes	Yes
Charles	2.0%	Yes	3.5%	Yes	Yes	Yes	Yes
Dorchester	3.0%	No	1.6%	Yes	Yes	Yes	Yes
Frederick	2.0%	Yes	2.0%	Yes	Yes	Yes	Yes
Garrett ⁴	4.0%	Yes	6.0%	Yes	Yes	Yes	Yes
Harford ⁵	6.0%	Yes	1.6%	Yes	Yes	Yes	Yes
Howard ⁶	3.0%	Yes	5.0%	Yes	Yes	Yes	Yes
Kent	2.0%	Yes	3.0%	Yes	Yes	Yes	Yes
Montgomery ⁷	4.5%	Yes	5.0%	Yes	Yes	Yes	Yes
Prince George's ⁸	2.5%	Yes	Pending	Pending	Pending	Pending	Pending
Queen Anne's ⁹	\$1,800	No	3.5%	Yes	Yes	Yes	Yes
St. Mary's	3.0%	Yes	4.0%	Yes	Yes	Yes	Yes
Somerset ¹⁰	2.5%	Yes	4.0%	Yes	Yes	Yes	Yes
Talbot ¹¹	2.5%	Yes	3.5%	Yes	Yes	Yes	Yes
Washington	0.0%	Yes	2.0%	Yes	Yes	Yes	Yes
Wicomico	3.0%	No	3.0%	No	No	No	No
Worcester	3.5%	Yes	3.5%	Yes	Yes	Yes	Yes
Number Granting	20	20	22	21	21	21	21

Comments

- ¹ Allegany County road and nursing home employees received a 5.0% cost-of-living adjustment (COLA), and E-911 communications, animal control, detention center, and sheriff employees received a 5.5% COLA.
- ² Anne Arundel County teaching assistants and board of education secretaries, operations, maintenance, transportation, and food service employees received a 3.0% COLA; while school administrators received a 6.0% COLA.
- ³ Baltimore City fire officers received a 3.0% COLA and managerial employees received a 2.0% COLA. Salary adjustments for nurses and general, police, and technical employees are still pending.
- ⁴ Garrett County employees received a \$750 across the board increase; whereas, employees represented by AFSCME received a 4.0% COLA.
- ⁵ Harford County employees received a 3.0% COLA and a 3.0% market adjustment.
- ⁶ Howard County police personnel received a 5.0% COLA and fire personnel received a 6.0% COLA. Corrections, blue collar, and dispatchers received a 3.0% COLA. School administrators received a 4.75% COLA.
- ⁷ Montgomery County police and fire personnel received a 4.0% COLA.
- ⁸ Prince George's County police, corrections, and sheriff personnel received a 3.0% COLA.
- ⁹ Queen Anne's County school administrators and support staff received a 2.0% COLA.
- ¹⁰ Somerset County school administrators and classified employees received a 3.5% COLA.
- ¹¹ Talbot County school administrators received a 2.5% COLA.

Property Tax Rates Exceed Constant Yield Rate in Fiscal 2009

<u>County</u>	<u>Actual</u>		<u>Difference</u>	<u>Constant Yield Rate</u>	<u>Difference</u>	<u>Amount in Excess of Constant Yield Ranking by Highest to Lowest</u>
	<u>FY 2008</u>	<u>FY 2009</u>				
Allegany	\$0.983	\$0.983	\$0.000	\$0.897	\$0.086	1. Baltimore City \$0.189
Anne Arundel	0.891	0.888	-0.003	0.839	0.049	2. Prince George's 0.099
Baltimore City	2.268	2.268	0.000	2.079	0.189	3. Harford 0.096
Baltimore	1.100	1.100	0.000	1.034	0.066	4. Somerset 0.089
Calvert	0.892	0.892	0.000	0.803	0.089	5. Calvert 0.089
Caroline	0.870	0.870	0.000	0.807	0.063	6. Cecil 0.087
Carroll	1.048	1.048	0.000	0.965	0.083	7. Allegany 0.086
Cecil	0.960	0.960	0.000	0.873	0.087	8. Charles 0.085
Charles*	1.026	1.026	0.000	0.941	0.085	9. Carroll 0.083
Dorchester	0.896	0.896	0.000	0.823	0.073	10. Montgomery 0.082
Frederick*	1.064	1.064	0.000	0.985	0.080	11. Garrett 0.082
Garrett	1.000	1.000	0.000	0.918	0.082	12. Kent 0.082
Harford	1.082	1.082	0.000	0.986	0.096	13. Worcester 0.081
Howard*	1.150	1.150	0.000	1.079	0.071	14. Frederick 0.080
Kent	0.972	0.972	0.000	0.890	0.082	15. St. Mary's 0.075
Montgomery*	0.916	0.915	-0.001	0.833	0.082	16. Dorchester 0.073
Prince George's*	1.319	1.319	0.000	1.220	0.099	17. Howard 0.071
Queen Anne's	0.770	0.770	0.000	0.715	0.055	18. Washington 0.070
St. Mary's	0.857	0.857	0.000	0.782	0.075	19. Baltimore 0.066
Somerset	0.940	0.920	-0.020	0.831	0.089	20. Caroline 0.063
Talbot	0.475	0.449	-0.026	0.437	0.012	21. Queen Anne's 0.055
Washington	0.948	0.948	0.000	0.878	0.070	22. Anne Arundel 0.049
Wicomico	0.881	0.814	-0.067	0.798	0.016	23. Wicomico 0.016
Worcester	0.700	0.700	0.000	0.619	0.081	24. Talbot 0.012

* Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation; Department of Legislative Services

Revenue Yield from Property Tax Rates Above Constant Yield Fiscal 2009

<u>County</u>	<u>Assessable Base</u>	<u>Actual Rate</u>	<u>Constant Yield Rate</u>	<u>Difference</u>	<u>Estimated Revenue Yield</u>	<u>Per Capita Yield</u>
Allegany	\$3,020,903,294	\$0.983	\$0.897	\$0.086	\$2,586,000	\$35.62
Anne Arundel	55,150,244,580	0.888	0.839	0.049	27,024,000	52.77
Baltimore City	25,756,822,189	2.268	2.079	0.189	48,680,000	76.37
Baltimore	62,128,137,845	1.100	1.034	0.066	41,005,000	51.97
Calvert	10,661,836,765	0.892	0.803	0.089	9,489,000	107.56
Caroline	2,331,645,289	0.870	0.807	0.063	1,469,000	44.64
Carroll	16,441,113,978	1.048	0.965	0.083	13,646,000	80.64
Cecil	9,018,211,704	0.960	0.873	0.087	7,846,000	78.70
Charles*	14,679,497,952	1.026	0.941	0.085	12,478,000	88.85
Dorchester	2,646,751,314	0.896	0.823	0.073	1,932,000	60.67
Frederick*	24,037,510,513	1.064	0.985	0.080	19,110,000	85.04
Garrett	3,975,642,809	1.000	0.918	0.082	3,260,000	110.03
Harford	22,698,268,876	1.082	0.986	0.096	21,790,000	90.79
Howard*	34,701,921,303	1.150	1.079	0.071	24,534,000	89.65
Kent	2,450,924,835	0.972	0.890	0.082	2,010,000	100.57
Montgomery*	157,010,766,999	0.915	0.833	0.082	128,906,000	138.49
Prince George's*	62,845,456,912	1.319	1.220	0.099	62,343,000	75.22
Queen Anne's	6,804,684,103	0.770	0.715	0.055	3,743,000	80.37
St. Mary's	9,149,979,847	0.857	0.782	0.075	6,862,000	68.36
Somerset	1,425,992,754	0.920	0.831	0.089	1,269,000	48.78
Talbot	6,466,380,385	0.449	0.437	0.012	776,000	21.44
Washington	11,176,015,688	0.948	0.878	0.070	7,823,000	53.91
Wicomico	6,214,192,022	0.814	0.798	0.016	994,000	10.62
Worcester	18,000,553,400	0.700	0.619	0.081	14,580,000	295.30
Total	\$568,793,455,356				\$464,155,000	\$82.61

* Includes Special Property Tax Rates

Source: State Department of Assessments and Taxation; Department of Legislative Services

Local Government Revenue Growth
Amount and Percent of Total
County General Funds
(\$ in Millions)

	FY 2009	Percent
	<u>Local Tax Revenues</u>	<u>of Total</u>
Property Taxes	\$5,653.7	50.1%
Income Taxes	4,329.8	38.4%
Transfer Taxes	364.6	3.2%
Recordation Taxes	357.2	3.2%
Other Local Taxes	570.7	5.1%
Total Taxes	\$11,276.0	100.0%

Source: County budgets for fiscal 2009

Change in Local Tax Revenues
County General Funds
(\$ in Millions)

	FY 2008		FY 2009	
	<u>\$ Change</u>	<u>% Change</u>	<u>\$ Change</u>	<u>% Change</u>
Property Taxes	\$308.6	6.5%	\$590.8	11.7%
Income Taxes	126.4	3.1%	115.0	2.7%
Recordation Taxes	-92.3	-20.0%	-11.4	-3.1%
Transfer Taxes	-141.5	-27.0%	-18.2	-4.7%
Other Local Taxes	23.5	4.4%	7.3	1.3%
Total Taxes	\$224.7	2.2%	\$683.5	6.5%

