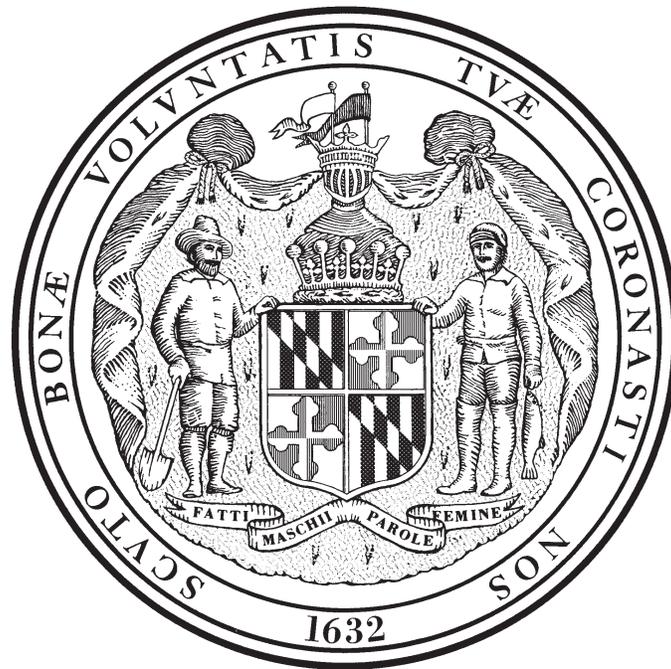


SPENDING AFFORDABILITY COMMITTEE

2010 Interim Report



ANNAPOLIS, MARYLAND
DECEMBER 2010

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December 21, 2010

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 2010 interim. These recommendations were adopted by the committee at its meeting on December 21, 2010. 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 2012 spending limit, future budget sustainability, reserve fund balances, capital debt, transportation debt, and State positions.

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

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

Sincerely,

Delegate John L. Bohanan, Jr.
Presiding Chair

Edward J. Kasemeyer
Senate Chair

JLB:EJK/ESS/kjl

December 21, 2010

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:

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Sincerely,

Delegate John L. Bohanan, Jr.
Presiding Chair

Senator Edward J. Kasemeyer
Senate Chair

JLB:EJL/ESS/kjl

**Maryland General Assembly
Spending Affordability Committee
2010 Interim
Membership Roster**

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Senator Edward J. Kasemeyer, Senate Chair**

Senators

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

Delegates

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

Citizens Advisory Committee

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

Committee Staff

Erika S. Schissler

Support Staff

Kimberly J. Landry

Contents

Governor’s Letter of Transmittal	iii
Legislative Policy Committee’s Letter of Transmittal.....	v
Membership Roster	vii
2010 Spending Affordability Committee Report and Recommendations to the Governor and the Legislative Policy Committee	1
Part 1 Economic Outlook	9
Part 2 General Fund Revenues	15
Part 3 General Fund Budget and Forecast.....	21
Part 4 Local Government Assistance	35
Part 5 Debt Management and Capital Program.....	47
Part 6 Transportation	61
Part 7 State Employment and Employee Benefits.....	67
Part 8 Video Lottery Terminals.....	75
Part 9 Reserve Fund	81

2010 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 three-member citizen advisory committee assists the committee.

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

The committee notes that operating spending in relation to the State's economy, as measured by the personal income statistic has fluctuated between 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, but the percentage has declined as State spending has been reduced to reflect the overall fiscal condition in the last two years.

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.

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

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

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

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

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

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

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

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. Maryland's employment peaked in February 2008 and bottomed out in February 2010 for a total peak to trough decline of 5.3% or 139,000 jobs. Since February, the State has added about 53,000 jobs. Personal income, which grew just 0.4% in 2009, was up 2.4% in the first six months of 2010. Nominal wage and salary income fell 0.8% in 2009, the first decline since 1954. In the first half of 2010, wage and salary income was up 1.4%, the first year-over-year increase since the end of 2008.

