Spending Affordability Committee

2011 Interim Report

Annapolis, Maryland
December 2011

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December 15, 2011

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

Dear Governor O'Malley:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2011 interim. These recommendations were adopted by the committee at its meeting on December 15, 2011. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

Recommendations were made concerning the fiscal 2013 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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

Sincerely,

Senator James E. DeGrange, Sr.
Presiding Chair

Delegate John L Bohanan, Jr.
House Chair

Enclosure

JED:JLB/ESS/kjl

December 15, 2011

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

Ladies and Gentlemen:

We are pleased to submit the fiscal policy recommendations of the Spending Affordability Committee made during the 2011 interim. These recommendations were adopted by the committee at its meeting on December 15, 2011. The committee reviewed data concerning the economic condition of the State, revenue and expenditure trends during the past several years, personnel data, the Transportation Trust Fund, and the results of the Capital Debt Affordability Committee report.

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Maryland General Assembly
Spending Affordability Committee
2011 Interim
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Delegate John L. Bohanan, Jr., House Chair

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Contents

2011 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee

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

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

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic, has fluctuated between 6.9 and 7.7%. The unprecedented increases under the Bridge to Excellence in Public Schools Act raised spending as a percentage of income during the period of 2004 to 2008. Personal income dropped significantly in calendar 2009, causing a spike in the ratio to 7.6%, the highest level since 1990. Conversely, rising income and reduced State spending caused the ratio to drop to 7.3% in 2010; the rate has been creeping upward in the two years since.

The committee notes that the State's budgetary outlook continues to reflect the national recession that began in December 2007. Although the recession officially ended in June 2009, job growth and revenue growth remain stagnant at best and are projected to recover slowly. Uncertainty about potential actions at the federal level, which would affect both the State budget and workforce, also works to dampen the outlook.

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

Spending Affordability Committee's Prior Recommendations and Legislative Action on the Operating Budget

($ in Millions)

	Committee Recommendation		Legislative Action	
Session Year	**Growth Rate**	**Amount**	**Growth Rate**	**Amount**
1983	9.00%	$428.0	5.70%	$269.8
1984	6.15%	326.7	8.38%	402.0
1985	8.00%	407.2	7.93%	404.6
1986	7.70%	421.5	7.31%	402.2
1987	7.28%	430.2	7.27%	429.9
1988	8.58%	557.5	8.54%	552.9
1989	8.79%	618.9	8.78%	618.2
1990	9.00%	691.6	8.98%	689.7
1991	5.14%	421.8	5.00%	410.0
1992	No recommendation		10.00%	823.3
1993	2.50%	216.7	2.48%	215.0
1994	5.00%	443.2	5.00%	443.2
1995	4.50%	420.1	4.50%	420.0
1996	4.25%	415.0	3.82%	372.8
1997	4.15%	419.6	4.00%	404.6
1998	4.90%	514.9	4.82%	506.6
1999	5.90%	648.8	5.82%	640.6
2000[1]	6.90%	803.0	6.87%	800.0
2001[2]	6.95%	885.3	6.94%	884.6
2002	3.95%	543.2	3.40%	468.1
2003	2.50%	358.2	0.94%	134.1
2004	4.37%	635.2	4.33%	629.0
2005[3]	6.70%	1,037.1	6.69%	1,036.3
2006[3]	9.60%	1,604.7	9.57%	1,599.0
2007	7.90%	1,450.0	7.51%	1,378.4
2008	4.27%	848.7	4.16%	826.8
2009[4]	0.70%	145.7	0.19%	39.2
2010[4]	0.00%	0.0	-3.00%	-626.9
2011	Reduce FY2012 structural deficit by 33⅓%		36.9%/46.0%[5]	

[1]2000 legislative action does not reflect $266 million of Cigarette Restitution Fund (CRF) appropriations. CRF dollars were excluded because they had not previously been available to the State. The 2000 growth rate including CRF dollars was 9.16%.

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

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

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

[5]Spending reduction/total reduction.

Economy

The recession that began in December 2007 officially ended in June 2009. Lasting 18 months, the recession was the longest and deepest of the post-World War II period and recent revisions show that the recession was even deeper than previously thought. Maryland's employment peaked in February 2008 and bottomed out in February 2010 for a total peak to trough decline of 5.6% or 145,000 jobs. Since then, the State has added almost 56,000 jobs. Recently, revised data shows that nominal personal income fell 1.6% in 2009, the first decline in the post-World War II period. In the first 6 months of 2011, personal income is up 5.1% reflecting the impact of the payroll tax cut which, since payroll taxes are subtracted from personal income, raises personal income. In the first half of 2011, wage and salary income was up 3.4%.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March. BRE's new forecast was weaker than the March forecast with employment growth staying around 1.0% over the next several years rather than accelerating. Personal income growth was forecasted to grow 5.4% in 2011 reflecting the payroll tax cut. BRE assumed the payroll tax cut would be extended through 2012 and this resulted in weak personal income growth of 2.9% in 2013 as the tax cut goes away. In December, BRE changed its assumptions about the payroll tax cut, now assuming it would expire at the end of 2011 per current law. This results in weaker personal income growth in 2012 compared to the September estimate (2.9 vs. 3.7%). BRE also built into their forecast an impact from potential federal budget cuts and the expiration of federal tax cuts passed during the Bush administration that are scheduled under current law to expire at the end of 2012. Because of these additional assumptions, the December economic forecast projects weaker growth over the next several years than the September forecast.

Revenues

Fiscal 2011 general fund revenues were above the estimate by $314.2 million. General fund revenues totaled $13.5 billion in fiscal 2011, an increase of 5.0% over fiscal 2010 and the first increase since fiscal 2008. The personal income tax accounted for almost all of the overattainment, exceeding expectations by $304.1 million and growing 7.5% over fiscal 2010. Fiscal 2011 general fund sales tax receipts grew 3.8% over fiscal 2010, the first increase in three years. But revenues were below the estimate by $52.2 million.

In fiscal 2012, total general fund revenues through November are up 6.9% over the same period in fiscal 2011. This reflects the increase in the sales tax on alcohol beverages and the elimination of the allocation of sales tax revenues to the Transportation Trust Fund. Adjusted for these law changes, baseline revenues are up about 4.6% through November. The overattainment in fiscal 2011 combined with the slow economic recovery resulted in an upward revision to the fiscal 2012 revenue estimate that was substantially smaller than the overattainment in fiscal 2011. In September, BRE raised their estimate for fiscal 2012 general fund revenues by $195.0 million but also lowered the expected growth rate over fiscal 2011 from 5.2 to 4.2%. BRE projected that revenues would increase 2.8% in fiscal 2013. In December, BRE lowered its general fund estimate

for fiscal 2012 by $50.0 million and lowered the revenue estimate for fiscal 2013 by $71.2 million. General fund revenues are now projected to increase 3.8% in fiscal 2012 and 2.6% in fiscal 2013.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2011, including an evaluation of potential federal action and adjustments to the timing of revenues from video lottery terminals (VLT), the committee is currently projecting an ending general fund balance of $46.1 million at the close of fiscal 2012. This projected balance takes into account anticipated spending shortfalls requiring fiscal 2012 deficiency appropriations totaling $490.5 million. Areas which are expected to require deficiency funding include medical and energy assistance payments, mental hygiene community provider payments, certain programs in the Department of Human Resources where federal funds are not expected to materialize, and personnel costs in several agencies. Underattainment of revenue from VLTs in fiscal 2012 will require additional general funds for the public education formulas.

The baseline estimate for fiscal 2013 projects general fund appropriations growth of 4.6%. General fund requirements for the education aid formulas increase by $175.2 million due primarily to the expiration of federal funds and a 1.0% increase in the per-pupil foundation amount; an increase in VLT revenue mitigates the general fund need. In Medicaid, assuming the current shortfall is covered by a deficiency appropriation, modest rate and enrollment increases require an additional $142.4 million. Other human services programs, notably cash assistance, energy assistance, mental hygiene, and developmental disabilities services, will increase $187.3 million due to enrollment and cost increases, exacerbated by the uncertainty or unavailability of federal funds. Significant increases have been projected for information technology, including planned major information technology projects ($23.2 million) and the statewide personnel management system ($20.9 million). General fund costs associated with the video lottery program increase by $21.3 million for machine leasing and maintenance.

A number of mandated formulas have been held in check by provisions in recent budget reconciliation and financing acts, which expire for fiscal 2013. Increases are accounted for, therefore, in the police aid formula, local health departments, the Tourism Board, and the State Arts Council, among others. Similarly, formula funding for certain segments of the State's higher education system add a combined $17.3 million. In addition, based on current statute, the fiscal 2013 estimate includes appropriations to the Reserve Fund to satisfy the requirement that an amount equivalent to the unappropriated surplus above $10.0 million be appropriated to the Rainy Day Fund ($340.5 million) and to repay a portion of a previous transfer of Program Open Space funds ($50.0 million).

State personnel costs, including higher education, increase by $93.0 million in general funds. A 2% general salary increase effective January 1, 2013, adds $31.1 million, and health insurance costs rise by $40.2 million. These increases are offset by the removal of the one-time $750 bonus in fiscal 2012. The effect of the pension plan modifications taken in the 2011 session result in an increase of $50.5 million for the State employer contribution; the

State's contribution for public school, library, and community colleges increases a combined $65.1 million.

The committee projects the State will close fiscal 2012 with a balance of $681.3 million in the Rainy Day Fund, which represents 4.9% of general fund revenues. When combined with a general fund balance of $46.1 million, the total combined cash balance is projected at $727.4 million. With the statutorily mandated appropriation projected for fiscal 2013, the Rainy Day Fund is projected to exceed the 5.0% requirement.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2012 session:

1. Operating Budget Spending Limit and Sustainability

The spending affordability process was put in place in 1982 with the goal of calibrating the growth in State spending to growth in the State's economy. In implementing that objective, a unique method of classifying and accounting for State spending was developed and has been periodically revised as circumstance has required. In its 2010 report, the committee recognized that the extraordinary fiscal issues of recent years – plummeting revenues, huge mid-year spending reductions, massive federal assistance, and extensive reliance on one-time supports – necessitated a new approach. As such, rather than establish a growth limit, the committee recommended that measurable progress be made in reducing the State's structural deficit over the remainder of this term. Specifically, the committee recommended that the budget for fiscal 2012 reduce the estimated structural deficit by 33⅓%. Reductions to spending in the budget as enacted closed the gap by 36.9%; when revenue actions are taken into account, the structural deficit was reduced by 46.0%.

The baseline projection for fiscal 2013 results in an estimated structural deficit of $1.1 billion. **To continue on the multi-year path to budgetary sustainability, the committee recommends that the budget as submitted by the Governor and as approved by the General Assembly for fiscal 2013 reduce the estimated structural deficit for that year by at least 50%.**

2. Rainy Day Fund

In addition to its general fund recommendations, the committee also continues to recommend a prudent use of the Revenue Stabilization Account ("Rainy Day" Fund) to address general fund needs. The committee projects a Rainy Day Fund balance at the beginning of fiscal 2013 of $681.3 million, which is $21.5 million less than 5% of estimated general fund revenues. The Governor will be required to include $340.5 million for the Rainy Day Fund in

the fiscal 2013 allowance, based on the unappropriated general fund surplus above $10.0 million from the fiscal 2011 closeout. (The Governor is also required to include $50.0 million of the unappropriated general fund surplus for the Dedicated Purpose Account to partly repay a transfer from Program Open Space.)

The committee recommends that the balance in the Rainy Day Fund be maintained at or above 5% of estimated revenue.

3. Capital Budget

A. General Obligation (GO) Debt

The Capital Debt Affordability Committee (CDAC) has recommended that a maximum of $925 million in GO bonds may be authorized at the 2012 session. This is the same amount as was authorized in the 2011 session and keeps debt service costs within the committee's affordability limit. **The committee recommends that the capital plan presented by the Governor should adhere to the debt affordability criteria adopted by CDAC in each year of the plan. Within those criteria, the Governor should, to the extent feasible, accelerate job-producing investment in infrastructure construction, particularly for roads, public schools, addressing capital maintenance backlogs, and environmental protection.**

B. Higher Education Debt

For fiscal 2013, the University System of Maryland intends to issue up to $32 million in academic debt, an increase of $5 million over fiscal 2012. The additional funds are provided to match $5 million in GO bonds authorized to support a long-term campus-wide infrastructure improvement program at the University of Maryland, College Park. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2013. **The committee concurs in the recommendation of CDAC that $32 million in new academic revenue bonds may be authorized in the 2012 session for the University System of Maryland.**

4. State Employment

Personnel costs comprise approximately 20% of the State operating budget; the use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 78,987 at the start of fiscal 2012. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 50,434 in fiscal 2012. Nearly 2,900 positions have been added in higher education during this period.

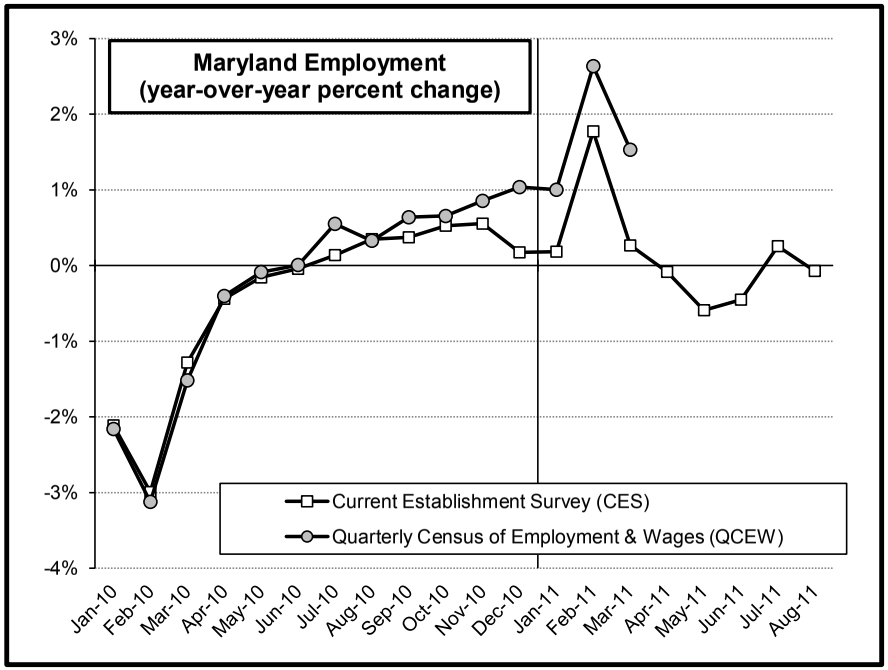
Actions during fiscal 2012 affect the current number of authorized positions. The legislature has required that an additional 450 positions be abolished by January 1, 2012; the distribution of these reductions by agency is not yet known. Conversely, 11 positions have been created to date by the Board of Public Works and 571 positions have been added in higher education as authorized by statute.

The committee finds that the current complement of 79,119 positions is appropriate for the delivery of State services given the State's fiscal condition. The fiscal 2013 budget should not exceed this maximum number of positions across all functions (including the Executive, Legislative, and Judicial branches, and higher education). New activities, including the operation of new facilities and implementation of legislation, should be accommodated within this cap. Exceptions to this limit may be made only to address critical security issues in State facilities, to reduce the costs of activities by converting contracts to State operations, and to add any additional temporary positions which may be required to implement and execute an accelerated capital program.

