Spending Affordability Committee Technical Supplement

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

November 2008

Contents

Part 1
Fiscal 2010 Baseline Budget
Technical Supplement Overview

The Baseline Process

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

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

General Assumptions

Forecasts of individual agency budget requirements are based on amounts appropriated for fiscal 2009. Adjustments are made to remove funds allowed for one-time purposes and to add funds as required to recognize expenses associated with legislation, new facilities, changes in caseloads, and continuing expenses related to fiscal 2009 budget deficiencies. The baseline estimate also allows for changes in employee compensation and inflationary increases in the cost of operating expenses.

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

- ***Merit Increases for State Employees:*** Providing merit increases in fiscal 2010 is expected to add $59 million ($35 million in general funds) to the baseline, excluding that attributable to higher education. Based on wage data, the average merit increase is expected to be 2.4 percent during fiscal 2010. Approximately half of employees receiving merit increases receive them in July, while the other half receive them in January. Annualizing merit increases for employees receiving them in January adds another $20 million ($12 million in general funds) to fiscal 2010 base expenditures, increasing the total annual effect of the merit increase to $78 million ($47 million in general funds). Additionally, higher education merit increases total $37 million ($23 million in general funds) in fiscal 2010.

- ***Fiscal 2010 General Salary Increase for State Employees:*** The fiscal 2010 baseline budget assumes that State employees will receive a 2 percent salary increase and adjusts fringe benefits (social security, retirement, unemployment insurance, and turnover) accordingly. Excluding higher education, the general salary increase adds $65 million, $39 million of which is general funds, to the baseline budget. The higher education general salary increase totals $40 million ($25 million in general funds) in fiscal 2010.

- ***Fiscal 2009 General Salary Increase for State Employees:*** The fiscal 2009 appropriation provided State employees with a 2 percent general salary increase, budgeted in the Department of Budget and Management's (DBM) appropriation. The baseline budget deletes $79 million ($64 million in general funds) from DBM's budget and provides for a 2 percent increase in the agency budgets. To reflect the general salary increase, the system increases salaries by 2 percent and adjusts fringe benefits (social security, retirement, unemployment insurance, and turnover) accordingly.

- ***Annual Salary Reviews (ASRs):*** The fiscal 2009 budget introduced by the Administration included $4.3 million in general funds and $1.6 million in special funds to increase selective salaries across various State agencies. The ASRs increased the grades for 488 classifications, the majority of which were skilled professionals, such as scientists and engineers. All of these funds were budgeted in DBM's personnel budget. The funds were transferred by Budget Amendment 003-09 to the agencies. The budgets of agencies receiving ASRs were adjusted to reflect the ASRs.

- ***Employee and Retiree Health Insurance:*** State health insurance costs support employee and retiree PAYGO health insurance costs. The baseline budget projects that the fiscal 2010 claims will exceed $1.1 billion. This estimate assumes that costs will increase by 7 percent, consistent with recent claims activity and a survey of projected cost increases. State agency appropriations into the fund are projected to increase by over 9 percent. The State was able to keep fiscal 2009 costs down and provided an additional premium holiday to employees and retirees by reducing the fund balance from

$159 million to an estimated $64 million (after deducting expenses incurred but not received). Consequently, the State is not projected to have a large fund balance to draw down in fiscal 2010, and appropriations are projected to exceed the growth in health insurance costs.

- ***Other Post Employment Benefits (OPEB):*** The State provides health insurance benefits for qualified retired employees. This benefit results in an unfunded liability to the State. To reduce this liability, the State has begun appropriating funds into a trust fund. In fiscal 2009, $107 million was appropriated in State agency budgets to reduce the OPEB liability. This amount should be sufficient to generate $100 million for the trust fund given that the full appropriation of special and federal funds will not be attained. The baseline provides another $107 million for the OPEB liability. The general fund appropriation is $65 million.

- ***Workers' Compensation Assessments:*** The Injured Workers' Insurance Fund (IWIF) administers the workers' compensation claims of State employees through a nonprofit agreement. The projected claims cost for fiscal 2010 uses the actual claims experience in fiscal 2008 as the cost base, and then IWIF's administrative fees and State Employee Risk Management Administration work safety program costs are added to calculate the operational cost for the year. Monies to fund the long-term liability are also typically set aside each year. The budgeted fiscal 2010 operational costs for workers' compensation claims are $64.6 million, up $8.4 million from fiscal 2009, due largely to the increased settlement of claims by IWIF. The baseline also includes $5.0 million in funding for the long-term liability, the same amount as included in the fiscal 2009 budget.

- ***Employees' Retirement and Pensions:*** Fiscal 2010 baseline budget expenditures are expected to increase when compared to fiscal 2009. The increase is attributable to underbudgeting fiscal 2009 costs. After the Governor introduced the fiscal 2009 budget, the State Retirement Agency notified legislative leaders and the Administration that the actuarial rates approved by the pension board understated costs due to a mathematical error in the actuary's computation. The baseline budget treats this underfunding as a capital loss and increases rates to the level that the board would have approved, had the error not been made. The result is to increase baseline spending, as described:

  - an additional $67.2 million ($40.3 million in general funds) for the Employees' State Retirement and Pension Systems;

  - State Police retirement plan appropriations increasing by $5.9 million ($3.5 million in general funds);

  - appropriations to the Law Enforcement Officers Pensions System increase by $3.4 million, of which $2.0 million is general funds;

- the teachers' retirement plan appropriations, for members who are State employees, increase by $3.4 million, $2.0 million in general funds; and

- an additional $1.4 million ($0.9 million in general funds) for the judges' plan.

Nonpersonnel Operating Cost Assumptions

The baseline also assumes inflationary changes in specific subobjects. The most significant increases are reflected in natural gas and propane (27.7 percent), gasoline for State vehicles (23.1 percent), food (10.3 percent), and electricity (7.2 percent) due to nationwide cost increases for these items and underfunding in fiscal 2009. Specific inflation assumptions are:

- natural gas and propane (27.7 percent);
- gasoline for State vehicles (23.1 percent);
- food (10.3 percent);
- electricity (7.2 percent);
- prescription drugs for State facilities (5.1 percent);
- medical contracts and supplies (5.1 percent);
- postage (2.1 percent);
- in-state travel (2.0 percent); and
- supplies and materials (2.0 percent).

Statewide Reductions in Spending

Chapter 10 of 2008 repealed the expansion of the sales tax to certain computer services. Revenues lost from this repeal were replaced by a combination of:

- a three-year increase in the income tax rate for net taxable income in excess of $1 million;

- a five-year modification in the portion of the sales tax dedicated to the Transportation Trust Fund; and

- $50 million in ongoing budget reductions.

To implement the budget reductions, Section 5 of the session law expressed the intent that by July 1, 2008, the Governor should present to the Board of Public Works (BPW) a schedule for reductions of at least $50 million in ongoing general fund expenditures from the fiscal 2009 budget.

At the June 25, 2008 BPW meeting, the Governor withdrew a total of $75.2 million from the fiscal 2009 budget and abolished 11.5 vacant positions. The withdrawn appropriations include $50.1 million in general funds, $7.4 million in special funds, and $17.6 million in federal funds. The withdrawn appropriations include both one-time savings and ongoing cost-saving measures. In each of the agencies, the appropriations are withdrawn from fiscal 2009. If the withdrawn appropriation was a one-time cost savings and will return again in fiscal 2010, the item was then added back into the fiscal 2010 baseline.

June 2008 BPW Withdrawn Appropriations

	Withdrawn Appropriations	Positions
Judicial and Legal Review	$793,886	
Executive and Administrative Control	1,179,831	0.5
Financial and Revenue Administration	1,478,752	
Budgetary and Personnel Administration	513,552	
Retirement and Pension Systems Administration	89,455	
General Services	404,506	3.0
Transportation	2,591,131	
Natural Resources	1,324,717	
Agriculture	499,827	
Health and Mental Hygiene	37,887,360	
Human Resources	6,551,638	
Labor, Licensing, and Regulation	911,625	
Public Safety and Correctional Services	6,251,304	
Public Education	10,712,053	7.0
Housing and Community Development	232,466	
Business and Economic Development	477,146	1.0
Environment	416,799	
Juvenile Services	998,039	
State Police	1,865,473	
Total	**$75,179,560**	**11.5**

Baseline Results

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

Projected Baseline Budget
Fiscal 2009 and 2010
($ in Millions)

Fund[1]	2009 Adjusted Appropriation[3]	2010 Baseline	2009-2010 $ Increase	2009-2010 % Change
General	$15,134.2	$16,099.7	$965.5	6.4%
Special/Higher Education[2]	9,404.1	9,720.4	316.3	3.4%
Federal	6,919.1	7,247.9	328.8	4.8%
Subtotal	**$31,457.4**	**$33,068.0**	**$1,610.6**	**5.1%**
Reversions	-30.0	-30.0	0.0	0.0%
Total	**$31,427.4**	**$33,038.0**	**$1,610.6**	**5.1%**

(1)Excludes reimbursable and nonbudgeted funds.
(2Higher education funds include current restricted and unrestricted funds net of general and special fund appropriations.
(3)Fiscal 2009 appropriation adjusted to reflect withdrawn appropriations of $75.2 million approved by the Board of Public Works in June 2008 and anticipated deficiencies of $283.9 million.

Source: Department of Legislative Services

The tables on the following pages summarize the budgetary changes by major category of expenditure. Separate sections of the technical supplement dissect the assumptions used for estimates for general fund aid to local governments, entitlements, State agencies, debt service, capital programs, and general fund revenue projections. The baseline estimates described in this document represent the judgments of the Department of Legislative Services (DLS) as of October 10, 2008. Actions subsequent to that date, including reductions made by the Administration, or further changes to the economic picture, are not reflected here.

The fiscal 2009 appropriations in the summary tables (on pages 7 through 10) have been adjusted to reflect the reductions taken by BPW in June 2008. In contrast, the discussions of individual agency budgets reflect the fiscal 2009 legislative appropriation. In addition, the summary tables show statewide totals by fund for the projected fiscal 2010 general salary increase, whereas the individual agency discussions include this expense as part of each agency's projected budget.

State Expenditures – General Funds
Fiscal 2008-2010
($ in Millions)

Category	FY 2008 Working App.	FY 2009 Adjusted Leg. Approp.	FY 2010 Baseline	Leg. Approp. to $ Change	Leg. Approp. to % Change
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.

State Expenditures – Special and Higher Education Funds*
Fiscal 2008-2010
($ in Millions)

Category	FY 2008 Work. App.	FY 2009 Adjusted Leg. Approp.	FY 2010 Baseline	Leg. Approp. to $ Change	Leg. Approp. to % Change
Debt Service	$791.7	$887.4	$945.2	$57.8	6.5%
Aid to Local Governments					
County/Municipal	$699.9	$606.5	$584.8	-$21.7	-3.6%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	0.0	0.9	0.9	0.0	0.0%
Health	0.0	0.0	0.0	0.0	n/a
	$699.9	**$607.5**	**$585.8**	**-$21.7**	**-3.6%**
Entitlements					
Foster Care Payments	$0.1	$0.1	$0.1	$0.0	0.0%
Assistance Payments	13.3	13.4	13.4	0.0	0.0%
Medical Assistance	228.6	295.6	439.3	143.7	48.6%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
	$242.0	**$309.1**	**$452.8**	**$143.7**	**46.5%**
State Agencies					
Health	$241.6	$257.6	$279.1	$21.6	8.4%
Human Resources	75.3	54.9	69.8	14.8	27.0%
Systems Reform Initiative	0.6	0.7	0.7	0.0	0.0%
Juvenile Services	0.5	0.2	-0.2	-0.4	-189.6%
Public Safety/Police	197.8	213.3	219.8	6.5	3.0%
Higher Education	3,195.4	3,251.0	3,286.8	35.8	1.1%
Other Education	39.1	41.0	36.3	-4.7	-11.5%
Transportation	1,370.7	1,468.3	1,583.0	114.7	7.8%
Agric./Natl Res./Environment	140.8	169.0	206.5	37.5	22.2%
Other Executive Agencies	522.0	528.2	544.7	16.5	3.1%
Judicial/Legislative	46.2	53.9	47.5	-6.4	-11.9%
Cost-of-living Allowance	0.0	0.0	31.1	31.1	n/a
	$5,829.8	**$6,038.2**	**$6,305.1**	**$266.9**	**4.4%**
Deficiencies	$0.0	$111.0	$0.0	-$111.0	-100.0%
Total Operating	**$7,563.4**	**$7,953.2**	**$8,288.8**	**$335.6**	**4.2%**
Capital	1,263.7	1,450.9	1,431.6	-19.3	-1.3%
Appropriations	**$8,827.1**	**$9,404.1**	**$9,720.4**	**$316.3**	**3.4%**
Reserve Funds	0.0	0.0	0.0	0.0	n/a
Grand Total	**$8,827.1**	**$9,404.1**	**$9,720.4**	**$316.3**	**3.4%**

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

Note: Fiscal 2008 deficiencies include $107.2 million in operating and $11.0 million in capital for total special and higher education fund deficiencies of $118.2 million. Fiscal 2009 reflects withdrawn appropriations of $7.4 million approved by the Board of Public Works in June and anticipated deficiencies of $111.0 million.

State Expenditures – Federal Funds
Fiscal 2008-2010
($ in Millions)

Category	FY 2008 Work. Appr.	FY 2009 Adjusted Leg. Approp.	FY 2010 Baseline	Leg. Approp. to $ Change	Leg. Approp. to % Change
Debt Service	$0.0	$0.0	$0.0	$0.0	n/a
Aid to Local Governments					
County/Municipal	$60.7	$45.5	$35.5	-$10.0	-22.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	727.5	694.4	694.4	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
	$792.7	**$744.4**	**$734.4**	**-$10.0**	**-1.3%**
Entitlements					
Foster Care Payments	$104.6	$122.7	$114.5	-$8.2	-6.7%
Assistance Payments	437.8	462.1	512.8	50.7	11.0%
Medical Assistance	2,444.1	2,658.6	2,986.3	327.7	12.3%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
	$2,986.6	**$3,243.4**	**$3,613.7**	**$370.2**	**11.4%**
State Agencies					
Health	$817.6	$850.5	$895.9	$45.3	5.3%
Human Resources	515.6	522.8	539.7	16.9	3.2%
Systems Reform Initiative	14.9	7.3	7.3	0.0	0.0%
Juvenile Services	14.7	11.7	5.8	-5.9	-50.7%
Public Safety/Police	20.7	16.4	18.2	1.8	10.7%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	228.9	235.7	236.1	0.4	0.2%
Transportation	78.1	79.4	78.3	-1.1	-1.4%
Agric./Natl Res./Environment	65.9	61.3	64.2	2.9	4.8%
Other Executive Agencies	426.6	449.9	462.5	12.6	2.8%
Judicial/Legislative	3.8	4.2	3.7	-0.5	-11.5%
Cost-of-living Allowance	0.0	0.0	9.9	9.9	n/a
	$2,186.8	**$2,239.3**	**$2,321.5**	**$82.2**	**3.7%**
Deficiencies	0.0	68.1	0.0	-68.1	-100.0%
Total Operating	**$5,966.0**	**$6,295.2**	**$6,669.5**	**$374.3**	**5.9%**
Capital	701.9	623.9	578.4	-45.5	-7.3%
Grand Total	**$6,667.9**	**$6,919.1**	**$7,247.9**	**$328.8**	**4.8%**

Note: Fiscal 2008 deficiencies include $92.5 million in operating and $5.7 million in capital for total federal fund deficiencies of $98.2 million. Fiscal 2009 reflects withdrawn appropriations of $17.6 million approved by the Board of Public Works in June and anticipated deficiencies of $68.1 million.

State Expenditures – All Funds
Fiscal 2008-2010
($ in Millions)

Category	FY 2008 Work. Appr.	FY 2009 Adjusted Leg. Approp.	FY 2010 Baseline	Leg. Approp. to $ Change	Leg. Approp. to % Change
Debt Service	$821.0	$887.4	$945.2	$57.8	6.5%
Aid to Local Governments					
County/Municipal	$1,003.2	$867.5	$842.8	-$24.6	-2.8%
Community Colleges	241.7	262.9	303.7	40.8	15.5%
Education/Libraries	5,951.5	6,114.2	6,327.8	213.5	3.5%
Health	71.5	73.3	75.1	1.8	2.5%
	$7,267.8	**$7,317.9**	**$7,549.4**	**$231.6**	**3.2%**
Entitlements					
Foster Care Payments	$351.1	$362.5	$382.9	$20.4	5.6%
Assistance Payments	486.6	511.0	575.0	64.0	12.5%
Medical Assistance	4,908.8	5,307.4	5,968.6	661.2	12.5%
Property Tax Credits	61.0	64.3	65.5	1.2	1.9%
	$5,807.5	**$6,245.1**	**$6,992.0**	**$746.9**	**12.0%**
State Agencies					
Health	$2,430.2	$2,523.1	$2,672.7	$149.6	5.9%
Human Resources	885.7	904.2	958.9	54.7	6.0%
Systems Reform Initiative	60.2	47.4	48.2	0.8	1.6%
Juvenile Services	280.4	273.3	294.9	21.6	7.9%
Public Safety/Police	1,437.2	1,523.3	1,633.2	109.9	7.2%
Higher Education	4,324.7	4,416.9	4,607.7	190.8	4.3%
Other Education	655.3	691.6	692.6	1.0	0.1%
Transportation	1,448.8	1,547.7	1,661.3	113.6	7.3%
Agric./Natl Res./Environment	354.6	368.1	416.5	48.4	13.1%
Other Executive Agencies	1,514.4	1,581.0	1,681.8	100.8	6.4%
Judicial/Legislative	469.3	509.2	519.6	10.4	2.0%
Cost-of-living Allowance	0.0	0.0	105.2	105.2	n/a
	$13,860.7	**$14,385.8**	**$15,292.4**	**$906.6**	**6.3%**
Deficiencies	0.0	283.9	0.0	-283.9	-100.0%
Total Operating	**$27,757.0**	**$29,120.2**	**$30,779.1**	**$1,659.0**	**5.7%**
Capital/Heritage Reserve Fund	2,007.5	2,105.7	2,050.1	-55.6	-2.6%
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	**$29,693.7**	**$31,280.9**	**$32,862.3**	**$1,581.4**	**5.1%**
Reserve Funds [(1)]	262.8	146.5	175.7	29.2	19.9%
Grand Total	**$29,956.5**	**$31,427.4**	**$33,038.0**	**$1,610.6**	**5.1%**

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 the Maryland Transportation Authority. These monies are included in the transfer to MDTA line.

Note: Fiscal 2008 includes $46.5 million in targeted reversions. Fiscal 2008 deficiencies include $277.2 million in operating and $16.7 million in capital for total deficiencies of $293.9 million. Fiscal 2009 reflects withdrawn appropriations of $75.2 million approved by the Board of Public Works in June and anticipated deficiencies of $283.9 million.