In September, the Board of Revenue Estimates (BRE) issued a revised economic forecast for Maryland, its first since March. BRE's new forecast was not significantly different from the March forecast. Employment growth is expected to be slightly weaker, reflecting the current national forecasts for a slow labor market recovery. Personal income growth is expected to be slightly stronger than in the previous forecast mostly due to the arrival of above average paying jobs from the Base Realignment and Closure process. In December, BRE made some small adjustments to the economic forecast, bringing growth in 2011 and 2012 down slightly.

Revenues

Fiscal 2010 general fund revenues were above the estimate by \$183.7 million. General fund revenues totaled \$12.6 billion, a decline of 2.4% from fiscal 2009. Most of the overattainment was in the personal income tax which was over the estimate by \$109.5 million. The sales tax exceeded the estimate by \$40.8 million and fell 2.7% from fiscal 2009. This marks the third year in a row that revenues have declined. Adjusted for law changes, general fund sales tax receipts fell 0.4% in fiscal 2008 and 5.5% in fiscal 2009.

In fiscal 2011, total general fund revenues through November are up 4.9% over the same period in fiscal 2010. The overattainment in fiscal 2010, combined with the slow economic recovery, resulted in an upward revision to the fiscal 2011 revenue estimate that was substantially smaller than the overattainment in fiscal 2010. In September, BRE raised its estimate for fiscal 2011 general fund revenues by \$88.6 million but also lowered the expected growth rate over fiscal 2010 from 2.5 to 1.7%. BRE projected that revenues would increase 3.8% in fiscal 2012. In December, BRE raised its general fund estimate for fiscal 2011 by \$57.0 million and lowered the revenue estimate for fiscal 2012 by \$8.7 million. General fund revenues are now projected to increase 2.1% in fiscal 2011 and 3.3% in fiscal 2012.

Budget Requirements

Taking into consideration the revenue projections by BRE in December 2010, recent federal tax law changes, and modifications to the timing of revenues from video lottery terminals,

2010 Spending Affordability Committee Report

the committee is currently projecting an ending general fund balance of \$405.0 million at the close of fiscal 2011. This projected balance takes into account anticipated spending shortfalls requiring fiscal 2011 deficiency appropriations totaling \$337.2 million. Areas which are expected to require deficiency funding include medical assistance and energy assistance payments, mental hygiene community provider payments, homeowners and renters tax credit programs, certain programs in Juvenile Services where federal funds have been disallowed, and personnel costs in several agencies.

The loss of one-time federal funds, coupled with enrollment and rate increases, creates a significant need for general funds in the Medicaid program, where an increase of \$1,150.9 million in general funds is needed. Nearly \$750.0 million of this amount results from the expiration of enhanced federal matching funds. A similar situation is seen with regard to local aid to education. Although the growth in the aid formulas and teacher retirement payments is \$65.1 million and \$73.4 million, respectively, an additional \$787.0 million is needed to replace one-time federal, special, and bond funds.

A number of provisions in the Budget Reconciliation and Financing Act of 2010 established fiscal 2012 funding levels for mandated programs and formulas at the same level as fiscal 2011 or at a constrained rate of increase. The committee's fiscal 2012 estimates also relied on legislative intent to dampen certain other areas of expenditure. Committee narrative in the *Joint Chairmen's Report* expressed intent that overall employee payroll costs be maintained at the fiscal 2011 level; no cost-of-living adjustments and merit raises were assumed, and the employee furloughs are assumed to continue. Escalating costs for employee health insurance and retirement result in general fund increases of \$67.4 million and \$31.8 million, respectively. Similarly, legislative intent to maintain public higher education funding at the fiscal 2011 per-student funding level resulted in a general fund increase of only \$7.1 million.

The committee projects the State will close fiscal 2011 with a balance of \$630.3 million in the Rainy Day Fund, which represents 4.8% of general fund revenues. When combined with a general fund balance of \$405.0 million, the total combined cash balance is projected at \$1 billion.