Part 1

Economic Outlook

MARYLAND LABOR MARKET



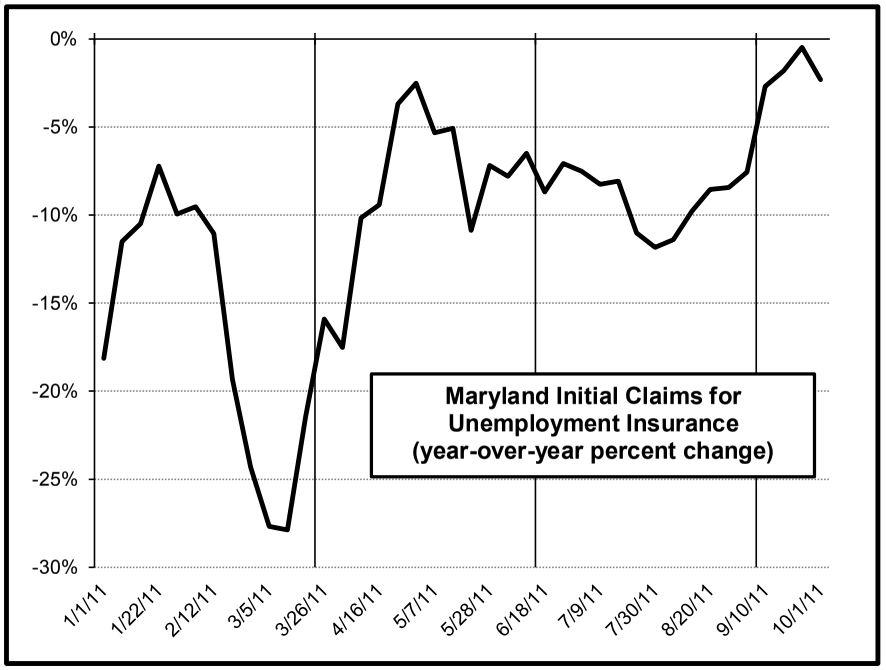
• The main data series on employment is called the Current Establishment Survey (CES). Since late 2010, the series shows the Maryland labor market weakening considerably with employment falling on a year-over-year basis in the second quarter of 2011. The spike in February reflects the depressed level of employment in February 2010, a month that included two major snowstorms.

• Data from the Quarterly Census of Employment and Wages (QCEW) suggests the CES data is understating the strength of the Maryland labor market. The QCEW data is only available through the first quarter of 2011 but it indicates that employment growth was stronger than the CES data shows. Per the QCEW data, employment in Maryland grew 0.8% in 2010Q4, twice as fast as the 0.4% growth reported in the CES data. In 2011Q1, the QCEW shows employment growth of 1.7% compared to growth of just 0.7% for the CES data.

• Of the two series, the QCEW is considered the more accurate since it is not subject to sampling error and includes all firms and government agencies covered by the unemployment insurance laws. Each March, the CES data is revised using the QCEW data in a process known as benchmarking.

• Looking at the four-week moving average of weekly initial claims for unemployment insurance, we see that claims have been below year ago levels throughout 2011. But the rate of decline got progressively smaller (*i.e.*, closer to zero) during April suggesting that employment growth probably did slow over this time. So while the CES employment data may be overstating the weakness in Maryland's labor market, it is likely that employment growth slowed over the spring months, as it did nationally.

• Over the summer, initial claims were running 6.0 to 12.0% below 2010 levels. But in the month of September, the situation weakened with claims falling from year ago levels by 5.0% or less. By the last week of September, claims were just 0.5% below the comparable week in 2010. But the first week of October showed a slight improvement with the four-week moving average ending that week down 2.3% from the comparable period in 2010.



Maryland Economic Forecasts

Year-over-year Percent Change

Calendar	Employment		Personal Income	
Year	Dec. 2010	Sep. 2011	Dec. 2010	Sep. 2011
2008	-0.3%	-0.3%	3.6%	4.9%
2009	-3.1%	-2.9%	0.4%	-1.6%
2010*	-0.4%	-0.2%	2.8%	3.9%
2011E	1.3%	1.0%	3.5%	5.0%
2012E	1.6%	1.0%	4.5%	3.7%
2013E	1.9%	1.2%	5.2%	2.9%
2014E	2.3%	1.7%	5.3%	4.8%

Calendar	Wage & Salary Income		Taxable Capital Gains Income*	
Year	Dec. 2010	Sep. 2011	Dec. 2010	Sep. 2011
2008	2.4%	2.3%	-62.8%	-62.8%
2009	-0.8%	-0.8%	-40.0%	-35.8%
2010*	2.3%	2.3%	15.0%	12.5%
2011E	3.3%	4.0%	15.0%	12.5%
2012E	4.1%	3.7%	8.0%	8.0%
2013E	5.4%	3.9%	8.0%	8.0%
2014E	5.6%	4.6%	8.0%	8.0%

* Calendar 2010 is an estimate for the December 2010 forecast. Calendar 2009 is an estimate for taxable capital gains for the December 2010 forecast, and calendar 2010 is an estimate for both the December and September forecasts.

Source: Board of Revenue Estimates

Part 2

General Fund Revenues

Fiscal 2011 General Fund Revenues

($ in Millions)

Source	FY 2010 Actual	Fiscal 2011 Estimate*	Fiscal 2011 Actual	Fiscal 2011 Difference	FY 2010-2011 % Change
Personal Income Tax	$6,178.2	$6,339.3	$6,643.4	$304.1	7.5%
Sales and Use Tax	3,522.8	3,708.3	3,656.0	-52.2	3.8%
State Lottery	491.0	492.6	499.4	6.8	1.7%
Corporate Income Tax	689.3	611.3	571.3	-40.0	-17.1%
Business Franchise Taxes	202.5	202.9	210.2	7.3	3.8%
Insurance Premiums Tax	277.0	287.0	285.9	-1.1	3.2%
Estate and Inheritance Taxes	173.5	194.7	216.0	21.3	24.5%
Tobacco Tax	405.9	412.5	407.6	-5.0	0.4%
Alcohol Beverages Tax	29.9	30.5	30.4	-0.1	1.9%
Motor Vehicle Fuel Tax	8.4	5.0	5.0	0.0	-40.4%
District Courts	87.3	86.5	86.9	0.4	-0.5%
Clerks of the Court	35.5	31.2	29.3	-2.0	-17.5%
Hospital Patient Recoveries	72.7	74.6	74.2	-0.4	2.1%
Interest on Investments	50.2	54.0	58.4	4.4	16.2%
Miscellaneous	335.9	319.0	386.2	67.3	15.0%
Tax Amnesty	27.0	3.7	0.0	-3.7	n/a
Subtotal	**$12,587.1**	**$12,853.2**	**$13,160.3**	**$307.1**	**4.6%**
Highway User Revenue	$303.7	$370.0	$377.1	$7.0	24.1%
Total Revenues	**$12,890.8**	**$13,223.2**	**$13,537.4**	**$314.2**	**5.0%**

* From the Board of Revenue Estimates, December 2010, with adjustments for action at the 2011 legislative session.

Note: The growth in fiscal 2011 revenues was the first year-over-year increase since fiscal 2008. The share of highway user revenue going to the general fund increased from 19.5 to 23% between fiscal 2010 and 2011 distorting the growth rate. Also distorting the growth rate are a couple of one-time extraordinary payments in the corporate income tax in fiscal 2010. If we exclude the highway user revenue and adjust the fiscal 2010 corporate income tax, general fund revenues were up 5.8% in fiscal 2011.

Fiscal 2012 General Fund Revenues

($ in Millions)

Source	*Fiscal Year through September* FY 2011	FY 2012	$ Difference	% Difference
Personal Income Tax	$1,242.3	$1,291.5	$49.2	4.0%
Sales and Use Tax [1]	605.7	655.3	49.6	8.2%
State Lottery	118.0	122.4	4.5	3.8%
Corporate Income Tax	117.0	113.1	-4.0	-3.4%
Business Franchise Taxes	42.2	40.9	-1.3	-3.1%
Insurance Premiums Tax	69.5	73.8	4.3	6.2%
Estate and Inheritance Taxes	37.9	59.0	21.1	55.6%
Tobacco Tax	83.6	84.7	1.1	1.3%
Alcohol Beverages Tax	5.0	5.1	0.1	1.1%
Motor Vehicle Fuel Tax	2.9	2.9	0.0	0.0%
District Courts	22.0	21.8	-0.2	-1.1%
Clerks of the Court	10.2	9.4	-0.8	-7.9%
Interest & Miscellaneous [2]	29.4	15.9	-13.5	-45.8%
Total Revenues	**$2,385.7**	**$2,495.7**	**$110.0**	**4.6%**
with baseline sales tax	*$2,385.7*	*$2,449.9*	*$64.2*	*2.7%*
Sales and Use Tax	*$605.7*	*$655.3*	*$49.6*	*8.2%*
- additional tax on alcohol		*-$12.0*		
- change in distribution		*-$33.8*		
= baseline sales tax	*$605.7*	*$609.5*	*$3.9*	*0.6%*

[1] Data reflects sales tax revenue remitted to the Comptroller from August to September which were collected by retailers from July to August. The Budget Reconciliation and Financing Act of 2011 (Chapter 397) eliminated the 5.3% distribution to the Transportation Trust Fund beginning in fiscal 2012. Senate Bill 994 (Chapter 571) and House Bill 1213 (Chapter 572) raised the sales tax on alcohol beverages from 6.0 to 9.0% beginning with fiscal 2012.

[2] Includes interest on investments, hospital patient recovery revenues from Medicare, insurance, and sponsors and other miscellaneous revenues.

Current as of October 20, 2011

Maryland General Fund Revenue Forecast

($ in Millions)

Source	FY 2011 Actual	FY 2012 Estimate Dec.	FY 2012 Estimate Sept.	FY 2012 Estimate Difference	% Change over FY 2011	FY 2013 Estimate	% Change over FY 2012
Personal Income Tax	$6,643.4	$6,688.1	$7,010.8	$322.7	5.5%	$7,321.8	4.4%
Sales and Use Tax [1]	3,656.0	4,164.1	4,062.0	-102.0	11.1%	4,177.7	2.8%
State Lottery	499.4	503.9	511.7	7.7	2.5%	506.4	-1.0%
Corporate Income Tax [2]	571.3	622.5	588.7	-33.8	3.0%	739.3	25.6%
Business Franchise Taxes	210.2	206.1	209.2	3.1	-0.5%	208.9	-0.1%
Insurance Premiums Tax	285.9	300.0	298.9	-1.1	4.5%	308.1	3.1%
Estate and Inheritance Taxes	216.0	212.0	214.0	2.1	-0.9%	205.3	-4.1%
Tobacco Tax	407.6	408.7	407.5	-1.2	0.0%	406.9	-0.2%
Alcohol Beverages Tax	30.4	31.2	30.5	-0.7	0.3%	31.1	1.8%
Motor Vehicle Fuel Tax	5.0	5.0	5.0	0.0	0.0%	5.0	0.0%
District Courts	86.9	87.8	80.8	-7.0	-7.0%	80.8	0.0%
Clerks of the Court	29.3	31.6	33.5	2.0	14.5%	34.3	2.5%
Hospital Patient Recoveries	74.2	68.0	68.0	0.0	-8.4%	68.0	0.0%
Interest on Investments	58.4	70.0	30.0	-40.0	-48.6%	35.0	16.7%
Miscellaneous	386.2	323.1	363.6	40.4	-5.9%	365.6	0.6%
Subtotal	***$13,160.3***	***$13,722.0***	***$13,914.2***	***$192.1***	***5.7%***	***$14,494.3***	***4.2%***
Highway User Revenue [3]	$377.1	$188.0	$190.9	$2.9	-49.4%	$0.0	-100.0%
Total Revenues	**$13,537.4**	**$13,910.0**	**$14,105.1**	**$195.0**	**4.2%**	**$14,494.3**	**2.8%**

[1] The Budget Reconciliation and Financing Act of 2011 (Chapter 397) eliminated the 5.3% distribution to the Transportation Trust Fund (TTF) although the TTF will continue to receive 45% of the short-term rental vehicle revenues. The Act also diverted short-term rental vehicle revenues to the general fund that otherwise would have been distributed to the Chesapeake Bay 2010 Fund and it extended the cap on the vendor credit. Senate Bill 994 (Chapter 571) and House Bill 1213 (Chapter 572) raised the sales tax on alcohol beverages from 6 to 9% beginning with fiscal 2012.

[2] Chapter 397 lowered the TTF's share of the corporate income tax from 24.0% of net receipts (excluding the first 15.15%) to 9.5% in fiscal 2013.

[3] The Budget Reconciliation and Financing Act of 2010 (Chapter 484) established a distribution from the Gasoline and Motor Vehicle Revenue Account to the general fund of 19.5% in fiscal 2010, 23.0% in fiscal 2011, and 20.4% in fiscal 2012. Chapter 397 lowered the fiscal 2012 distribution to 11.3% and eliminated the distribution starting in fiscal 2013.

Note: The estimate from December 2010 has been adjusted for actions taken at the 2011 legislative session.

Source: Board of Revenue Estimates

Part 3

General Fund Budget and Forecast

2013 Baseline Budget Forecast Assumptions

Baseline Budget Concepts

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

Caseload Assumptions

	FY 2011	FY 2012	FY 2013	Percent Change FY 2012-2013
Pupil Enrollment*	817,610	821,105	823,203	0.3%
Medicaid	685,742	722,415	745,637	3.2%
Medicaid Expansion to Parents	71,263	80,950	87,426	8.0%
Children's Health	98,013	97,776	99,697	2.0%
Temporary Cash Assistance	72,211	73,473	73,473	0.0%
Foster Care/Adoption	14,660	14,587	14,514	-0.5%
Adult Prison Population	22,226	22,764	22,413	-1.5%

* Data for 2011, 2012, and 2013 reflect 9/10, 9/11, and 9/12 (est.) full-time equivalent enrollments.

2013 Baseline Budget Forecast Assumptions (Cont.)

Inflation Assumptions

- Employee health insurance payments (5.0%).
- Medical contracts and supplies (4.4%).
- Prescription drugs for State facilities (4.4%).
- Postage (2.1%).
- Natural gas, propane, and electricity (2.0%).
- Food (1.9%).

Employee Compensation

- 2.0% general salary increase implemented on January 1, 2013.

Other Assumptions

- Cost increases for the University System of Maryland and Morgan State University are allocated between general funds and tuition and fees based on the fiscal 2011 ratio of general funds to tuition and fees; a 5% tuition increase is assumed.