Aid to Local Governments

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

State Aid by Governmental Entity
Fiscal 2007-2010
($ in Thousands)

	2007	2008	2009	2010	2009-2010	
Entity	**Actual**	**Working**	**Working**	**Baseline**	**$ Increase**	**% Change**
Public Schools	$4,475,412.2	$5,168,074.0	$5,355,842.7	$5,563,357.3	$207,514.6	3.9%
County/Municipal	953,516.4	942,510.3	821,984.0	807,343.3	-14,640.7	-1.8%
Community Colleges	205,883.2	241,700.7	262,896.3	303,735.8	40,839.5	15.5%
Health	63,668.0	66,991.3	68,760.4	70,581.8	1,821.4	2.6%
Libraries	55,511.3	61,643.1	63,770.4	69,799.8	6,029.5	9.5%
Total	**$5,753,991.0**	**$6,480,919.3**	**$6,573,253.6**	**$6,814,818.0**	**$241,564.3**	**3.7%**

Source: Department of Legislative Services

Overview

State aid is projected to total $6.8 billion in fiscal 2010, representing a $241.6 million (3.7 percent) increase over the prior year. This annual increase is slightly higher than the growth in fiscal 2009 (1.4 percent), but significantly lower than the increases in earlier years. Due to the phase-in of the “Thornton Legislation,” total State aid increased at an average annual rate of 8.9 percent from fiscal 2002 through 2008 while State education aid increased at a 10.2 percent average annual rate. As in prior years, most of the State aid increases in fiscal 2010 is targeted to public schools, libraries, and community colleges. State aid for public schools will increase by $207.5 million (3.9 percent); library aid will increase by $6.0 million (9.5 percent); and community college aid will increase by $40.8 million (15.5 percent). County and municipal governments will realize a $14.6 million (1.8 percent) decrease in State aid and local health departments will realize a $1.8 million (2.6 percent) increase.

Public Schools

Public schools could receive an estimated $5.6 billion in fiscal 2010, representing a $207.5 million (3.9 percent) increase over the prior year. Fiscal 2010 is the second year that State aid to local school systems has been constrained by a "freeze" in the per-pupil foundation amount that was enacted by Chapter 2 of the 2007 special session, the Budget Reconciliation Act (BRA). The per-pupil foundation amount is used in five of the larger State aid formulas (foundation aid, geographic cost of education index (GCEI), compensatory education, special education, and limited English proficiency (LEP)) that together account for more than three-quarters of total education aid. Freezing the per-pupil amount for two years instead of allowing it to increase with inflation results in a more limited growth in State education aid.

Foundation Program

The baseline includes $2.7 billion for the State's foundation program in fiscal 2010, a $12.6 million decrease from the fiscal 2009 appropriation. With a stable per-pupil funding level, the 0.5 percent decrease in funding for the program mirrors the projected drop in total student enrollment from 815,700 to 811,400.

Student Enrollment and Foundation Amount
Fiscal 2006-2010

	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Estimated 2010
Enrollment*	829,007	827,596	823,732	815,742	811,363
% Change	0.0%	-0.2%	-0.5%	-1.0%	-0.5%
Foundation	$5,497	$5,959	$6,694	$6,694	$6,694
% Change	9.3%	8.4%	12.3%	0.0%	0.0%

*Represents full-time equivalent enrollment.

Geographic Cost of Education Index

GCEI is a discretionary formula that accounts for differences in the costs of educational resources among local school systems and provides additional funding to school systems where educational resource costs are above the State average. Thirteen local school systems are eligible for GCEI funds in fiscal 2010. The formula applies a cost index to the foundation amount calculated for the school system; each eligible school system receives additional funds equal to the product of the foundation amount and the cost index. The baseline assumes the formula will be fully funded in fiscal 2010, with funding reaching $125.1 million, a $49.3 million (65.1 percent) increase over fiscal 2009 when 60.0 percent of the formula was funded.

Supplemental Grants

To mitigate the impact of the two-year freeze in the per-pupil foundation amount, the BRA established supplemental grants that ensure at least a 1.0 percent annual increase in State funding for each local school system in fiscal 2010 in accordance with a formula for the grants codified in the legislation. A school system will receive a supplemental grant if State aid calculations for the system through the other aid formulas (including 50.0 percent of the State's teachers' retirement payment and 60.0 percent of GCEI aid) result in less than a 1.0 percent increase in funding from fiscal 2009 to 2010. The baseline estimates $37.2 million for supplemental grants in fiscal 2010, a $0.5 million (1.5 percent) increase from fiscal 2009.

Compensatory Aid Formula

The compensatory aid program is expected to reach $915.0 million in fiscal 2010, representing a $0.8 million (0.1 percent) increase. This program provides additional funding to local school systems based on their enrollments of students eligible for free and reduced-price meals. The statewide funding level is calculated using the number of eligible students multiplied by a factor of the per-pupil foundation amount. The projected funding increase is due to an expected slight increase in the number of children statewide who are eligible for free and reduced-price meals. Because of the strong inverse correlation between student performance and the proportion of the student body eligible for free and reduced-price meals, these students were identified in the Bridge to Excellence in Public Schools Act of 2002 (Chapter 288) as one of three at-risk populations. The Act targeted more resources to school systems with large populations of at-risk students.

Students with Disabilities Funding

The Bridge to Excellence legislation identified students with disabilities as a second population with higher needs. The Act replaced the prior special education formula with one in which funding is a function of the special education enrollment, the per-pupil foundation amount, and a weighting factor. Funding for the special education formula is expected to decrease by $1.7 million (0.6 percent), to a total of $271.0 million in fiscal 2010. The decrease is attributable to a projected decline in the enrollment of students with disabilities. An increase of $5.2 million is anticipated for the nonpublic placement of special education students. This would bring the State's contribution to the program to $132.8 million in fiscal 2010, a 4.1 percent increase.

Limited English Proficiency Formula

The third at-risk population identified for additional resources in the Bridge to Excellence legislation is students for whom English is a second language. Funding is based on estimated LEP enrollment counts and the per-pupil foundation amount. This program is expected to increase by $10.6 million (7.3 percent), to a total of $154.6 million in fiscal 2010. This increase is driven by anticipated LEP enrollment growth.

Guaranteed Tax Base Program

The baseline budget includes $100.4 million in funding for the guaranteed tax base program, an 11.5 percent increase over the fiscal 2009 appropriation of $90.0 million. This program provides additional State funding to local education agencies with less than 80.0 percent of statewide wealth per pupil through a formula that uses local wealth and the amount of local funding each jurisdiction provides to the local school system. As currently estimated, 11 local school systems will receive funding under this program in fiscal 2010, the same number as fiscal 2009.

Student Transportation Funding

The baseline estimate for student transportation includes $216.9 million under the transportation formula, an increase of $16.4 million (8.2 percent) over the fiscal 2009 appropriation. In addition, $24.5 million is included for the transportation of disabled students, representing a $135,000 decrease in funding. Changes in the student transportation formula are attributable to projected increases in full-time equivalent enrollment in nine school systems and the 8.0 percent cap on inflationary increases established for the formula. Inflation is measured by the change in the private transportation category of the Consumer Price Index for the Washington-Baltimore area, but annual changes to the transportation formula may not be less than 3.0 percent or more than 8.0 percent. The decrease in the disabled student transportation formula reflects an expected drop in the enrollment of students with special transportation needs. The State provides $1,000 annually per qualifying pupil.

Retirement

State retirement costs for public school teachers and other professional personnel will total $744.6 million in fiscal 2010 representing a $122.8 million increase (19.7 percent) from the prior fiscal year. Increases in the State grant for teachers' retirement reflect 8.1 percent growth in the total salary base of school system employees and an increase in the State's retirement contribution rate from 11.7 percent to approximately 12.9 percent.

Operating Funding for Public School Facilities

Funding for public school facilities in the operating budget includes the Aging Schools Program (ASP) and lease payments for the Technology in Maryland Schools (TIMS) Program. Funding for ASP is expected to increase by $0.4 million (3.7 percent), reflecting annual inflationary increases to the funding level. Estimated lease repayments for the TIMS Program decrease from $8.1 million in fiscal 2009 to an estimated $6.1 million in fiscal 2010, a decrease of $2.1 million (25.6 percent).

County and Municipal Governments

Approximately 11.8 percent of State aid is allocated to county and municipal governments to finance transportation, public safety, public works, and recreation projects. County and municipal governments will receive $807.3 million in fiscal 2010, a decrease of $14.6 million (1.8 percent) below the prior year. The major State aid programs assisting county and municipal governments include highway user revenues, disparity grants, police aid, and Program Open Space (POS).

Transportation

The local government share of the distribution of highway user revenues is projected to total $532.0 million in fiscal 2010, a $16.7 million decrease when compared to the fiscal 2009 legislative appropriation. This estimate is based on projected Transportation Trust Fund revenue of motor fuel taxes, motor vehicle titling taxes, motor vehicle registration fees, and corporate income taxes. Local aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2010 at $9.1 million.

Disparity Grants

Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which is the third largest revenue source for counties after State aid and property taxes. Counties with per-capita local income tax revenues less than 75.0 percent of the statewide average receive grants, assuming all counties impose a 2.5 percent local income tax rate. Aid received by a county equals the dollar amount necessary to raise the county’s per-capita income tax revenues to 75.0 percent of the statewide average. Based on the statutory formula, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George’s, Somerset, and Wicomico) will qualify for disparity grants in fiscal 2010. The fiscal 2010 grant is based on 2007 population estimates and tax year 2007 income tax revenues. Funding for this program is projected to total $122.3 million in fiscal 2010, a $6.8 million (5.9 percent) increase over the prior fiscal year.

Public Safety

Maryland's counties and municipalities receive grants for police protection through the police aid formula and special crime grants. The police aid formula allocates funds on a per-capita basis and jurisdictions with higher population density receive greater per-capita grants. Municipalities receive additional grants based on the number of sworn officers. Police aid grants in fiscal 2010 are projected to total $67.1 million, representing a $0.7 million (1.0 percent) increase. Emergency 9-1-1 grants are projected to increase by $2.9 million (21.0 percent) in fiscal 2010, resulting in a $16.4 million funding level. Other public safety grants totaling $29.2 million (targeted crime grants, fire and rescue aid, vehicle theft prevention, Baltimore City State's Attorney's grant, etc.) are level funded in the fiscal 2010 baseline.

Program Open Space

Under POS, the State provides grants to counties and Baltimore City for land acquisition and the development of parks and recreation facilities. State transfer tax revenues fund POS and related programs. For fiscal 2010, funding for the program is projected at $12.2 million, which includes the $1.5 million special grant to Baltimore City. This represents a $7.9 million decrease below the fiscal 2009 legislative appropriation. This decrease is due to the continual slow down in the real estate market which has resulted in a downturn in State transfer tax collections.

Community Colleges

Most funding for community colleges is based on per-pupil State support provided to selected public four-year institutions of higher education in Maryland. The baseline includes $247.7 million for the Senator John A. Cade Funding Formula, which provides aid to the 15 community colleges that are operated locally. Baltimore City Community College is a State agency and receives funding through a separate formula. For fiscal 2010, the Cade formula is equal to 27.0 percent of the fiscal 2009 State aid per student at the selected four-year institutions ($10,230) multiplied by the audited fiscal 2008 full-time equivalent enrollment (89,671) at community colleges. By fiscal 2013, the percentage used in the formula will increase to 30.0 percent of the per-pupil funding provided to selected public four-year institutions.

The fiscal 2010 baseline also includes $3.7 million for the English for Speakers of Other Languages program and $7.1 million for statewide and regional programs. In addition, colleges will receive $4.0 million through small college grants. Funding through the innovative partnerships program is discontinued in fiscal 2010. The baseline also contains $41.3 million for benefits to employees of community colleges, a $5.1 million (14.1 percent) increase over the fiscal 2009 appropriation.

Local Health Departments

The general fund portion of core public health funds is expected to total $70.6 million in fiscal 2010, representing a $1.8 million increase over the prior year which reflects growth in population and inflation. These funds will be distributed to local health departments based on need (derived from poverty and mortality statistics) and local effort (incentive grants).

Libraries

The baseline estimates an increase of $2.6 million (7.5 percent) in the State library aid formula, with total funding in fiscal 2010 estimated at $37.1 million. The estimates assume a slight increase in Maryland’s population, but most of the growth in the funding level is due to an increase in the formula’s per-capita funding level from $14 in fiscal 2009 to $15 in fiscal 2010. The per-capita amount will increase to $16 in fiscal 2011, but no further increases are scheduled after that.

The baseline also reflects an anticipated increase in the State Library Network of $1.0 million (5.8 percent), bringing total funding for this program to $17.3 million in fiscal 2010. The network includes the Central Library of the Enoch Pratt Free Library System in Baltimore City, regional resource centers and regional libraries, and metropolitan cooperative service programs. Like the library aid formula, $1.00 annual increases in per-capita aid for regional resource centers are being phased in for fiscal 2010 and 2011. In fiscal 2010, the regional resource centers receive $7.50 per resident of each region.

Finally, retirement costs for librarians will total $15.4 million, representing a $2.5 million (19.4 percent) increase. As with teachers’ retirement payments, the growth is attributable to an increased salary base and an increase in the State’s retirement contribution rate from 11.7 percent in fiscal 2009 to 12.96 percent in fiscal 2010.

Entitlement Programs

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

Expenditures, Funds, and Positions for Entitlement Programs
Fiscal 2007-2010
($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09 - 10 $ Increase	FY 09 - 10 % Increase
Expenditures						
Department of Assessments and Taxation	$56,228	$61,020	$64,278	$65,517	$1,239	1.9%
DHMH Medical Care Programs Administration	4,723,665	4,921,203	5,381,916	6,013,084	631,167	11.7%
DHR Social Services Administration	344,066	351,072	362,469	382,883	20,414	5.6%
DHR Family Investment	488,889	486,597	510,988	575,036	64,047	12.5%
Total	**$5,612,848**	**$5,819,892**	**$6,319,652**	**$7,036,519**	**$716,867**	**11.3%**
Fund						
General Fund	$2,551,619	$2,578,868	$2,707,715	$2,925,578	$217,863	8.1%
Special Fund	144,277	242,003	309,098	452,782	143,683	46.5%
Federal Fund	2,870,248	2,986,589	3,255,565	3,613,660	358,095	11.0%
Reimbursable Fund	46,703	12,432	47,273	44,500	-2,773	-5.9%
Total	**$5,612,848**	**$5,819,892**	**$6,319,652**	**$7,036,519**	**$716,867**	**11.3%**

DHMH: Department of Health and Mental Hygiene
DHR: Department of Human Resources

Tax Credit Programs

The fiscal 2010 baseline includes an additional $2.5 million in general funds for Base Realignment and Closure (BRAC) Revitalization and Incentive Zones credits. Chapter 338 of 2008, known as the BRAC Community Enhancement Act, created financial incentives for local subdivisions with approved BRAC zones. The baseline also anticipates a $1.3 million reduction in tax credit entitlements for the Renters' Tax Credit, Homeowners' Property Tax, and Urban Enterprise Zone Tax Credit programs.

Medicaid Enrollment and Expenditure Trends

Overview

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

The budget for the Medical Assistance Programs accounts for almost 17.0 percent of State general fund expenditures and is one of the fastest growing segments of the State budget. Over the next five years, Medicaid costs are expected to rise at a rate of about 8.4 percent annually while general fund revenues are forecast to grow at a rate of 6.0 percent or less.

Fiscal 2009 Outlook

The fiscal 2009 Medical Assistance budget of $5.5 billion ($2.4 billion of general funds) appears to be $126.8 million ($16.7 million in general funds) less than the anticipated need. The additional need for funding in fiscal 2009 is attributed to:

- higher than expected enrollment growth. The fiscal 2009 working appropriation is funded at a level that permits Medicaid and MCHP enrollments to increase by 0.6 percent. However, it is anticipated that the enrollment for these programs will grow by 2.0 percent, which translates into the need for an additional $79.5 million;

- a 5.5 percent calendar 2009 rate increase for the managed care organizations (MCOs) ($47.6 million);

- ending hospital day limits as of July 1, 2008, with hospital assessment revenue. This additional expense is expected to cost $32.4 million ($16.2 million in special funds and $16.2 million in federal funds);

- an additional 1.2 percent rate increase for community service providers, which brings their fiscal 2009 rate increase to 2.7 percent. The additional 1.2 percent increase amounts to $3.5 million ($1.8 million in special funds and $1.8 million in federal funds);

- the Board of Public Works budget reductions removed $3.1 million in general funds from the Medical Assistance budget. It is expected that these funds will be backfilled with the Cigarette Restitution Funds through a special fund deficiency appropriation; and

- the administrative costs related to the Medicaid expansion to parents are not included in the fiscal 2008 working appropriation, and these costs are expected to amount to $3.0 million.

These increased costs were somewhat offset by the lower than anticipated inpatient hospital costs and lower than anticipated MCHP costs.

Expenditures for fiscal 2009 services are expected to exceed fiscal 2008 costs by about 10.0 percent due to medical inflation (5.0 percent), enrollment growth (2.0 percent), and the expansion of Medicaid benefits to parents with incomes up to 116.0 percent of the federal poverty level.

Fiscal 2010 Forecast

For fiscal 2010, Medical Assistance expenditures of $6.0 billion are anticipated, of which just over 40.0 percent will be general funds. Overall costs will increase by 9.7 percent while general fund spending is expected to grow by about $173.1 million, or 7.3 percent, over the projected fiscal 2009 costs. Factors contributing to the anticipated expenditure growth include enrollment increases of almost 2.1 percent, changes in medical inflation/utilization (5.1 percent), and increases in provider rates which vary from 3.6 to 6.5 percent. The forecast also assumes that the State will:

- ***Continue to Expand Medicaid Coverage to Parents –*** The fiscal 2010 expenditures for the expansion of Medicaid coverage to parents with income up to 116 percent of the federal poverty level is expected to increase by $73.8 million ($36.9 million in special funds and $36.9 million in federal funds) due to annualization of the program.

- ***Expand Medicaid Benefits to Childless Adults –*** In fiscal 2010, statute provides that, to the extent funds are provided in the State budget, benefits for childless adults with incomes up to 116 percent of the federal poverty level will be eligible to receive specialty medical care and hospital emergency department services. This expansion of Medicaid benefits is expected to cost $69.0 million ($34.5 million in special funds and $34.5 million in federal funds).

- ***Enhance Physician Rates –*** Chapter 5 of the 2004 special session and Chapter 1 of 2005 earmarks revenue from the Rate Stabilization Fund toward enhancing physician rates. In fiscal 2010, the revenue from the Rate Stabilization Fund will allow for a $20.5 million ($10.3 million in special funds and $10.3 million in federal funds) increase to physician rates.

- ***Enhance Dental Reimbursement Rates –*** Fiscal 2010 is the second year of a three-year phase-in of the Dental Action Committee's recommendation to get Medicaid's dental reimbursement rates up to the fiftieth percentile of the American Dental Association's South Atlantic Region average reimbursement rate for all dental codes. This rate enhancement is anticipated to cost $14.0 million.

- ***Readjust the Timing of the MCO Quality Incentive Payment* –** DHMH readjusted the payment date for the MCO quality incentive payment. The change in the date of payment resulted in a $2.5 million decrease to the fiscal 2009 budget, and the change is expected to cause a $2.5 million increase in the fiscal 2010 budget.