Source: County budgets for fiscal 2009

Part 6

Debt Management and Capital Program

State Debt Policy

- The Capital Debt Affordability Committee (CDAC) advises the General Assembly on State debt policy.
- State debt includes general obligation (GO) bonds, transportation bonds, Grant Anticipation Revenue Vehicles (GARVEEs), bay restoration bonds, stadium authority bonds, and capital leases.
- Since 2000, State GO bond authorizations have increased, and the State has authorized two new kinds of State debt, GARVEEs and bay restoration bonds.
- In 2008, the CDAC completed a two-year study reviewing the debt affordability criteria. The committee recommended that:
 - State tax-supported debt outstanding should not exceed 4.0 percent of Maryland personal income. The previous criterion, which was 3.2 percent, had been in place since 1979; and
 - State tax-supported debt service payments should not exceed 8.0 percent of State revenues. This maintains the criterion at the level set in 1979.
- The CDAC recommends that the General Assembly authorize up to \$1.11 billion in GO bonds in the 2009 legislative session. This provides a \$175 million increase over the authorization in the 2008 legislative session. The increase represents a \$25 million previously planned inflationary adjustment and a \$150 million one-time increase.
- The table below shows that projected authorizations meet the affordability criteria:

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as a % of Revenues</u>
2009	3.11%	5.71%
2010	3.14%	6.12%
2011	3.13%	6.31%
2012	3.12%	6.46%
2013	3.04%	6.58%
2014	2.95%	6.57%

State Debt Policy (continued)

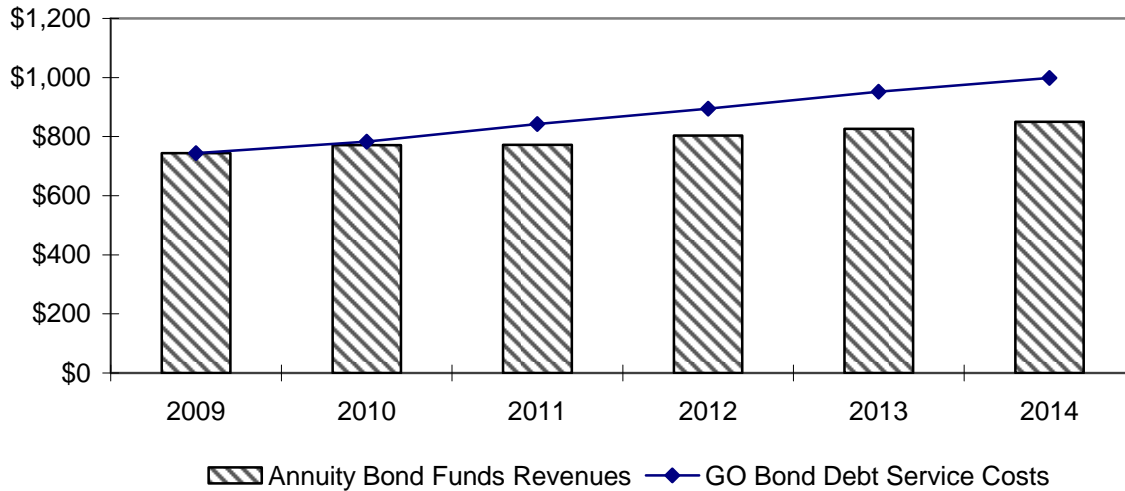
The Department of Legislative Service's State Debt Policy Recommendations in the *Effect of Long-term Debt on the Financial Condition of the State*

- ***Increasing 2009 session GO bond authorization by \$150 million:*** The CDAC recommends a one-time \$150 million increase. **Insofar as the State is facing an economic slowdown and a general fund budget deficit, it is recommended that the additional GO bonds be used to relieve operating budget pressure and support projects that need immediate financing.**
- ***Eliminate the requirement that the CDAC recommend the amount of GO bond debt supporting public school construction:*** Section 11 of the Public School Facilities Act of 2004 directs CDAC to review school construction funding needs and make specific recommendations regarding additional funding for school construction when recommending the State's annual debt limit and GO bond authorization level. Concerns about the requirement are that:
 - the distribution of GO bond authorization has historically been the responsibility of the Governor and General Assembly;
 - the committee does not set spending limits for other capital programs;
 - factors influencing project costs (such as inflation) affect all capital programs and projects; and
 - State is facing a general fund structural deficit, and the additional GO authorizations are needed to support the general fund and provide a short-term stimulus for the economy.
- ***Issue bay restoration bonds in a competitive sale, instead of negotiated sale:*** In June 2008, the State issued the first series of bay restoration bonds. The bonds were issued through a negotiated sale. Because competitive bond sales tend to reduce the cost of debt, GO and transportation bonds are issued through competitive sales. **Insofar as bay restoration bonds have successfully been issued, are highly rated, are supported by stable revenues, and do not have any particularly unique or complicated provisions, it is recommended that the subsequent bay bonds are issued through a competitive sale, instead of a negotiated sale.**

State Debt Policy (continued)

- GO bond debt service costs are projected to exceed revenues:** The exhibit shows that debt service costs exceed revenues beginning in fiscal 2010. **To keep GO bond debt service costs from adding to the general fund shortfall, it is recommended that no general funds be appropriated for debt service and that the Annuity Bond Fund fully fund GO bond debt service. State property tax rates should be calibrated to provide sufficient revenues for debt service.**

Debt Service Costs Exceed Projected Revenues
Fiscal 2009-2014
(\$ in Millions)



Revenue and Cost Data

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Annuity Bond Fund Revenues	\$744	\$771	\$772	\$804	\$826	\$850
GO Bond Debt Service Costs	744	783	842	894	952	999

How to Close the Gap

General Fund Subsidy – General Fund Appropriation	\$0	\$12	\$70	\$90	\$126	\$149
Required State Property Tax Rate	\$0.112	\$0.114	\$0.123	\$0.124	\$0.130	\$0.132

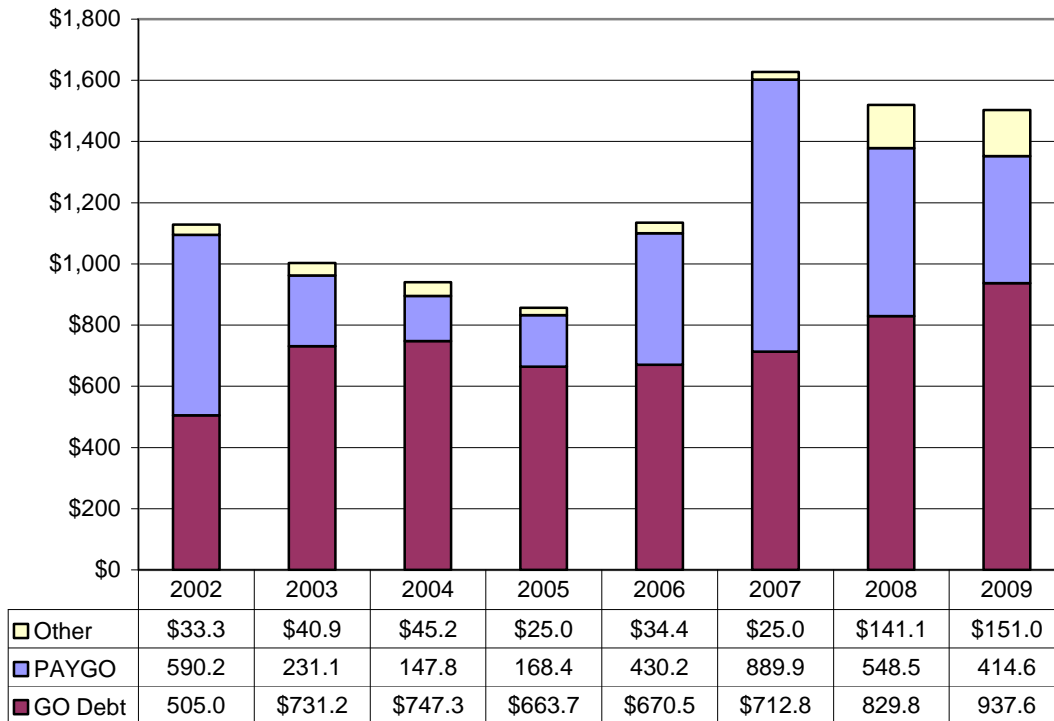
GO: general obligation

Capital Program

Capital Program Funding Trends

As shown in **Exhibit 1**, capital funding in each of fiscal 2007 through 2009 exceeds the level achieved in each of the previous five fiscal years. Increased general obligation (GO) authorizations, the use of the transfer tax to fund programs through the formula, the use of fee revenues and revenue bonds to fund Bay Restoration Fund projects, and loans to local governments through the Water Quality Loan Program account for the recent funding increase.