Potential Fiscal 2012 General Fund Deficiencies

($ in Millions)

Medicaid: Fiscal 2011 roll over ($142.5 million) and fiscal 2012 ($13.5 million)	$156
Human Resources: Use of fiscal 2012 funds in fiscal 2011 ($49.6 million); nonattainment of TANF contingency fund ($45.8 million); underattainment of SEIF and federal funds for energy assistance programs ($28.0 million); caseload and depletion of TANF balance ($19.6 million); and other ($0.3 million)	143
Education: Video lottery terminal revenue underattainment	114
Mental Hygiene Administration: Fee for service shortfall for fiscal 2011 and 2012 ($43.0 million); underattainment of SEIF funds for energy performance contracts ($1.0 million); and other ($1.3 million)	45
Public Safety: Overtime expenses ($10.0 million) and fuel and oil ($1.0 million)	11
Higher Education: Health manpower and statewide programs grants ($7.6 million) and Distinguished Scholars scholarship program ($1.0 million)	9
Juvenile Services: Staffing shortages and increased turnover ($5.0 million); per-diem payments ($2.0 million); and facility operations ($1.0 million)	8
Other: Baltimore City and Ocean City convention centers operating subsidy ($2.0 million); General Services ($1.5 million); and Comptroller ($0.5 million)	4
Total	**$491**

SEIF: Strategic Energy Investment Fund
TANF: Temporary Assistance for Needy Families

State Expenditures – General Funds
Fiscal 2011-2013
($ in Millions)

Category	Work. Appr. FY 2011	Leg. Appr. FY 2012	Baseline FY 2013	FY 2012 to FY 2013 $ Change	FY 2012 to FY 2013 % Change
Debt Service	$0.0	$0.0	$78.0	$78.0	n/a
County/Municipal	185.9	186.6	198.4	11.8	6.3%
Community Colleges	258.1	262.3	278.9	16.6	6.3%
Education/Libraries	4,903.3	5,492.2	5,731.5	239.2	4.4%
Health	37.3	37.3	38.7	1.4	3.7%
Aid to Local Governments	***$5,384.6***	***$5,978.4***	***$6,247.5***	***$269.1***	***4.5%***
Foster Care Payments	$241.9	$237.7	$191.0	-$46.8	-19.7%
Assistance Payments	49.8	49.9	97.6	47.7	95.6%
Medical Assistance	1,816.0	2,554.0	2,696.5	142.4	5.6%
Property Tax Credits	75.9	79.4	78.1	-1.3	-1.7%
Entitlements	***$2,183.6***	***$2,921.1***	***$3,063.2***	***$142.1***	***4.9%***
Health	$1,382.4	$1,429.7	$1,503.3	$73.5	5.1%
Human Resources	263.3	273.9	338.2	64.3	23.5%
Systems Reform Initiative	20.5	18.8	24.9	6.1	32.6%
Juvenile Services	257.5	257.5	269.5	12.0	4.7%
Public Safety/Police	1,170.8	1,249.2	1,315.7	66.5	5.3%
Higher Education	1,145.6	1,120.7	1,185.4	64.7	5.8%
Other Education	370.4	346.6	370.0	23.4	6.8%
Agric./Nat'l. Res./Environment	102.5	100.0	103.0	3.0	3.0%
Other Executive Agencies	543.6	564.4	587.3	22.9	4.1%
Legislative	75.6	76.4	78.7	2.2	2.9%
Judiciary	370.3	372.4	386.9	14.6	3.9%
State Agencies	***$5,702.6***	***$5,809.7***	***$6,162.9***	***$353.2***	***6.1%***
Deficiencies	$0.0	$490.5	$0.0	-$490.5	-100.0%
Total Operating	**$13,270.8**	**$15,199.7**	**$15,551.5**	**$351.8**	**2.3%**
Capital [(1)]	$10.8	$54.5	$8.0	-$46.5	-85.3%
Reserve Funds	15.0	15.0	405.5	390.5	2603.1%
Appropriations	**$13,296.6**	**$15,269.2**	**$15,965.0**	**$695.7**	**4.6%**
Reversions	-$34.5	-$30.0	-$30.0	$0.0	0.0%
Grand Total	**$13,262.1**	**$15,239.2**	**$15,935.0**	**$695.7**	**4.6%**

[(1)] Includes the Sustainable Communities Tax Credit Reserve Fund.

Note: The fiscal 2011 working appropriation includes deficiencies, $7.9 million in targeted reversions, and legislative reductions to the deficiencies. The fiscal 2012 legislative appropriation includes a $15.0 million supplementary appropriation in Health from Senate Bill 994 and a $47.5 million supplementary appropriation in Capital from House Bill 1213. SB 994 and HB 1213 raise the sales tax on alcohol beverages from 6 to 9%. Budget language restricts $8.8 million of the Aid to Education budget for the disparity grant (County/Municipal), 50% of which must be provided to the county board of education.

Components of Budget Change
($ in Millions)

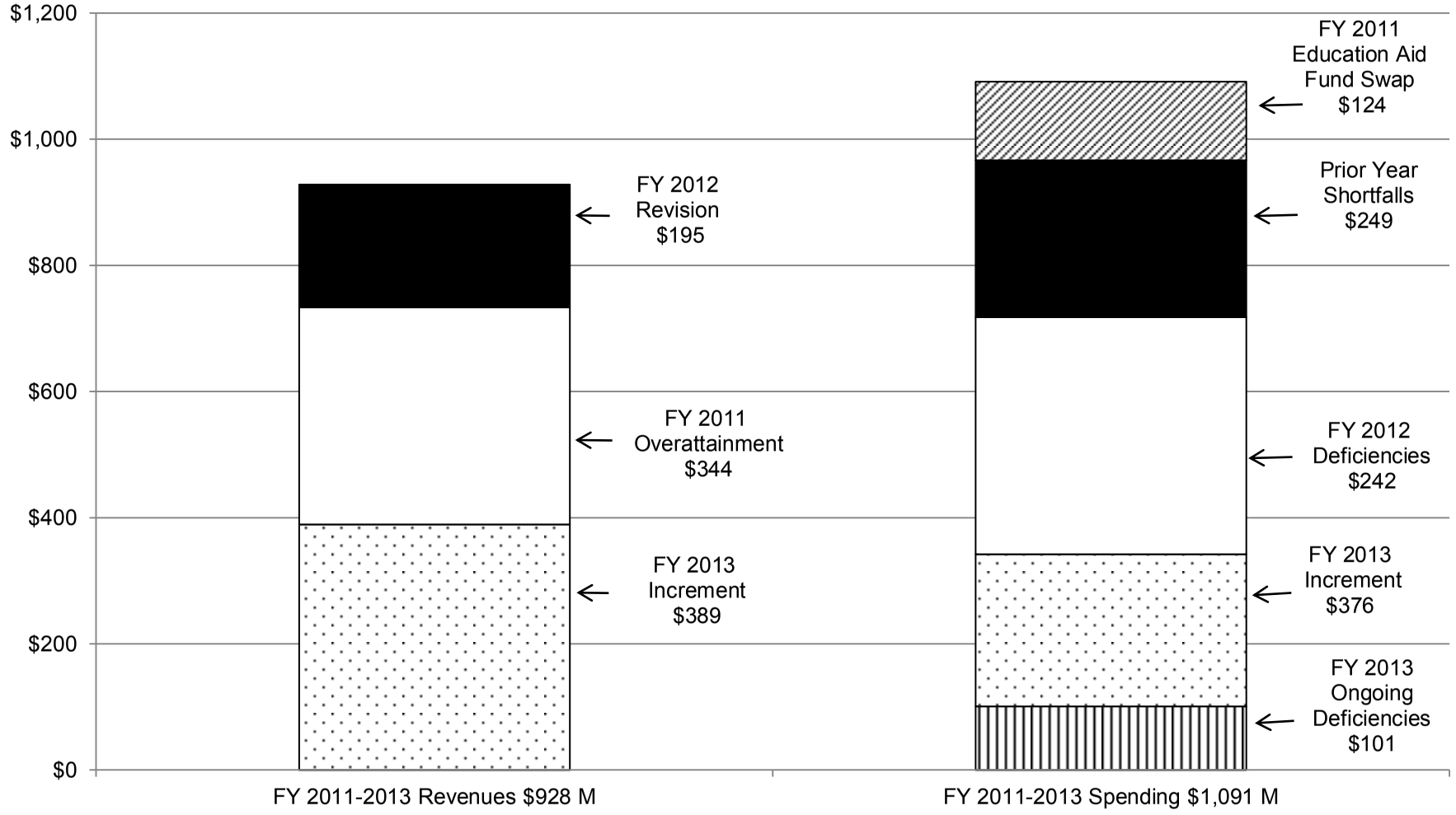
Summary of Budget Growth Compared to Working Appropriation	Dollars	Share of Growth
Ongoing Requirements/Entitlements	$556.0	66.0%
Legislation	-0.7	-0.1%
State Agency Costs	287.1	34.1%
Growth in Operating Budget, including Anticipated Deficiencies	**$842.3**	
Pay-as-you-go (PAYGO)	-$46.5	
Appropriation to Reserve Fund	390.5	
Total Baseline Increase in State Expenditures	**$1,186.3**	
Less Deficiency Appropriations	-$490.5	
Total	**$695.8**	
Ongoing Requirements/Entitlements		
Education and library aid formulas	$175.6	
Medical Assistance – modest enrollment and rate increases	142.4	
Debt service	78.0	
Teachers retirement payments, after accounting for cost-sharing of administrative costs	59.4	
Mental Hygiene Administration – enrollment, utilization, and rate increases	51.5	
Temporary Cash Assistance payments, including modest enrollment growth and general funds in lieu of TANF funding	47.7	
Restoration of State Aid for Police Protection grant	20.3	
Community college formulas – increase in enrollment and per-pupil funding	11.8	
Development Disabilities Administration – annualize cost of new community placements and rate increase	10.7	
Community college retirement, after accounting for cost-sharing of administrative costs	4.6	
Baltimore City grant in lieu of security interest filing fees	3.1	
Sellinger Formula for Aid to Private Colleges and Universities	2.8	
St. Mary's College of Maryland and Baltimore City Community College mandated formulas	2.7	
Tourism Board and Arts Council mandated formulas	1.4	
Local health department funding	1.4	
County Library Retirement Payments	1.1	
Property Tax Credit programs	-1.3	
Technology in Maryland Schools lease payment	-1.4	
Removal of one-time disparity grant enhancement for Prince George's County	-8.8	
Foster Care payments due to reduced use of institutional placements	-46.8	
New Legislative Requirements		
Cord Blood Transplant Program	$0.5	
Prohibition of using credit history in employment decisions, notification of State Earned Income Tax Credit	0.3	
Change film production program from tax rebate to tax credit	-2.0	
Other legislation	0.5	
State Agency Costs		
Statewide Personnel Expenses (including higher education):		
Employee Retirement	$50.5	
Employee and Retiree Health Insurance	40.2	
Employee cost-of-living adjustments	31.1	
Cost-sharing for retirement administrative expenses, excluding teachers and community colleges	7.6	
Workers' compensation administration and claims	2.8	
Remove one-time $750 employee bonus	-39.2	

Components of Budget Change (cont.)

Agency Programmatic and Operating Expenses:	
General funds in lieu of federal and special funds for Office of Home Energy Programs bill assistance payments	$28.2
Public safety overtime, inmate medical care, and vehicle fuel expenses, including prior year underfunding	17.7
Local Child Welfare Services Program – general funds in lieu of federal funds	27.0
Major IT projects planned for 2012	23.2
General funds in lieu of TANF funding for non-DHR programs	22.2
Video lottery terminal operating expenses and debt service	21.3
Statewide Personnel System	20.9
USM and Morgan State University enrollment growth and underattainment of HEIF revenues (excludes personnel expenses)	17.2
General funds in lieu of special fund speed camera revenues for State Police	9.8
Juvenile services per diem payments, overtime and operating expenses including prior year underfunding	8.9
Increased scholarships, based on assumption of 5% tuition increase and general funds in lieu of certain federal funds	5.7
Restoration of one-time reduction to Judiciary due to prior year encumbrances	5.0
Elections equipment and contract expenses	2.2
Operating subsidy payments for Baltimore City and Ocean City convention centers	2.0
Auto and building insurance premiums statewide	1.1
Master Equipment Lease Payment costs statewide, excluding elections equipment	-0.6
Contract for community-based wrap-around youth services	-1.2
End of contract with Volunteers of America (contractual housing for pretrial detainees)	-1.3
Removal of one-time funding for MIDFA and MEDAAF	-6.9
Other	-8.5
PAYGO	
Hazardous Substance Cleanup Program	$1.0
One-time supplementary appropriation for school construction	-47.5
Reserve Fund	
Rainy Day Fund sweeper of unappropriated general fund balance	$340.5
Repayment for previous transfer of POS funds to general fund	50.0

DHR: Department of Human Resources
HEIF: Higher Education Investment Fund
IT: information technology
MEDAAF: Maryland Economic Development Assistance Authority and Fund
MIDFA: Maryland Industrial Development Financing Authority
POS: Program Open Space
TANF: Temporary Assistance for Needy Families
USM: University System of Maryland

Fiscal 2011-2013 Spending More Than Consumes Revenue Write-up
($ in Millions)



General Fund: Recent History and Outlook
Fiscal 2011-2013
($ in Millions)

	2011 Actual	2012 Working Approp.	2013 Baseline
Funds Available			
Ongoing Revenues	$13,537	$14,105	$14,494
Balances and Transfers	734	1,230	428
One-time Federal Aid	1,189	5	0
Short-term Revenues	0	0	0
Subtotal Funds Available	**$15,459**	**$15,339**	**$14,923**
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	$14,819	$15,267	$15,529
One-time Spending	0	77	0
One-time Reductions/Withdrawn Appropriations	-507	-147	0
PAYGO Capital	158	48	1
Appropriations to Reserve Fund	0	0	405
Subtotal Spending	**$14,469**	**$15,244**	**$15,935**
Cash Balance/Shortfall	**$990**	**$96**	**-$1,012**
Structural			
Balance (Ongoing Revenues Less Operating Costs)	**-$1,281**	**-$1,162**	**-$1,034**
Ratio (Ongoing Revenues/Operating Costs)	**91.4%**	**92.4%**	**93.3%**
Reserve Fund Activity			
Appropriations to State Reserve Fund	$0	$0	$405
Transfers to General Fund	0	0	0
Estimated Rainy Day Fund Balance – June 30	**$630**	**$681**	**$725**
Total Cash (Rainy Day, General Fund Balance)	**$1,620**	**$777**	**-$287**

PAYGO: pay-as-you-go

General Fund Budget Outlook

Fiscal 2012-2017

($ in Millions)

Revenues	FY 2012 Work. App.	FY 2013 Baseline	FY 2014 Est.	FY 2015 Est.	FY 2016 Est.	FY 2017 Est.	Avg. Annual Change 2013-2017
Opening Fund Balance	$990	$96	$0	$0	$0	$0	
Transfers	240	333	75	62	59	59	
Subtotal One-time Revenue	**$1,230**	**$429**	**$75**	**$62**	**$59**	**$59**	**-39.1%**
Ongoing Revenues	$14,105	$14,494	$15,033	$15,861	$16,636	$17,340	
Subtotal Ongoing Revenue	**$14,105**	**$14,494**	**$15,033**	**$15,861**	**$16,636**	**$17,340**	**4.6%**
Total Revenues & Fund Balance	**$15,335**	**$14,923**	**$15,108**	**$15,923**	**$16,695**	**$17,399**	**3.9%**
Ongoing Spending							
Operating Spending*	$15,275	$15,776	$16,564	$17,262	$17,979	$18,755	
VLT Revenues Supporting Education	-101	-254	-457	-458	-459	-460	
Multi-year Commitments	7	7	7	7	7	7	
Subtotal Ongoing Spending	**$15,181**	**$15,529**	**$16,114**	**$16,812**	**$17,527**	**$18,301**	**4.2%**
One-time Spending							
PAYGO Capital	$48	$1	$1	$1	$1	$1	
Federal Stimulus Funds	-5	0	0	0	0	0	
Appropriation to Reserve Fund	15	405	115	115	100	100	
Subtotal One-time Spending	**$58**	**$406**	**$116**	**$116**	**$101**	**$101**	**n/a**
Total Spending	**$15,239**	**$15,935**	**$16,230**	**$16,928**	**$17,628**	**$18,402**	**3.7%**
Ending Balance	**$96**	**-$1,012**	**-$1,122**	**-$1,005**	**-$933**	**-$1,004**	
Rainy Day Fund Balance	$681	$725	$751	$793	$832	$866	
Balance over 5% of GF Revenues	-24	0	0	0	0	-1	
As % of GF Revenues	4.83%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	**-$1,076**	**-$1,034**	**-$1,081**	**-$950**	**-$891**	**-$962**	

GF: general fund
PAYGO: pay-as-you-go
VLT: video lottery terminal

* Includes $491 million in fiscal 2012 deficiency appropriations.