Enrollment and Service Year Expenditures(1)
Fiscal 2008-2010

	FY 2008 Actual	FY 2009 Estimate	FY 2010 Estimate	FY 09-10 % Change
Enrollment by Category				
Medicaid	531,635	540,865	550,456	1.8%
MCHP	108,504	112,368	116,402	3.6%
Expansion to Parents	0	36,420	38,075	4.5%
Expansion to Childless Adults	0	0	36,344	100.0%
Total	**640,139**	**689,653**	**741,277**	**7.5%**
Cost Per Enrollee(2)	**$7,671**	**$7,824**	**$8,403**	**7.4%**
Total Funds ($ in Millions)	**$4,911**	**$5,396**	**$5,924**	**9.8%**

MCHP: Maryland Children's Health Program

[1]Expenditures by fiscal year are based on the cost of providing services during that fiscal year rather than the year that the bills are actually paid. Cases and funding associated with the Primary Adult Care Program, the Employed Individuals with Disabilities Program, and the Kidney Disease Program are excluded from the chart.

[2]Fiscal 2010 calculation for "cost per enrollee" does not include childless adults in the denominator because childless adults have a limited benefit package in fiscal 2010 that includes only specialty medical care and hospital emergency department services.

Source: Department of Legislative Services

Department of Human Resources

Foster Care and Subsidized Adoption Caseloads

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

The following table shows an anticipated increase of 1.8 percent per year in the combined foster care/subsidized adoption caseload from fiscal 2008 to 2010. This results from a projected increase of 1.0 percent per year in the foster care caseload and a projected increase of 2.6 percent per year in the subsidized adoption caseload. In fiscal 2002, the combined caseload was over 60.0 percent foster care, but since fiscal 2006 subsidized adoptions have made up over half the total caseload.

Foster Care and Subsidized Adoption Caseload and Expenditures
Fiscal 2007-2010

Caseload	FY 2007	FY2008	DLS Estimate FY 2009	DLS Estimate FY 2010	Avg. Annual % Change FY 2008-10
Foster Care	6,651	7,243	7,248	7,386	1.0%
Adoptions	7,153	7,552	7,800	7,948	2.6%
Total	**13,804**	**14,795**	**15,048**	**15,334**	**1.8%**
Expenditures					
Monthly Cost Per Case	$2,004	$1,883	$1,969	$2,021	3.6%
Total Cost ($ in Millions)	**$334.1**	**$352.6**	**$373.9**	**$382.9**	**4.2%**

DLS: Department of Legislative Services

Source: Department of Human Resources; Department of Legislative Services

Funding

The average annual growth in total program costs is expected to be 4.2 percent from fiscal 2008 to 2010. Fiscal 2009 is forecast to increase by 6.0 percent, driven largely by an estimated increase in institutional placements reflecting the actual increase in this category in fiscal 2008. The fiscal 2010 increase is projected to be 2.4 percent.

The fiscal 2009 budget is likely underfunded by approximately $11.5 million based on higher than expected utilization of institutional placements that occurred in fiscal 2008. A general fund deficiency of approximately $22.0 million, however, may be needed to cover the increased costs due to higher institutional placements and a shortfall in federal Title IV-E reimbursements which may result from overly optimistic attainment rate assumptions used when the fiscal 2009 budget was prepared.

Temporary Cash Assistance Caseload and Expenditure Trends

Background

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

Caseload Trends

In the early years of welfare reform, efforts to transition individuals from welfare to work and a growing economy lead to a rapid reduction in the number of TCA recipients. After dropping at rates exceeding 20.0 percent per year during the 1990s, the pace of caseload decline slowed considerably in the early years of this decade. With the recovering economy and the implementation of a universal engagement policy in fall 2003 – a policy that requires participation in activities such as up-front job search, orientation, assessment of employability, development of an Independence Plan, training, and subsidized employment – the caseload decline accelerated again falling by 1.1 percent in fiscal 2004, 7.2 percent in fiscal 2005, 12.5 percent in fiscal 2006, and 12.9 percent in fiscal 2007. Deteriorating economic conditions reversed this trend and led to a 2.4 percent increase in the average monthly caseload in fiscal 2008.

Fiscal 2009 and 2010 Forecast

As shown in the following table, the Department of Legislative Services (DLS) assumes that the TCA caseload will increase in fiscal 2009 with the average monthly enrollment rising to 53,358 and increase at a slower rate in fiscal 2010 reaching 53,892. This represents a 3.5 percent increase in fiscal 2009 and a 1.0 percent increase in fiscal 2010. These caseload projections assume the beginning of an economic recovery, forecast to begin in calendar 2010.

TCA Enrollment and Funding Trends
Fiscal 2007-2009

	2008 Actual	2009 Approp.	2009 Estimate	2010 Estimate	2009-2010 % Change
Average Monthly Enrollment	51,554	49,250	53,358	53,892	1.0%
Average Monthly Grant	$170.39	$185.56	$186.91	$191.57	2.5%
General Fund ($ in Millions)	$5.5	$6.6	$6.6	$19.9	202.4%
Total Funds ($ in Millions)	**$104.2**	**$105.4**	**$119.7**	**$123.9**	**3.5%**

Source: Department of Human Resources; Department of Legislative Services

The fiscal 2009 TCA grant amounts remain unchanged from fiscal 2008 (the average monthly grant increases slightly reflecting the annualization of the grant increase put into effect the previous October) since the expected increase in the food stamp benefit was judged sufficient to maintain the combined TCA/food stamp benefit level at 61.0 percent of the Maryland Minimum Living Level. For fiscal 2010, DLS assumes an increase of 3.3 percent in the monthly grant amount, which is equal to the recent increase in the Maryland Minimum Living Level.

General funds are projected to increase by $19.9 million in fiscal 2010. This increase is necessitated by the expected exhaustion of the TANF balance in fiscal 2009.

Department of Health and Mental Hygiene

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

Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene
($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Expenditures						
Administration	$43,962	$44,681	$47,306	$53,019	$5,713	12.1%
Office of Health Care Quality	14,935	15,675	17,355	17,908	552	3.2%
Health Occupation Boards	21,485	24,481	26,097	26,948	850	3.3%
Community and Family Health Administration	248,030	244,097	248,730	252,725	3,996	1.6%
AIDS Administration	68,670	71,071	70,756	73,553	2,797	4.0%
Office of the Chief Medical Examiner	8,888	8,895	9,461	10,059	598	6.3%
Chronic Disease Services	44,002	44,164	46,094	49,085	2,991	6.5%
Laboratories Administration	22,533	23,411	22,441	26,248	3,807	17.0%
Alcohol and Drug Abuse Administration	138,256	143,132	148,190	153,000	4,810	3.3%
Mental Hygiene Administration	858,338	896,071	927,315	1,002,315	75,000	8.1%
Developmental Disabilities Administration	705,701	742,865	786,401	818,321	31,920	4.1%
Medical Care Programs Administration	53,380	59,387	58,645	63,200	4,555	7.8%
Health Regulatory Commissions	101,067	129,856	138,350	156,042	17,693	12.8%
Total	**$2,329,246**	**$2,447,786**	**$2,547,141**	**$2,702,423**	**$155,282**	**6.1%**
Fund						
General Fund	$1,320,839	$1,370,992	$1,415,225	$1,503,370	$88,145	6.2%
Special Fund	216,923	241,572	260,321	280,411	20,090	7.7%
Federal Fund	774,245	817,586	850,898	897,153	46,255	5.4%
Reimbursable Fund	17,238	17,635	20,696	21,489	793	3.8%
Total	**$2,329,246**	**$2,447,786**	**$2,547,141**	**$2,702,423**	**$155,282**	**6.1%**
Personnel						
Regular Positions	7,692.0	7,638.0	7,430.0	7,150.0	-280.0	-3.8%
Full-time Equivalent Contractuals	445.0	477.0	444.0	397.0	-47.0	-10.6%

Major Program Changes

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

DHMH Administration

The DHMH Administration baseline budget includes a variety of changes. The largest change relates to Chapter 680 of 2008, the effort to stabilize the Prince George's County Health System. Under that legislation, if certain timelines are met, State general fund support of $4 million for the stabilization effort is required in fiscal 2010 (in addition to funding previously appropriated through the Dedicated Purpose Account).

Aside from reductions made by the Board of Public Works (BPW) in July, the other baseline changes are smaller and include:

- $200,000 in additional reimbursable funds related to the extension of the termination date for the Community Services Rate Reimbursement Commission (CSRRC) (Chapter 572 of 2008);
- an increase of $161,000 to implement Chapter 661 of 2008, the creation of a new deputy secretary for Behavioral Health and Disabilities;
- an increase of $42,000 to account for costs associated with the Advisory Council on Prescription Drug Monitoring (Chapter 276 of 2008); and
- a decrease of just over $170,000 based on the latest Master Equipment Lease-Purchase Program schedule.

Health Occupations Boards

Fiscal 2010 baseline changes for the Health Occupations Boards reflect two pieces of legislation passed during the 2008 session:

- Chapter 218 expands the responsibility of the State Board of Residential Child Care Administrators. The fiscal 2010 baselines accounts for two new positions and $117,000 in extra costs.
- Chapter 505 extends and reorganizes the Board of Counselors and Therapists, resulting in a $5,000 increase for fiscal 2010.

Additionally, the baseline also removes a $105,000 one-time expense from the budget of the Board of Nursing for upgrades to the computer system.

Family Health Administrations

The Family Health Administration (FHA) has three issues that result in adjustments to the fiscal 2009 and 2010 baseline budget:

- The Breast and Cervical Cancer Program required a fiscal 2008 appropriation that currently exceeds the fiscal 2009 appropriation for the program. Since the program costs are expected to continue growing at a rate of 5 percent annually for the next couple of years, FHA is expected to require a $2.6 million general fund deficiency appropriation in fiscal 2009, and the fiscal 2010 appropriation is expected to grow by an additional $0.9 million in general funds.

- The fiscal 2010 Cigarette Restitution Fund support for public health initiatives is adjusted to the legislatively mandated level by increasing the special fund appropriation by $3.1 million. Maryland statute dictates the Governor's allowance must include $21.0 million for tobacco use and prevention activities and $15.4 million for the statewide academic health centers. The June 2008 BPW actions withdrew $2.0 million for the statewide academic health centers and $1.1 million for tobacco cessation from the fiscal 2009 appropriation.

- The final adjustment for FHA is due to Chapter 4 of the 2007 special session authorizing up to 15,000 video lottery terminals at five locations. One provision of the bill requires DHMH to conduct a gambling study in fiscal 2009. The $500,000 cost to conduct this study is expected to require a fiscal 2009 deficiency appropriation for FHA.

AIDS Administration

In order to preserve the current level of federal funding, the AIDS Administration is transitioning from a code-based to a name-based HIV reporting system. This transition is expected to be completed by the end of calendar 2008. As a result, the fiscal 2010 baseline appropriation has been reduced to remove the one-time contractual funding that was needed to complete the transition. This is a reduction of $350,000 in general funds.

Laboratories Administration

Chapter 256 of 2008 specifies that the Laboratories Administration is the only laboratory in the State authorized to conduct newborn screenings. The new policy goes into effect January 1, 2009, and in order to cover the additional labor and equipment costs, the Laboratories Administration will require a general fund deficiency appropriation in the amount of $1.1 million.

Alcohol and Drug Abuse Administration

The major baseline change for the Alcohol and Drug Abuse Administration is the assumption of a 3.58 percent provider adjustment for prevention and treatment grants and contracts. This amounts to an increase of just over $4.5 million.

Mental Hygiene Administration

The Mental Hygiene Administration's (MHA) fiscal 2010 baseline budget includes several significant items:

- A deficiency of almost $1.6 million ($890,000 general funds, the remainder federal funds) related to modifications to the existing contract for the Administrative Services Organization (ASO). ASO is responsible for administering the fee-for-service portion of public mental health services. These modifications were approved by BPW in June 2008 and relate to a variety of additional contract requirements including compliance with new federal regulations on medications, State eligibility changes, implementing the new 1915(c) Psychiatric Residential Treatment Center waiver, and the integration of the Outcomes Measurement System into the claims process. These additional expenditures are assumed to continue into fiscal 2010.

- For the public mental health fee-for-service system, an 8.0 percent growth in expenditures is anticipated between fiscal 2009 and 2010, an increase of just over $43.2 million. This increase is based on the most recent estimate of actual fiscal 2009 expenditures and reflects an anticipated growth in enrollment and utilization of 2.0 percent and an increase in rates of 3.58 percent as preliminarily recommended by CSRRC. The fiscal 2009 expenditure estimate includes the assumption of an additional 1.2 percent in provider adjustments on selected rates supported by overattained fiscal 2008 lottery revenues plus the end of Medicaid day limit cost containment actions effective July 1, 2008. Because both of these actions are supported by one-time special fund revenues, the fiscal 2010 baseline expenditure estimate reflects a significant growth in general funds.

- The baseline also assumes the same 3.58 percent adjustment on grants and contracts for mental health services that are outside of the community services fee-for-service system. This amounts to a $1.8 million increase.

- In the State-operated psychiatric facilities, the major baseline adjustment was an increase of just under $9.7 million to reflect the opening of a new 48-bed maximum security ward at Clifton T. Perkins Hospital Center effective July 1, 2009. The opening of this new wing also adds 136.5 full-time equivalent (FTE) regular and 3 FTE contractual positions. It should be noted that MHA is also proposing renovations to an existing wing at the

Perkins Hospital Center. Consequently, the new 48-bed wing may be used as "swing" space while those renovations take place, and these additional expenditures may not impact the operating budget until a later time. However, this staging is not yet certain and requires additional capital funding for the renovations.

Developmental Disabilities Administration

Program Direction

Chapter 572 of 2008 extends and modifies the responsibilities of CSRRC. The commission studies issues surrounding community providers in MHA and the Developmental Disabilities Administration (DDA). The cost to fund the commission, $200,000, was split between MHA and DDA.

Community Services

A variety of significant baseline adjustments are made to the DDA community services budget including:

- annualization costs for new services provided to individuals in fiscal 2009 that will continue in fiscal 2010 and beyond are estimated to be $18.5 million. Additionally, CSRRC recommends a 3.58 percent provider increase for fiscal 2010, bringing the total annualization costs included in the fiscal 2010 baseline to $19.1 million;

- the legislature authorized an additional increase for community providers based on overattainment of lottery sales revenues. DHMH was authorized to provide an additional 1.2 percent for fiscal 2009. For DDA, that equals an additional $6.5 million in total funds ($4.7 million general funds and $1.8 million federal funds) added to the fiscal 2010 baseline budget (substituting for the fiscal 2009 special funds from the lottery overattainment); and

- CSRRC recommended an update factor of 3.58 percent for all community providers in MHA and DDA for fiscal 2010. The cost for DDA contractual services was rebuilt using this inflation factor, resulting in a further fiscal 2010 baseline adjustment of $26.1 million.

State Residential Centers

The ongoing process to close the Rosewood Center results in significant fiscal 2010 baseline changes at various State residential centers:

- To begin, the closure of Rosewood results in a net reduction of 425 regular positions and a $18.5 million general fund savings in the fiscal 2010 baseline. Rosewood is expected to fully close by the end of fiscal 2009.

- The fiscal 2010 baseline assumes an ongoing cost of $3.0 million to operate Rosewood until the facility is sold, which includes heat, maintenance, security, a Maryland Energy Loan, worker's compensation, and insurance. Those costs have been left in the budget for Rosewood.

- Additionally, the cost to run the two forensic units at Jessup and Sykesville has also been left in the Rosewood budget. In fiscal 2009, the majority of the costs for these two facilities were located in the Rosewood budget. The total cost for the two facilities included in the fiscal 2010 baseline budget is estimated to be $8 million, including 94 regular positions.

- The remaining funds designated for forensic beds at the Potomac Center in fiscal 2009 were removed from the fiscal 2010 baseline budget, a decrease of $465,000. The full cost of forensic units in fiscal 2010 is located in the Rosewood budget.

- Funds associated with forensic units were also taken out of Brandenburg for the fiscal 2010 baseline, resulting in a reduction of $1.5 million. The full cost of forensic units is located in the Rosewood budget.

Health Regulatory Commissions

The major baseline changes to the Health Regulatory Commissions are:

- an additional $5.0 million in special funds in the budget for the Maryland Health Care Commission to reflect an increase in the Small Business Health Partnership from $15.0 million in fiscal 2009 to $20.0 million in fiscal 2010; and

- the Health Services Cost Review Commission's fiscal 2010 baseline assumes that $98.25 million will be distributed to hospitals from the uncompensated care fund, an increase of $12.3 million in special funds.

Department of Human Resources

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

Expenditures, Funds, and Positions for the Department of Human Resources
Fiscal 2007-2010
($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Expenditures						
DHR Administration	$202,876	$203,404	$203,749	$207,572	$3,823	1.9%
Social Services Administration	239,022	265,437	287,391	300,307	12,916	4.5%
Child Support Enforcement	81,565	93,705	90,380	93,619	3,239	3.6%
Family Investment	305,200	331,156	326,785	365,092	38,307	11.7%
Total	**$828,664**	**$893,702**	**$908,306**	**$966,591**	**$58,285**	**6.4%**
Fund						
General Fund	$278,029	$294,823	$326,768	$354,406	$27,638	8.5%
Special Fund	75,224	75,301	54,876	70,912	16,036	29.2%
Federal Fund	471,135	515,610	526,286	540,882	14,595	2.8%
Reimbursable Fund	4,275	7,968	375	391	16	4.3%
Total	**$828,664**	**$893,702**	**$908,306**	**$966,591**	**$58,285**	**6.4%**
Personnel						
Regular Positions	7,021.0	7,051.0	6,955.0	6,933.0	-23.0	-0.3%
Full-time Equivalent Contractuals	54.0	129.0	128.0	128.0	0.0	0%

DHR: Department of Human Resoruces

Fiscal 2009 Deficiencies

A fiscal 2009 deficiency for the Electrical Universal Service Program (EUSP) is anticipated in the amount of $30.0 million ($19.1 million general funds and $10.9 million special funds.) The source of the special funds is the Strategic Energy Investment fund with proceeds from the first Regional Greenhouse Gas Initiative auction of carbon dioxide credits.

Administration

The fiscal 2010 baseline decreases the positions in DHR Administration by 22.50 regular positions. This accounts for the abolishment of 20.50 positions throughout DHR associated with the reorganization included in Chapter 116 of 2008, as well as the transfer of one position to the Governor's Office of Community Initiatives associated with Chapter 521 of 2008, and the transfer of one position to the Governor's Office related to budget bill language in the fiscal 2009 budget. The fiscal 2010 baseline decreases by approximately $1.25 million (approximately $685,000 of general funds and $561,000 of federal funds) for funding associated with positions abolished due to the reorganization and the transfer of one position to the Governor's Office.

The DHR Administration fiscal 2010 baseline anticipates a decrease of approximately $331,000 (approximately $180,000 general funds and $150,000 federal funds) to account for changes in payments for lease-purchase agreements with the State Treasurer's Office. The fiscal 2010 baseline also decreases by approximately $1.75 million in federal funds due to anticipated changes in the funding needs for the Maryland Children's Electronic Information Exchange and the Client Automated Resource and Eligibility System. The general fund portion of these changes is included in the major information technology development fund baseline.

The DHR Administration fiscal 2010 baseline increases by approximately $1.1 million to account for an expected deficiency appropriation in the Maryland Legal Services Program.