Exhibit 1
Capital Funding by Major Source
Fiscal 2002-2009
(\$ in Millions)

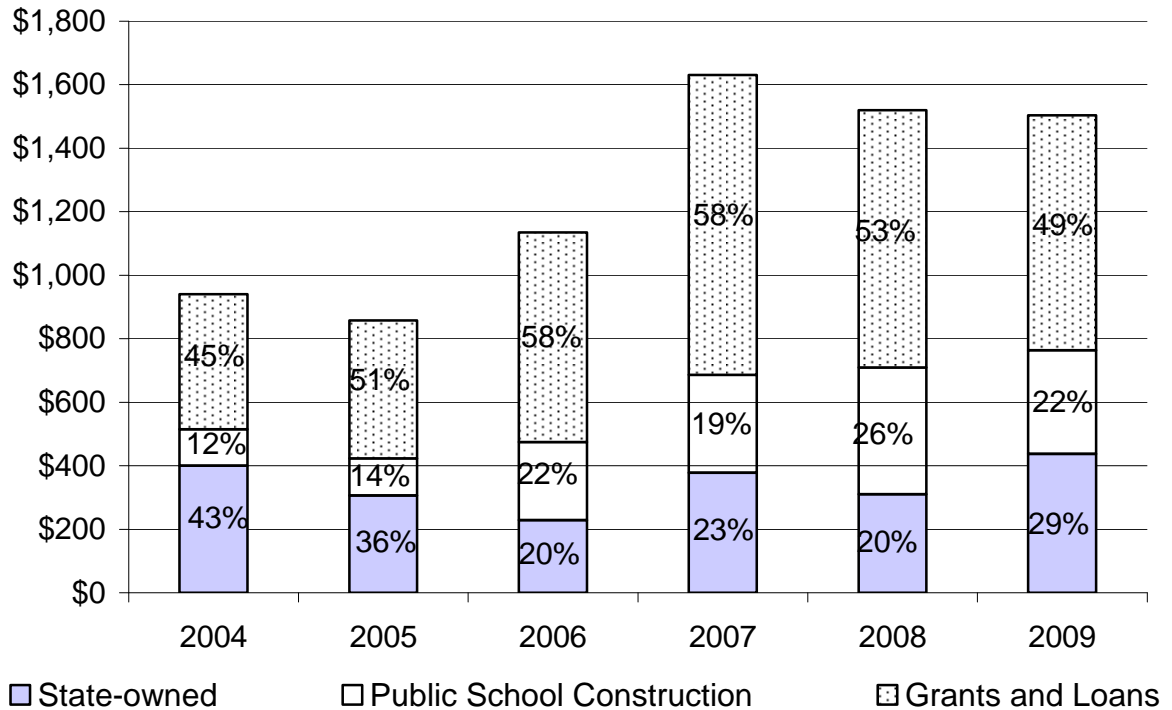


Note: Fiscal 2002 figures do not include \$324 million of general fund PAYGO appropriations reverted to the general fund through the 2002 session budget reconciliation and financing legislation.

Emphasis on School Construction Funding

Exhibit 2 shows recent annual capital program funding by major category. Public school construction funding increased in both absolute dollars and as a share of the total capital program beginning in fiscal 2006. Except for fiscal 2009, funding for State-owned projects declined in both absolute dollars and as a percentage of the budget when compared to fiscal 2004 and 2005 budgets.

Exhibit 2
Capital Funding by Major Category
Fiscal 2004-2009
(\$ in Millions)



- The Capital Debt Affordability Committee (CDAC) recommended \$1.11 billion of new GO bond authorizations for the 2009 session. This represents \$150 million more than what the committee recommended for fiscal 2010 in its 2007 report. The committee specifically tied \$75 million of the additional authorizations to public school construction funding with the intent of level funding this capital grant program at \$325 million for fiscal 2010 (\$250 million is programmed in the 2008 *Capital Improvement Program* with the additional \$75 million intended to boost funding to \$325 million).

- In accordance with Section 8-113 of the State Finance and Procurement Article, the Governor notified the General Assembly on the level of State debt that is advisable. The Governor accepted the recommendation of CDAC and provided the following preliminary allocation of the \$1.11 billion debt authorization as shown in **Exhibit 3**.

Exhibit 3
Governor's Proposed GO Bond Capital Program

	<u>GO Debt</u>	<u>% of Total</u>
General Construction – State-owned Facilities	\$497,000,000	44.8%
Public School Construction	260,000,000	23.4%
Other Special Projects – Grants and Loans	353,000,000	31.8%
Total	\$1,110,000,000	

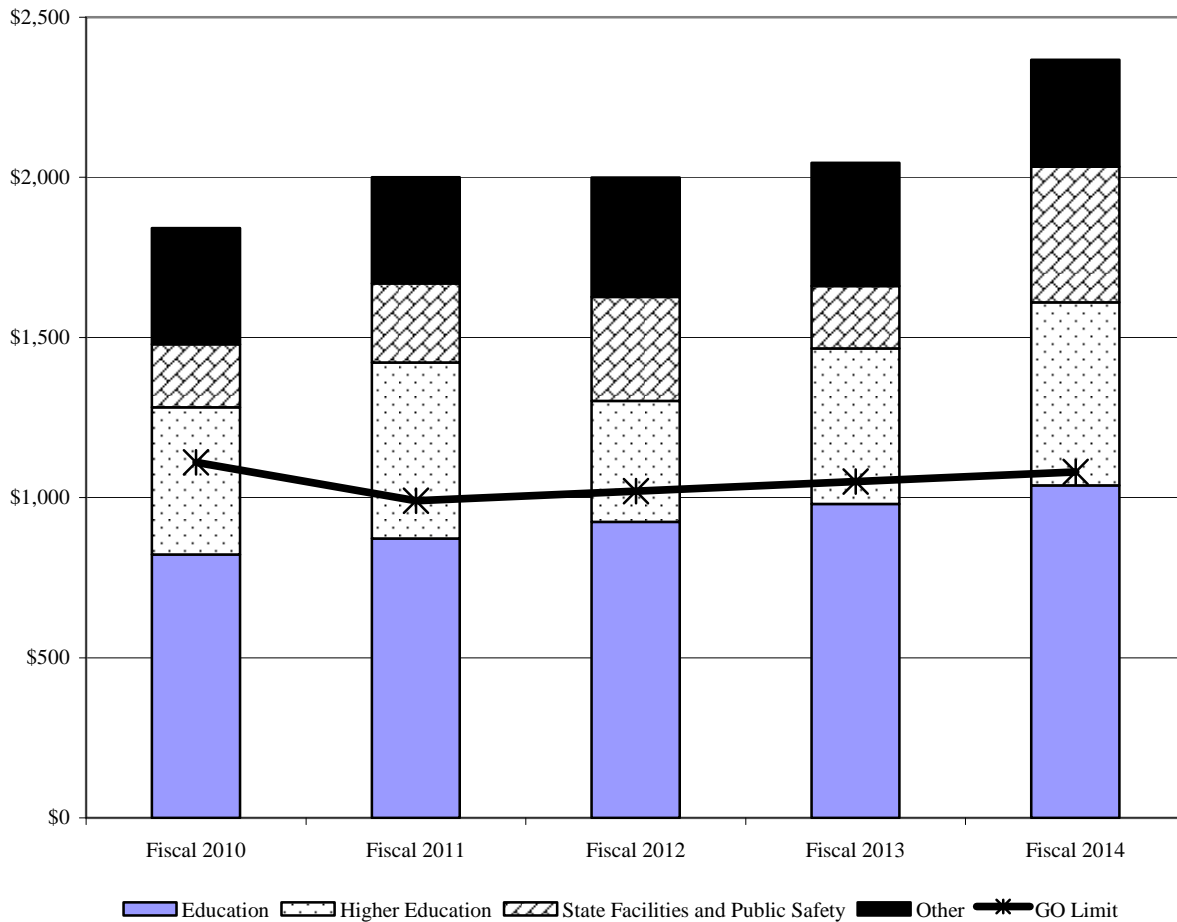
GO: general obligation

Source: Governor's Office, October 15, 2008

Capital Demand

- Capital GO bond requests for fiscal 2010 total \$1.5 billion, or \$365 million more than the amount available under the recommended GO bond debt limit of \$1.1 billion. Capital requests for the next five years total nearly \$8.5 billion, while the projected debt authorizations for the same period total about \$5.3 billion as shown in **Exhibit 4**.