Updated December 15, 2011

General Fund Budget Outlook

Fiscal 2012-2017
($ in Millions)

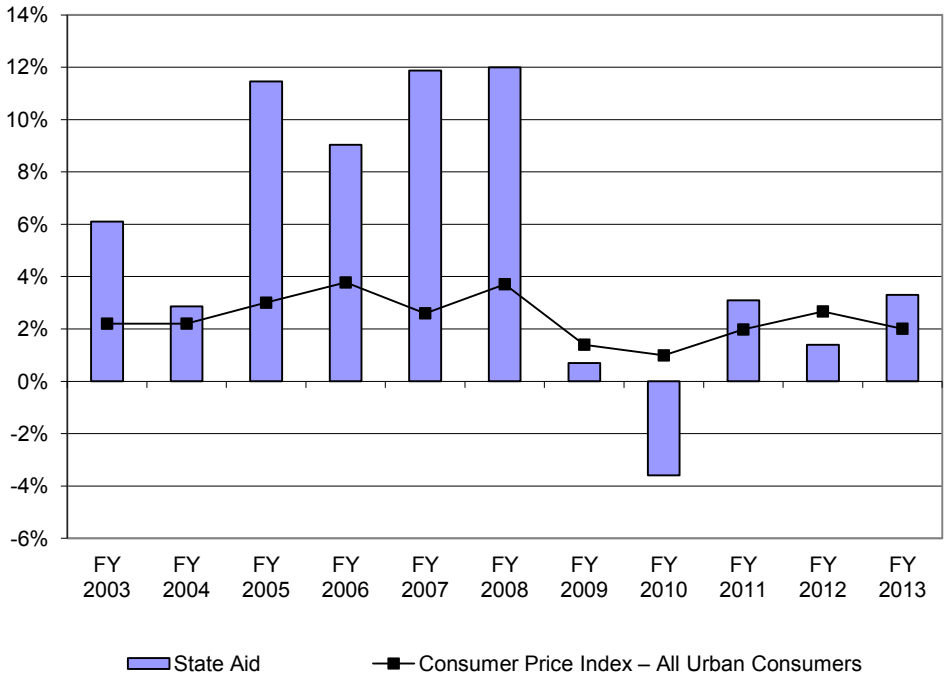
Revenues	FY 2012 Work. App.	FY 2013 Baseline	FY 2014 Est.	FY 2015 Est.	FY 2016 Est.	FY 2017 Est.	Avg. Annual Change 2013-2017
Opening Fund Balance	$990	$46	$0	$0	$0	$0	
Transfers	240	337	73	66	61	54	
Subtotal One-time Revenue	**$1,230**	**$383**	**$73**	**$66**	**$61**	**$54**	**-38.7%**
Ongoing Revenues	$14,055	$14,423	$14,978	$15,729	$16,450	$17,247	
Subtotal Ongoing Revenue	**$14,055**	**$14,423**	**$14,978**	**$15,729**	**$16,450**	**$17,247**	**4.6%**
Total Revenues & Fund Balance	**$15,285**	**$14,806**	**$15,051**	**$15,794**	**$16,511**	**$17,301**	**4.0%**
Ongoing Spending							
Operating Spending*	$15,275	$15,776	$16,564	$17,262	$17,979	$18,755	
VLT Revenues Supporting Education	-101	-254	-457	-458	-459	-460	
Multi-year Commitments	7	7	7	7	7	7	
Ongoing Spending – Legislation	0	0	0	0	0	0	
Subtotal Ongoing Spending	**$15,181**	**$15,529**	**$16,114**	**$16,812**	**$17,527**	**$18,301**	**4.2%**
One-time Spending							
PAYGO Capital	$48	$1	$1	$1	$1	$1	
Federal Stimulus Funds	-5	0	0	0	0	0	
Appropriation to Reserve Fund	15	405	115	115	100	100	
Subtotal One-time Spending	**$58**	**$406**	**$116**	**$116**	**$101**	**$101**	**n/a**
Total Spending	**$15,239**	**$15,935**	**$16,230**	**$16,928**	**$17,628**	**$18,402**	**3.7%**
Ending Balance	**$46**	**-$1,129**	**-$1,179**	**-$1,133**	**-$1,117**	**-$1,101**	
Rainy Day Fund Balance	$681	$721	$749	$786	$823	$863	
Balance over 5% of GF Revenues	-22	0	0	0	0	0	
As % of GF Revenues	4.85%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	**-$1,126**	**-$1,105**	**-$1,136**	**-$1,083**	**-$1,076**	**-$1,054**	

GF: general fund
PAYGO: pay-as-you-go
VLT: video lottery terminal
* Includes $491 million in fiscal 2012 deficiency appropriations.

Part 4

Local Government Assistance

Annual Growth in State Aid to Local Governments
Fiscal 2003-2013



Note: State aid amounts include funding provided under the federal American Recovery and Reinvestment Act (ARRA).

State Aid by Governmental Entity
($ in Millions)

	FY 2003	FY 2008	FY 2013	$ Change FY 2003-13	$ Change FY 2008-13
Public Schools	$2,762.5	$4,599.9	$5,030.8	$2,268.2	$430.9
County/Municipal	702.7	904.6	446.0	-256.7	-458.5
Community Colleges	169.4	219.4	241.8	72.4	22.4
Libraries	39.7	52.2	49.2	9.4	-3.1
Local Health	61.9	67.0	38.7	-23.3	-28.3
Subtotal – Direct Aid	***$3,736.3***	***$5,843.1***	***$5,806.4***	***$2,070.1***	***-$36.6***
Retirement Payments	$377.6	$602.9	$947.2	$569.7	$344.4
Total	**$4,113.9**	**$6,445.9**	**$6,753.7**	**$2,639.7**	**$307.7**

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

	FY 2013 State Aid Amount	Percent of Total
Public Schools	$5,923.1	87.7%
County/Municipal	446.0	6.6%
Community Colleges	279.0	4.1%
Libraries	66.9	1.0%
Local Health	38.7	0.6%
Total	**$6,753.7**	**100.0%**

Change in State Aid
($ in Millions)

	FY 2013 Aid Change	Percent Change
Public Schools	$148.5	2.6%
County/Municipal	45.9	11.5%
Community Colleges	16.7	6.4%
Libraries	1.5	2.3%
Local Health	1.4	3.7%
Total	**$213.9**	**3.3%**

State Aid by Major Programs
Fiscal 2011-2013
($ in Millions)

	FY 2011	FY 2012	Baseline FY 2013	$ Change 2012-2013	% Change 2012-2013
Public Schools					
Foundation Program	$2,763.5	$2,773.1	$2,809.3	$36.3	1.3%
Supplemental Grant	46.5	47.9	46.5	-1.4	-3.0%
Geographic Cost Index	126.6	127.3	128.7	1.4	1.1%
Compensatory Aid	1,041.1	1,083.8	1,113.0	29.2	2.7%
Student Transportation	244.4	248.2	251.6	3.3	1.3%
Special Education – Formula Aid	264.0	264.3	268.0	3.7	1.4%
Special Education – Nonpublic Placements	112.8	112.8	116.0	3.2	2.9%
Limited English Proficiency Grants	151.2	162.7	178.3	15.6	9.6%
Guaranteed Tax Base	47.4	50.1	47.2	-2.8	-5.7%
Other Education Programs	70.2	71.5	72.1	0.6	0.9%
Subtotal Direct Aid	***$4,867.6***	***$4,941.7***	***$5,030.8***	***$89.1***	***1.8%***
Retirement Payments	$849.8	$833.0	$892.3	$59.4	7.1%
Total Public School Aid	**$5,717.5**	**$5,774.7**	**$5,923.1**	**$148.5**	**2.6%**
Libraries					
Library Aid Formula	$33.0	$33.0	$33.2	$0.3	0.8%
State Library Network	15.7	15.8	15.9	0.1	0.7%
Subtotal Direct Aid	***$48.7***	***$48.8***	***$49.2***	***$0.4***	***0.7%***
Retirement Payments	$16.9	$16.6	$17.7	$1.1	6.9%
Total Library Aid	**$65.5**	**$65.4**	**$66.9**	**$1.5**	**2.3%**
Community Colleges					
Community College Formula	$194.4	$194.4	$210.7	$16.3	8.4%
Other Programs	30.0	35.3	31.1	-4.2	-11.8%
Subtotal Direct Aid	***$224.4***	***$229.7***	***$241.8***	***$12.1***	***5.3%***
Retirement Payments	$33.7	$32.6	$37.2	$4.6	14.0%
Total Community College Aid	**$258.1**	**$262.3**	**$279.0**	**$16.7**	**6.4%**
Local Health Grants	**$37.3**	**$37.3**	**$38.7**	**$1.4**	**3.7%**
County/Municipal Aid					
Transportation	$144.0	$155.3	$173.2	$17.9	11.5%
Public Safety	83.4	88.2	108.8	20.7	23.4%
Program Open Space/Environment	15.6	9.1	16.6	7.5	81.9%
Disparity Grant	121.4	119.7	110.9	-8.8	-7.4%
Other Grants	9.7	27.8	36.5	8.6	31.1%
Total County/Municipal Aid	**$374.1**	**$400.2**	**$446.0**	**$45.9**	**11.5%**
Total State Aid	**$6,452.5**	**$6,539.8**	**$6,753.7**	**$213.9**	**3.3%**

Local Government Salary Actions
Fiscal 2011 and 2012

COLA Amount	County Government FY 2011	County Government FY 2012	Public Schools FY 2011	Public Schools FY 2012
No COLA	23	19	19	20
1.0 to 2.9%	1	2	4	2
3.0 to 3.9%	0	0	0	0
4.0 to 4.9%	0	0	0	0
5.0 to 5.9%	0	0	0	0
6.0% and Greater	0	0	0	0
Dollar Amount	0	2	0	1
Still Pending	0	1	1	1
Step Increases	4	4	10	9

	State Government FY 2011	State Government FY 2012	CPI-Urban Consumers FY 2011[1]	CPI-Urban Consumers FY 2012[1]
COLA Amount	0.0%	0.0%	2.0%	2.6%
One-time Bonus	$0	$750		
Furloughs[2]	10 Days	0		
Effective COLA[3]	-2.6%	0.0%		
Step Increases	No	No		

COLA: cost-of-living adjustment
CPI: Consumer Price Index

[1] Forecast of the CPI for fiscal 2011 and 2012 comes from Moody's Analytics.
[2] Maximum number of furlough and service reduction days based on salary level.
[3] Effective COLA in fiscal 2011 ranges from -1.2 to -3.8% depending on the number of furlough days.

Local Government Salary Actions in Fiscal 2012

County	County Government Generally COLA	Step	Board of Education Teachers COLA	Step
Allegany[1]	0.0%	No	1.0%	Yes
Anne Arundel	0.0%	No	0.0%	No
Baltimore City[2]	2.0%	Yes	1.0%	Yes
Baltimore	0.0%	Yes	0.0%	Yes
Calvert	0.0%	No	Pending	Pending
Caroline	0.0%	No	0.0%	No
Carroll	0.0%	No	0.0%	No
Cecil[3]	0.0%	No	0.0%	Yes
Charles	1.0%	No	0.0%	Yes
Dorchester	0.0%	No	0.0%	No
Frederick	0.0%	No	0.0%	No
Garrett[4]	$500	No	0.0%	Yes
Harford	0.0%	No	0.0%	No
Howard[5]	0.0%	Yes	0.0%	Yes
Kent	0.0%	No	0.0%	No
Montgomery	0.0%	No	0.0%	No
Prince George's[6]	Pending	Pending	0.0%	No
Queen Anne's	0.0%	No	0.0%	No
St. Mary's[7]	$500	No	0.0%	No
Somerset[8]	0.0%	Yes	0.0%	Yes
Talbot	0.0%	No	0.0%	No
Washington[9]	0.0%	No	$500	Yes
Wicomico	0.0%	No	0.0%	No
Worcester	0.0%	No	0.0%	No
Number Granting	**4**	**4**	**3**	**9**

COLA: cost-of-living adjustment

Comments

[1] Allegany County public school teachers will receive a 1% COLA. Administrators and support personnel will not receive a COLA.

[2] Baltimore City employees, except police and members of the Managerial and Professional Society, will receive a 2% COLA. The city is still in negotiations with the police union. Teachers, school administrators, paraprofessional and school-related personnel will receive a 1% COLA. The school system is still in negotiations with other unions and unaffiliated employees.

[3] Cecil County is still in negotiation with firefighters and police unions.

[4] Garrett County employees will receive a $500 general salary increase. Roads department employees (AFSCME) will receive a 4% COLA. Garrett County public schools teachers and administrators will receive $700 longevity steps; and support personnel, head custodians, and cafe managers will receive $400 longevity steps.

[5] Howard County blue collar employees will receive a 1% COLA on July 1, 2011, and police, dispatch, and corrections employees will receive a 2% COLA on January 1, 2012. Howard County public school teachers, administrators, custodial/maintenance, and educational support personnel will receive delayed step increases.

[6] Prince George's County is still in negotiations with its employee unions.

[7] St. Mary's County employees will receive a $500 stipend.

[8] Somerset County public school teachers and minimum- to mid-level employees will receive a step increase in January 2012.

[9] Washington County Public Schools will give teachers, support personnel, and administrators in the top step a $500 COLA.

Local Government Furlough and Salary Reduction Plans in Fiscal 2012

County	Furlough/ Reduction	Layoffs	
Allegany	No	No	School system has eliminated 50.9 positions since fiscal 2008.
Anne Arundel	Yes	No	Most county employees will receive up to 12 furlough days, depending on position, including 5 designated service reduction days. Certain public safety employees will receive fewer furlough days, but are subject to other wage reductions. Only specified police officers, fire fighters, and employees of boards and commissions who have salaries fixed by statute are exempt from furloughs. Employment agreements and temporary hires may be excluded from furloughs. Several merit positions were eliminated and employees reassigned. School system does not plan to implement furloughs, salary reductions, or layoffs.
Baltimore City	Yes	Yes	City employees will receive from 2 to 5 furlough days based on salary. The city also laid off 63 employees in fiscal 2012. School system does not plan any furloughs, salary reductions, or layoffs.
Baltimore	No	No	
Calvert	No	Yes	County does not plan any furloughs, salary reductions, or layoffs. School system does not plan any furloughs or salary reductions, but laid off 50 employees, including 38 teachers, 10 support employees, and 2 administrators.
Caroline	No	No	
Carroll	No	No	School system has eliminated 109.1 FTEs through attrition over the past three fiscal years.
Cecil	No	Yes	County does not plan any furloughs, salary reductions, or layoffs at this time. School system laid off 24 employees, including 6 teachers and 18 paraprofessionals, and eliminated 59 positions due to attrition.
Charles	No	No	School system has eliminated 28 positions through attrition over the past three fiscal years.
Dorchester	Yes	No	All county employees will receive a salary reduction (negative COLA) of 1.93%, and corresponding 5 furlough days. School system does not plan any furloughs, salary reduction, or layoffs.
Frederick	No	No	County government and school system indicated that layoffs were possible but that it had not yet been determined whether they would be necessary. County estimates $4.3 million in savings due to layoffs of 91 employees in fiscal 2011 and 23 employees in fiscal 2010.
Garrett	No	No	
Harford	No	Yes	School system laid off 22 para-educators in fiscal 2012.