Child Support Enforcement Administration

The fiscal 2010 baseline anticipates a reduction in federal funds (approximately $1.25 million) and increases in special and general funds (approximately $1.0 million and $250,000 respectively) related to the $25 annual fee for certain child support cases.

Family Investment Administration

The fiscal 2010 baseline anticipates a general fund reduction of $3.5 million for the EUSP and replacement with an equal amount of special funds from the Regional Greenhouse Gas Initiative auctions.

Department of Juvenile Services

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

Expenditures, Funds, and Positions for the Department of Juvenile Services
Fiscal 2007-2010
($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Expenditures						
Department of Juvenile Services	$256,454	$280,811	$272,509	$297,998	$25,489	9.4%
Total	**$256,454**	**$280,811**	**$272,509**	**$297,998**	**25,489**	**9.4%**
Fund						
General Fund	$238,520	$265,151	$260,168	$291,141	$30,973	11.9%
Special Fund	4,143	475	203	227	24	11.9%
Federal Fund	10,529	14,737	11,689	6,166	-5,523	-47.3%
Reimbursable Fund	3,262	449	449	464	15	3.3%
Total	**$256,454**	**$280,811**	**$272,509**	**$297,998**	**$25,489**	**9.4%**
Personnel						
Regular Positions	2,080.0	2,237.0	2,297.0	2,297.0	0.0	0%
Full-time Equivalent Contractuals	121.0	211.0	109.0	109.0	0.0	0%

Continuing Deficits

As has become a common occurrence in recent years, the Department of Legislative Services anticipates a variety of deficits in DJS' fiscal 2009 budget:

- A significant deficiency in per-diem expenditures (over $8.8 million). This deficiency is derived from projections of fiscal year costs based on current levels of per-diem expenditures compared to the legislative appropriation and the fact that federal fund attainment for these expenditures is in doubt. Specifically, DJS has been informed by the federal government that it believes the department is not eligible to claim Title IV-E funds. While DJS is disputing this interpretation, at this time it is not clear what, if any, level of IV-E attainment will be realized in fiscal 2009 or beyond. This has a potential general fund impact of $5.0 million on both fiscal 2009's budget and the 2010 baseline. The fiscal 2010 baseline also assumes a level of expenditures on per-diem placements that does not change significantly in fiscal 2010 and is thus a significant driver of expenditures in the fiscal 2010 baseline. It should be noted that the department has a goal of reducing reliance on residential placements that could reduce expenditure levels. However, while the department can influence placement decisions, it is ultimately the courts that make those decisions.

- A $1.3 million deficiency related to the increased utilization of non-residential placements, a level of expenditures that is anticipated to, at the very least, carry-over into fiscal 2010 given DJS' efforts to serve youth in less restrictive settings.

- Deficiencies of $8.1 million in regular and contractual employment expenditures. This deficiency estimate is based on recent expenditure patterns. Although these patterns could change significantly before the end of fiscal 2009, they represent DJS' effort to staff State-operated residential facilities (detention and commitment) at what it believes are appropriate staffing levels. The most striking additional costs are being incurred at the Baltimore City Juvenile Justice Center. It is assumed that a significant amount of these employment costs will also carry-over into the fiscal 2010 baseline.

Other Changes

In addition to the ongoing changes noted above which are the major drivers of expenditures in the fiscal 2010 baseline, other changes incorporated into that baseline include:

- savings of just over $358,000 based on the latest Master Equipment Lease-Purchase Program schedule; and

- the removal of one-time funding ($250,000) for a management study.

Department of Public Safety and Correctional Services

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

Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services

Fiscal 2007-2010

($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Expenditures						
Office of the Secretary	$133,364	$132,953	$132,802	$137,760	$4,958	3.7%
Division of Correction	751,788	758,857	817,118	903,011	85,893	10.5%
Maryland Parole Commission	4,971	5,129	5,538	5,666	128	2.3%
Division of Parole and Probation	96,328	102,142	109,457	118,123	8,666	7.9%
Patuxent Institution	44,526	44,237	46,726	50,405	3,679	7.9%
Inmate Grievance Office	602	562	583	613	29	5.0%
Police and Correctional Training Commissions	7,470	7,964	8,431	9,594	1,163	13.8%
Criminal Injuries Compensation Board	6,091	6,123	6,566	7,120	554	8.4%
Maryland Commission on Correctional Standards	426	522	513	578	65	12.7%
Division of Pretrial Detention and Services	153,672	146,806	152,607	163,288	10,682	7.0%
Total	**$1,199,237**	**$1,205,296**	**$1,280,341**	**$1,396,157**	**$115,816**	**9.1%**
Fund						
General Fund	$1,032,005	$1,037,259	$1,100,179	$1,203,533	$103,354	9.4%
Special Fund	147,904	146,949	158,831	165,392	6,561	4.1%
Federal Fund	10,816	13,138	13,347	18,549	5,202	39.0%
Reimbursable Fund	8,513	7,950	7,985	8,683	698	8.8%
Total	**$1,199,237**	**$1,205,296**	**$1,280,341**	**$1,396,157**	**$115,816**	**9.1%**
Personnel						
Regular Positions	11,503.0	11,642.0	11,837.0	11,837.0	0.0	0%
Full-time Equivalent Contractuals	269.0	404.0	402.0	402.0	0.0	0%

Projected Deficiencies

The baseline for fiscal 2010 includes $17.3 million in anticipated deficiency appropriations for fiscal 2009.

Local Jail Reimbursements

An approximate $6.3 million general fund deficiency adjustment is included in the fiscal 2010 baseline budget for State reimbursement to local correctional facilities for housing inmates sentenced under State jurisdiction. Of the total deficiency, approximately $1.6 million is needed to cover an insufficient appropriation for fiscal 2008.

Employee Overtime Expenses

Issues with correctional officer recruitment and retention continue to persist within the department. Inadequate funds were again appropriated in the fiscal 2009 budget for employee overtime. The baseline for fiscal 2010, therefore, includes an approximate $7.0 million deficiency appropriation for increased overtime expenses.

Renegotiation of Contract to House Federal Inmates

DPSCS has renegotiated with the U.S Department of Justice for increases in the per-diem rate and the number of beds available for housing federal offenders. An adjustment to increase federal funds by $3.0 million is made in the fiscal 2010 baseline in the form of an anticipated deficiency to reflect the additional revenue from the increased inmates and the higher per-diem rate, which was retroactive to July 1, 2008. The increase in federal funds is expected to be ongoing for fiscal 2010.

Inmate Transportation

Due largely to the increasing cost of motor fuel, inadequate funds were included in the fiscal 2009 budget to cover the cost of inmate transportation throughout the State. As such, the fiscal 2010 baseline includes a $500,000 deficiency appropriation to cover the associated costs.

Drinking Driver Monitor Program

The Drinking Driver Monitor Program, within the Division of Parole and Probation, has required supplemental general fund appropriations since fiscal 2006. Due to problems with proper fee collection and distribution, inadequate special funds have been collected to support the program. As such, the baseline for fiscal 2010 includes a $500,000 anticipated general fund deficiency, to be continued in the fiscal 2010 allowance, in order to adequately support the operation of the program.

Office of the Secretary

Although growth in personnel expenses account for the majority of the overall increase, the Office of the Secretary's fiscal 2010 baseline budget includes four additional significant adjustments:

- a $1.3 million general fund reduction for alterations in the department's Master Equipment Lease-Purchase Program;
- a $170,000 special fund decrease in the local portion of fees collected for 9-1-1 operations due to slightly less revenue collection;
- a $2.4 million special fund increase for the State's portion of funding available to support enhancements or improvements to the counties 9-1-1 systems; and
- a $500,000 reduction to remove special funds used for an audit of landline and wireless telephone service providers.

Division of Correction

Growth in personnel expenses comprises the majority of the increase in the fiscal 2010 baseline budget for the Division of Correction. Additional significant adjustments include:

- an increase of approximately $1.2 million in general funds to reflect the additional variable costs associated with an increase in the average daily population of approximately 300 inmates in fiscal 2010;
- an estimated $5.0 million increase for overtime expenses, in addition to the $7.0 million deficiency for fiscal 2009;
- an additional $2.0 million, which had been previously budgeted within the Department of Budget and Management, for an ongoing program to provide fitted stab vests for all correctional officers;
- a $250,000 increase in federal funds as a result of new federal legislation to increase offender reentry programs;
- an additional $1.3 million adjustment for increased reimbursement to local jails, in addition to the $6.3 million deficiency for fiscal 2009;

- an approximate $1.2 million increase to reflect a new inmate food contract for the Baltimore Region to be awarded in January 2009; and

- an additional $1.2 million in special funds to increase raw material and production supplies based on increased sales volumes for Maryland Correctional Enterprises.

Criminal Injuries Compensation Board

The fiscal 2010 baseline includes an adjustment to increase funding available for financial assistance to victims of crime by a net $400,000. The net increase is based on a federal formula which reimburses for 60 percent of all eligible State compensation payments from the previous year.

Division of Pretrial Detention and Services

Enactment of Chapter 337 of 2008 created a Statewide DNA Database System, which requires a new step in the booking process at the Baltimore City Central Booking and Intake Center to collect and track the DNA samples gathered at intake. An additional $120,000 in general funds is included in the fiscal 2010 baseline to reflect the increased personnel costs associated with the change in procedures.

Maryland Department of Transportation

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

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

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

Expenditures, Funds, and Positions for the Maryland Department of Transportation
Fiscal 2007-2010
($ in Thousands)

	2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	2009-2010 $ Increase	2009-2010 % Increase
Expenditures						
The Secretary's Office	$66,439	$75,453	$75,692	$77,798	$2,106	2.8%
WMATA	170,961	193,029	213,300	229,300	16,000	7.5%
State Highway Administration	235,359	212,179	220,887	250,537	29,650	13.4%
Maryland Port Administration	98,716	110,054	112,021	115,871	3,850	3.4%
Motor Vehicle Administration	140,437	147,490	154,829	161,619	6,789	4.4%
Maryland Transit Administration	505,916	535,179	589,201	650,274	61,073	10.4%
Maryland Aviation Administration	178,157	183,541	185,678	194,208	8,529	4.6%
Total	**$1,395,985**	**$1,456,926**	**$1,551,610**	**$1,679,607**	**$127,997**	**8.3%**
Fund						
Special Fund	$1,323,303	$1,378,794	$1,471,821	$1,600,388	$128,567	8.7%
Federal Fund	72,598	78,132	79,789	79,218	-570	-0.7%
Reimbursable Fund	84	0	0	0	0	0%
Total	**$1,395,985**	**$1,456,926**	**$1,551,610**	**$1,679,607**	**$127,997**	**8.3%**
Personnel						
Regular Positions	7,110.0	7,172.0	7,283.0	7,287.0	4.0	0.1%
Full-time Equivalent Contractuals	133.0	161.0	145.0	145.0	0.0	0%

WMATA: Washington Metropolitan Area Transit Authority

The Secretary's Office

The fiscal 2010 baseline budget includes a $500,000 increase in the cost of ongoing information technology contracts.

Washington Metropolitan Area Transit Authority

The fiscal 2010 baseline budget has a $16.0 million (7.5 percent) increase in the operating budget subsidy to the Washington Metropolitan Area Transit Authority which funds the difference between Maryland's share of operating expenses and operating revenues as required in statute.

State Highway Administration

The following increases are included in the fiscal 2010 baseline budget:

- $20.0 million, in addition to the $21.0 million already budgeted, for winter maintenance costs as a fiscal 2009 deficiency based upon historical expenditures; and

- $3.6 million for ongoing contract maintenance due to inflationary increases for supplies and services.

Maryland Port Administration

The fiscal 2010 baseline budget includes the following adjustments:

- removal of a one-time expense of $325,000 for sprinkler system compliance;

- $1.1 million increase and two positions for additional operating costs for cruise ship operations due to a doubling of expected business;

- $1.0 million increase for electricity based on actual usage;

- $270,780 increase for the debt service payment for the Series 2006 Certificates of Participation and the operating lease payment to the Maryland Transportation Authority (MDTA) for Seagirt Marine Terminal due to established repayment schedules; and

- $240,377 increase for the security contracts with the MDTA Police and Securitas, a private security company, due to cost-of-living increases and other contract costs.

Motor Vehicle Administration

The following increases are included in the fiscal 2010 baseline budget:

- $1.0 million for the cost of supplies for license plates due to inflation;
- $500,000 for the Vehicle Emissions Inspection Program due to increased contract costs;
- $300,000 for the fee that is paid for credit card transactions;
- $115,800 and one position to implement Chapter 443 of 2008, which allows the Motor Vehicle Administration to suspend the driver's license of a person convicted of failing to yield the right of way if the violation contributes to serious bodily injury or death; and
- $49,600 and one position to implement Chapter 581 of 2008, which requires parental notification if a minor is issued a moving citation.

Maryland Transit Administration

The following adjustments are included in the fiscal 2010 baseline budget:

- $9.5 million increase for MARC services based upon a new Amtrak contract and increases in CSX contract costs;
- $8.2 million increase, with $4.2 million in fiscal 2009 as a deficiency, to begin paying the Other Post Employment Benefits liability for union employees;
- $3.0 million increase in the Mobility paratransit program due to increased ridership and contract costs;
- $3.0 million increase for the cost of the retirement contribution for Maryland Transit Administration (MTA) union positions;
- $2.7 million increase in the cost of health insurance for current and retired MTA union employees;
- $1.3 million increase in the cost of commuter bus contracts due to ongoing contract costs and increased fuel costs including $300,000 as a fiscal 2009 deficiency;
- $1.0 million increase in fiscal 2009 as a deficiency for gas, fuel, and other lubricants based upon increased usage; and

- $1.9 million decrease in debt service payments on a MARC parking garage due to the amortization schedule.

Maryland Aviation Administration

The fiscal 2010 baseline budget includes a decrease of $79,575 for debt service for the Series 1999 and 2004 issuances of Certificates of Participation and the Series 2003 Maryland Economic Development Corporation lease revenue bonds due to amortization schedules. Additionally, the baseline budget includes removal of the following one-time expenses:

- $250,000 for the purchase of replacement hydraulic rescue and extrication tools for the fire-rescue department; and

- $200,000 for hosting a conference.

In addition, the following increases are included in the fiscal 2010 baseline budget:

- $2.3 million for electricity based on actual usage;

- $1.1 million for plumbing contracts and the contract with the Maryland Environmental Service;

- $675,000 for the shuttle bus service contract due to a new contract being awarded; and

- $552,947 for inflationary increases of 3 percent for all repair and maintenance contracts based on prior year's growth.

Higher Education – State Colleges and Universities

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

Expenditures, Funds, and Positions for Higher Education
Fiscal 2007-2010

	2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	2009-2010 $ Increase	2009-2010 % Increase
Expenditures						
University of Maryland, Baltimore	$790,270	$862,342	$878,083	$928,924	$50,842	5.8%
University of Maryland, College Park	1,317,546	1,444,984	1,481,975	1,574,942	92,967	6.3%
Bowie State University	83,371	89,172	93,311	97,121	3,810	4.1%
Towson University	308,339	332,202	348,037	364,685	16,648	4.8%
University of Maryland Eastern Shore	96,269	101,329	103,798	109,165	5,367	5.2%
Frostburg State University	84,786	86,246	88,380	93,859	5,479	6.2%
Coppin State Universtiy	67,523	77,849	82,319	86,124	3,805	4.6%
University of Baltimore	84,598	94,894	96,754	102,446	5,692	5.9%
Salisbury University	117,131	124,085	127,300	133,873	6,573	5.2%
UM University College	250,078	320,096	289,698	307,387	17,689	6.1%
UM Baltimore County	315,785	331,038	339,124	359,513	20,389	6.0%
UM Center for Environmental Services	36,141	44,063	42,849	45,281	2,432	5.7%
UM Biotechnology Institute	44,623	45,730	46,020	49,872	3,852	8.4%
University System of Maryland Office	23,217	27,941	28,099	28,974	875	3.1%
Morgan State University	172,654	191,881	197,916	207,001	9,085	4.6%
St. Mary's College of Maryland	54,554	62,946	64,663	66,427	1,764	2.7%
Baltimore City Community College	77,150	87,922	88,526	91,894	3,368	3.8%
Total	**$3,924,036**	**$4,324,721**	**$4,396,853**	**$4,647,489**	**$250,636**	**5.7%**
Fund						
General Fund	$1,047,453	$1,129,367	$1,145,868	$1,345,844	$199,976	17.5%
Special Fund	6,437	6,803	42,697	7,288	-35,409	-82.9%
Other Unrestricted	1,953,492	2,170,484	2,214,205	2,204,251	-9,954	-0.4%
Restricted	923,092	1,024,869	1,036,780	1,097,395	60,615	5.8%
Total	**$3,924,036**	**$4,324,721**	**$4,396,853**	**$4,647,489**	**$250,636**	**5.7%**
Personnel						
Regular Positions	22,782.5	23,583.8	23,700.5	23,700.5	0.0	0.0%
Full-time Equivalent Contractuals	5,992.0	6,213.7	6,176.8	6,176.8	0.0	0.0%

UM: University of Maryland

Source: Fiscal Digest; Maryland State Budget Books; Department of Legislative Services

General Fund Changes

- The general fund increase for higher education assumes that the Higher Education Investment Fund (HEIF) will not continue in fiscal 2010. This results in an additional $66.5 million in general funds to replace HEIF funds which were used in the 2009 appropriation. (In fiscal 2009, $35.8 million was appropriated and an additional $30.7 million was authorized to be added by budget amendment.)

- General funds for fiscal 2009 contained a 2.0 percent cost-of-living adjustment (COLA) for State employees that were included in the budget of the Department of Budget and Management (DBM). Higher education's share of the funds ($24.7 million) will be transferred from DBM during fiscal 2009.

- In fiscal 2010, a 2.0 percent COLA totaling $39.8 million, was assumed for USM and MSU. Of this amount, $24.9 million was presumed to be the general fund share of the COLA. The remaining share was assumed to be other unrestricted funds.

- The baseline budget provides the general fund portion of USM's mandatory costs. In fiscal 2010, the general fund portion of mandatory costs is estimated to increase $101.1 million, or 9.2 percent, over fiscal 2009. This includes an estimated fiscal 2010 COLA and enrollment growth.

- Enrollment growth accounts for $9.8 million of the increase in mandatory costs. To estimate new enrollment costs, the USM projected enrollment in fiscal 2009 was multiplied by the fiscal 2009 through 2010 growth rate reflected in the Maryland Higher Education Commission enrollment projections.

- The general fund portion of MSU's mandatory costs is estimated to increase $7.2 million, or 9.5 percent, over fiscal 2009. This includes the fiscal 2010 COLA and enrollment growth. Enrollment growth costs are calculated using the same method as USM.

- MSU's enrollment growth accounts for $1.8 million of the increase in mandatory costs. This was calculated by using the same methodology used to estimate USM's enrollment growth costs.

- For SMCM, general funds increase 2.2 percent, and tuition and fee revenues increase 7.5 percent. SMCM receives general funds through a statutory formula that increases the prior year appropriation by the funds required to offset inflation. The calculation involves multiplying the prior year appropriation by the implicit price deflator for State and local government.