Exhibit 4
GO Bond Requests and CDAC GO Bond Debt Limit
Fiscal 2010-2014
(\$ in Millions)



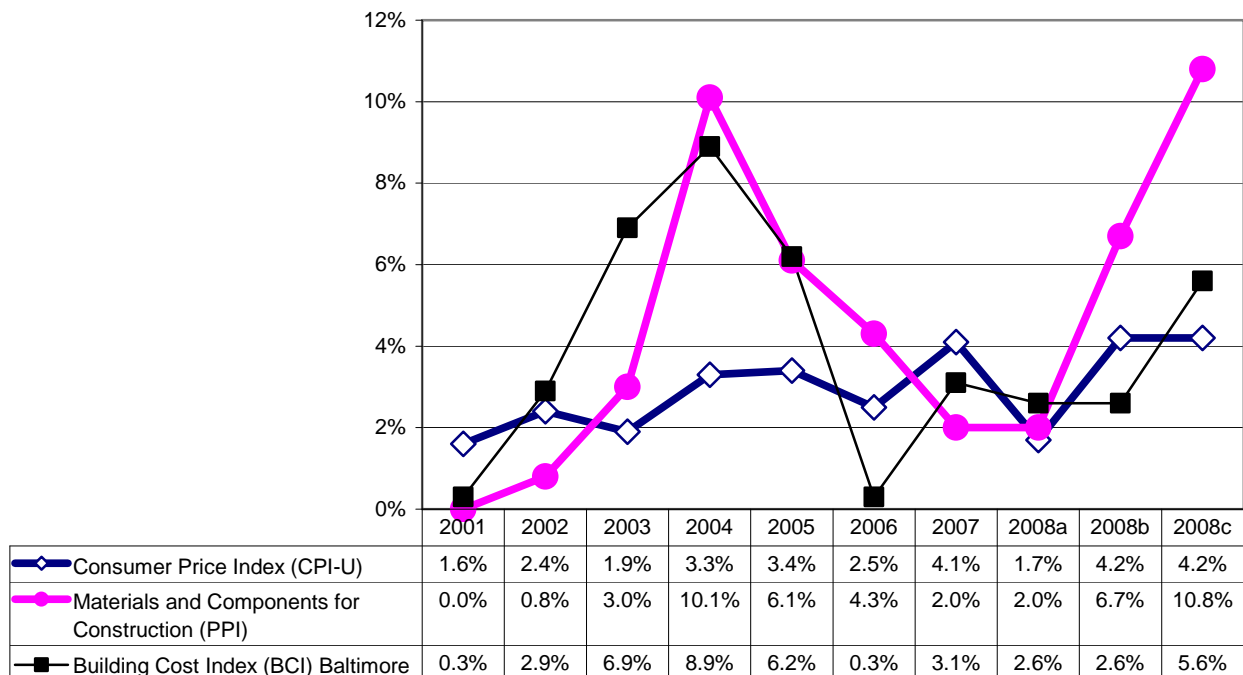
GO: general obligation
 CDAC: Capital Debt Affordability Committee
 IAC: Interagency Committee on School Construction

Note: Education figures represent local education agency public school construction requests to the Interagency Committee on School Construction

Construction Costs Escalation

- Construction market experienced greater cost increases than the rest of the economy.** As shown is **Exhibit 5**, beginning in 2003, the price for construction materials plus items consumed by contractors rose faster than the Consumer Price Index (CPI). From December 2003 through December 2007, the Producer Price Index (PPI) rose a cumulative 30.2 percent, compared to 14.5 percent for the CPI.

Exhibit 5
Materials and Components of Construction
Compared to the Consumer Price Index and Baltimore City Building Cost Index
Calendar 2001-2008



Note: 2008a = First Quarter
 2008b = Second Quarter
 2008c = Third Quarter

Source: Bureau of Labor Statistics; Engineering New-Record

- While there was a leveling off of the growth in construction costs both nationally and regionally during the latter part of 2006 and through the first quarter of 2008, all three inflationary measures spiked in the second quarter of 2008 with construction escalation once again exceeding CPI measures. Despite the more recent return to more normal construction escalation, the PPI measure has still increased at an average annual rate of 6.0 percent from 2002 through 2008 and the BCI at 5.6 percent over the same time period.

Transfer Tax Revenues Below Budgeted Estimate

- **Exhibit 6** shows estimated and actual transfer tax revenues for fiscal 2003 through 2010. The fiscal 2008 budget included \$188.6 million of estimated transfer tax revenues. Actual attainment was \$153.3 million or \$35.3 million less than what was included in the fiscal 2008 budget.

Exhibit 6
Estimated and Actual Transfer Tax Revenues
Fiscal 2003-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>Original Revenue Estimate</u>	<u>Actual Collections</u>	<u>Variance</u>
2003	\$97.5	\$140.9	\$43.4
2004	107.9	173.1	65.2
2005	132.8	237.3	104.5
2006	194.5	270.0	75.5
2007	264.5	212.5	-52.0
2008	188.6	153.3	-35.3
2009	166.3	-	-
2010	127.5	-	-

Note: Fiscal 2010 estimate is based on Office of the Comptroller estimate made on September 21, 2007. **The Office of the Comptroller has revised the fiscal 2009 estimate to \$132.7 million which represents a \$33.6 million decrease from the original estimate upon which the fiscal 2009 budget was based.**

Section 13-209, Tax Property Article, stipulates that any over or underattainment is reconciled in the second fiscal year following the original budget year, or through the deauthorization of prior authorized projects.

Source: Office of the Comptroller

- **Exhibit 7** shows the impact that over and underattainments have on the transfer taxes available to support capital programs. Exhibit 7 also shows the amount of transfer tax diverted to the general fund and amount of GO bond replacement that occurred in fiscal 2003 through 2006.

Exhibit 7
Transfer Tax Revenues
Fiscal 2003-2010
(\$ in Millions)

<u>Fiscal Year</u>	<u>Revenue Estimate</u>	<u>Attainment Adjustment*</u>	<u>Amount to Programs</u>	<u>Amount to General Fund</u>	<u>GO Replacement</u>
2003	\$97.5	\$11.2	\$47.3	\$58.5	\$0.0
2004	116.2	20.6	19.9	123.4	58.3
2005	132.8	43.4	6.8	165.4	23.6
2006	194.5	65.2	120.4	131.9	0.0
2007	264.5	104.5	361.1	0.0	0.0
2008	188.6	75.5	258.4	0.0	0.0
2009	166.3	-52.0	109.4	0.0	0.0
2010 EST	127.5	-35.3	88.4	-	-

*Attainment adjustment reflects over or underattainment of revenues from the second prior year.

Note: Amount to programs does not include 3% for administrative costs. Amount to general fund does not include unencumbered balances transferred by budget reconciliation legislation (\$39.8 million). **The Office of the Comptroller has revised the fiscal 2009 estimate to \$132.7 million which represents a \$33.6 million decrease from the original estimate upon which the fiscal 2009 budget was based.**

Use of GO Bond Program to Relieve Pressure on Operating Budget

\$ in Millions

- **InterCounty Connector (ICC) Funding:** Use GO bonds to make repayments to the ICC. Chapter 567 of 2008 restructured the general fund repayment to the ICC, as required by Chapters 471 and 472 of 2005, to require a \$63 million payment in fiscal 2010. Fiscal 2009 payment after October BPW reduction of \$20 million is \$65 million. It is anticipated that \$10 million of the reduction would be budgeted in fiscal 2010. \$138.0
 - **Medevac Helicopter Replacement:** Use GO bonds to fund Medevac helicopter replacement and transfer balance of State Police helicopter fund to the general fund. The Spending Mandate and Revenue Dedication Relief Act of 2008 (Chapter 414 of 2008) modified the provisions of Chapter 6 of the 2007 special session to dedicate \$50.0 million rather than \$110.0 million to the State Police Helicopter Replacement Fund. Although \$33.6 million was appropriated from the fund in the fiscal 2009 budget to fund the purchase of the first 3 of 12 helicopters, the procurement has been delayed, and the funds are unlikely to be encumbered until fiscal 2010. \$50.0
 - **Use GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds:** The 2008 CIP programs \$38.7 million of general funds to support the capital program. Since general funds are typically provided to certain capital programs due to federal private activity restrictions, this action would likely require the issuance of taxable GO bonds. \$38.7
 - **Transfer Tax Diversion:** Recent budgets have been balanced using all or a portion of the State transfer tax revenue (fiscal 2003 through 2006 budgets). The Board of Revenue Estimates projects fiscal 2010 State transfer tax collections at \$127 million. The Department of Natural Resources reports \$235 million of appropriated but unobligated transfer taxes (\$103 million of local share and \$132 million of State share) that remain available for future use. \$88.4
- Total** **\$315.1**

BPW: Board of Public Works

GO: general obligation

CIP: *Capital Improvement Program*

Part 7

Transportation

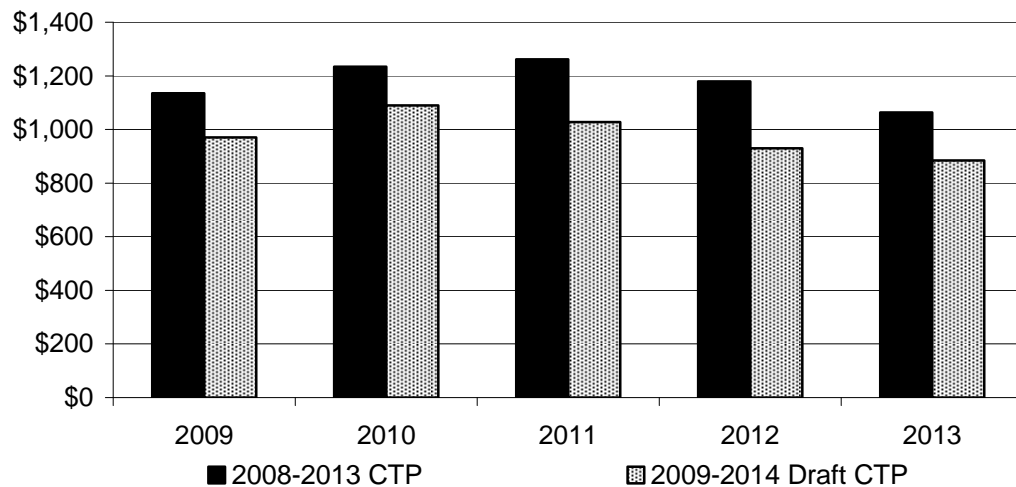
**Transportation Trust Fund Ended Fiscal 2008 With
\$47 Million Less Than Estimated Due to Revenue Shortfalls
(\$ in Millions)**