Local Government Furlough and Salary Reduction Plans in Fiscal 2012

County	Furlough/ Reduction	Layoffs	
Howard	No	No	
Kent	Yes	No	All county employees will receive a 1.92% reduction in pay in the form of 5 service reduction days. School system does not plan any furloughs, salary reduction, or layoffs, due to existing resignations, retirements, and reclassifications.
Montgomery	No	Yes	The county laid off 10 employees. The school system laid off 2 technology employees.
Prince George's	Yes	Yes	All school system 12-month executive level employees will receive 3 furlough days; all non-executive level positions are excluded from furloughs. Athletic directors were converted from a full-time position to a part-time position. The school system laid off 343 employees, including 295 in school-based positions. The county government is still in negotiations with its employee unions.
Queen Anne's	Yes	No	County employees will receive from 5 to 10 furlough days depending on grade. All school system employees will receive 6 furlough days. Salaries for Assistant Superintendent for Curriculum and Instruction and Director of Human Resources were reduced. Sixteen Special Education and 3 pre-K positions were converted to part-time.
St. Mary's	Yes	No	All school system employees, except bus drivers, attendants, and food service workers, will receive 3 furlough days. County government does not plan any furloughs, salary reductions, or layoffs.
Somerset	No	Yes	School system laid off 1 employee.
Talbot	Yes	No	Most county employees, except public safety employees, will receive 2 furlough days. School system did not implement any furloughs, salary reductions, or layoffs.
Washington	No	No	
Wicomico	Yes	Yes	Specified county employees will receive from 4 to 9 furlough days depending on salary. The county also laid off 2 planning and zoning employees. School system did not implement any furloughs, salary reductions, or layoffs.
Worcester	No	Yes	School system laid off 15 educational assistants.
Total Jurisdictions Implementing Plans	**9**	**9**	

Number of Counties Changing Local Tax Rates
Fiscal 2008-2012

	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	▲	▼	▲	▼	▲	▼	▲	▼	▲	▼
Real Property	1	5	0	5	1	7	2	5	8	2
Local Income	1	0	1	0	0	0	1	0	1	1
Recordation	2	0	2	0	0	0	0	0	1	0
Transfer	0	0	0	0	0	0	0	0	0	0
Admissions/Amusement	0	0	0	0	0	0	0	0	0	0
Hotel/Motel	0	0	1	0	0	0	1	0	1	0

Note: ▲ represents a tax rate increase. ▼ represents a tax rate decrease.

Source: 2011 Local Government Budget and Tax Rate Survey; Department of Legislative Services; Maryland Association of Counties

Local Tax Rates – Fiscal 2011 and 2012

County	Real Property		Local Income		Recordation		Transfer		Admissions/Amusement		Hotel/Motel	
	FY 2011	FY 2012	CY 2011	CY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012	FY 2011	FY 2012
Allegany	$0.983	$0.982	3.05%	3.05%	$3.25	$3.25	0.5%	0.5%	7.5%	7.5%	8.0%	8.0%
Anne Arundel	0.880	0.910	2.56%	2.49%	3.50	3.50	1.0%	1.0%	10.0%	10.0%	7.0%	7.0%
Baltimore City	2.268	2.268	3.20%	3.20%	5.00	5.00	1.5%	1.5%	10.0%	10.0%	9.5%	9.5%
Baltimore	1.100	1.100	2.83%	2.83%	2.50	2.50	1.5%	1.5%	10.0%	10.0%	8.0%	8.0%
Calvert	0.892	0.892	2.80%	2.80%	5.00	5.00	0.0%	0.0%	1.0%	1.0%	5.0%	5.0%
Caroline	0.870	0.870	2.63%	2.63%	5.00	5.00	0.5%	0.5%	0.0%	0.0%	5.0%	5.0%
Carroll	1.048	1.028	3.05%	3.05%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Cecil	0.915	0.940	2.80%	2.80%	4.10	4.10	$10/deed	$10/deed	6.0%	6.0%	3.0%	3.0%
Charles	1.026	1.067	2.90%	2.90%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Dorchester	0.896	0.976	2.62%	2.62%	5.00	5.00	0.75%	0.75%	0.5%	0.5%	5.0%	5.0%
Frederick	1.064	1.064	2.96%	2.96%	6.00	6.00	0.0%	0.0%	5.0%	5.0%	3.0%	3.0%
Garrett	0.990	0.990	2.65%	2.65%	3.50	3.50	1.0%	1.0%	4.5%	4.5%	5.0%	5.0%
Harford	1.042	1.042	3.06%	3.06%	3.30	3.30	1.0%	1.0%	5.0%	5.0%	0.0%	0.0%
Howard	1.150	1.150	3.20%	3.20%	2.50	2.50	1.0%	1.0%	7.5%	7.5%	5.0%	7.0%
Kent	1.022	1.022	2.85%	2.85%	3.30	3.30	0.5%	0.5%	4.5%	4.5%	5.0%	5.0%
Montgomery	0.915	0.959	3.20%	3.20%	3.45	3.45	1.0%	1.0%	7.0%	7.0%	7.0%	7.0%
Prince George's	1.319	1.319	3.20%	3.20%	2.50	2.50	1.4%	1.4%	10.0%	10.0%	5.0%	5.0%
Queen Anne's	0.767	0.847	2.85%	3.20%	4.95	4.95	0.5%	0.5%	5.0%	5.0%	5.0%	5.0%
St. Mary's	0.857	0.857	3.00%	3.00%	4.00	4.00	1.0%	1.0%	2.0%	2.0%	5.0%	5.0%
Somerset	0.884	0.884	3.15%	3.15%	3.30	3.30	0.0%	0.0%	4.0%	4.0%	5.0%	5.0%
Talbot	0.432	0.448	2.25%	2.25%	3.30	6.00	1.0%	1.0%	5.0%	5.0%	4.0%	4.0%
Washington	0.948	0.948	2.80%	2.80%	3.80	3.80	0.5%	0.5%	5.0%	5.0%	6.0%	6.0%
Wicomico	0.759	0.769	3.10%	3.10%	3.50	3.50	0.0%	0.0%	6.0%	6.0%	6.0%	6.0%
Worcester	0.700	0.700	1.25%	1.25%	3.30	3.30	0.5%	0.5%	3.0%	3.0%	4.5%	4.5%

Note: The real property tax rates shown for Charles, Frederick, Howard, Montgomery, and Prince George's counties include special tax rates. Real property tax is per $100 of assessed value. Income is a percentage of taxable income. Recordation tax is per $500 of transaction.

Source: 2011 Local Government Budget and Tax Rate Survey; Department of Legislative Services; Maryland Association of Counties

Part 5

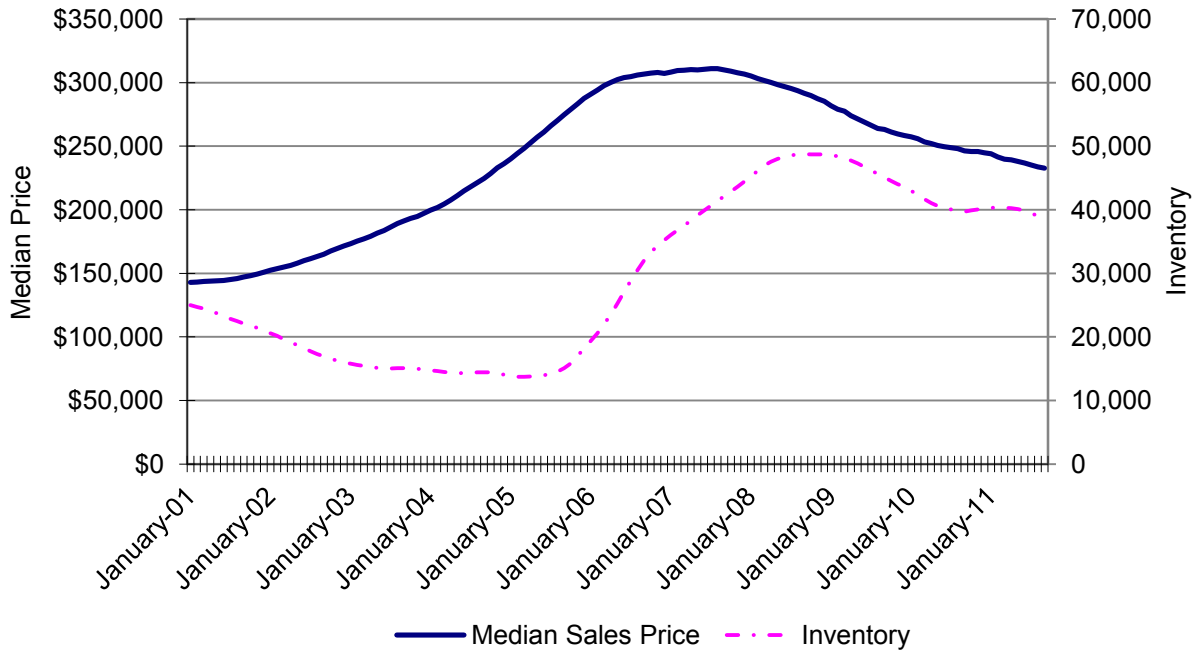
Debt Management and Capital Program

State Debt Policy

Annuity Bond Fund (ABF) Supports General Obligation (GO) Bond Debt Service Costs

- State property taxes are the ABF's largest revenue source.
- The current State property tax rate is $0.112 per $100 of assessable base.
- House prices peaked in calendar 2007 and have been declining ever since.

Maryland Housing – Median Prices and Inventory
12-month Moving Average
January 2001 to September 2011



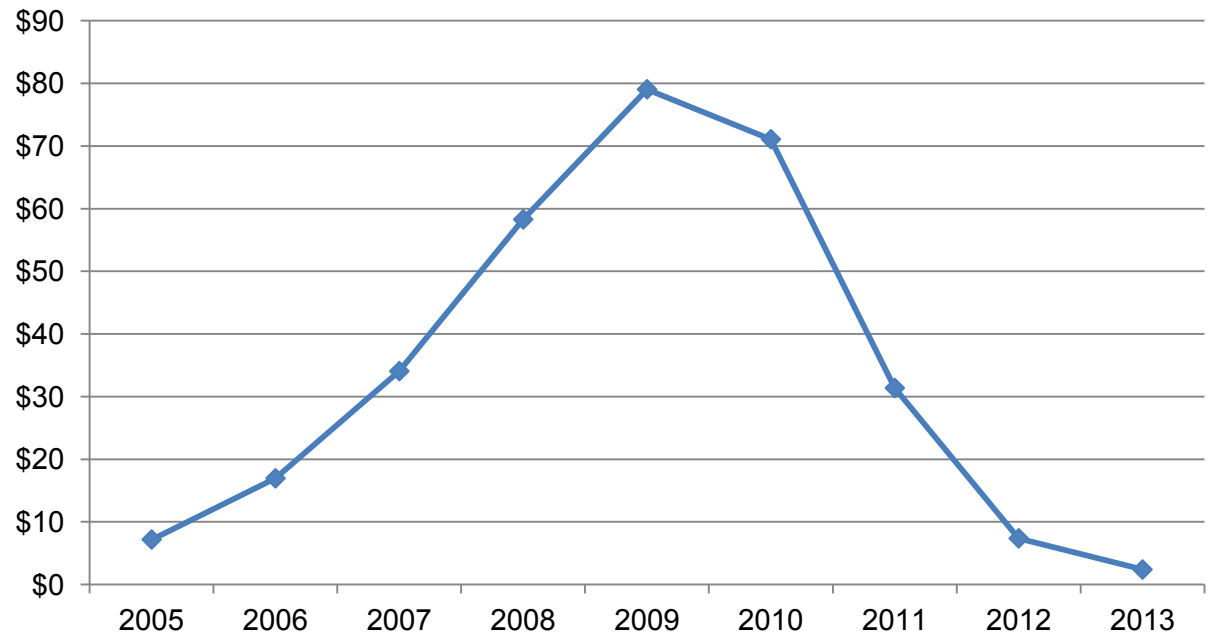
Source: Maryland Association of Realtors

State Debt Policy (cont.)

Homestead Tax Credits Are Declining

- The Homestead Tax Credit limits annual increases in State property tax assessments to 10%.
- When home values rise, the credit slows the growth in State property tax revenues.
- The Homestead Tax Credit stabilizes State property tax revenues.
- Homestead Tax Credits, which peaked in fiscal 2009, offer little cushion against declining home values in fiscal 2013.

State Property Tax Homestead Tax Credits
Fiscal 2005-2013
($ in Billions)



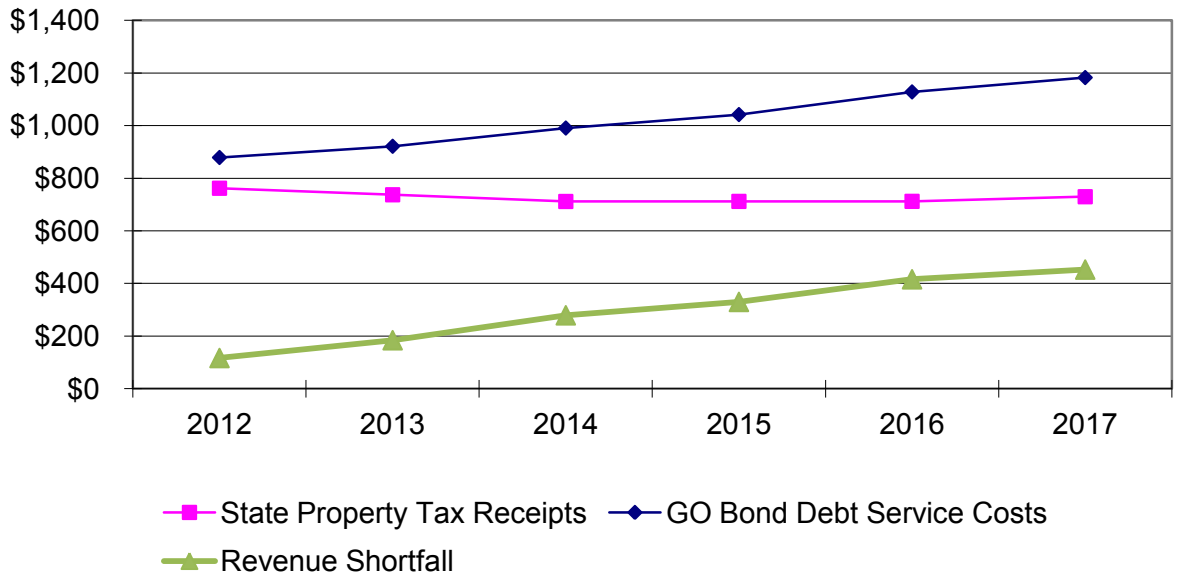
Source: State Department of Assessments and Taxation

State Debt Policy (cont.)

GO Bond Debt Service Costs Exceed State Property Tax Revenues

- State GO bond debt service costs are projected to increase 6.1% annually.
- State property tax revenues are projected to remain flat.
- In fiscal 2013, estimated GO bond costs exceed State property tax revenues by $184 million.
- The variance increases to $433 million by fiscal 2017.

Debt Service Costs and State Property Tax Revenues
Fiscal 2012-2017
($ in Millions)



GO: general obligation

Source: Department of Legislative Services, November 2011

State Debt Policy (cont.)

Estimated Annuity Bond Fund Activity
Fiscal 2012-2017
($ in Millions)

	2012	2013	2014	2015	2016	2017
Special Fund Revenues						
State Property Tax Receipts	$762	$737	$712	$712	$712	$730
Bond Sale Premiums	63	0	0	0	0	0
Other Revenues	2	2	2	2	2	2
Prior Year Fund-balance Transfers	131	92	0	1	1	1
Subtotal Special Fund Revenues Available	***$958***	***$831***	***$714***	***$715***	***$715***	***$732***
General Fund Appropriations	$0	$78	$259	$310	$396	$433
Transfer Tax Special Fund Revenues	2	2	6	6	6	7
Federal Fund Appropriations	11	11	11	11	11	11
Total Revenues	**$971**	**$922**	**$991**	**$1,042**	**$1,128**	**$1,183**
Projected Debt Service Expenditures	**$879**	**$921**	**$991**	**$1,042**	**$1,128**	**$1,182**
ABF End-of-year Fund Balance	**$92**	**$1**	**$1**	**$1**	**$1**	**$1**

ABF: Annuity Bond Fund

Source: Department of Legislative Services, November 2011

- The Department of Legislative Services (DLS) projects that fully funding debt service with State property taxes in fiscal 2013 would require a $0.012 increase in the State property tax rate to $0.124 per $100 of assessable base.