- Baseline projections for BCCC yield a general fund increase of 9.3 percent, or about \$3.7 million. The college is also expected to receive \$678,544 for the English Speakers of Other Languages program.

Other Unrestricted Fund Changes

- A 2.0 percent, or \$39.8 million, COLA was assumed for MSU and all USM institutions. Of this amount, \$14.8 million was presumed to be other unrestricted funds. The remaining share was presumed to be general funds.

- In the past, USM proposed its tuition rate plan before the baseline budget was calculated. In absence of this information, the Department of Legislative Services calculates that USM tuition and fee revenues will increase 4.3 percent, or \$46.4 million. The fiscal 2010 resident and non-resident tuition and fee rate increase was calculated to be 4.0 percent. For MSU, tuition and fee revenues are estimated to increase \$4.1 million, or 8.8 percent, over fiscal 2009.

- Of the \$46.4 million in USM tuition and fee revenues, \$9.8 million is attributable to new enrollments, based on each institution's projected enrollment growth and fiscal 2009 in-state undergraduate tuition and fee rate.

- Auxiliary revenues for USM and MSU increase 1.9 and 3.0 percent, respectively, based on enrollment growth.

Maryland Higher Education Commission Changes

- The Education Excellence Awards are set at \$79.7 million in general funds, a 4.0 percent increase over fiscal 2009.

- The Sellinger appropriation to private institutions is calculated at \$66.8 million. These institutions receive general funds through a statutory formula, which is 16.0 percent of the prior-year appropriation to select public four-year institutions on a per-student basis.

Other State Agencies

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

C00A Judiciary

The Judiciary is composed of four courts and six agencies which support the administrative, personnel, and regulatory functions of the Judicial Branch of government. The four courts are the Court of Appeals, Court of Special Appeals, circuit courts, and District Courts. The following adjustments were made to the fiscal 2010 baseline budget:

- Decreased spending on information technology (IT) programs in the amount of $7.1 million in special funds in fiscal 2010, as estimated in the Judiciary's fiscal 2009 Master IT Plan. Many programs are moving out of the design/testing/implementation phase and into the phase of ongoing maintenance.

- Increased budgets for the circuit courts and District Courts in the amount of $4.8 million in general funds and 45 positions to reflect the need for new judgeships. The 45 new positions include 7 judges, 7 law clerks, and 7 courtroom clerks in the circuit courts, as well as 8 judges, 8 courtroom clerks, and 8 bailiffs for the District Courts.

- Increased rent of $168,633 in general funds for the new Cumberland District Court to reflect the first full year the facility will be occupied.

C80B Office of the Public Defender

The Office of the Public Defender provides counsel and related services to indigent persons. Representation is provided in criminal trials, appeals, juvenile cases, post-conviction proceedings, parole and probation revocations, and involuntary commitments to mental institutions. The baseline estimate includes the following increases:

- $4.6 million in general funds to fund 55 new assistant public defenders and 25.5 new secretaries, law clerks, and social workers to meet Maryland Caseload Standards;

- $3.0 million in general funds to reflect the cost of increasing panel attorney fees from $50 to $75 per hour;

- $34,285 in general funds for a Master Equipment Lease-Purchase Program for a telephone/communications system.

C81C Office of the Attorney General

The Attorney General acts as legal counsel to the Governor; General Assembly; Judiciary; and all departments, boards, and commissions. The Office of the Attorney General represents the State in all matters of interest to the State, including civil litigation and criminal appeals in all State and federal courts. The fiscal 2010 baseline includes an adjustment for $214,338 in special funds to address Chapter 480 of 2008, which increases existing fees for registered home builders and extends certain administrative fees to Montgomery County builders who are otherwise exempted from registration requirements. Four new positions (assistant attorney general, administrator, investigator, and secretary) are also added to address the additional registration and regulatory requirements set forth in the legislation.

C82D Office of the State Prosecutor

The Office of the State Prosecutor is an independent agency within the Executive Branch of government. The State Prosecutor investigates and prosecutes certain criminal offenses committed by public officials. The fiscal 2010 budget decreases by $76,200 in federal funds to account for Federal Asset Forfeiture Funds which will run out in fiscal 2009.

C90G Public Service Commission

The Public Service Commission (PSC) regulates gas, electric, telephone, water, sewage disposal, and certain passenger transportation companies doing business in Maryland. The fiscal 2010 baseline includes an increase of approximately $19.4 million in special funds (including the effect of a $14.7 million fiscal 2009 deficiency) related to the Strategic Energy Investment Fund. Chapters 127 and 128 of 2008 dedicate 23 percent of funds from the Strategic Energy Investment Fund to residential rate relief in a manner prescribed by PSC. An increase of $155,000 in special funds was associated with a deficiency appropriation which carried forward into fiscal 2010.

C96J00 Uninsured Employer's Fund

The Uninsured Employer's Fund protects injured employees working for uninsured employers by investigating cases of improper injury compensation. A decrease of $6,783 was made to the fiscal 2010 baseline to reflect the removal of the fund's one-time replacement cost purchase of a local area network server, which had been incorporated into the fiscal 2009 budget.

D05E01 Board of Public Works

The budget for the Board of Public Works (BPW) contains funds for the administrative staff of the board, a contingency fund to supplement general fund appropriations when necessary, grant funds for private nonprofit groups, funds to pay settlements and judgments against the State, and funds for certain capital purposes including the State Public School Construction Program. The baseline budget for BPW was increased by $5,379 in general funds for an increase in membership dues payable to the Council of State Governments.

D10A01 Executive Department – Governor

As chief executive, the Governor exercises supervision over the agencies of the Executive Branch. The primary mission of the department is to provide executive oversight, guidance, and coordination to the various State agencies and to provide the public with information about the Governor's policies, goals and core functions, and the functions of State government. Significant changes in the fiscal 2010 baseline include the transfer of four StateStat positions to the department's staff.

D12A02 Department of Disabilities

The Department of Disabilities is the principal State agency responsible for developing, maintaining, revising, and enforcing statewide disabilities policies and standards throughout the units of State government. The fiscal 2010 baseline includes $50,000 in special funds for a one-time deficiency appropriation for a National Technical Assistance and Research Leadership Grant. This grant is for work in the area of employment for individuals with disabilities.

D13A13 Maryland Energy Administration

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy-related policies and activities among State and local agencies. The fiscal 2010 baseline for MEA was adjusted for two pieces of legislation and an anticipated decrease in available Energy Overcharge Restitution Fund monies.

The Maryland Strategic Energy Investment Fund (Chapters 127 and 128 of 2008) allocates funding from the auction of carbon dioxide allowances that Maryland will receive from the 10-state Regional Greenhouse Gas Initiative. This funding is allocated according to a formula that provides MEA with $3.0 million in special funds for administrative expenses and $42.7 million in special funds for the following programs: energy efficiency, conservation, and demand response; renewable and clean energy; and energy-related public education and outreach.

The baseline was adjusted for the impact of the EmPower Maryland Energy Efficiency Act of 2008 (Chapter 131 of 2008) and the reduction in Energy Overcharge Restitution Funds. The adjustment for Chapter 131 reflects the need for $89,828 in general funds to handle the review of demand response and energy efficiency plans submitted by utilities. A reduction from $1.1 million to $0.3 million was also made to reflect the last remaining Energy Overcharge Restitution Fund special funds available for projects in fiscal 2010 due to the exhaustion of the Energy Overcharge Restitution Fund.

D15A05 Boards, Commissions, and Offices

The Boards, Commissions, and Offices unit of the executive department contains various entities created by statute or executive order to provide planning and coordination for the Executive Branch functions or to investigate and make recommendations on problems affecting the administration and welfare of the State. The largest of these, the Governor's Office of Crime Control and Prevention (GOCCP), includes a decrease of $7.2 million in federal funds in the fiscal 2010 baseline, due to the Grants to Encourage Arrest Policies and the Byrne Justice Assistance Grant being unfunded in the next federal budget. Adjustments to GOCCP also include the addition of one regular position to administer two grant programs transferred from the Maryland State Police during the 2008 legislative session.

D28A03 Maryland Stadium Authority

The Maryland Stadium Authority (MSA) manages facilities for professional baseball and football teams and studies, constructs, and finances other projects such as convention centers. Chapter 320 of 2008 extends the date by which MSA and Baltimore City are obligated to pay a specified percentage of the operating deficits of the Baltimore Convention Center. The fiscal 2010 baseline includes $3.9 million in general funds to continue the State's payment toward the Baltimore City Convention Center operating deficit.

D38I01 State Board of Elections

The State Board of Elections supervises elections to ensure compliance with State and federal laws. The baseline includes an increase of approximately $441,000 (approximately $926,000 increase in special funds and approximately $485,000 decrease in general funds) for changes in expected equipment costs. This change includes adjustments for existing lease-purchase agreements, a second payment and lower interest rate for the new voting system to be purchased in fiscal 2009, and new e-pollbooks purchased prior to the fiscal 2008 elections and expected to be financed by six counties.

D40W01 Maryland Department of Planning

The Maryland Department of Planning (MDP) develops, coordinates, reviews, and monitors public and private sector plans for growth and development in the State. The fiscal 2010 baseline includes a reduction of $406,063 in general funds to reflect the transfer of six positions from the Commission on African American History and Culture within MDP to the Governor’s Office of Community Initiatives per Chapter 521 of 2008.

In addition, MDP is expected to receive an allocation in fiscal 2010 from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund created by Chapters 120 and 121 of 2008. However, the funding level for fiscal 2010 is uncertain so the funding is reflected in DNR’s operating baseline budget rather than in MDP.

D50H01 Military Department

The Military Department provides overall direction, development, and maintenance of the Maryland National Guard, which is comprised of the Maryland Army Guard and the Maryland Air Guard. The department also operates the Maryland Emergency Management Agency. The baseline reflects an increase of $252,000 in general funds required to backfill the anticipated loss of special funds for the Widows and Orphans Grant Program. The baseline also reflects the transfer of a StateStat position detailed to the Governor’s Office.

D55P00 Department of Veterans Affairs

The fiscal 2010 baseline budget for the Department of Veterans Affairs was reduced by $1.2 million to reflect overbudgeting for the contract for Charlotte Hall Veterans Home in fiscal 2009.

D79Z02 Maryland Health Insurance Plan

The fiscal 2008 actual spending on claims for the Maryland Health Insurance Plan (MHIP) indicates that the fiscal 2009 special fund appropriation is overbudgeted by roughly $15.0 million. In fiscal 2010, MHIP claims are expected to amount to $79.3 million in special funds, which is a 5 percent increase over the fiscal 2009 costs.

Chapter 557 of 2008 provides a subsidy for the Medicare Part D coverage gap, which is a new benefit provided through the Senior Prescription Drug Assistance Program. The subsidy is expected to cost $3.2 million in special funds in fiscal 2009 and grow by an additional $4.4 million in fiscal 2010 due to annualization.

Chapter 259 of 2008 administratively removes MHIP from the Maryland Insurance Administration (MIA). As a result, MHIP will require four new employees to handle the administrative duties that are currently performed by MIA. This transition to an independent agency is expected to cost $261,000 in fiscal 2010.

D80Z01 Maryland Insurance Administration

Fiscal 2009 is the last year medical malpractice subsidies will be provided through the Maryland Health Care Provider Rate Stabilization Fund, which will reduce the fiscal 2010 special fund appropriation for MIA by $5.2 million in special funds.

E00A Comptroller of the Treasury

The Comptroller of the Treasury is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. The fiscal 2010 baseline includes an adjustment to reflect the implementation of a new Modernized Integrated Tax System (MITS). The MITS will house records for all tax types, negating the need to search multiple systems for one taxpayer. The system will also have a data warehouse component and data analysis capability allowing the office to target collection efforts more efficiently. The baseline reflects approximately $20.5 million in general, special, and Major Information Technology Development Funds for the first phase of the system rollout. The baseline also includes 22 new positions to operate the MITS. Finally, an increase of $300,000 in special funds was made to reflect Chapters 329 and 692 of 2008 requiring the office to mail certain applications and enrollment instructions for the Medicaid and Maryland Children's Health programs.

E75D State Lottery Agency

The State Lottery Agency is responsible for administering and operating lottery games that generate revenue for the State. Chapter 4 of the 2007 special session outlines the agency's new responsibilities for administering a system of video lottery terminals subject to a public referendum. The fiscal 2010 baseline includes a fiscal 2009 deficiency of $1.2 million in ongoing expenditures related to the legislation.

F10A Department of Budget and Management

The Department of Budget and Management (DBM) is responsible for managing the expenditure of State resources.

Administration

The following adjustments were made to the fiscal 2010 baseline for DBM:

- The Blue Ribbon Commission to Study Retiree Health Care Funding Options was created to examine the State's Other Post Employment Benefits. DBM procures actuarial services to support the commission. Chapter 228 of 2008 extended the commission's final report deadline to December 31, 2009. The fiscal note projects that the legislation increases the cost for actuarial services by $150,000 in fiscal 2010. General fund expenditures have been adjusted to reflect these costs.

- Two positions with general fund salaries totaling $122,021 were transferred from the Office of Budget Analysis to the Governor's Office. The fiscal 2010 DBM budget was reduced by the two positions, their salaries, and their fringe benefits to reflect the transfer.

- A Memorandum of Understanding between DBM and the Comptroller's Office allows the Comptroller's Office to collect a 1 percent fee for past due taxes collected using its offset programs. The baseline is adjusted to reflect a projected budget amendment for $500,000 in special funds for this purpose. These funds will be transferred to the Comptroller's Office as reimbursable funds, yielding a corresponding reduction in the office's general funds.

Office of Personnel Services and Benefits

The decline in expenditures is attributable to deleting statewide expenditures. Personnel expenditures relating to the fiscal 2009 general salary increase and Annual Salary Reviews (discussed in the Overview at the beginning of this report) were deleted from the DBM budget. In addition, the following statewide expenses budgeted in DBM were removed:

- $25,000,000 of special funds for the 2010 Chesapeake Bay Fund;

- $2,080,000 of general funds for stab protection vests;

- $300,000 of special funds for the administrative expense associated with the procurement of police helicopters;

- $147,600 of general funds for an increase in fees for rent of Annapolis garages; and

- $74,144 of general funds for the Department of Human Resources Income Maintenance Specialist bonuses.

F50 Department of Information Technology

The major baseline adjustment in the Department of Information Technology (DoIT) is an increase of almost $10.2 million from the fiscal 2009 appropriation level related to major information technology development projects. More importantly, this represents a $32.3 million increase in general funds. This increase reflects the significant increase in out-year funding requirements to support ongoing major information technology projects as noted in the Governor's fiscal 2009 budget submission.

The increase assumes:

- No significant changes in the general fund requests as noted in the fiscal 2009 budget submission. In practice, significant changes will occur, for example, as project scope and timelines change and perhaps as funding availability is impacted by the ongoing budget situation. However, at this time, these changes are not known.

- No significant accumulation of special fund revenues into the Major Information Technology Development Project Fund to offset general fund requirements.

- Support for one project, the Department of State Police's Computer Assisted Dispatch/Records Management System, for which funding was deleted during the 2008 session.

Other changes to DoIT for fiscal 2010 are less significant: a $400,000 reduction based on the latest Master Equipment Lease-Purchase Program schedule that is more than offset by a $262,000 increase based on Chapter 9 of 2008 (related to the creation of DoIT), and a $200,000 increase associated with Chapter 659 of 2008, the Maryland Funding Accountability and Transparency Act.

G20J01 State Retirement Agency

The State Retirement Agency (SRA), under the supervision of a board of trustees, manages a $36 billion pension fund. It also administers retirement, death, and disability benefits for more than 250,000 current and former teachers and State and municipal employees. The changes in fiscal 2010 are attributable to the following factors:

- SRA has identified additional local governmental employers with employees contributing into the State system whose transactions must be audited. Consequently, audit service costs have been increased by $100,000 in special funds in the baseline.

- Additional costs have been identified to facilitate completion of the agency's Maryland Pension Administration System (MPAS-1) information technology system project that will add $3.2 million in special funds to the baseline budget. This figure encompasses the expenditures cited by DoIT in its recent review of the MPAS project. An additional $1.2 million in special funds for the second phase of the project (MPAS-2) is also included. Together, these figures represent an increase of $29,966 over the funding included for the two phases of the MPAS project in fiscal 2009.

- Chapter 368 of 2007 gave SRA independent compensation setting ability with regard to the Chief Investment Officer (CIO) position. The compensation packet will result in increased expenditures of $150,000 in special funds, above the former $110,000 base salary allotted to the CIO position.

H00 Department of General Services

The Department of General Services performs a variety of functions including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; and provision of real estate services. The fiscal 2010 baseline includes the following significant increases:

- $632,000 in general funds for 37 new vehicles;

- $400,000 in general funds for various projects at the State House;

- $212,600 in general funds for employee parking at the Gott, Hillman, and Whitmore garages;

- $175,000 in general funds for eMaryland Marketplace system enhancements; and

- $175,000 in special funds for maintenance and upkeep at the Annapolis and Crownsville Daycare Centers.

K00A Department of Natural Resources

The Department of Natural Resources (DNR) manages the protection, enhancement, and use of the State's natural resources. The fiscal 2010 baseline includes adjustments for the following: allocation from two new funds to restore the Chesapeake Bay, the shifting of a pay-as-you-go (PAYGO) program to the operating budget, operating expenses for new facilities, and the Master Equipment Lease-Purchase Program.

The Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and Nonpoint Source Fund were created by Chapters 120 and 121 of 2008. The revenue for these two funds comes from allocations of the State motor fuel tax and short-term vehicle rental tax. In fiscal 2010, it is anticipated that approximately $44.2 million will be allocated for nonpoint source pollution control projects to restore the Chesapeake Bay. Fiscal 2010 allocations are anticipated for MDP, the Maryland Department of Agriculture (MDA), the Maryland Department of the Environment (MDE), and DNR, but for the time being, half of the funding ($22.1 million) is reflected in DNR's PAYGO budget and the other half is reflected in DNR's operating budget ($22.1 million).

The baseline estimate assumes that $500,000 in special funds for the Shoreline Erosion Control Program will be shifted from DNR's PAYGO budget to its operating budget. DNR has shifted its focus from structural shoreline improvements to non-structural living shoreline projects, which are not eligible for capital funding.

The fiscal 2010 baseline increases by $125,600 in general funds to reflect operating expenses for the following new facilities or projects: Pocomoke River State Park – Shad Landing Sewer Improvements; Wye Oak Display; Relocation of the Natural Resources Police Area 3 Office; Janes Island State Park Nature Center Complex Expansion; Point Lookout State Park – Construct Comfort Station; and Madonna Forestry Office Replacement. In addition, the fiscal 2010 baseline increases from a fiscal 2009 split of $61,702 in general funds and $48,320 in special funds to a fiscal 2010 budget of $123,857 in special funds for the Master Equipment Lease-Purchase Program, a $13,835 overall increase.

L00A Maryland Department of Agriculture

MDA supervises, administers, and promotes agricultural activities throughout the State. Adjustments were made to the fiscal 2010 baseline for the following: legislation in the 2006 session, cover crop funding, legislation in the 2008 session, and the Master Equipment Lease-Purchase Program.