	<u>Projected FY 2008</u>	<u>Actual FY 2008</u>	<u>Variance</u>
Starting Fund Balance	\$190	\$190	\$0
Revenues			
Titling Taxes	\$714	\$650	-\$64
Motor Fuel Taxes	764	755	-9
Corporate Income, Registrations, and Misc. MVA Fees	749	726	-23
Other Receipts and Adjustments	517	530	13
Bond Proceeds and Premiums	285	250	-35
Total Revenues	\$3,029	\$2,911	-\$118
Uses of Funds			
MDOT Operating Expenditures	\$1,461	\$1,488	\$27
MDOT Capital Expenditures	896	822	-74
MDOT Debt Service	121	119	-2
Highway User Revenues	551	529	-22
Other Expenditures	90	90	0
Total Expenditures	\$3,119	\$3,048	-\$71
Ending Fund Balance	\$100	\$53	-\$47

MVA: Motor Vehicle Administration
MDOT: Maryland Department of Transportation
Source: MDOT, September 2008

- Due to a slowing economy in the second half of the fiscal year, net revenues were \$118 million less than estimated. Specifically, weak vehicle sales resulted in titling tax revenues being \$64 million less than estimated. Motor fuel tax receipts were \$9 million less than estimated.
- Capital expenditures were \$74 million less than estimated due to additional federal fund attainment and cash flow changes in projects. Operating expenditures were \$27 million higher than estimated because of increased diesel fuel and winter maintenance costs. Local highway user revenues were \$22 million lower because revenues did not meet the estimate.
- The ending fiscal 2008 fund balance totaled \$53 million, below the Maryland Department of Transportation's (MDOT) goal of \$100 million. As a result of weak revenue performance, the fund balance was drawn down by \$137 million to support ongoing expenditures.

**Draft CTP Special Fund Capital Program Reduced by \$1.0 Billion
Due to Legislation and Underperforming Revenue
Fiscal 2009-2013
(\$ in Millions)**



CTP: Consolidated Transportation Plan

- Due to declining revenues and legislative changes, the special fund capital program was reduced by approximately \$1.0 billion over the comparable fiscal 2009 to 2013 period. Projects added as part of the revenue increase from the 2007 special session were the first to be delayed or deferred.
- Chapter 10 of 2008 changed the Transportation Trust Fund (TTF) share of the sales tax from 6.5 to 5.3 percent through fiscal 2013 and repealed the sales tax on computer services. This statutory change as well as downward revisions in the sales tax estimate reduced revenues to the TTF by \$420 million for the comparable fiscal 2009 through 2013 period.
- As the economy weakened through the spring and summer months of 2008, vehicle sales continued to decline and titling tax revenue was revised downward by \$442 million from fiscal 2009 through 2013.
- The operating budget forecast did not change significantly for the comparable fiscal years.

**DLS Estimates Additional Difficulties for the Capital Program
Due to Downward Revisions to Revenues
(\$ in Millions)**

Revenues Compared to Draft CTP

Titling Tax – Vehicle sales have declined dramatically in fiscal 2009 which reduces revenue estimates over the six-year period. -\$1,026

Motor Fuel Tax – Vehicle miles traveled have declined and are expected to continue this decline in fiscal 2009 with moderate estimates of growth in the out-years. -139

Corporate Income, Sales Tax, Registrations, and Misc. MVA Fees – DLS revised its general fund forecast downward due to the current economic environment. -129

Other Receipts and Adjustments 9

Bond Sales – Due to the write down in revenue and increased operating budget expenditures, bond sales are constrained by the net income coverage test over the six-year period. -1,220

Total Revenues Compared to Draft CTP **-\$2,505**

Expenditures Compared to Draft CTP

Operating Budget – From 1994 to 2008, the average annual increase in the MDOT operating budget has been 5.7 percent. MDOT assumed a 3.3 percent average annual rate of growth compared to the DLS estimate of 5.2 percent. \$464

Debt Service – Due to reduced bond sales, debt service payments are less than estimated. -201

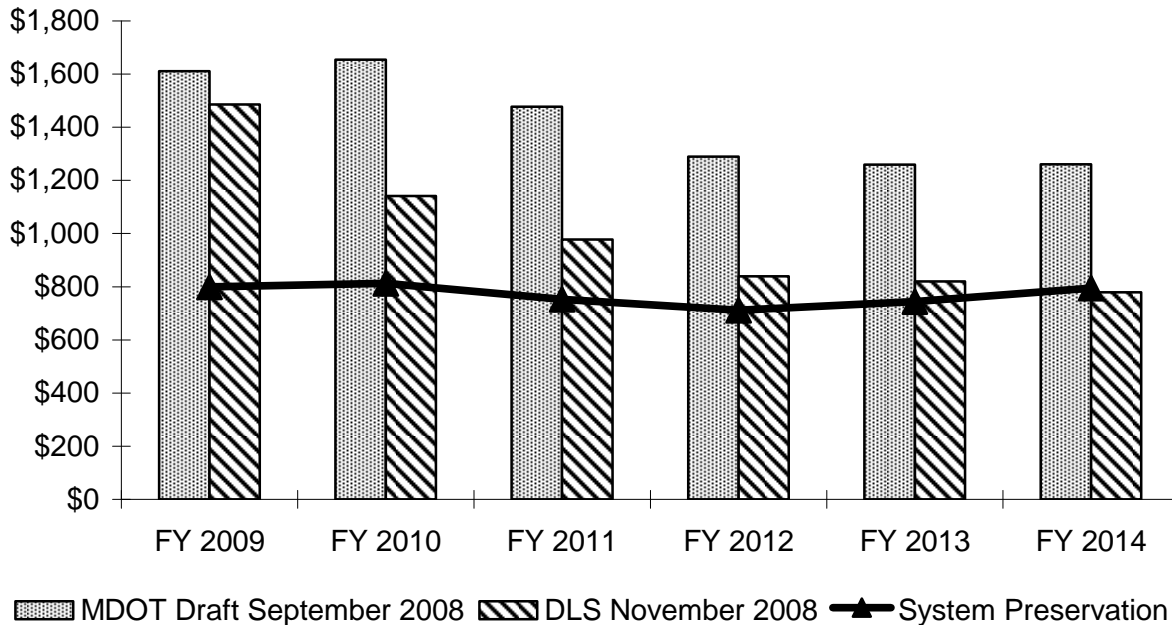
Local Highway User Revenues – Due to downward revisions in revenues, the local share of highway user revenues is reduced. -261

Capital Program – As revenues are revised downward and operating expenditures increase, bond sales are constrained which reduces the capital program. -2,507

Total Expenditures Compared to Draft CTP **-\$2,505**

CTP: Consolidated Transportation Program
DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

Special and Federal Fund Capital Program Comparison Fiscal 2009-2014 (\$ in Millions)



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

- In fiscal 2009, the capital program is largely maintained due to the sale of bonds. This limits the ability to issue bonds in the out-years for the capital program.
- Based upon current estimates, funding will only be available for system preservation projects in fiscal 2014.
- To the extent that MDOT undertakes ongoing cost containment in the operating budget, cash is made available for the capital program, and additional bonding capacity is created to support the capital program.
- Current federal fund estimates are conservative throughout the forecast period due to uncertainty regarding the solvency of the federal highway trust fund. If a federal funding solution is identified or transportation infrastructure is included in a second stimulus package, capital spending could increase.