- This tax increase would add $27.47 to the median home's annual State property tax bill, based on a Maryland Association of Realtors estimate that the median home sale price in October 2011 was $228,879.

- The State policy to dedicate State property taxes to support GO bond debt service costs has provided a stable funding source and reduced the State's general fund deficit.

- **DLS recommends that in fiscal 2013, the State continue the policy that State property taxes support GO bond debt service.**

State Debt Policy (cont.)

The State Is at the Debt Limit

- The Capital Debt Affordability Committee (CDAC) advises the General Assembly on State debt policy. The committee's policy is that State tax-supported debt outstanding should not exceed 4% of Maryland personal income, and State tax-supported debt service payments should not exceed 8% of State revenues.

- As a consequence of two recessions and the action taken in the last 10 years, the State is now at the debt limits. The table below shows that debt service is expected to reach almost 8% of revenues by fiscal 2017.

State Affordability Ratios
Fiscal 2012-2021

Fiscal Year	Debt Outstanding as a % of Personal Income	Debt Service as % of Revenues
2012	3.24%	6.82%
2013	3.37%	6.92%
2014	3.33%	7.36%
2015	3.22%	7.48%
2016	3.07%	7.68%
2017	2.96%	7.76%
2018	2.84%	7.69%
2019	2.72%	7.35%
2020	2.62%	7.01%
2021	2.58%	6.81%

Source: Department of Legislative Services, November 2011

State Debt Policy (cont.)

Scenario to Accelerate Capital Spending

- DLS estimates that an additional $500 million can be authorized in fiscal 2013, and another $200 million can be authorized in fiscal 2014.

- To keep debt within affordability limits, this requires the State to reduce proposed debt issuances in fiscal 2015 and 2016 by $800 million.

Effect of Accelerating General Obligation Bond Authorizations
Fiscal 2013-2021
($ in Millions)

Fiscal Year	CDAC Program Size	Change in Authorizations	Revised Program Size
2013	$925	$500	$1,425
2014	925	200	1,125
2015	935	-500	435
2016	945	-300	645
2017	955	0	955
2018	1,200	0	1,200
2019	1,240	0	1,240
2020	1,280	0	1,280
2021	1,320	0	1,320

CDAC: Capital Debt Affordability Committee

Note: Assumes capital leases for video lottery terminals at Baltimore City and Rocky Gap facilities.

Source: Department of Legislative Services, November 2011

State Debt Policy (cont.)

Accelerating Capital Projects Increases Borrowing Costs in the Short-term and Pushes State Debt to the Limit

Effect of Accelerating Capital Program on Affordability Ratios and Debt Service
Fiscal 2013-2021

Fiscal Year	Revised Debt Service to Revenues	Additional Debt Service ($ in Millions)
2013	6.93%	$1.8
2014	7.43%	10.0
2015	7.62%	16.8
2016	7.86%	24.0
2017	8.00%	29.5
2018	8.00%	24.0
2019	7.71%	12.9
2020	7.41%	3.3
2021	7.26%	-4.1

CDAC: Capital Debt Affordability Committee

Source: Department of Legislative Services, November 2011

- Accelerating the capital program will bring the State even closer to the debt affordability limit. If revenues are reduced, the capital program may need to be substantially reduced in fiscal 2015 to stay within the affordability ratios. This also leaves the State with less of an ability to manage cost overruns, unforeseen capital needs, or revenue write-downs.

- In fall 2009, CDAC reduced out-year debt service authorizations. This prepared agencies for a smaller capital program in the out-years. It is unclear how quickly the State will be able to wind capital spending up again. Consequently, the State may not have as many shovel-ready projects as is needed to have the anticipated effect.

State Debt Policy (cont.)

GO Bond Recommendations

- **DLS concurs with the CDAC recommendation to limit fiscal 2013 GO bond authorizations to $925 million.**

- DLS also recognizes that there may be benefits to accelerating capital construction projects**.**

- **DLS recommends that any acceleration of capital construction projects be offset by reductions to the capital program in the out-years that are sufficient to maintain a debt program within affordability limits.**

Higher Education Academic Revenue Bond Recommendation

- CDAC also recommended a $32 million limit on the University System of Maryland's (USM) revenue bond debt.

- This is an increase of $5 million over the fiscal 2012 limit.

- The additional funds are provided to match $5 million in GO bonds authorized to reduce USM's $1.5 billion facility renewal backlog.

- **DLS concurs with the committee's assessment that issuing $32 million in new USM academic revenue bonds is affordable.**

Capital Program – Impact of Fiscal Pressures

Bond Program Squeezed from Both Ends

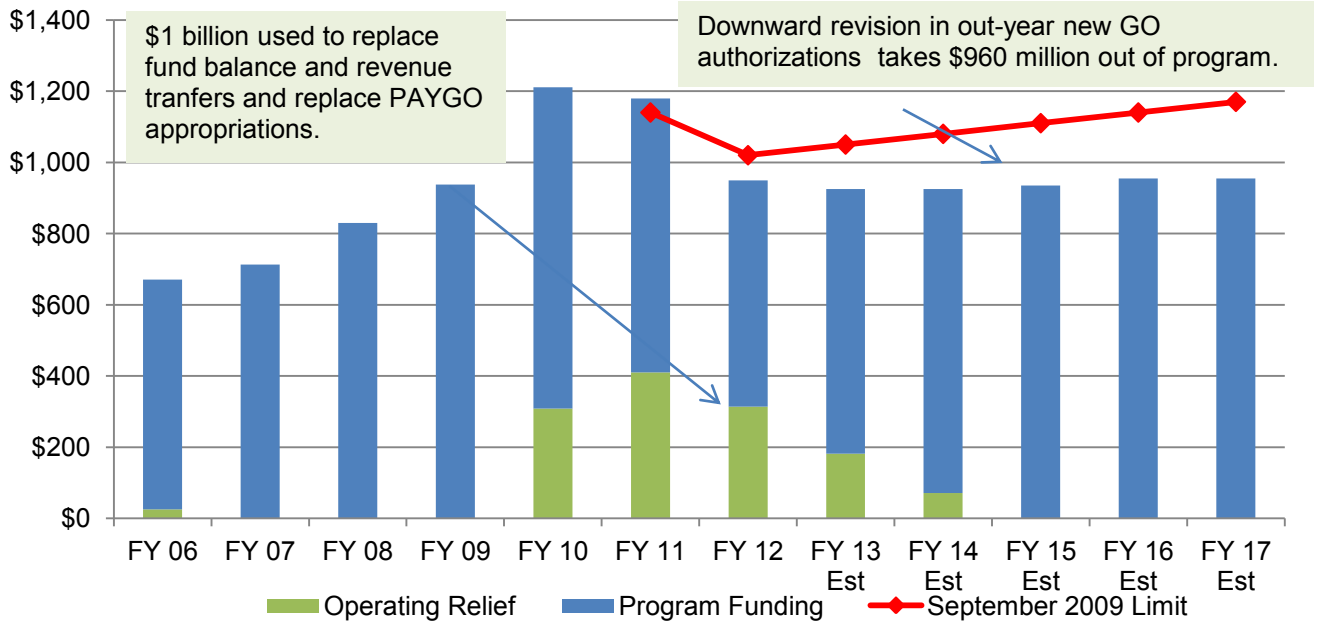
- **Reduced General Obligation (GO) Bond Authorizations:** Debt affordability limits take $960 million out of capital improvement plan from fiscal 2012 through 2017.

- **Multi-year Use of GO Bond Program to Relieve Pressure on Operating Budget:** $1.03 billion of GO bond authorizations used in fiscal 2010 through 2012 to replace special funds transferred to the general fund and to fund programs/projects that normally receive pay-as-you-go (PAYGO) funding.

    - The multi-year GO bond replacement estimated to require $181 million in fiscal 2013 and another $76 million in fiscal 2014.

    - Additional special fund transfers in the 2012 session could add to the GO bond replacement scheduled. Additional restructuring of planned projects would be required.

Reduced GO Bond Limits – Use for Operating Relief
Fiscal 2006-2012 Actual and Fiscal 2013-2017 Estimate
($ in Millions)



GO: general obligation PAYGO: pay-as-you-go

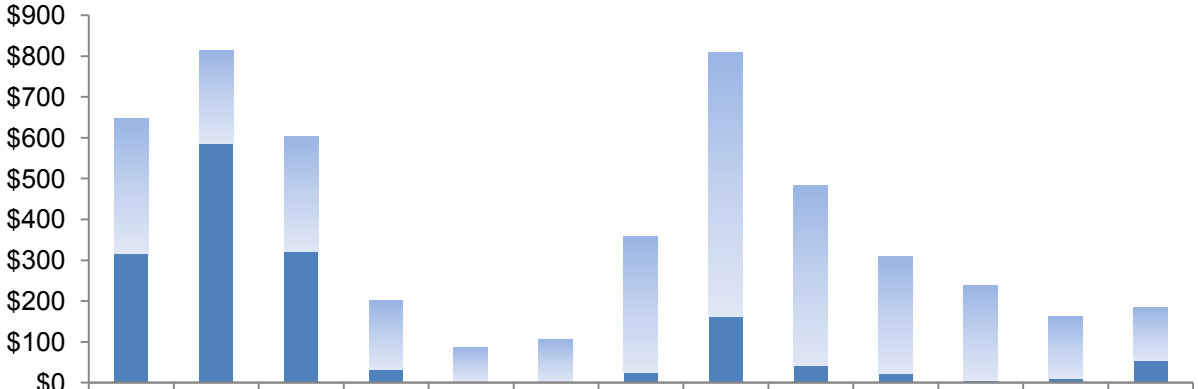
Source: Department of Legislative Services

Capital Program – Impact of Fiscal Pressures (cont.)

Weak Economy Reduces PAYGO Portion of Capital Program

- Use of **general fund** support for capital program virtually eliminated.

General and Special Fund Capital Appropriations
Fiscal 2000-2012
($ in Millions)



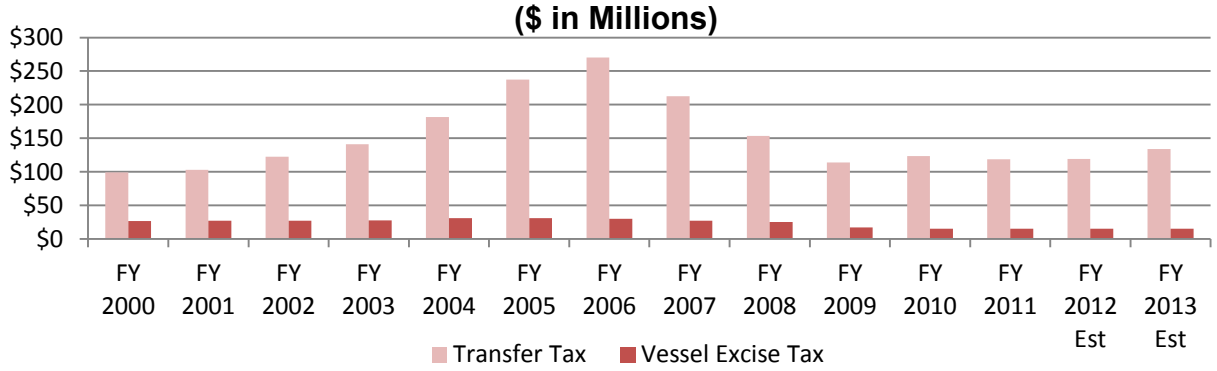
	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Special	$330.0	$228.6	$281.5	$169.0	$84.9	$105.7	$332.6	$647.3	$441.2	$286.1	$233.6	$151.7	130.5
General	$316.5	$585.1	$321.1	$32.3	$2.7	$1.2	$25.5	$161.9	$41.9	$23.7	$5.1	$10.8	$54.5

Note: General funds amount for fiscal 2002 reflects adjustment for reversions to the general fund as required in budget reconciliation legislation in the 2002 session. The general fund legislative appropriation was $643.8 million.

Source: Department of Legislative Services

- **Special fund** revenues used to support multiple capital programs are in decline.

Annual Revenues – Transfer and Vessel Excise Taxes
Fiscal 2000-2013 Estimate
($ in Millions)



Source: Maryland Department of Natural Resources

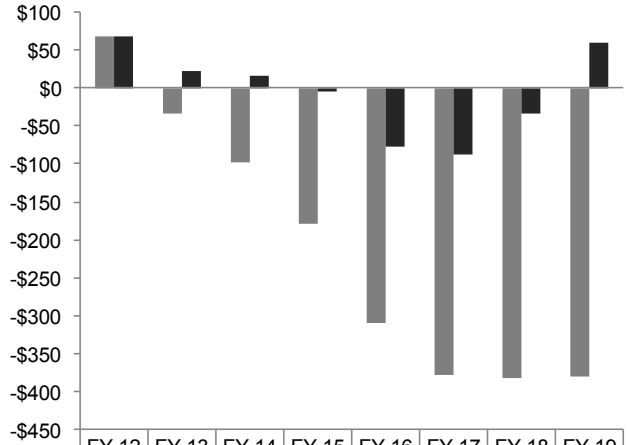
Bay Restoration Fund Revenues Not Sufficient to Finish the Job

- **Current Fee Structure:** Forecasted to result in a $382.6 million shortfall jeopardizing the ability to complete the remaining enhanced nutrient removal upgrades scheduled for the State's 67 largest wastewater treatment plants. In this scenario, six projects, including two large projects with significant nutrient reduction expectations, located at Cox Creek and Back River, would be left unfunded.

    - Without a fee increase, virtually all of the revenues to the fund will be dedicated to paying annual debt service on the $530 million of revenue bonds to be issued by the Maryland Department of the Environment for the program. Therefore, simply extending the project implementation and funding is not an option.

    - GO bonds could be used to fill the gap but this would require restructuring the *Capital Improvement Program* (CIP) to find room for $382.6 million of project funding not presently in the plan, and would add to the stress on the GO program already caused by declining authorization levels and operating budget relief.

Bay Restoration Fund Shortfall Forecast
Fiscal 2012-2019
($ in Millions)



	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19
Current Fee Cumulative Fund Shortfall	$68.0	-$33.7	-$98.6	-$178.5	-$310.7	-$377.6	-$382.6	-$379.9
100% Fee Increase Cumulative Fund Shortfall	$68.0	$21.9	$16.2	-$3.9	-$77.8	-$86.8	-$33.4	$60.7

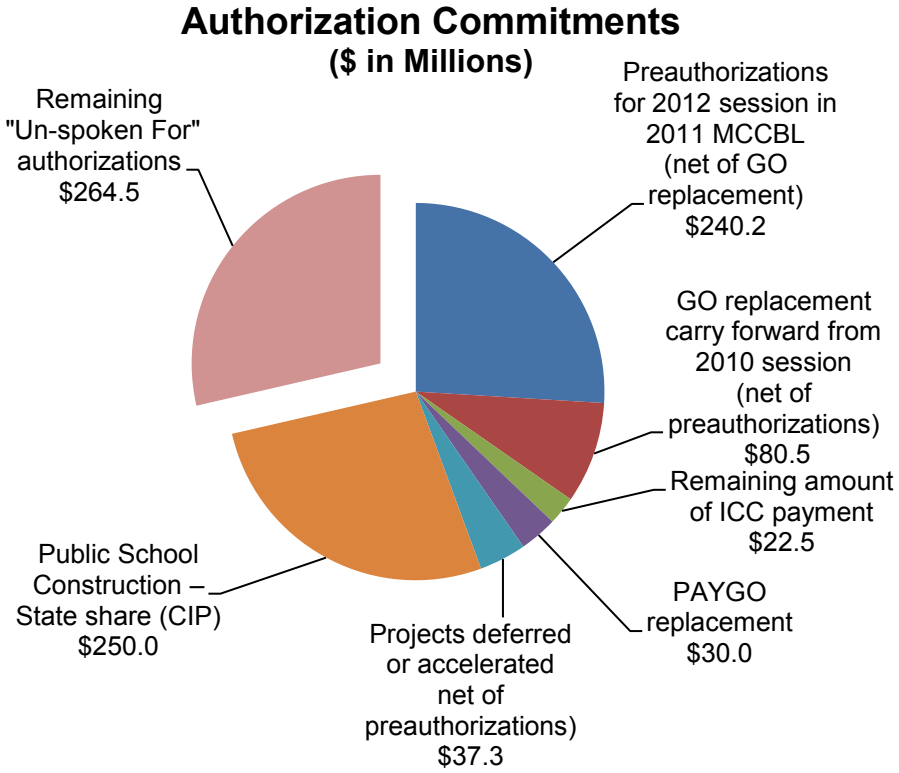
Note: 100% fee increase assumes all Enhanced Nutrient Removal projects are completed by 2017 under the timeline required by the State's Watershed Implementation Plan.