Adjustments were made to reflect general fund increases required by the Agricultural Stewardship Act of 2006 (Chapter 289 of 2006). This includes $750,000 for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) and $400,000 for Soil Conservation District funding. The increase for MARBIDCO is $750,000 instead of $500,000 because the statutory requirement is for a fiscal 2010 funding level of $4.0 million, while the fiscal 2009 legislative appropriation was $3.25 million.

The cover crop funding amount was adjusted upwards by $1.0 million. This adjustment was made to reflect an anticipated deficiency appropriation in fiscal 2009 that will carry forward into fiscal 2010. The Bay Restoration Fund's septic distribution for cover crops is anticipated to be $5.3 million in fiscal 2009 and 2010, while the fiscal 2009 legislative appropriation was $4.3 million.

The fiscal 2010 baseline also was adjusted to reflect a reduction of $20,927 in general funds for the Master Equipment Purchase-Lease Program and to account for the fiscal 2010 impact of two 2008 session laws:

- a $97,923 general fund adjustment for a contractual position and operating expenses associated with Chapter 173 of 2008; and

- a $55,990 general fund adjustment for half a regular position and operating expenses associated with Chapter 371 of 2008.

In addition, MDA is expected to receive an allocation in fiscal 2010 from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund created by Chapters 120 and 121 of 2008. However, the funding level for fiscal 2010 is uncertain and so the funding is reflected in DNR's operating baseline budget.

P00 Department of Labor, Licensing, and Regulation

The Department of Labor, Licensing, and Regulation (DLLR) includes many of the State's agencies and boards responsible for licensing and regulating various businesses, professions, and trades. DLLR also administers a variety of federally funded employment service programs. During the 2008 session, several pieces of legislation were enacted that expand the department's role in regulating the mortgage industry. Accordingly, the baseline was adjusted upward to account for these changes. Additionally, Chapter 134 of 2008 transfers adult education programs from the Maryland State Department of Education (MSDE) to DLLR. The fiscal 2010 baseline reflects this action, increasing the baseline by 176.5 regular positions and $33.5 million in general, special, federal, and reimbursable funds.

R00A01 Maryland State Department of Education Headquarters

MSDE coordinates the State's education policies. Baseline projections for the Headquarters budget includes a reduction of $15.3 million in general funds and 176.5 regular positions to comply with Chapter 134 of 2008.

R00A04 Children's Cabinet Interagency Fund

The Interagency Fund is used to support Local Management Boards, which are part of a comprehensive, interagency service delivery system of children and families. The fiscal 2010 baseline adds $750,000 for services to children with disabilities available through the Medicaid Rehab Option Waiver. This assumes ongoing funding of $10.0 million for the Rehab Option Program. The fiscal 2009 legislative appropriation contained only $9.25 million for this program due to the availability of previously authorized funding.

R15P00 Maryland Public Broadcasting Commission

The Maryland Public Broadcasting Commission is responsible for operating the Maryland public broadcasting affiliate, Maryland Public Television. Adjustments made for this agency include electricity savings from the conversion of analog broadcast to digital ($412,866) and the expected loss of two grants valued at $4.6 million, currently unfunded in the federal budget.

T00 Department of Business and Economic Development

The Department of Business and Economic Development aims to increase business investment and promote job creation. The fiscal 2010 baseline assumes level funding in most of the department's financing programs. The State Arts Council appropriation increases each year by the rate of the estimated statewide general fund increase, which added $668,224 to the estimate.

U00A Maryland Department of the Environment

MDE is responsible for protecting and restoring the quality of the State's air, land, and water resources and safeguarding citizens from health risks associated with pollution The fiscal 2010 baseline was adjusted to account for the following: the Maryland 2008 session laws, the Master Equipment Lease-Purchase Program, a one-time tire grant expense, and Bay Restoration Fund debt service payments.

The fiscal 2010 baseline was adjusted to account for the fiscal 2010 impact of four 2008 session laws:

- a $2,950,341 special fund adjustment for four regular positions (created by BPW on June 25, 2008) and operating expenses associated with the allocation from the Maryland Strategic Energy Investment Fund (Chapters 127 and 128 of 2008).

- a $2,618,600 special fund adjustment for 15 regular positions (created by BPW on June 25, 2008) and operating expenses associated with Wetlands and Waterways Program Fees (Chapter 142 of 2008);

- a $2,103,100 special fund adjustment for six regular positions (created by BPW on June 25, 2008) and operating expenses associated with Clean Air Permit Fees (Chapter 141 of 2008); and

- a $165,575 special fund adjustment for operating expenses associated with Chapter 106 of 2008.

Adjustments also were made for the Master Equipment Lease-Purchase Program, a one time grant to the Maryland Environmental Service, and a decrease in debt service payments for Bay Restoration Fund bonds. The fiscal 2010 baseline for the Master Equipment Lease-Purchase Program decreases by $74,790 in general funds. The baseline was adjusted to reflect a one-time $1.7 million special fund grant that was transferred to the Maryland Environmental Service from the Used Tire Fund in fiscal 2009 in order to pay off a Grant Anticipation Note connected with MES' crumb rubber recycled tire facility. The baseline estimate was also adjusted to reflect the $11.7 million in special funds for debt service reserve payments required for the $50.0 million (fiscal 2008) and $70.0 million (fiscal 2009) Bay Restoration Fund bond issuances. This number reflects a slight decrease of $315,800 in special funds from the fiscal 2009 legislative appropriation because debt service reserve payments already have begun on the two issuances.

In addition, MDE is expected to receive an allocation in fiscal 2010 from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund created by Chapters 120 and 121 of 2008. However, the funding level for fiscal 2010 is uncertain so the funding is reflected in DNR's operating baseline budget.

W10A00 Maryland State Police

The Maryland State Police exists to safeguard persons within the State, protect property, and assist in providing all persons equal protection under the law.

The baseline assumes a projected general fund deficiency of $800,000 for DNA sampling and sworn officer overtime expenditures. Chapter 337 of 2008 requires DNA sampling of individuals charged with specified crimes of violence or felony burglary.

The baseline reflects a $119,711 increase in personnel and operating costs for the tactical services garage. The department received approximately $2.5 million in fiscal 2009 to construct and equip a garage and storage building at the Maryland State Police Waterloo Barrack Complex.

Lastly, the baseline includes $45,347 in special funds for a new fiscal accounts clerk position. Pursuant to Chapter 492 of 2008, the department is responsible for handling fee collections and account entries for all salvage vehicle inspections.

Y01A State Reserve Fund

The State Reserve Fund baseline budget consists of the Revenue Stabilization Account (Rainy Day Fund), Dedicated Purpose Account (DPA), and Catastrophic Event Account. The Economic Development Opportunities Program Account (Sunny Day Fund) is discussed in the section addressing economic development programs. There is no activity projected in the Catastrophic Event Account.

Rainy Day Fund

The account was created to retain revenues to meet future needs. Section 7-311 of the State Finance and Procurement Article requires that an amount equal to the unappropriated general fund surplus exceeding $10 million from two fiscal years prior to the allowance year shall be appropriated into the Rainy Day Fund. The fiscal 2008 unappropriated general fund surplus totaled $185,747,579. As required by law, the baseline assumes a $175,747,579 appropriation into the Rainy Day Fund.

Dedicated Purpose Account

Funds transferred from the general fund to other funds may be appropriated into the DPA. In fiscal 2009, $85 million in general funds were appropriated into the DPA to support the InterCounty Connector (ICC). Chapter 567 of 2008 amends Section 4-321 of the Transportation Article to require that $63 million be appropriated to support the ICC in fiscal 2010. An adjustment removing the fiscal 2009 appropriation and adding the fiscal 2010 appropriation has been made.

Expenditures and Funds in Other State Agencies
Fiscal 2007-2010
($ in Thousands)

Budget Assignment		2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	09-10 $ Increase	09-10 % Increase
B00	General Assembly	$68,256	$72,558	$75,656	$79,971	$4,315	5.7%
C00A00	Judiciary	367,156	396,735	429,484	443,987	14,502	3.4%
C80B00	Office of the Public Defender	83,919	88,169	90,242	104,416	14,174	15.7%
C81C	Office of the Attorney General	22,733	25,600	25,179	26,304	1,125	4.5%
C82D00	Office of the State Prosecutor	1,206	1,317	1,359	1,385	26	1.9%
C85E00	Maryland Tax Court	606	613	635	669	34	5.3%
C90G00	Public Service Commission	13,008	13,256	14,210	34,408	20,198	142.1%
C91H00	Office of People's Counsel	3,172	3,398	2,778	2,904	126	4.6%
C94I00	Subsequent Injury Fund	1,814	1,871	1,885	1,989	105	5.6%
C96J00	Uninsured Employers' Fund	1,076	1,061	1,083	1,150	66	6.1%
C98F00	Workers' Compensation Commission	13,052	13,287	13,591	14,504	913	6.7%
D05E01	Board of Public Works	9,664	7,534	7,870	7,929	60	0.8%
D10A01	Executive Department – Governor	9,441	9,315	9,666	10,508	842	8.7%
D11A0401	Office of the Deaf and Hard of Hearing	264	274	277	289	12	4.4%
D12A02	Department of Disabilities	4,598	4,561	4,668	4,792	125	2.7%
D13A13	Maryland Energy Administration	3,311	4,902	4,041	49,290	45,250	1119.9%
D15A05	Executive Department – Boards, Commissions, and Offices	47,578	49,009	117,908	111,906	-6,002	-5.1%
D16A06	Secretary of State	2,704	2,712	2,772	2,909	138	5.0%
D17B0151	Historic St. Mary's City Commission	2,948	3,501	2,804	2,953	149	5.3%
D18A18	Governor's Office for Children	1,685	2,614	3,022	3,139	117	3.9%
D25E03	Interagency Committee on School Construction	1,427	1,490	1,551	1,672	120	7.8%
D26A07	Department of Aging	50,472	51,988	51,737	52,145	408	0.8%
D27L00	Maryland Commission on Human Relations	3,396	3,468	3,619	3,793	175	4.8%
D28A03	Maryland Stadium Authority	33,700	35,584	34,136	34,485	349	1.0%
D38I01	State Board of Elections	23,358	25,488	29,062	29,747	685	2.4%

Budget Assignment		2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	09-10 $ Increase	09-10 % Increase
D39S00	Maryland State Board of Contract Appeals	571	577	604	647	44	7.2%
D40W01	Department of Planning	19,651	19,722	20,189	20,500	311	1.5%
D50H01	Military Department	76,266	79,666	80,429	82,134	1,705	2.1%
D53T00	Maryland Institute for Emergency Medical Services Systems	12,230	11,406	11,866	12,416	550	4.6%
D55P00	Department of Veterans Affairs	17,915	16,405	18,552	17,734	-818	-4.4%
D60A10	State Archives	11,108	9,983	9,985	10,266	281	2.8%
D79Z02	Maryland Health Insurance Plan	80,969	113,994	105,616	87,297	-18,318	-17.3%
D80Z01	Maryland Insurance Administration	69,264	62,072	31,694	28,414	-3,280	-10.3%
D90U00	Canal Place Preservation and Development Authority	577	465	479	541	62	12.9%
D99A11	Office of Administrative Hearings	379	48	48	51	2	4.9%
E00A	Comptroller of the Treasury	86,401	90,949	94,881	111,422	16,541	17.4%
E20B	State Treasurer	5,850	6,762	6,723	6,933	210	3.1%
E50C	Department of Assessments and Taxation	50,266	50,187	51,386	55,093	3,707	7.2%
E75D	State Lottery Agency	51,808	57,804	59,760	65,661	5,901	9.9%
E80E	Property Tax Assessment Appeals Boards	909	945	990	1,065	76	7.6%
F10A	Department of Budget and Management (DBM) – Secretary	17,918	19,596	20,710	21,795	1,085	5.2%
F10A02	DBM – Personnel	10,214	10,398	120,031	17,445	-102,586	-85.5%
F50	Department of Information Technology	50,765	34,294	65,990	76,276	10,285	15.6%
G20J01	State Retirement Agency	26,290	22,415	29,192	30,585	1,393	4.8%
G50L00	Maryland Supplemental Retirement Plans	1,322	1,409	1,492	1,568	76	5.1%
H00	Department of General Services	62,270	60,947	60,861	66,222	5,361	8.8%
K00A	Department of Natural Resources	163,846	180,707	185,636	220,644	35,008	18.9%
L00A	Department of Agriculture	56,014	65,105	62,640	67,183	4,543	7.3%
P00	Department of Labor, Licensing, and Regulation	165,887	167,328	168,999	214,716	45,717	27.1%
R00A01	Maryland State Department of Education (MSDE) – Headquarters	230,457	222,712	254,864	244,289	-10,575	-4.1%
R00A03	MSDE – Funding for Educational Organizations	30,567	28,291	28,341	28,137	-205	-0.7%
R00A04	Children's Cabinet Interagency Fund	47,675	60,185	47,432	48,182	750	1.6%
R00A99	MSDE – Early Childhood Development	35,116	41,442	38,796	39,926	1,130	2.9%
R15P00	Maryland Public Broadcasting Commission	29,314	29,468	30,334	26,317	-4,017	-13.2%

Budget Assignment		2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	09-10 $ Increase	09-10 % Increase
R55Q00	Aid to University of Maryland Medical System	9,637	9,701	3,361	3,361	0	0.0%
R62I0001	Maryland Higher Education Commission (MHEC)	80,176	89,406	94,986	103,042	8,056	8.5%
R62I0010	MHEC Scholarship Programs	109,280	104,260	109,541	113,126	3,585	3.3%
R99E	Maryland School for the Deaf	26,068	28,823	28,391	29,456	1,064	3.7%
S00A	Department of Housing and Community Development	208,900	225,874	243,409	244,994	1,585	0.7%
S50B	Maryland African American Museum Corporation	2,714	2,149	2,187	2,187	0	0.0%
T00	Department of Business and Economic Development	129,692	119,374	132,389	134,975	2,585	2.0%
T50T01	Maryland Technology Development Corporation	23,136	28,026	23,792	23,792	0	0.0%
U00A	Department of the Environment	97,283	109,531	119,871	132,917	13,046	10.9%
W10A00	Maryland State Police	244,969	255,734	260,484	281,765	21,281	8.2%
Y01A	State Reserve Fund	791,382	262,795	231,543	238,748	7,204	3.1%
Total Expenditures		**$3,905,598**	**$3,521,259**	**$3,787,710**	**$3,939,070**	**$151,361**	**4.0%**

	2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	09-10 $ Increase	09-10 % Increase
General Funds	$2,531,084	$2,005,759	$2,183,354	$2,270,092	$86,738	3.97%
Special Funds	742,492	841,305	914,944	955,323	40,379	4.41%
Federal Funds	632,023	674,195	689,412	713,655	24,243	3.52%
Total Funds	**$3,905,598**	**$3,521,259**	**$3,787,710**	**$3,939,070**	**$151,361**	**4.0%**

Debt Service

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

Expenditures and Funds for Debt Service
Fiscal 2007-2010
($ in Thousands)

	2007 Actual	2008 Working	2009 Leg. Approp.	2010 Baseline	2009-2010 $ Increase	2009-2010 % Increase
Expenditures						
MDOT Debt Service Requirements	$114,609	$128,319	$141,934	$163,000	$21,066	14.8%
Public Debt	654,055	692,695	745,505	782,203	36,698	4.9%
Total	**$768,664**	**$821,014**	**$887,439**	**$945,203**	**$57,764**	**6.5%**
Fund						
General Fund	$0	$29,349	$0	$0	$0	0.0%
Special Fund	768,664	791,665	887,439	945,203	57,764	6.5%
Total	**$768,664**	**$821,014**	**$887,439**	**$945,203**	**$57,764**	**6.5%**

MDOT: Maryland Department of Transportation

The fiscal 2010 baseline budget for GO bond debt service reflects recent increases in bond authorizations as debt service costs are expected to increase to $782 million. This adds almost $37 million (4.9 percent) to the special fund appropriation.

MDOT's debt service requirements are projected to increase $21.1 million (14.8 percent) in fiscal 2010. This is attributable to an additional $11.0 million in interest payments associated with a projected $385.0 million fiscal 2009 bond sale and $11.8 million in interest payments due to a projected $490.0 million bond sale in fiscal 2010.

PAYGO Capital Programs

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

PAYGO Capital Program Expenditures and Funds

Fiscal 2007-2010
($ in Thousands)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Expenditures						
Board of Public Works	$80,074	$9,410	$34,606	$10,000	-$24,606	-71.1%
Public School Construction	2,400	2,990	0	2,400	2,400	0%
Maryland Energy Administration	2,405	3,500	2,200	5,000	2,800	127.3%
Department of Planning	30,352	24,900	15,150	15,100	-50	-0.3%
Military Department	0	0	0	9,750	9,750	0%
Department of Veterans Affairs	8,453	7,122	1,810	626	-1,184	-65.4%
MDOT – Secretary's Office	35,931	39,176	24,481	29,857	5,376	22.0%
Washington Metropolitan Area Transit Authority	65,197	84,661	80,741	82,041	1,300	1.6%
MDOT – State Highway Administration	1,046,705	1,073,427	1,100,252	883,261	-216,991	-19.7%
MDOT – Maryland Port Administration	75,240	131,211	128,413	120,230	-8,183	-6.4%
MDOT – Motor Vehicle Administration	20,236	30,837	40,639	36,690	-3,949	-9.7%
Maryland Transit Administration	151,711	167,826	300,619	478,652	178,033	59.2%
MDOT – Maryland Aviation Administration	67,849	65,752	60,654	37,572	-23,082	-38.1%
Department of Natural Resources	324,557	243,365	93,308	86,183	-7,125	-7.6%
Department of Agriculture	92,968	76,292	52,035	38,886	-13,148	-25.3%
DLLR – Capital Acquisition Fund	0	348	744	0	-744	-100.0%
DPSCS – Office of the Secretary	1,392	0	0	0	0	0%
MSDE – County Library Capital Grant Program	0	2,025	0	0	0	0%
Department of Housing and Community Development	88,366	60,850	53,800	61,850	8,050	15.0%
Department of Business and Economic Development	5,839	4,000	0	0	0	0%
Department of the Environment	179,661	121,595	154,079	170,000	15,921	10.3%
Total	**$2,279,336**	**$2,149,287**	**$2,143,531**	**$2,068,100**	**-$75,432**	**-3.5%**

PAYGO Capital Program Expenditures and Funds (Continued)

	FY 07 Actual	FY 08 Working	FY 09 Leg. Approp.	FY 10 Baseline	FY 09-10 $ Increase	FY 09-10 % Increase
Fund						
General Fund	$159,565	$41,933	$30,895	$40,190	$9,295	30.1%
Special Fund	1,333,302	1,344,797	1,441,190	1,414,001	27,189	-1.9%
Federal Fund	786,323	762,557	669,408	613,870	55,538	-8.3%
Reimbursable Fund	145	0	2,038	38	2,000	-98.1%
Total	**$2,279,336**	**$2,149,287**	**$2,143,531**	**$2,068,100**	**-$75,432**	**-3.5%**

MDOT: Maryland Department of Transportation
DLLR: Department of Labor, Licensing, and Regulation
DPSCS: Department of Public Safety and Correctional Services
MSDE: Maryland State Department of Education

Board of Public Works

The baseline estimate for PAYGO funds appropriated through the Board of Public Works for capital projects and programs reflects the following three distinct adjustments:

- The restoration of $10 million in PAYGO funding for the infrastructure build-out of the Public Safety Communications System. Funding was not included in the fiscal 2009 budget because of a back-log in tower construction which left the project with a significant amount of prior year appropriations that had yet to be encumbered or awarded. The 2008 *Capital Improvement Program* (CIP) assumes that funding will resume in fiscal 2010. Since the towers may also have some commercial applications, the State has often used PAYGO rather than bond funding for this project.