**Department of Legislative Services
Transportation Trust Fund Forecast
Fiscal 2008-2014**

	<u>Actual FY 2008</u>	<u>Estimate FY 2009</u>	<u>Estimate FY 2010</u>	<u>Estimate FY 2011</u>	<u>Estimate FY 2012</u>	<u>Estimate FY 2013</u>	<u>Estimate FY 2014</u>
Opening Fund Balance	\$190	\$53	\$100	\$100	\$100	\$100	\$100
Closing Fund Balance	\$53	\$100	\$100	\$100	\$100	\$100	\$100
<u>Net Revenues</u>							
Taxes and Fees	\$1,539	\$1,769	\$1,795	\$1,868	\$1,920	\$1,980	\$2,077
Operating and Miscellaneous	533	512	521	531	542	553	557
MDTA Transfer	-30	-30	-30	0	0	0	0
Net Revenues Subtotal	2,042	2,251	2,286	2,399	2,462	2,533	2,634
Bonds Sold	227	360	120	50	40	30	20
Bond Premiums	23	0	0	0	0	0	0
Total Revenues	\$2,292	\$2,611	\$2,406	\$2,448	\$2,502	\$2,564	\$2,655
<u>Expenditures</u>							
Debt Service	\$119	\$142	\$152	\$161	\$178	\$181	\$198
Operating Budget	1,488	1,577	1,676	1,758	1,845	1,936	2,033
State Capital	822	845	578	529	480	445	421
Total Expenditures	\$2,429	\$2,564	\$2,406	\$2,448	\$2,503	\$2,563	\$2,653
<u>Debt</u>							
Debt Outstanding	\$1,269	\$1,553	\$1,595	\$1,562	\$1,500	\$1,422	\$1,312
Debt Coverage – Net Income	4.3	2.5	3.0	2.7	2.7	2.6	2.5
<u>Local Highway User Revenues</u>	\$530	\$496	\$501	\$519	\$529	\$540	\$543
<u>Capital Summary</u>							
State Capital	\$822	\$845	\$578	\$529	\$480	\$445	\$421
Net Federal Capital (Cash Flow)	671	641	564	449	359	375	358
Subtotal Capital Expenditures	\$1,493	\$1,486	\$1,142	\$978	\$839	\$820	\$779
GARVEE Debt Service	36	73	84	84	84	84	84

MDTA: Maryland Transportation Authority

GARVEE: Grant Anticipation Revenue Vehicle

Part 8

State Employment and Employee Benefits

Regular Full-time Equivalent Positions Fiscal 2002-2010

Department/Service Area	2002 Actual Approp.	2009 Work. Approp.	2002-2009 Change	2010 Baseline Estimate	2009-2010 Change
Health and Human Services					
Health and Mental Hygiene	8,536	7,430	-1,106	7,150	-280
Human Resources	8,273	6,955	-1,318	6,933	-23
Juvenile Services	2,123	2,297	174	2,297	0
Subtotal	18,932	16,682	-2,250	16,380	-303
Public Safety					
Public Safety and Correctional Services	11,663	11,837	174	11,837	0
Police and Fire Marshal	2,590	2,466	-125	2,468	2
Subtotal	14,253	14,302	49	14,304	2
Transportation	9,538	9,201	-338	9,205	4
Other Executive					
Legal (Excluding Judiciary)	1,381	1,590	209	1,675	85
Executive and Administrative Control	1,619	1,680	61	1,689	9
Financial and Revenue Administration	2,158	2,046	-113	2,098	52
Budget and Management	524	449	-75	451	2
Retirement	194	203	9	203	0
General Services	793	635	-158	636	1
Natural Resources	1,629	1,404	-226	1,404	0
Agriculture	480	437	-44	437	1
Labor, Licensing, and Regulation	1,706	1,461	-245	1,653	193
MSDE and Other Education	1,955	2,176	221	2,004	-173
Housing and Community Development	449	311	-138	311	0
Business and Economic Development	324	274	-50	275	1
Environment	1,028	932	-96	965	33
Subtotal	14,240	13,596	-644	13,799	203
Executive Branch Subtotal	56,963	53,781	-3,182	53,687	-94
Higher Education	21,386	23,700	2,314	23,700	0
Judiciary	3,010	3,569	559	3,614	45
Legislature	730	747	17	747	0
Grand Total	82,089	81,798	-291	81,749	-49

MSDE: Maryland State Department of Education

Note: Fiscal 2009 Work. Approp. includes position abolitions made at the June 25, 2008 Board of Public Works meeting.

The State Workforce

Fiscal 2010 Baseline Budget Position Changes

- **Department of Health and Mental Hygiene (DHMH) (-280.4):** The closure of Rosewood Center removes 518.9 full-time equivalent positions from the baseline. The reductions are partially offset by the addition of another 136.5 positions supporting the opening of a new maximum security ward at the Perkins facility and the opening of two forensic wards in the Developmental Disabilities Administration that require 94 new positions.
- **Public Defender (80.5):** Another 55 assistant public defenders and 25.5 secretaries, law clerks, and social workers are added to meet higher caseloads, primarily in District Operations.
- **Judiciary (45):** Another seven circuit court judges, seven circuit court clerks, seven circuit court law clerks, eight District Court judges, eight District Court clerks, and eight District Court bailiffs have been added to the baseline.
- **State Lottery Agency (30):** Another 30 positions have been added to administer a system of video lottery terminals (VLTs), subject to public approval of constitutional amendment authorizing VLTs.
- **Comptroller (22):** Another 16 new revenue examiners and 6 compliance auditors are added for the implementation of the Modernized Integrated Tax System.
- **Department of Labor, Licensing, and Regulation (14):** The baseline includes 14 new positions for additional mortgages licensing requirements, fraud investigations, and investigating violations of the new foreclosure act.
- **Legislation:** Positions supporting legislation enacted in 2008 include:
 - 15 positions supporting the Maryland Department of the Environment's (MDE) Water Management Administration's Wetlands and Waterways regulatory program (Chapter 142);
 - 7 deficiency positions to implement changes to the newborn screening program in DHMH's Laboratories Administration (Chapter 256);
 - 6 new positions for MDE's Regional Greenhouse Gas Initiative program (Chapters 127 and 128);

The State Workforce Fiscal 2010 Baseline Budget Position Changes (Cont.)

- 6 new positions for regulatory capacity in MDE's Clean Air Permit Fees (Chapter 141);
- 4 positions (an Assistant Attorney General, administrator, investigator, and secretary) added to the Attorney General's Office supporting increased regulatory requirements of the Homebuilder Guaranty Fund (Chapter 480);
- 4 positions supporting the reorganization of the Department of Information Technology (Chapter 9);
- 2 positions due to expanded responsibilities of DHMH's Board of Residential Child Care Program (Chapter 218);
- 2 positions supporting the Maryland State Department of Education's (MSDE) Fitness and Athletics Equity for Students with Disabilities Act (Chapters 464 and 465); and
- 2 positions supporting MSDE's Truancy Rate legislation (Chapters 367 and 368).

Vacant Positions, Turnover Rate, and Positions Above Turnover Fiscal 2009 Working Appropriation

<u>Department/Service Area</u>	2009 Work. Approp	October 2008 Vacancies	October 2008 Vacancy Rate	Turnover Rate	Positions to Meet Turnover	Positions Above Turnover
Health and Human Services						
Health and Mental Hygiene	7,430	754	10.1%	5.3%	390	364
Human Resources	6,955	585	8.4%	5.1%	354	231
Juvenile Services	2,297	220	9.6%	3.4%	79	141
Subtotal	16,682	1,558	9.3%	5.5%	823	736
Public Safety						
Public Safety and Correctional Services	11,837	1,124	9.5%	4.1%	489	635
Police and Fire Marshal	2,466	199	8.1%	4.9%	121	78
Subtotal	14,302	1,323	9.3%	4.4%	611	712
Transportation	9,201	531	5.8%	5.8%	537	-7
Other Executive						
Legal (Excluding Judiciary)	1,590	125	7.9%	6.0%	96	30
Executive and Administrative Control	1,680	174	10.3%	4.9%	82	91
Financial and Revenue Administration	2,046	137	6.7%	4.2%	86	51
Budget and Management	449	39	8.7%	4.2%	19	20
Retirement	203	17	8.1%	6.1%	12	4
General Services	635	69	10.8%	6.0%	38	31
Natural Resources	1,404	132	9.4%	5.2%	73	59
Agriculture	437	38	8.8%	7.4%	32	6
Labor, Licensing, and Regulation	1,461	103	7.0%	4.3%	63	40
MSDE and Other Education	2,176	162	7.5%	6.3%	138	25
Housing and Community Development	311	30	9.6%	4.2%	13	17
Business and Economic Development	274	18	6.6%	4.0%	11	7
Environment	932	99	10.6%	6.9%	65	34
Subtotal	13,596	1,142	8.4%	5.6%	728	415
Executive Branch Subtotal	53,781	4,554	8.5%	5.3%	2,698	1,856
Higher Education	23,700	1,119	4.7%	2.9%	693	426
Judiciary	3,569	236	6.6%	5.0%	178	58
Legislature	747	18	2.4%	1.5%	11	7
Grand Total	81,798	5,927	7.2%	4.4%	3,566	2,362

MSDE: Maryland State Department of Education

NOTE: Fiscal 2009 Work Approp includes position abolitions and personnel funding reductions made at the 6/25/08 BPW Meeting. Vacancy totals for Higher Education are from 6/30/2008.