Source: Maryland Department of the Environment; Department of Legislative Services

Capital Program – Impact of Fiscal Pressures (cont.)

- **100% Fee Increase:** Forecasted to result in a $86.8 million shortfall though fiscal 2018 if the State expects to complete all Enhanced Nutrient Removal upgrades by 2017 as required by the State's Watershed Implementation Plan. This assumes that additional revenue bonds could not be issued due to the State's debt limits.

Outlook for 2012 Session



- **Fiscal 2013 Requests – Competition for Available "Un-spoken For" Authorizations Exceeds $935 million**
  - State Facilities: $87 million
  - Health and Social Services: $39 million (excludes preauthorizations)
  - Environment: $70 million (excludes fund transfer replacement)
  - Education: $371 million (net of CIP level for Public School Construction)
  - Higher Education: $192 million (excludes preauthorizations)
  - Public Safety: $30 million (excludes preauthorizations)
  - Housing: $48 million
  - Miscellaneous – including legislative initiatives: $98 million

- **Potential Revenue Transfer May Also Compete for Space:** $100 million (transfer tax only)

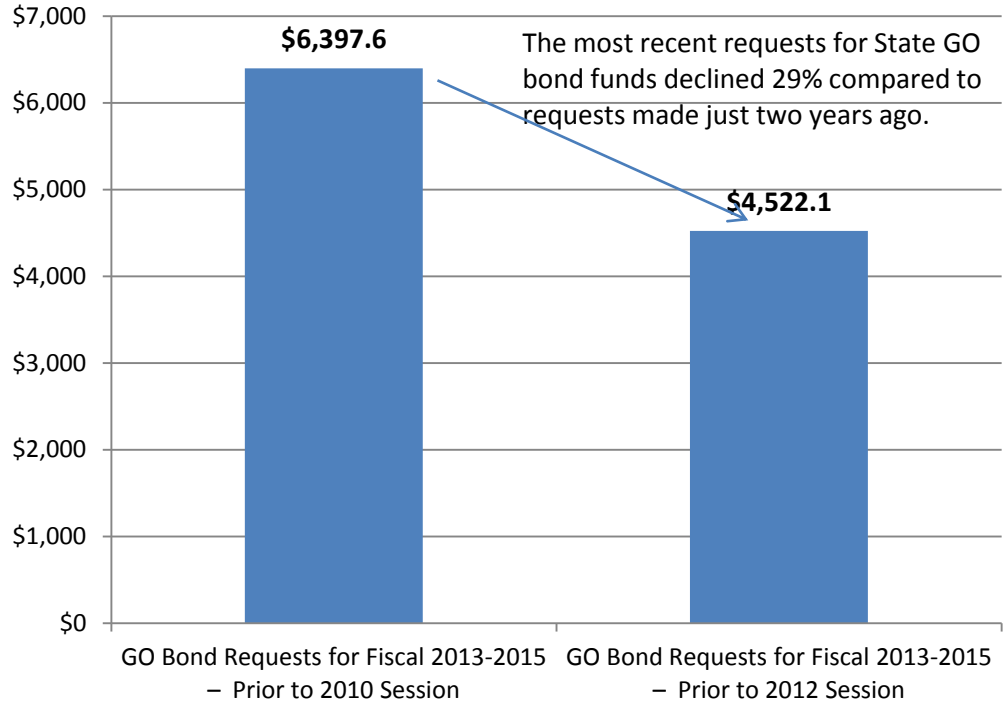
CIP: *Capital Improvement Program* GO: general obligation –
ICC: InterCounty Connector MCCBL: Maryland Consolidated Capital Bond Loan

Capital Program – Impact of Fiscal Pressures (cont.)

Capital Requests Decline but Still Exceed Capacity

- **Requests Decline:** GO bond requests for fiscal 2013 through 2015 made just two years ago totaled $6.4 billion compared to the most recent requests for the same time period of $4.5 billion.
    - Decline in school construction requests ($2.5 billion for fiscal 2013 through 2015 two years ago compared to $1.5 billion in the most recent funding request) accounts for much of the decline and reflects local funding capacity constraints.

GO Bond Requests
Comparison of Request Made for Fiscal 2013 through 2015
($ in Millions)

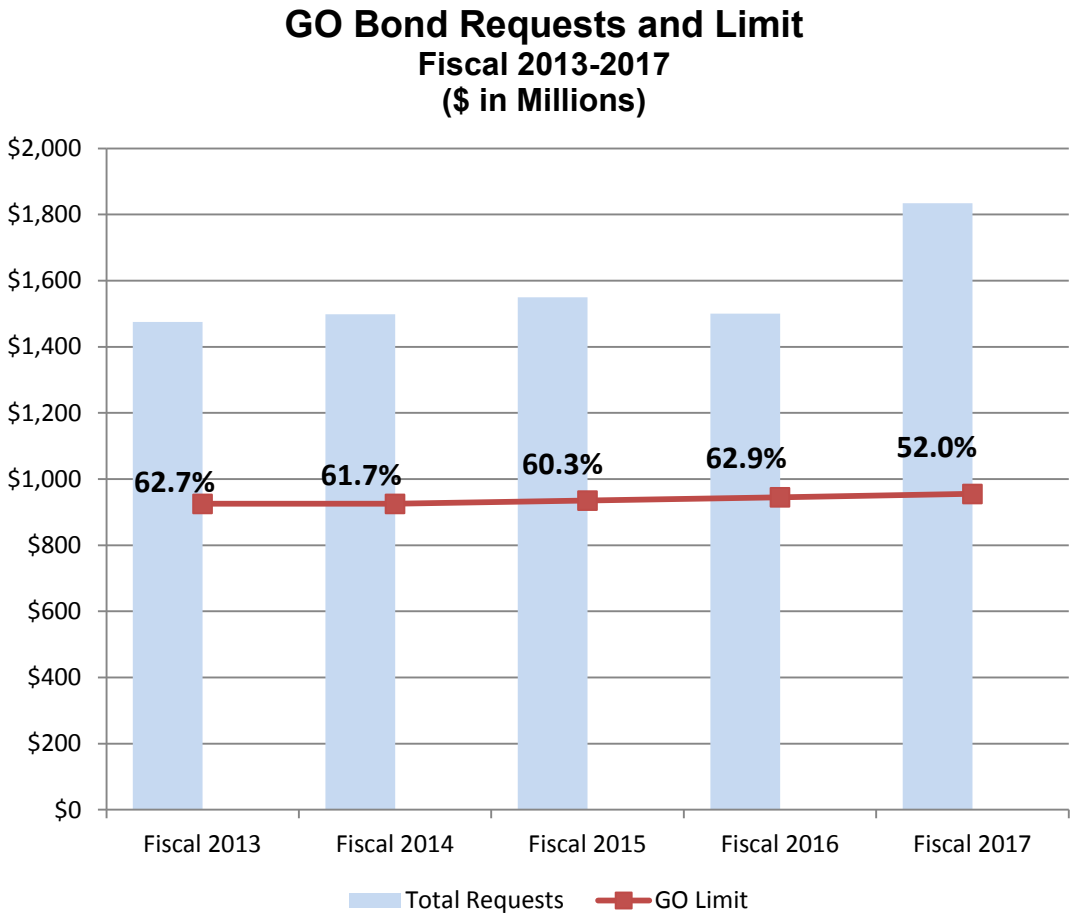


GO: general obligation

Source: Department of Budget and Management

- **Despite Decline Requests Exceed Capacity:** GO bond requests exceed the recommended new authorization limit by $550 million for fiscal 2013. Over the five-year planning period, requests exceed capacity by almost $3.2 billion.
    - New out-year GO authorization limits would fund between 52 and 62% of requests in any year.

Capital Program – Impact of Fiscal Pressures (cont.)



GO: general obligation

Source: Department of Budget and Management

Infrastructure Spending and Jobs

Options

- **Accelerate the GO bond authorization schedule and use the debt capacity to make infrastructure investments now and stimulate job creation.** Opportunities for additional capital investment include:

  - Public School Construction where requests for State funding support for fiscal 2013 exceed the CIP level by $395 million;

  - Department of General Services Facility Renewal Program which currently has a $100 million backlog of smaller deferred maintenance projects (less than $1 million in total costs) that could be implemented quickly;

  - University System of Maryland Facility Renewal Program which has an estimated $1.6 billion backlog of smaller projects;

  - construction projects for State agencies that have recently been deferred due to lower authorization levels for which design is or will be sufficiently complete to allow for accelerated funding over what is currently programmed in the CIP; and

  - small to mid-sized transportation projects that could be implemented quickly.

- **Revenue enhancement which could both increase the availability of PAYGO funding and increase the State's bonding capacity:** The Department of Legislative Services estimates that an additional $100 million in revenues could support up to $110 million in GO bond authorizations or $80 million in transportation debt within current debt affordability limits.

- **Make greater use of alternative delivery methods:** Make greater use of public-private partnerships and invite private investment in public infrastructure projects, particularly transportation. Also make greater use of alternative project delivery methods, such as design-build and construction management at risk, which can shorten the time it takes to design, construct, and deliver a project.

Limit the use of GO bond replacement of fund transfers: GO bonds not used as a source of special fund and PAYGO replacement would be available to support additional capital investments.

Part 6

Transportation

Transportation Trust Fund Closeout
Comparison of Fiscal 2011 Projected and Actual Revenues
($ in Millions)

	FY 2011 Projected	FY 2011 Actual	Variance
Starting Fund Balance	**$234**	**$234**	**$0**
Revenues			
Titling Taxes	571	595	24
Motor Fuel Taxes	729	752	23
Sales Tax	229	228	-1
Corporate Income, Registrations, and Misc. MVA Fees	727	727	0
Other Receipts and Adjustments	512	570	58
Bond Proceeds and Premiums	75	0	-75
Total Revenues	**$2,843**	**$2,872**	**$29**
Uses of Funds			
MDOT Operating Expenditures	$1,543	$1,546	$3
MDOT Capital Expenditures	717	621	-96
MDOT Debt Service	159	156	-3
Highway User Revenues	137	139	2
Other Expenditures	421	423	2
Total Expenditures	**$2,977**	**$2,885**	**-$92**
Final Ending Fund Balance	**$100**	**$221**	**$121**

MDOT: Maryland Department of Transportation
MVA: Motor Vehicle Administration

Note: Totals may not sum due to rounding.

Source: Maryland Department of Transportation, September 2011

- The Transportation Trust Fund (TTF) ended fiscal 2011 with a fund balance of $221 million, $121 million greater than expected. The additional fund balance is due to higher revenue attainment and spending coming in less than estimated.

- Revenue attainment was $29 million greater than estimated. Titling tax revenues were $24 million higher than expected, while motor fuel taxes exceeded the estimate by $23 million. Operating revenues and reimbursements also were more than expected.

- Capital expenditures were $96 million less than expected due to funds being transferred to the operating budget for winter maintenance and cash flow changes in projects.

- Higher revenues and lower capital spending mitigated the need for bond sales.

Maryland Department of Transportation's (MDOT) Special Fund Capital Program Could Be $1.1 Billion Less Based Upon the Department of Legislative Services (DLS) Forecast

($ in Millions)

	DLS Six-year Total
Revenue	
Titling Tax – MDOT assumes that titling tax revenues will have an average annual growth of 7.2% with peak growth in fiscal 2013 as the economy recovers. DLS assumes average revenue growth of 5.7% with more modest out-year growth.	-$351
Miscellaneous Motor Vehicle Administration (MVA) Fees – MDOT assumes that MVA fees will exceed the statutory cost recovery requirement. DLS assumes that MVA fee revenue will be within the statutory requirements.	-120
Other Revenues – DLS assumes other revenues will be higher. Motor fuel tax revenue is $83 million higher due to higher growth estimates. Other major revenue differences include a higher actual fund balance and other minor revenues.	104
Bonds Issued – MDOT assumes bond sales total approximately $1.5 billion. Due to less revenue and higher levels of operating budget spending, DLS estimates bond sales are constrained throughout the six-year period.	-535
Total	**-$902**
Spending/Transfers	
Operating Budget – MDOT assumes average annual operating budget growth of 4.0%. DLS assumes average annual growth of 5.5%. The largest differences are in estimates for transit and winter maintenance expenditures.	$304
Capital Program – MDOT estimates the six year capital program will total $5.4 billion. DLS estimates a capital program that is $1,091 million less than MDOT's. Less cash is available due to lower revenue estimates and higher operating budget spending, which constrain bond sales.	-1,091
Debt Service – MDOT estimates that debt service will total $1,435 million over the six years. DLS estimates that reduced bond sales reduce debt service costs.	-84
General Fund Transfer – MDOT estimates a general fund distribution of $189 million in fiscal 2012. Lower revenue estimates result in less revenue for distribution.	-2
Local Highway User Revenue (HUR) Distribution – MDOT estimates $1,032 million in local HUR over the six years. Lower revenue estimates result in less revenue for distribution.	-29
Total	**-$902**

Revenue Pressures and Recommendations

Future Federal Aid Issues:

- Currently the amount of federal aid distributed to states is less than the amount of revenues collected from the federal gas tax. To maintain funding to the states, federal general funds have been used to subsidize state aid.

- With the pressure to reduce the federal deficit, it is not clear what the future holds for federal transportation aid from the federal gas tax or for federal general fund aid for transportation (*e.g.*, New Start funding and Washington Metropolitan Area Transit Authority).

- Recent Congressional activity largely maintains aid to states in federal fiscal 2012; however, to maintain current funding levels in the long-term, either a revenue increase or a general fund transfer is required.

- Any reduction in federal aid will reduce the size of the capital program. In addition, State funding obligations for the major transit lines could increase.

Capital Program Pressures:

- Under the DLS forecast, the special fund capital program could be less than currently estimated due to lower revenue estimates and higher operating budget spending.

- The current capital program continues with plans to construct three major transit lines; however, funding for construction is not included. There are also significant environmental obligations that are not funded.

Blue Ribbon Recommendations:

- Protect the TTF by amending the State Constitution to prohibit transfers out of the TTF for nontransportation purposes or enact statute that requires a fiscal emergency to be declared before a transfer can occur.