- The fiscal 2010 baseline does not include funding for the procurement of the second installment of Medevac helicopters – the most current CIP reflects the planned phased funding of three new Medevac helicopters in each of fiscal 2009 through 2012 to replace the entire 12 helicopter fleet. According to the most recent helicopter procurement timeline provided by the Department of State Police, the department anticipates that the first 3 helicopters will be ordered in fiscal 2010 for delivery in fiscal 2011. Due to the extended timeframe for the procurement of the first installment of helicopters and the lack of a readily identifiable funding source for the procurement of the second installment, the baseline assumes that no additional helicopters will be purchased utilizing PAYGO funds in fiscal 2010. This adjustment deletes $33.6 million of special funds from the fiscal 2010 baseline.

- The baseline deletes $1.0 million of general funds for a one-time fiscal 2009 grant to CASA of Maryland, Inc. to support the organization's construction of a multi-cultural center in Prince George's County.

Board of Public Works – Public School Construction

The baseline estimate includes $2.4 million of special funds to support the Public School Construction Program. These funds are made available from the Maryland Stadium Authority (MSA) as required under Section 13-715.2 of the Financial Institutions article, which requires MSA to contribute $24.0 million in funds to the Public School Construction Program over 10 years from fiscal 2001 to 2010. The General Assembly relieved MSA of this obligation in the fiscal 2009 budget to allow for a reduction in the amount of Maryland Lottery proceeds transferred to MSA.

Maryland Energy Administration

The Maryland Energy Administration has two capital programs: the Jane E. Lawton Conservation Loan Program and the State Agency Loan Program. The Jane E. Lawton Conservation Loan Program was created by the consolidation of the Community Energy Loan Program and the Energy Efficiency and Economic Development Loan Program through Chapters 466 and 467 of 2008.

The fiscal 2010 baseline assumes that expenditures associated with the Jane E. Lawton Conservation Loan Program and the State Agency Loan Program will increase relative to both the fiscal 2009 legislative appropriation and the 2008 CIP. The Jane E. Lawton Conservation Loan Program assumption for fiscal 2010 is $2.75 million due to anticipated higher loan repayment revenue and the assumption of a $1.0 million allocation from the Maryland Strategic Energy Investment Fund (Chapters 127 and 128 of 2008). Similarly, the State Agency Loan Program assumption for fiscal 2010 is $2.25 million due to the assumption of higher loan repayments and an anticipated $1.0 million allocation from the Maryland Strategic Energy Investment Fund.

Maryland Department of Planning

The baseline estimate for the Maryland Department of Planning includes $14.7 million in general funds for the Maryland Heritage Structure Rehabilitation Tax Credit Program, which is level with the fiscal 2009 legislative appropriation. The baseline assumes that there will be no change in the $400,000 overall amount of funding for the Maryland Historical Trust Revolving Loan Fund. However, the 2008 CIP assumes $300,000 in general funds and $100,000 in special funds, while the baseline assumes that the loans to assist in the protection of historic property can be made from $400,000 in special funds due to the available fund balance.

Military Department

The baseline includes $9.75 million in federal funds for an addition and renovation project at the Salisbury Armory. Military Department capital improvements are typically made on a 75 percent federal and 25 percent State cost-share basis for eligible project costs. Federal funds are anticipated to be made available for this project through a grant from the National Guard Bureau.

Maryland Department of Veterans Affairs

The fiscal 2010 baseline budget for the Maryland Department of Veterans Affairs (DVA) includes $106,000 in general funds and $520,000 in federal funds for planning and constructing columbarium structures at two DVA cemeteries. General funds for DVA projects are used for project planning and design and subsequently reimbursed by the U.S. Department of Veterans Affairs (VA). Construction will be funded with federal funds from VA, which funds all cemetery construction and improvement projects. The fiscal 2010 baseline also deletes $1.8 million of fiscal 2009 federal funds provided to complete construction and renovation at the Garrison Forest Veterans Cemetery.

Maryland Department of Transportation

The PAYGO capital budget for the Maryland Department of Transportation is expected to total approximately $1.7 billion, a decrease of $64.9 million compared to the fiscal 2009 legislative appropriation. Special funds decrease $29.0 million and federal funds decrease $35.9 million compared to the fiscal 2009 legislative appropriation.

The largest decline in the capital budget is in the State Highway Administration which declines $214.7 million compared to the fiscal 2009 legislative appropriation. As with every fiscal year, part of this decline can be attributed to cash flow changes due to changes in scope or delays. Other reasons for the decline include:

- $100.8 million has been removed from the fiscal 2010 program due to the downturn in the economy;

- special funds for the Woodrow Wilson Bridge project are slowly declining as the project nears completion;

- a number of large construction projects have been completed or are nearing completion, and there is not a corresponding increase in new construction projects in the fiscal 2010 baseline budget; and

- due to the uncertainty of future federal funding, the assumed level of federal funds have been reduced.

The Maryland Transit Administration has the largest increase at $164 million. Most of the increase is to support system preservation projects such as ongoing improvements to the MARC lines, light rail vehicle mid-life overhaul, Metrorail car overhaul, and ongoing bus procurement.

The remaining modes have smaller increases or decreases largely in the system preservation program due to cash flow changes in projects or to project changes as a result of the economic downturn.

Maryland Department of Natural Resources

The baseline for the Department of Natural Resources (DNR) includes a downward adjustment in the amount of revenue available to support the Waterway Improvement Program for fiscal 2010. Based on current revenue attainment estimates, the baseline includes $14.0 million for the Waterway Improvement Program which is $7.3 million less than what was budgeted for fiscal 2009. This significant revenue reduction can be attributed to the increase in gas prices, which has reduced boat sales and subsequently the vessel excise tax revenue attainment funding the Waterway Improvement Program. In addition, the substantial increase in revenues in the fiscal 2004 to 2007 time period led to revenue estimates that no longer can be supported and as a result the proposed project list for fiscal 2010 has been reduced. The baseline estimate is not consistent with the CIP, which estimated $20.4 million in special funds and $0.5 million in federal funds for a total of $20.9 million. The $0.5 million difference between the federal fund amounts in the 2008 CIP and the baseline estimate can be attributed to prior year unobligated Sportfish Restoration Program funding provided by the U.S. Fish and Wildlife Service. The Waterway Improvement Program provides grants and loans to local, State, and federal government agencies for projects that improve and promote recreational and commercial capabilities, conditions, and safety of Maryland's waterways for the benefit of the general boating public.

DNR's Program Open Space (POS) funding is expected to decrease relative to the fiscal 2009 legislative appropriation to a total of $50.1 million. This decrease primarily reflects the projected decrease in transfer tax revenue between fiscal 2009 (originally estimated to be $166.3 million) and fiscal 2010 (currently projected to be $127.5 million) and the fiscal 2008 $35.3 million underattainment which statutorily must be reflected in the amount of funds budgeted for fiscal 2010. In addition, while POS is expected to receive the estimated $2.0 million in federal funds in the 2008 CIP, POS will not receive the one-time fiscal 2009 funding of $2.0 million in reimbursable funds from the Transportation Enhancement Program that funded an easement acquisition. POS funds are split between the State and local governments. The State uses these funds for land acquisition, capital improvements, maintenance, and operations, while local recreation and parks departments use their share for planning, land acquisition, and recreation facilities.

The baseline assumes $12.4 million in special fund expenditures associated with the Rural Legacy Program, which provides funds for the acquisition of conservation easements. This is down $1.0 million from the fiscal 2009 appropriation level and reflects lower transfer tax revenue attainment which is used in-part to fund the program. Another $5.0 million in GO bonds is programmed in the 2008 CIP for the Rural Legacy Program.

The baseline assumes that there will be no PAYGO funding for the Shoreline Erosion Control Program which results in a $500,000 special fund reduction. DNR has shifted its focus from structural shoreline improvements to non-structural living shoreline projects, which are not eligible for capital funding. Therefore, funding for shoreline erosion control projects now is reflected in DNR's operating budget.

No Ocean City Beach Maintenance Program funding is assumed in the baseline for fiscal 2010 because the $15.0 million cap on the Ocean City Beach Maintenance Fund is expected to be reached at the end of fiscal 2009. As a result, Worcester County and Ocean City are not required to make their $1.0 million contribution in fiscal 2010, and the $1.0 million available as part of POS's State land acquisition funds may be used for State land acquisition purposes instead. Interest accrued on the Ocean City Beach Maintenance Fund balance, which reflects approximately one-third of the $1.0 million annual contribution by Worcester County and Ocean City, will be credited toward the fiscal 2011 contribution. The last beach sand nourishment project occurred in 2006; the next anticipated project will be in 2010 necessitating contributions in fiscal 2011.

The Chesapeake and Atlantic Coastal Bays 2010 Trust Fund and Nonpoint Source Fund were created by Chapters 120 and 121 of 2008. The revenue for these two funds comes from allocations of the State motor fuel tax and short-term vehicle rental tax. In fiscal 2010, it is anticipated that approximately $44.2 million will be allocated for nonpoint source pollution control projects to restore the Chesapeake Bay. Fiscal 2010 allocations are anticipated for the Maryland Department of Planning, the Maryland Department of Agriculture (MDA), the Maryland Department of the Environment (MDE), and DNR; however, temporarily the baseline assumes that half of the funding ($22.1 million) is allocated to DNR's PAYGO budget and the other half is allocated to the department's operating budget ($22.1 million).

Maryland Department of Agriculture

The Department of Agriculture's Maryland Agricultural Land Preservation Program (MALPP) funding is expected to decrease by $17.6 million in the fiscal 2010 baseline. This results from an estimated $3.5 million decrease in the amount of special fund transfer tax allocation available for fiscal 2010 and a $4.0 million diversion of the transfer tax allocation to the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) for a new installment purchase agreement PAYGO program established by Chapter 610 of 2008. In addition, the baseline anticipates a $2.5 million decrease in the agricultural land transfer tax and an $8.0 million decrease in the amount of federal funding. The federal funding in recent years has come with a set of conditions that have made it difficult for MALPP to spend. This program purchases conservation easements on agricultural lands and woodlands.

The new MARBIDCO installment purchase agreement PAYGO program will be funded by a $4.0 million diversion of the MALPP transfer tax allocation. This diversion is stipulated in Chapter 610 of 2008 if agricultural land transfer tax funding is not available to provide the requisite $4.0 million level of funding. The new installment purchase agreement PAYGO program will implement self-funded installment purchase agreements (interest payments over a set time period with a final balloon payment) for agricultural easements. If a leveraged installment purchase agreement is agreed upon, then the $4.0 million funding may be used for this purpose as well. Another new MARBIDCO PAYGO program, Next Generation Farmland Acquisition Program, is not anticipated to be funded in fiscal 2010, despite the provisions of Chapter 610 of 2008, due to insufficient agricultural transfer tax revenue and an agreement made between MARBIDCO and MALPP. The agreement was to fund MALPP operations with the reduced agricultural transfer tax revenue.

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program is permanently decreased by $0.55 million due to the Board of Public Works reductions on July 11, 2007. However, the fiscal 2010 baseline anticipates that the Tobacco Transition Program will shift to the PAYGO program for the tobacco buyout some of the Cigarette Restitution Fund revenue that normally is allocated to the operating budget for infrastructure/agricultural development program grants. Therefore, the estimate for the program is $6.815 million in special funds in fiscal 2010, which is $0.47 million more than the level of funding planned in the 2008 CIP. Another $5.0 million in GO bonds is programmed in the 2008 CIP for the Tobacco Transition Program, which reflects a $2.0 million increase from the fiscal 2009 legislative appropriation. The Tobacco Transition Program provides funds for the voluntary tobacco buyout program and agricultural land preservation efforts.

In addition, MDA is expected to receive an allocation in fiscal 2010 from the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund created by Chapters 120 and 121. This allocation would provide additional funding in the Maryland Agricultural Cost-Share Program for implementation of forest buffers, grass buffers, wetland restoration, and animal waste management systems. However, the funding level for fiscal 2010 is uncertain and so the funding is reflected in DNR's PAYGO baseline budget.

Maryland Department of Labor, Licensing, and Regulation

The fiscal 2009 budget included $744,000 in special funds for the final equipping of the Eastern Shore Regional Unemployment Insurance Call Center located in Salisbury. The baseline reflects the removal of these funds. No further PAYGO funds are anticipated for the department's capital needs in fiscal 2010.

Maryland Department of Housing and Community Development

The Department of Housing and Community Development (DHCD) works to encourage homeownership, expand affordable rental housing, and revitalize communities. The baseline budget includes changes in various PAYGO capital grant and loan programs based on the department's estimates of revenues, encumbrances, and fund balances as well as the 2008 CIP. Overall, the fiscal 2010 baseline assumes DHCD's PAYGO programs will increase $8.1 million compared to fiscal 2009 appropriation levels. However, because the fiscal 2009 legislative appropriation does not include an additional $5.1 million of special fund budget amendment authority to reflect the approved transfer of $5.1 million from the Maryland Housing Fund (MHF) Unallocated Reserve Fund to the department's PAYGO programs, the overall increase reflected in the baseline is just $3.0 million relative to an, as yet to be adjusted, fiscal 2009 appropriation. Overall, four of six programs remain level-funded from fiscal 2009 to 2010, while the Neighborhood Business Development Program and the Community Development Block Grant Program are expected to receive additional funding support.

Under the department's homeownership programs, the fiscal 2009 appropriation replaced $900,000 of general funds with $900,000 of special funds from the MHF. The fiscal 2010 baseline assumes $1.7 million in general funds is needed to restore the overall funding level to the CIP level. While the baseline continues to assume that the MHF funds will be made available to support the department's homeownership programs, the general funds are included in the baseline to backfill and account for a decline in the anticipated level of loan repayment special fund revenues.

The department's Rental Housing Program's fiscal 2009 appropriation replaced $2.9 million of general funds with $2.9 million of special funds from the MHF. The fiscal 2010 baseline assumes that only $100,000 in general funds will be needed because special funds in the form of loan repayments are sufficient to maintain the program at its current funding level.

Under the Special Loans Program, the fiscal 2009 appropriation replaced $1.3 million of general funds with $1.3 million of special funds from the MHF. The fiscal 2010 baseline assumes that only $750,000 in general funds will be required because special fund revenues from loan repayments from the loan portfolio are sufficient to fund the remainder of the program at its current fiscal 2009 funding level. DHCD also anticipates $900,000 in increased annual federal funding for this program.

Overall, the actions discussed earlier result in a $2.6 million increase in general funds, a $1.6 million increase in special funds, and a $900,000 increase in federal funds, thereby restoring the $5.1 million general fund reduction taken during the 2008 session. The funding mix maximizes the availability of special funds while ensuring all programs remain level-funded from fiscal 2009 to 2010.

During the 2008 session, the General Assembly made a $1.0 million special fund reduction in the Neighborhood Business Development Program. This is restored in the fiscal 2010 baseline to bring the program back to its CIP anticipated funding level for fiscal 2010. However, only $800,000 of the restoration comes in the form of general funds, because the fund balance and loan repayments are sufficient to cover the remaining $200,000. DHCD also anticipates increased federal funding for the Community Development Block Grant Program. Funding from the federal government is expected to increase $2.0 million in fiscal 2010, and then be maintained at the new level in future years. Finally, funding sources for the Community Legacy Program remain unchanged.

Maryland Department of the Environment

The MDE baseline assumes that Water Quality Revolving Loan Fund Program expenditures will be greater than what is planned in the 2008 CIP. A projected $57.3 million increase in special funds in fiscal 2010 primarily is due to a $45.0 million difference between the fiscal 2008 estimated loan amount of $110.0 million and the actual of $65.0 million, which allows for more loans in fiscal 2009 and 2010. The $57.3 million increase in special funds is partially offset by a $9.4 million decrease in federal funds and the cancellation of a planned $30.0 million revenue bond issuance. General funds are adjusted downward by $1.9 million to reflect the 20 percent required match of federal funds. MDE cancelled the planned fiscal 2010 bond issuance due to sufficient special funds available to handle projects ready to proceed. The Water Quality Revolving Loan Fund Program provides low interest loans to local governments and eligible private entities for water quality improvement projects such as upgrading wastewater treatment plants and capping closed landfills.

The Drinking Water Revolving Loan Fund baseline estimate of $13.0 million is slightly less than the 2008 CIP amount of $14.15 million, primarily due to a projected decrease of $1.5 million in federal funds and $0.1 million in general funds match offset by $0.4 million in additional special funds. This program provides low interest loans to local governments and eligible private entities for drinking water projects such as the construction of water distribution mains, water storage facilities, and water treatment plant upgrades.

The baseline for Hazardous Substance Clean-up Fund assumes that the program will not require a fiscal 2010 appropriation which results in a $1.0 million general fund reduction relative to the 2008 CIP and fiscal 2009 funding levels. MDE has a substantial amount of prior year Hazardous Substance Clean-up Program funding that is still to be encumbered.

A number of changes in the baseline estimates for the three capital grant programs associated with the Bay Restoration Fund (Chapter 428 of 2004) have been made. The Septic System Upgrade Program is projected to receive $1.0 million in special funds in fiscal 2010, which is $5.0 million less than the amount projected for the program in the 2008 CIP. A substantial amount of prior year funding remains unencumbered. The baseline also reflects the end of funding for the Sewer Rehabilitation Program. This change was planned for in the 2008 CIP and reflects the initiation of funding for operations and maintenance for wastewater treatment plants upgraded with Bay Restoration Fund support. The Enhanced Nutrient Removal Program baseline estimate of $130.0 million is comprised of $50.0 million in special funds and $80.0 million in revenue bonds. The total estimate of $130.0 million is less than the 2008 CIP estimate of $193.0 million, mostly due to a $90.0 million decrease in anticipated revenue bonds issued offset partially by a $27.0 million increase in special funds.

In addition, MDE is expected to receive an allocation in fiscal 2010 from the Chesapeake and Atlantic Coastal Bays Nonpoint Source Fund created by Chapters 120 and 121. This allocation would provide additional funding in the Small Creek and Estuary and Stormwater Management Programs for urban/suburban stormwater projects. However, the funding level for fiscal 2010 is uncertain; therefore, the funding is reflected in DNR's PAYGO baseline budget.

Part 2
General Fund Revenue Projections
Fiscal 2009-2014

Introduction

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

United States and Maryland Economic Projections

The State contracts with two private economic consulting firms to provide economic projections for the U.S.: Global Insight, Inc. and Moody's Economy.com. While these firms update their U.S. forecasts monthly, for the purposes of the DLS revenue projections, DLS used their forecasts from October 2008. The U.S. forecasts are important because DLS assumes that the Maryland economy will generally follow the broad trends in the U.S. economy.