Employee and Retiree Health Care and Dental Insurance Funding

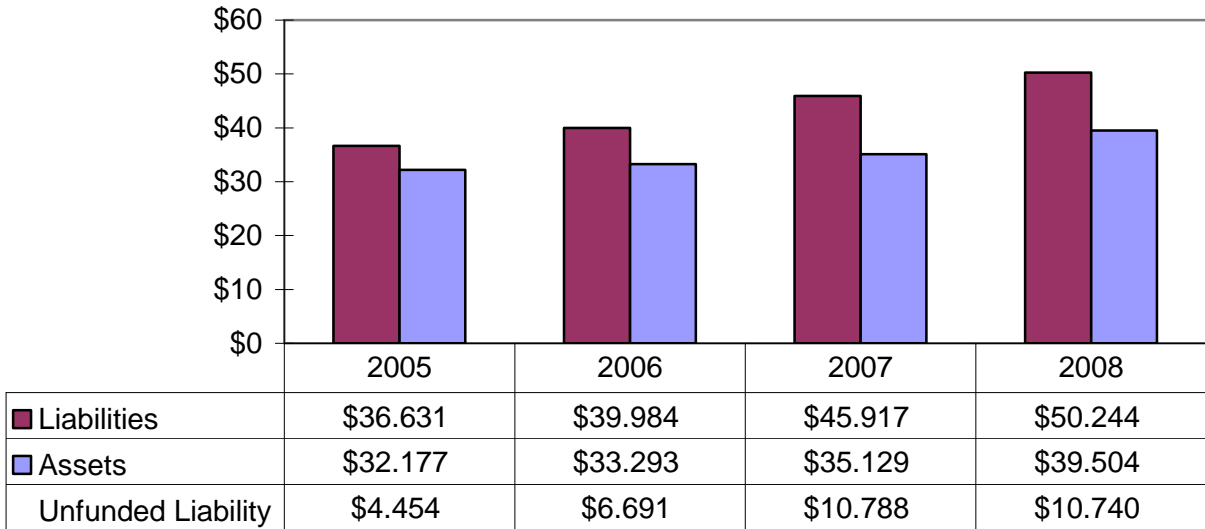
Fiscal 2007-2012
(\$ in Millions)

	2007	2008	2009	2010	2011	2012
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Est.</u>	<u>Est.</u>	<u>Est.</u>
Beginning Balance	\$193	\$305	\$232	\$142	\$94	\$99
Receipts						
Agencies (Employer Contribution)	\$804	\$675	\$735	\$821	\$922	\$986
Employees/Retirees Contribution	203	219	221	250	281	301
Rebates, Recoveries	36	32	22	24	26	28
Total Receipts	\$1,043	\$925	\$979	\$1,095	\$1,229	\$1,315
% Growth in Receipts		-11.3%	5.8%	11.9%	12.3%	7.0%
Expenditures						
Health and Dental Payments	-\$931	-\$998	-\$1,069	-\$1,144	-\$1,224	-\$1,309
% Growth in Payments		7.2%	7.1%	7.0%	7.0%	7.0%
Ending Balance	\$305	\$232	\$142	\$94	\$99	\$106

- Fiscal 2008 contributions from the State fell from fiscal 2007 levels because a portion of the fund balance was utilized in lieu of appropriating the required retiree funds.
- Fiscal 2009 employee/retiree contributions grew by only 2.3% while the State's share grew by 8.9% because a portion of the fund balance was used to provide State workers with a premium holiday.
- By fiscal 2010, the fund balance will have been fully utilized, and will therefore no longer be available to reduce the amount that must be budgeted to meet costs. So, fiscal 2010 and 2011 receipts must grow by a larger percentage than expenditures to match budgeted funds to payments.

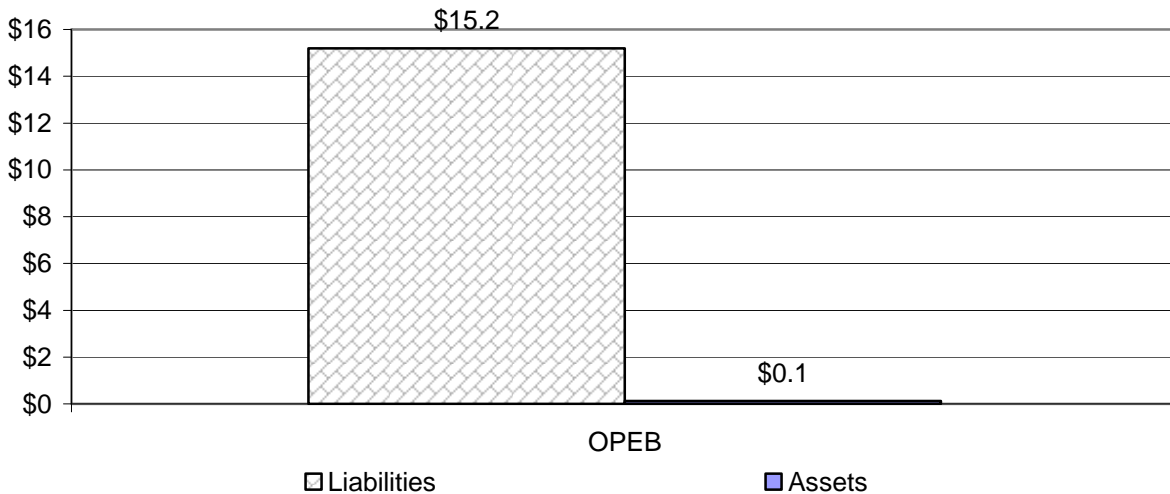
Note: The balances cited for fiscal 2010 and beyond will only provide funding for claims accrued, but not paid for in that year.

State Retirement and Pension System Assets and Liabilities
Fiscal 2005-2008
(\$ in Billions)



Source: State Retirement and Pension System

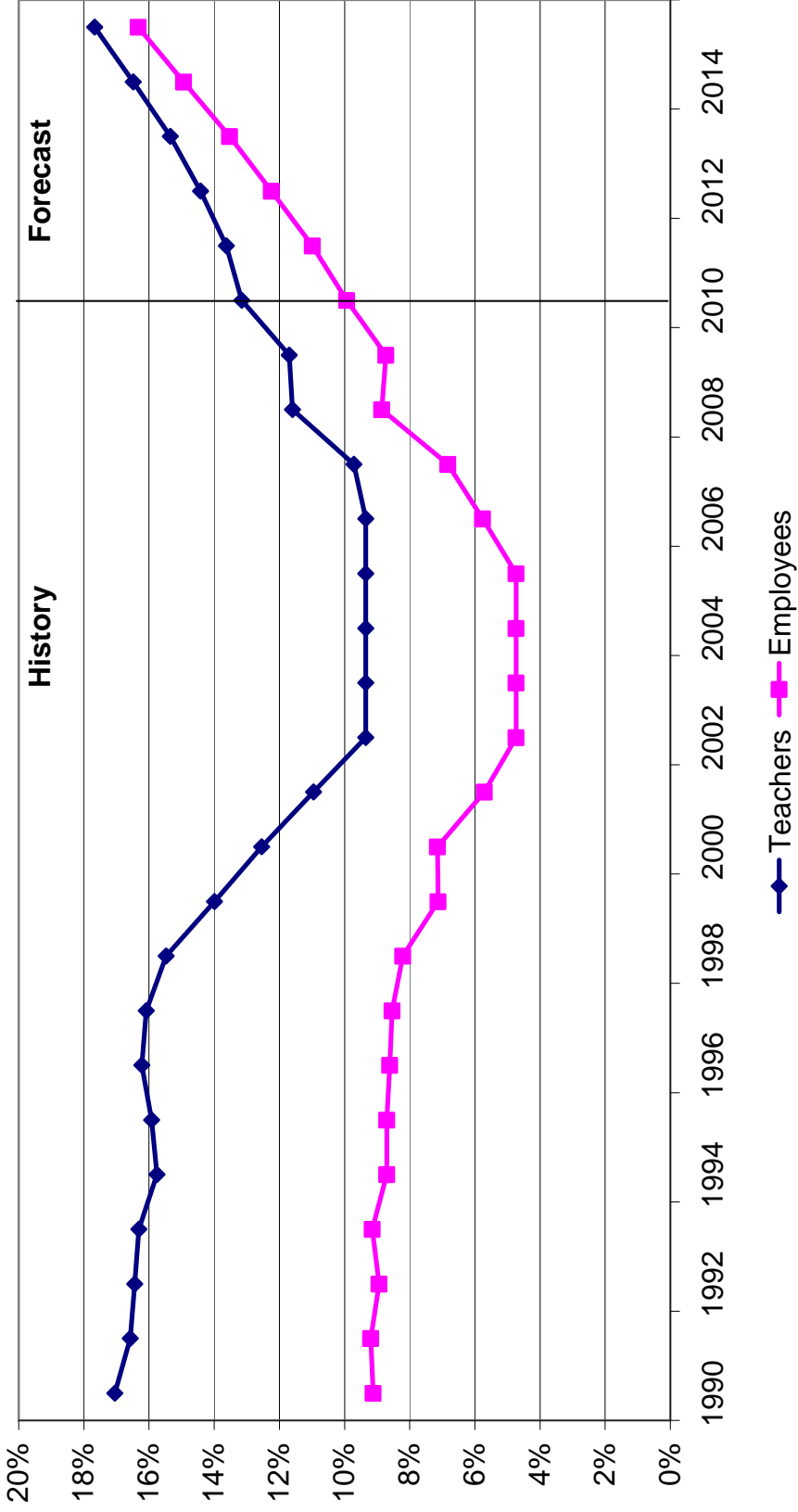
State Retiree Health Liabilities and Assets
(\$ in Billions)