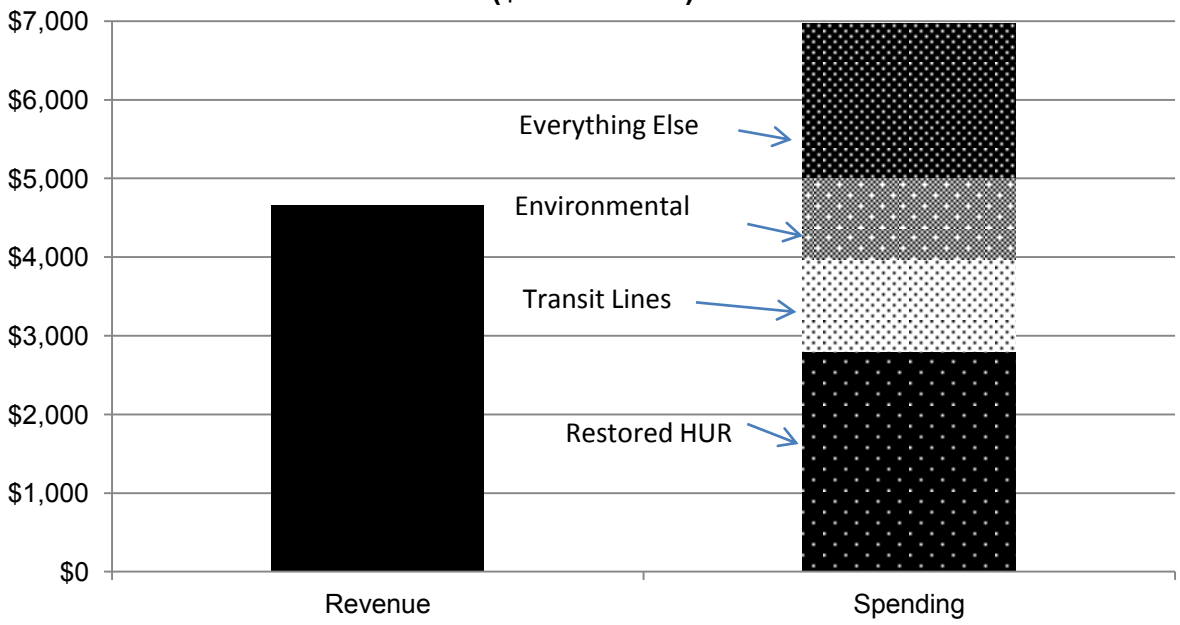
- Incrementally restore the local share of HURs.

- Raise approximately $870 million in net new annual revenues for transportation. This could be accomplished through a three-year phase-in of a 15-cent motor fuel tax increase followed by annual indexing in year four. In addition, increase registration fees by 50.0%; either increase the titling tax to 6.5%, or eliminate the trade-in allowance; and increase Maryland Transit Administration fares, Vehicle Emissions Inspection Program fees, and MVA fees.

- Several other recommendations relate to smart growth, freight, farebox recovery, value capture, and public-private partnerships.

Fiscal 2013-2017 Proposed Blue Ribbon Commission Revenues Are Insufficient to Restore Highway User Revenues (HUR), Construct Three Transit Lines, Fund Environmental Projects, and Other System Preservation/Expansion Projects

($ in Millions)



Fiscal 2013-2017 Revenues	**$4,665**
Fiscal 2013-2017 Spending	
Restore and Share Revenues with Local Jurisdictions at 30%	$2,795
Cash Flow Needs for Constructing 3 Transit Lines at 50% Federal Match	1,183
Fund the Watershed Implementation Plan and Other Environmental Projects	1,040
Highway Expansion and Base Realignment and Closure Funding	750
Washington Metropolitan Area Facility Upgrades	700
Maryland Department of Transportation System Preservation Funding	500
Total	**$6,968**
Difference	**-$2,303**

Part 7

State Employment and Employee Benefits

Regular Full-time Equivalent Position Changes
Fiscal 2002 Actual to Fiscal 2013 Baseline

Department/Service Area	2002 Actual	2012 Legis. Appropriation	2002-2012 Change	2013 Baseline	2012-2013 Change
Health and Human Services					
Health and Mental Hygiene	8,555	6,411	*-2,143*	6,407	-5
Human Resources	7,364	6,568	*-796*	6,568	0
Juvenile Services	2,123	2,184	*61*	2,160	-24
Subtotal	***18,041***	***15,163***	***-2,878***	***15,134***	***-29***
Public Safety					
Public Safety and Correctional Services	11,663	11,168	*-494*	11,168	0
Police and Fire Marshal	2,590	2,395	*-195*	2,365	-30
Subtotal	***14,252***	***13,563***	***-689***	***13,533***	***-30***
Transportation	9,538	8,806	*-732*	8,814	8
Other Executive					
Legal (Excluding Judiciary)	1,364	1,444	*80*	1,448	4
Executive and Administrative Control	1,603	1,580	*-23*	1,581	1
Financial and Revenue Administration	2,151	1,972	*-179*	1,973	1
Budget and Management	517	423	*-94*	423	0
Retirement	194	202	*9*	202	0
General Services	793	586	*-207*	580	-6
Natural Resources	1,618	1,271	*-347*	1,302	31
Agriculture	480	399	*-82*	396	-3
Labor, Licensing, and Regulation	1,706	1,655	*-51*	1,657	2
MSDE and Other Education	1,956	1,902	*-54*	1,926	24
Housing and Community Development	416	305	*-111*	305	0
Business and Economic Development	324	228	*-96*	230	2
Environment	1,028	937	*-91*	936	-1
Subtotal	***14,149***	***12,902***	***-1,247***	***12,957***	***55***
Executive Branch Subtotal	**55,980**	**50,434**	***-5,546***	**50,438**	**4**
Higher Education	21,393	24,224	*2,832*	24,795	571
*Fiscal 2012 Budget Bill Section 47 Reduction**	-	-	-	*-450*	*-450*
Executive and Higher Education Subtotal	77,373	74,659	-2,714	74,783	125
Judiciary	3,010	3,581	*572*	3,581	0
Legislature	730	747	*17*	747	0
Grand Total	**81,113**	**78,987**	**-2,126**	**79,112**	**125**

MSDE: Maryland State Department of Education

*The General Assembly instructed the Governor to abolish 450 positions across the Executive Branch and higher education institutions by January 1, 2012, but the distribution by agency of these positions has yet to be determined. Numbers may not sum due to rounding.

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

State Pension System – Contribution Rates and Budgeted Funding Levels
Fiscal 2011 Actual to Fiscal 2013 Estimate
($ in Million)

	2011	2012	2013 w/Reform	2012-13 Change w/Reform	2013 w/o Reform
Employees' System – State Rate	11.69%	13.40%	14.03%		15.16%
Employees' System – State $	*$343*	*$409*	*$447*	*$38*	*$482*
Teacher System – State Rate	14.34%	15.45%	15.30%		16.57%
Teacher System – State $	*$924*	*$917*	*$982*	*$65*	*$1,063*
Other Systems State $*	*$103*	*$116*	*$121*	*$5*	*$125*
Total $ Contribution	**$1,371**	**$1,442**	**$1,549**	**$106**	**$1,669**

● In the absence of the 2011 pension reform, State contributions for fiscal 2013 would equal $1.669 billion.

● The reforms reduce the State's fiscal 2013 liabilities by $310 million. Yet, because improving the system's funding status is a legislative priority, the amount to be budgeted in State contributions for fiscal 2013 actually increases by $106 million. This amount represents the net impact of the 2011 reforms' reinvestment component, which will contribute $190 million above the post-reform rate to the system.

● After fiscal 2013, the State's reinvestment will accelerate to an additional $300 million annually above the corridor rate.

● Partially offsetting the reforms is the fact that State contribution rates are still increasing due to the large investment losses of calender 2008 to 2009 in spite of positive experience in fiscal 2010 to 2011. Falling payroll levels and accrued corridor-based liabilities also push the base contribution rates upward in fiscal 2013.

*Other systems represent those serving State Police, judges, law enforcement officers, and legislators. Maryland Transportation Authority police officers are not included because they are nonbudgeted.

Note: Numbers may not sum due to rounding.

Source: Gabriel Roeder Smith & Company; Department of Budget and Management

Employee and Retiree Health Insurance Funding
Fiscal 2010 Actual – Fiscal 2013 Estimate
($ in Millions)

	2010 Actual	2011 Wrk. App.	2012 Budget	2013 Est.
Beginning Balance	**$138**	**$185**	**$152**	**$109**
Receipts				
Agencies (Employer Contribution)	$894	$882	$930	$1,005
Employees/Retirees Contribution	237	235	243	$276
Rebates, Recoveries, Other	47	65	43	$30
Total Receipts	**$1,178**	**$1,182**	**$1,217**	$1,311
% Growth in Receipts	17.6%	0.3%	2.9%	7.8%
Expenditures				
Payments	-$1,131	-$1,215	-$1,259	-$1,322
% Growth in Payments	1.9%	7.4%	3.6%	5.0%
Ending Balance	**$185**	**$152**	**$109**	**$98**

- Fiscal 2013 State appropriation to total over $1.0 billion as past balance now completely utilized.

- Fiscal 2012 Budget Bill offset State increase by shifting part of increasing costs to employees and retirees:
  - Active employees now paying higher Rx co-pays and have higher OOP limits.
- Retirees paying same Rx co-pays as actives and 25% of Rx premium, up from 20%.
  - Fiscal 2013 assumes actives to pay equivalent of 5% premium increase.
- Fiscal 2013 costs changes due to:
  - Negotiated premium increasing but not at levels seen in broader market.
  - Stable membership in light of position reductions and slackening of dependent additions.
  - Cost inflation in medical/Rx services.

- Fiscal 2013 other revenues decline as the approximately $23 million in annual Medicare D federal reimbursements are now directed to the general fund.

Rx: prescription
OOP: out-of-pocket

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

Part 8

Video Lottery Terminals

Update on Implementation of the Video Lottery Terminal (VLT) Program

- Under the State Constitution, five geographic areas are authorized for video lottery facilities. In fall 2009, the Video Lottery Facility Location Commission (Location Commission) awarded video lottery operation licenses for three of these areas.

- Penn Cecil Maryland, Inc. was awarded a license to operate a facility with 1,500 VLTs in Perryville in Cecil County. The facility opened to the public with 1,500 VLTs on September 27, 2010. The State Lottery reports that the Perryville facility has generated $110.6 million in revenues through September 30, 2011.

- Ocean Enterprise 589, LLC was awarded a license to operate a facility with 800 VLTs at Ocean Downs Racetrack in Worcester County. The facility opened with 750 VLTs on January 4, 2011, and now has the full complement of 800 VLTs in place. The State Lottery reports that the Ocean Downs facility has generated $35.0 million in revenues through September 30, 2011.

- Power Plant Entertainment Casino Resorts Maryland, LLC was awarded a license to operate a facility with 4,750 VLTs adjacent to the Arundel Mills Mall in Anne Arundel County, contingent upon local zoning approval. Phase one of that facility is currently scheduled to open with 2,750 VLTs in June 2012, with the full complement of 4,750 VLTs in operation by October 2012.

- After licenses for the proposed VLT facilities in Allegany County and Baltimore City were not awarded in previous rounds of bidding, the Location Commission issued new requests for proposals (RFP) for those licenses earlier this year.

- On September 23, 2011, the Location Commission received three proposals for Allegany County and two proposals for Baltimore City. However, one proposal for each location was subsequently rejected by the Location Commission for failing to meet requirements contained in the RFPs. The Location Commission plans to make final decisions on the remaining proposals sometime in early 2012.

Revised VLT Revenue Estimates

- Based on performance to date and changing economic and market conditions in Maryland and neighboring states, the Department of Legislative Services has developed revised VLT revenue estimates for fiscal 2012 to 2016.

- Fiscal 2011 VLT revenues from the Perryville facility came in roughly on estimate for year one, but revenues from the Ocean Downs facility underperformed the estimate by about half.

- It is estimated that the economic recession has reduced overall VLT revenues by approximately 10%.

- Previous estimates assumed a three- or five-year phase-up to stabilized annual revenues at a facility. However, based on experience in Delaware, Pennsylvania, and West Virginia controlled for the number of VLTs in operation, no phase-up is now assumed. This reduces the estimates for the Perryville and Ocean Downs facilities to essentially current levels.

- Revenues from the Arundel Mills and Baltimore City facilities are also reduced to reflect increased competition from Charles Town in West Virginia and facilities in the Philadelphia area. In addition, the delayed opening of the Arundel Mills facility from November 2011 to June 2012 reduced anticipated fiscal 2012 revenues by $179.0 million.

- In fiscal 2012, $114.1 million in general funds are needed to replace budgeted VLT revenues to the Education Trust Fund. Overall, VLT revenue estimates are $474.3 million, or 12%, lower than previous estimates over the five-year period.

Estimates of Anticipated Revenues at Each VLT Facility Location
Fiscal 2012-2016
($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Anne Arundel [1]	$0.0	$362.7	$421.2	$422.1	$423.0
Baltimore City [2]	0.0	0.0	336.6	337.5	338.4
Cecil	115.0	115.0	115.0	115.0	115.0
Worcester	46.0	46.9	47.9	48.8	49.8
Allegany (Rocky Gap)[3]	0.0	0.0	20.8	20.8	20.8
Total Annual Gross	**$161.0**	**$524.6**	**$941.5**	**$944.2**	**$947.0**
Difference Prev. Est.	**($56.4)**	**($89.5)**	**($30.3)**	**($112.2)**	**($185.9)**

VLT: video lottery terminal

[1] Assumes phase one facility opening with 2,750 VLTs in June 2012, with 4,750 VLTs in operation by October 2012. A delay in the opening of the facility from November 2011 had already reduced fiscal 2012 VLT revenues by $179.0 million.

[2] Assumes facility opening in July 2013 with 3,750 VLTs.

[3] Assumes facility opening in July 2013 with 500 VLTs.

Distribution of Anticipated VLT Revenues
Fiscal 2012-2016
($ in Millions)

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Total Annual Gross	**$161.0**	**$524.6**	**$941.5**	**$944.2**	**$947.0**
Education Trust Fund (48.5%)	78.1	254.4	455.2	456.6	457.9
Facility Licensees (33.0%)	53.1	173.1	314.2	315.1	316.0
Racing Purses/Bred Funds (7.0%)	11.3	36.7	64.9	65.1	65.3
Local Impact Grants (5.5%)	8.9	28.9	51.2	51.4	51.5
Racetrack Renewal (2.5%)	4.0	13.1	23.0	23.1	23.2
State Lottery Operations (2.0%)	3.2	10.5	18.8	18.9	18.9
Small/Minority/Women-owned Business Investment (1.5%)	2.4	7.9	14.0	14.1	14.1

VLT: video lottery terminal

Note: Chapter 240 of 2011 altered the distribution of VLT revenues from the Rocky Gap facility for the first 10 years of operation: 42.0% Education Trust Fund, 50.0% Licensee, 2.5% Racing Purses/Bred Funds; 2.75% Local Impact Grants; 0% Racetrack Renewal; and 0.75% Business Investment. Lottery remains at 2.0%.

Part 9

Reserve Fund

Current as of October 20, 2011

State Reserve Fund Activity
Fiscal 2012-2013
($ in Millions)

	Rainy Day Fund	Dedicated Purpose Acct.	Catastrophic Event Acct.
Estimated Balances 6/30/11	**$624.4**	**$0.0**	**$1.0**
Fiscal 2012 Appropriations[1]	0.0	15.0	0.0
Transfer from Transporation Trust Fund	40.0		
Expenditures			
Prince George's County Health System		-15.0	
Estimated Interest	16.9		
Estimated Balances 6/30/12	**$681.3**	**$0.0**	**$1.0**
Fiscal 2013 Appropriations	340.5	65.0	0.0
Expenditures			
POS Repayment for General Fund Transfers		-50.0	
Prince George's County Health System		-15.0	
Transfers to General Fund	-318.0		
Estimated Interest	21.1		
Estimated Balances 6/30/13	**$724.8**	**$0.0**	**$1.0**
Balance in Excess of 5% GF Revenues	**$0.1**		

BRFA: Budget Reconciliation and Financing Act
GF: general fund
POS: Program Open Space

[1] The 2010 BRFA does not require the Governor to appropriate funds into the Rainy Day Fund in fiscal 2012.