In 2007, the U.S. economy weakened significantly, and many economists believe a recession began at the end of 2007. Inflation adjusted gross domestic product (GDP), the broadest measure of the economy, advanced 2.0 percent in 2007 down from growth of 2.8 percent in 2006. Personal income growth decelerated from 7.1 percent in 2006 to 6.1 percent in 2007. Income from wages and salaries also slowed, rising 5.6 percent in 2007 down from 6.3 percent in 2006. Employment growth decelerated, rising 1.1 percent in 2007 compared to 1.8 percent in 2006.

Growth in the U.S. economy has slowed sharply in 2008. At the same time, rising prices for many products, especially food and energy, has pushed inflation to its highest levels in 18 years. For the first nine months of the year, employment growth was just 0.2 percent compared to the same period in 2007. The last four months (June to September) have each declined on a year-over-year basis. These are the first declines in employment since late 2003. Since the end of 2007, the U.S. economy has lost about 760,000 jobs. The unemployment rate has risen from 5.0 percent in December 2007 to 6.1 percent in September 2008.

The deteriorating labor market has caused income growth to slow dramatically. Income from wages and salaries has grown just 3.9 percent in the first eight months of 2008. Total personal income growth has slowed from over 6.0 percent in 2007 to about 4.7 percent in the first eight months of 2008. At the same time, rising prices have undercut the purchasing power of that income. Oil prices soared in the first half of 2008, rising from around $96 per barrel at the end of 2007 to a high of almost $146 per barrel in July. Gasoline prices rose commensurately, breaking the $4 per gallon mark in June. Inflation is expected to increase over 4.0 percent for 2008, the highest since 1990. Since July, energy prices have fallen dramatically responding, in part, to a widening and deepening global recession. From the peak in July, oil prices have fallen to around $70 per barrel by mid-October. Gasoline prices have also dropped from over $4 per gallon in July to just under $3 per gallon by mid-October.

The epicenter of the economy's problems is the housing market which has been in recession since 2006. Existing home sales in September were almost 2.1 million below the peak three years earlier. The inventory of homes for sale has increased by over 50 percent since 2005, and both new homes sales and housing starts have plunged. Nationwide, the median home price had increased almost 65 percent from the beginning of the decade to the peak in October 2005. Since then, the median home price has fallen 17 percent. The fall in home values has wiped out trillions of dollars of homeowner equity.

The collapse of the housing market has precipitated a major global financial crisis that began in the summer of 2007. The rising delinquencies and foreclosures among sub-prime mortgage borrowers began to undercut the value of billions of dollars of mortgage-backed securities, roiling stock, and credit markets. Banks were forced to recognize huge losses and raise capital. In response, the Federal Reserve cut interest rates and injected liquidity into the system via new lending facilities. While this seemed to stabilize financial markets for a time, new problems kept emerging such as the collapse of investment bank Bear Stearns in March 2008. Bankruptcy was avoided only by having JP Morgan Chase purchase Bear Stearns at a bargain price with the Federal Reserve assuming $28 billion in assets, mostly mortgage-backed securities.

The global financial crisis reached a new and dangerous level in September 2008. The continuing deterioration of the housing market, particularly falling home values and rising foreclosures, pushed the government sponsored Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) to the brink. In early September, the federal government placed both companies into conservatorship, a form of bankruptcy, ending their existence as private companies. The remaining large investment banks failed (Lehman Brothers), were sold (Merrill Lynch), or moved to convert themselves to commercial banks (Goldman Sachs and Morgan Stanley). The Federal Reserve was forced to step in to prevent the bankruptcy of one of the world's largest insurance companies, American International Group. The country's largest savings and loan, Washington Mutual, failed and was seized by federal regulators who then quickly sold most of it to JP Morgan Chase. Stock markets alternately soared and plunged but mostly fell, and by mid-October, the S&P 500 Index was down almost 42 percent from its peak in October 2007. With credit markets seizing up worldwide, central banks moved to lower interest rates, provide guarantees for money market mutual funds, act as a buyer of last resort for the commercial paper market, and inject capital directly into major banks.

By mid-October there were tentative signs of improving credit markets with interbank lending rates coming down from their peaks and the commercial paper market stabilizing. Nevertheless, the damage to the broader economy has been done, and the only question is how long and how deep the recession will be. In their early October forecasts, both Global Insight and Economy.com expect the U.S. economy to contract for three quarters, from the third quarter of 2008 through the first quarter of 2009. Global Insight expects a deeper contraction with a peak to trough decline in real GDP of 0.6 percent versus a decline of 0.1 percent in Economy.com's forecast. Global Insight expects the unemployment rate to peak at 7.5 percent in early 2010 while Economy.com forecasts a peak rate of 7.3 percent at the end of 2009. Economic growth as measured by GDP is expected to rebound strongly in 2010 while employment and income growth improves more slowly.

U.S. Economic Outlook

Year-over-year Percent Change*

	Actual 2007	Estimate 2008	Estimate 2009	Estimate 2010	Estimate 2011	Estimate 2012	Estimate 2013
Real Gross Domestic Product							
Economy.com	2.0%	1.6%	1.0%	3.7%	4.0%	2.7%	2.5%
Global Insight	2.0%	1.5%	0.2%	2.4%	3.1%	3.3%	2.8%
U.S. Payroll Employment							
Economy.com	1.1%	0.0%	-0.7%	1.3%	2.3%	1.5%	0.9%
Global Insight	1.1%	-0.1%	-1.0%	0.8%	1.7%	1.8%	1.5%
U.S. Personal Income							
Economy.com	6.1%	4.1%	3.2%	4.6%	5.0%	4.6%	4.5%
Global Insight	6.1%	4.4%	2.7%	3.7%	5.1%	5.7%	5.7%
Consumer Price Index							
Economy.com	2.9%	4.4%	2.4%	1.4%	1.4%	1.8%	2.0%
Global Insight	2.9%	4.3%	1.3%	2.1%	2.4%	2.5%	2.6%
30-year Fixed Mortgage Rate							
Economy.com	6.3%	6.0%	6.6%	7.5%	7.2%	6.9%	6.9%
Global Insight	6.3%	6.0%	5.7%	6.4%	7.1%	7.1%	7.1%

* Except mortgage rate. The projections for Economy.com and Global Insight are from their respective October 2008 forecasts.

Source: Moody's Economy.com and Global Insight, Inc.

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 percent in 2007 due to a large 12.2 percent increase in income from dividends, interest, and rent. Wage income growth slowed between 2006 and 2007 (5.4 percent down to 5.0 percent).

Economic conditions in 2008 have deteriorated further. Employment grew just 0.4 percent in the first quarter. Initial claims for unemployment insurance are up almost 25.0 percent in the first nine months of 2008. The unemployment rate rose from 3.6 percent in December 2007 to 4.6 percent in September 2008. Personal income growth has slowed substantially to just 4.0 percent in the first six months of the year. Growth in wage and salary income was just 3.6 percent. Vehicle sales have fallen almost 10.0 percent in the first nine months of the year, and taxable retail sales are down 1.6 percent in the January to August period. Home sales are down around 29.0 percent for January to September compared to the same period in 2007. The median home price has fallen 8.0 percent in the first nine months of 2008.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland that was considerably weaker in 2008 to 2010 than the previous forecast which dates from March. Given the global financial crisis that erupted in September and October, along with the U.S. forecasts for a deeper longer recession, DLS developed a new Maryland forecast. Employment and personal income growth are expected to be slightly slower than the BRE's September forecast. But growth in 2009 and 2010 is considerably weaker. Employment is expected to fall 0.4 percent in 2009, the first annual decline since 1992. Personal income growth is forecasted at just 3.0 percent in 2009.

Maryland Economic Outlook
Forecasted Year-over-year Percentage Change

Calendar	Employment			Personal Income		
Year	Mar. 2008	Sep. 2008	Oct. 2008	Mar. 2008	Sep. 2008	Oct. 2008
2005	1.5%	1.5%	1.5%	5.7%	5.5%	5.8%
2006	1.2%	1.3%	1.3%	5.7%	5.7%	5.8%
2007	0.8%	0.8%	0.7%	5.7%	5.4%	6.3%
2008E	1.1%	0.6%	0.4%	4.7%	4.4%	4.3%
2009E	1.8%	0.3%	-0.4%	5.0%	3.4%	3.0%
2010E	1.9%	1.2%	1.0%	5.5%	4.9%	4.4%
2011E	1.8%	1.8%	1.8%	6.0%	5.5%	5.6%

Source: March 2008 and September 2008 from the Board of Revenue Estimates. October 2008 is from the Department of Legislative Services. The figure for 2007 for personal income under the March 2008 column is an estimate.

General Fund Revenue Projections

The process of doing long-term revenue projections begins with the close-out of the recently completed fiscal year, fiscal 2008 in this case. Based on the revenue performance in fiscal 2008, relative to the estimate, as well as revised economic assumptions, the revenue estimate for the current fiscal year (fiscal 2009) is revised. Future fiscal years (2010 to 2014) are then built off the newly revised estimate for the current fiscal year.

Fiscal 2008 Close-out

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 percent 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 percent.

The personal income tax was under the estimate by $46.3 million. Weakness was concentrated in withholding and quarterly estimated payments both of which were below the estimate. The corporate income tax was below the estimate by $7.1 million.

The sales tax was the biggest source of weakness, falling short of the estimate by $76.5 million and growing 7.5 percent over 2007. The sales tax rate was increased from 5.0 to 6.0 percent effective January 3, 2008, and the vendor credit was capped at $500 per month. In addition, $50.0 million of sales tax receipts was transferred to a special fund to pay for the replacement of State Police helicopters. Adjusted for those law changes, fiscal 2008 general fund sales tax receipts fell by about 0.3 percent, the first decline since fiscal 1991. In addition to the general economic weakness, the sales tax was likely impacted by high gasoline and food prices that pulled spending away from taxable goods and services. Weakness was broad-based, with only the revenues from utilities increasing on a baseline basis.

The lottery met the estimate in fiscal 2008 because of legislation from the 2008 session (Chapter 589) which directed that any overattainment be distributed to a special fund. Lottery sales in fiscal 2008 were up 6.1 percent but were below the estimate by $35.7 million. Sales growth was highly dependent on the Mega Millions game (up 32 percent) and the Instant game (up 21.0 percent). Prize expenses rose just 3.6 percent. As a result, net revenues were up 7.1 percent and were $10.8 million above the estimate. The $10.8 million was transferred to a special fund per Chapter 589.

The tax rate on tobacco products was increased from $1 to $2 per pack in January. Revenues increased 35 percent but were below the estimate by $17.1 million. Stamp sales had been expected to fall 17 percent in response to the tax increase but actual stamp sales were down 24 percent.

Fiscal 2009 has gotten off to a slow start. Total general fund revenues through September are up 7.4 percent over the same period in 2008. However, the various law changes passed at the 2007 special session and the 2008 session are in effect now but were not in effect this time last year. Growth in the first few months of fiscal 2009 is around 1.3 percent adjusting for those changes. The personal income tax is up 3.3 percent but only about 1.3 percent after adjusting for law changes. General fund sales tax revenues are up 13.8 percent year-to-date but only 0.7 percent on a baseline basis.

Fiscal 2008 General Fund Revenues
($ in Millions)

Source	Actual FY 2007	---------- Fiscal 2008 ---------- Estimate*	Actual	Difference	Percent Change FY 2007-2008
Personal Income	$6,679.2	$6,986.4	$6,940.1	-$46.3	3.9%
Sales and Use Tax	3,420.1	3,751.7	3,675.3	-76.5	7.5%
State Lottery	473.1	497.1	497.1	0.0	5.1%
Corporate Income Tax	589.8	558.8	551.7	-7.1	-6.5%
Business Franchise Taxes	206.6	209.1	208.0	-1.1	0.7%
Insurance Premiums Tax	283.3	289.6	301.8	12.2	6.5%
Estate and Inheritance Taxes	224.3	220.5	243.5	23.1	8.6%
Tobacco Tax	278.2	393.3	376.1	-17.1	35.2%
Alcohol Beverages Tax	28.7	29.6	29.0	-0.6	1.0%
Motor Vehicle Fuel Tax	13.2	13.3	13.2	-0.1	0.0%
District Courts	97.0	99.0	91.3	-7.7	-5.9%
Clerks of the Court	52.3	46.9	42.6	-4.3	-18.6%
Hospital Patient Recoveries	84.9	85.1	86.6	1.4	1.9%
Interest on Investments	178.9	122.6	166.5	43.9	-6.9%
Miscellaneous	330.5	313.8	322.9	9.1	-2.3%
Grand Total	**$12,940.2**	**$13,616.8**	**$13,545.6**	**-$71.2**	**4.7%**
Estimated Baseline Growth					**1.5%**

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

Fiscal 2009 Revised Estimate

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. Legislation passed at the 2007 special session requires the BRE to formally issue a new general fund revenue forecast in September. The BRE's September estimate for fiscal 2009 was almost $432 million less than their previous estimate. Growth over fiscal 2008 was revised down from 6.6 to 4.0 percent. The BRE forecasted growth of 1.4 percent in fiscal 2009 after adjusting for law changes.

The biggest revision was to the sales tax which the BRE lowered by $265.3 million. On a baseline basis, sales tax revenues were estimated to fall 1.3 percent in fiscal 2009 reflecting the extraordinary weakness in the sales tax where five of the last nine months have been down on a year-over-year basis. The income tax estimate was revised down by $135.0 million representing total growth of 5.3 percent and baseline growth of 4.2 percent over fiscal 2008.

In preparing a general fund revenue forecast for the Spending Affordability Committee, DLS relied on the revised economic outlook discussed earlier to modify the BRE's September forecast for the most economically sensitive revenue sources: the income tax, the sales tax, the corporate income tax, and also interest earnings. DLS utilized the September estimates for all other general fund revenue sources. In total, the DLS estimate for fiscal 2009 is $159 million below the BRE's September forecast and reflects total growth of 2.8 percent with a baseline decline of 0.4 percent relative to fiscal 2008.

The DLS estimate for general fund personal income tax revenues is about $60 million below the September estimate reflecting the expectation of weaker employment and personal income growth in calendar 2008 and 2009. In addition, DLS assumed a 14.0 percent drop in capital gains income in tax year 2008 compared to a 4.0 percent decline projected by the BRE. Baseline net receipts are estimated to grow 2.1 percent in fiscal 2009, down from the September estimate of 3.8 percent growth. This downward revision to the income tax would have been larger by about $50 million but for the fact that the DLS estimate assumes much more of the impact of the law changes in tax year 2008 will fall in fiscal 2009. While the total impact of the law changes in tax year 2008 is lower in the DLS estimate (because the forecast of income is lower), DLS assumed almost all the impact would be in fiscal 2009. By contrast, the BRE assumed about two-thirds would fall in fiscal 2009 with the other one-third in fiscal 2008.

DLS revised the general fund sales tax estimate down from September by a relatively small amount, $10.6 million. The BRE forecast already reflected very weak growth in the sales tax for fiscal 2009. On a baseline basis, DLS estimates that sales tax revenues will fall 1.5 percent from fiscal 2008.

The BRE did not revise the corporate income tax estimate in September nor had it been revised in March which was the last time they issued a revenue forecast. Thus, the BRE's corporate income tax estimate dates back to December 2007, and clearly the outlook for corporate profits has weakened substantially since then. Nationally, corporate profits have fallen on a year-over-year basis in each of the last six quarters. Consequently, DLS lowered the general fund corporate income tax estimate for fiscal 2009 by $60.7 million.

The estimate for interest earnings was reduced by $28.3 million in the DLS forecast reflecting both the lower revenues and the drop in interest rates since early September. One consequence of the financial crisis has been a tremendous flight to safety which has pushed the interest rate on three-month Treasury bills below 1 percent.

Fiscal 2010-2014 Revenue Projections

In September, the BRE issued a general fund revenue estimate for fiscal 2010 that projects a 4.3 percent increase over fiscal 2009. The DLS estimate for fiscal 2010 is $288.3 million below the September estimate with growth of 3.5 percent. The personal income tax estimate is lower by $165.5 million reflecting the weaker economic outlook for calendar 2009 and 2010. The sales tax estimate is down $95.0 million from the BRE estimate. Growth is projected to be just 1.6 percent, substantially slower than the 3.8 percent growth in the September estimate. This again reflects the weaker economic outlook with the timing of the recovery expected to be later than previously thought. Also, the DLS estimate of the sales tax is more influenced by the housing market which is expected to remain weak with the median home price falling through fiscal 2010.

Revenue growth is expected to improve substantially in fiscal 2011, rising 6.0 percent over fiscal 2010. The economy should be improving throughout fiscal 2011 with a likely bounce back in capital gains income. The State should also begin to see the impact from the U.S. Department of Defense's Base Realignment and Closure process, which is expected to bring a net 15,800 direct and indirect jobs to Maryland. Rising interest rates should also boost earnings on investments by a considerable amount. Growth slows to 5.3 percent in fiscal 2012 as certain law changes expire such as the millionaire bracket for the personal income tax which applies to tax years 2008 to 2010. After growing a projected 5.4 percent in fiscal 2013, general fund revenues are expected to increase 4.8 percent in fiscal 2014 reflecting in part the increase in the Transportation Trust Fund's share of the sales tax from 5.3 to 6.5 percent.

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Department of Legislative Services
General Fund Revenue Projections
Fiscal 2008-2014
($ in Millions)

Revenue Source	Actual FY 2008	Estimate FY 2009	Estimate FY 2010	Estimate FY 2011	Estimate FY 2012	Estimate FY 2013	Estimate FY 2014
Personal Income Tax	$6,940.1	$7,249.9	$7,532.2	$8,031.0	$8,489.2	$9,056.1	$9,638.3
Sales and Use Tax	3,675.3	3,776.8	3,837.6	4,097.2	4,340.9	4,576.9	4,745.0
State Lottery	497.1	495.2	507.8	521.9	536.8	552.4	568.8
Corporate Income Tax	551.7	612.0	737.0	748.8	746.1	745.6	747.5
Business Franchise Taxes	208.0	200.9	209.4	206.8	207.5	211.2	212.0
Tax on Insurance Premiums	301.8	309.4	317.1	325.7	338.1	349.3	360.4
Estate and Inheritance Taxes	243.5	210.4	214.1	222.9	235.1	247.2	260.6
Tobacco Tax	376.1	433.0	427.9	422.7	417.7	412.7	408.0
Alcohol Beverages Tax	29.0	28.7	29.3	29.8	30.3	30.9	31.5
Motor Vehicle Fuel Tax	13.2	6.5	0.0	0.0	0.0	0.0	0.0
District Courts	91.3	93.5	95.8	97.3	98.9	100.5	102.1
Clerks of the Court	42.6	40.8	40.4	43.1	45.6	46.4	47.0
Hospital Patient Recoveries	86.6	75.3	62.0	62.2	63.2	64.2	65.3
Interest on Investments	166.5	93.7	97.0	154.5	218.0	237.7	251.2
Miscellaneous	322.9	303.5	306.0	310.5	314.6	319.0	323.6
Total Revenues	**$13,545.6**	**$13,929.7**	**$14,413.5**	**$15,274.3**	**$16,081.9**	**$16,949.9**	**$17,761.2**
Percent Change		*2.8%*	*3.5%*	*6.0%*	*5.3%*	*5.4%*	*4.8%*