OPEB: Other Post Employment Benefits

Source: Buck Consultants

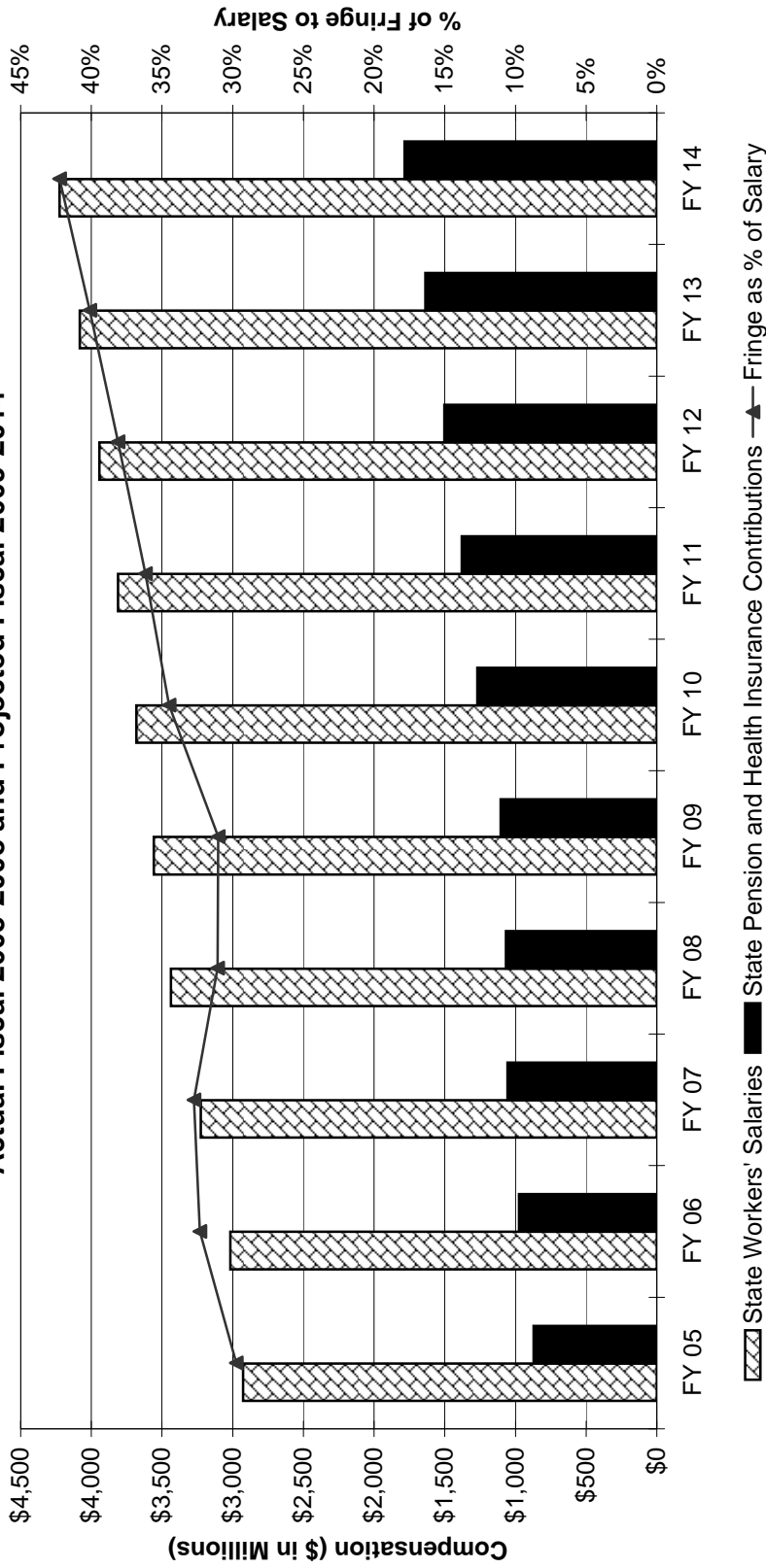
State Pension Contribution Rates Fiscal 1990-2015



Note: Employer contributions rates projected beyond fiscal 2010 assume investment returns of -8.0 percent in fiscal 2009, 0.0 percent in fiscal 2010, and 7.75 percent in 2011 and beyond. If actual investment returns are higher than those assumptions, actual contribution rates may be lower than projected. Similarly, if actual returns are lower, the contribution rates could be higher than projected.

Source: State Retirement and Pension System; Mercer

State Employee Compensation Actual Fiscal 2005-2008 and Projected Fiscal 2009-2014



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

Part 9

Video Lottery Terminals

Video Lottery Terminals

Constitutional Amendment

- The constitutional amendment includes:
 - a maximum of 15,000 video lottery terminals (VLTs);
 - the five geographic areas where facilities can be located;
 - education programs as the primary recipient of revenues;
 - any facility must meet all required local planning and zoning laws/regulations;
 - no more than one facility license may be issued in any single county or Baltimore City; and
 - any subsequent expansion of gambling would have to be passed by the General Assembly and approved by voter referendum.

VLT Facility Location Commission

- Under Senate Bill 3 from the 2007 special session, the VLT implementing bill, a VLT Facility Location Commission will award the VLT facility licenses.
- The Location Commission will have seven members, appointed by the Governor and the Presiding Officers, and will be staffed by the Department of Legislative Services and the State Lottery.
- Facility license proposals must be submitted to the Location Commission by February 1, 2009.
- The Location Commission will issue guidelines for facility license proposals, and the State Lottery will eventually regulate the VLT program.
- The evaluation of proposals will take several months, with facility licenses likely issued in the fall of 2009.

Estimates of Anticipated Revenues at Each Facility Location
Fiscal 2011-2013
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Anne Arundel	\$125.2	\$477.9	\$546.1
Baltimore City	0.0	265.0	426.7
Cecil	0.0	117.8	189.6
Worcester	31.4	119.8	136.9
Allegany (Rocky Gap)	0.0	38.7	62.3
Total	\$156.5	\$1,019.1	\$1,361.6

Note: Up to \$90 million in video lottery terminal facility license fees are expected in fiscal 2010. The Department of Legislative Services anticipates that facilities will begin operating in calendar 2011.

Distribution of Anticipated Revenues
Fiscal 2011-2013
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
Total Annual Gross	\$156.5	\$1,019.1	\$1,361.6
Education Trust Fund (48.5%)	75.9	494.3	660.4
Facility Licensees (33.0%)	51.7	336.3	449.3
Racing Purses/Bred Funds (7.0%)	11.0	71.3	95.3
Local Impact Grants (5.5%)	8.6	56.0	74.9
Racetrack Renewal (2.5%)	3.9	25.5	34.0
State Lottery Operations (2.0%)	3.1	20.4	27.2
Small/Minority/Women-owned Business Investment (1.5%)	2.3	15.3	20.4

Distribution of Local Impact Grants and Property Tax Equivalents

	<u>Fiscal 2013</u> <u>(\$ in Millions)</u>	<u>Fiscal 2009</u> <u>Property Tax Rate</u>	<u>Property Tax</u> <u>Rate Equivalent</u>
Baltimore City*	\$31.7	\$2.268	\$0.098
Anne Arundel	24.6	0.888	0.038
Cecil	8.6	0.960	0.072
Worcester	6.2	0.700	0.028
Allegany (Rocky Gap)	2.8	0.983	0.071
Prince George's	1.0	0.960	0.001
Total	\$74.9		

*Includes grants through the Pimlico Community Development Authority.

Part 10

Reserve Fund

State Reserve Fund Activity
Fiscal 2009 and 2010
(\$ in Millions)

	<u>Rainy Day</u> <u>Fund</u>	<u>Dedicated</u> <u>Purpose Acct.</u>	<u>Catastrophic</u> <u>Event Acct.</u>
Estimated Balances 6/30/08	\$684.8	\$21.0	\$8.3
Fiscal 2009 Appropriations	146.5	85.0	0.0
Expenditures			
Transfer to MDTA for ICC		-85.0	
Substance Abuse Case Mgmt. Compact		-1.0	
Prince George's County Hospital Authority		-20.0 ¹	
Transfers to General Fund (GF)	-125.0		
Estimated Interest	25.3		
Estimated Balances 6/30/09	731.6	0.0	8.3
Fiscal 2010 Appropriations	175.7	63.0 ²	0.0
Expenditures			
Transfer to MDTA for ICC		-63.0 ²	
Transfers to GF	-219.0		
Estimated Interest	32.7		
Estimated Balances 6/30/10	\$721.0	\$0.0	\$8.3
Balance in Excess of 5% GF Revenues³	\$0.4		

ICC: InterCounty Connector

MDTA: Maryland Transportation Authority

¹ The fiscal 2008 budget included \$20 million appropriated toward the closure of the Prince George's County Hospital. Chapter 680 of 2008 modified this purpose to permit a budget amendment processed through the Department of Health and Mental Hygiene to support operations of the hospital contingent on a long-term comprehensive solution being reached between the State and Prince George's County.

² Senate Bill 182 passed at the 2008 session modifies the general fund repayment for the ICC to require an appropriation of at least \$63.0 million in fiscal 2010 and final payment of \$63.913 million in fiscal 2011.

³ Assumes the Department of Legislative Services' October 2008 projections.