Recommendations

In light of the considerations discussed earlier, the committee proposes the following recommendations for the 2011 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.

2010 Spending Affordability Committee Report

Recent years have sorely tested the budgetary concepts customarily employed to account for spending for spending affordability purposes. The combination of huge mid-year spending reductions, massive federal assistance, and extensive reliance on one-time supports makes it impossible to clearly establish a basis for calculating a limit without arbitrary judgments about what should be in or out.

The committee recognizes that a new approach is indicated for the 2011 session, and possibly several years beyond. This approach is to task the Governor and the General Assembly with clear goals, tied to measurable results. These are as follows:

- 1. Measurable progress must be made in reducing the State's structural deficit in fiscal 2012 and in each year of this term.**
- 2. The Department of Budget and Management and the Department of Legislative Services shall jointly establish the parameters for evaluating the structural nature of the resolution in fiscal 2012 and progress made toward resolution in each year of this term. By February 1, the departments will report to the budget committees and the Spending Affordability Committee on the amount of the structural deficit for fiscal 2012 and the structural nature of the actions taken by the Administration in the budget as introduced.**
- 3. The budget as submitted by the Governor and as approved by the General Assembly for fiscal 2012 shall reduce the budget by an amount sufficient to reduce the estimated structural deficit for that year by 33 $\frac{1}{3}$ % and shall reduce the unfunded liability associated with post employment benefits.**

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 2012 of \$630.3 million, which is \$25.8 million less than 5% of estimated general fund revenues.

The committee continues to recommend prudent use of the Rainy Day Fund. The balance should be increased to 5% of estimated revenue. Any action that would result in fund balance below 5% of revenues should be done only as part of a plan to achieve a sustainably balanced budget.

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 2011 session. This level is \$215 million less than was authorized in the 2010 session, and this limit is necessary to keep debt service costs within the committee's affordability limit. **The committee concurs in the recommendation of the Capital Debt Affordability Committee that no more than \$925 million in new general obligation bonds be authorized at the 2011 session.**

B. Higher Education Debt

For fiscal 2012, the University System of Maryland intends to issue up to \$27 million in academic debt. This level of issuance will result in a debt service ratio within the 4.5% of current unrestricted funds and mandatory transfers criterion recommended by the system's financial advisers. Morgan State University, St. Mary's College of Maryland, and Baltimore City Community College do not plan on issuing any debt in fiscal 2012. **The committee concurs in the recommendation of CDAC that \$27 million in new academic revenue bonds may be authorized in the 2011 session for the University System of Maryland.**

C. Long-term Debt Plan

State tax-supported debt includes GO bonds, transportation bonds, Grant Anticipation Revenue Vehicles, bay restoration bonds, Stadium Authority bonds, and capital leases. CDAC estimates how much debt is affordable. Based on this analysis, CDAC recommends a limit on GO bonds for the upcoming legislative session; however, the committee does not set specific limits on other forms of State debt. As a result, the estimated debt requirements for the other forms of State debt can limit the flexibility that CDAC has to establish a GO debt limit that satisfies overall debt affordability criteria. **The committee recommends that the budget committees of the General Assembly consider and recommend a process that results in a comprehensive spending plan that annually proposes debt limits for all the different types of State debt that are encompassed within the debt affordability evaluation.**

4. State Employment

Personnel costs comprise approximately one-fourth of the State operating budget; the use of position ceilings and other controls resulted in a decline in the size of the State's regular workforce from 81,113 in fiscal 2002 to 79,494 in fiscal 2011. Declines have been sharpest in Executive Branch agencies, dropping from 55,980 in fiscal 2002 to 50,884 in fiscal 2011. Nearly 2,900 positions have been added in higher education during this period.

The fiscal 2011 totals recognize the actions taken by the legislature to reduce the number of positions by 531 during the course of fiscal 2011. Also included in the total are the positions

2010 Spending Affordability Committee Report

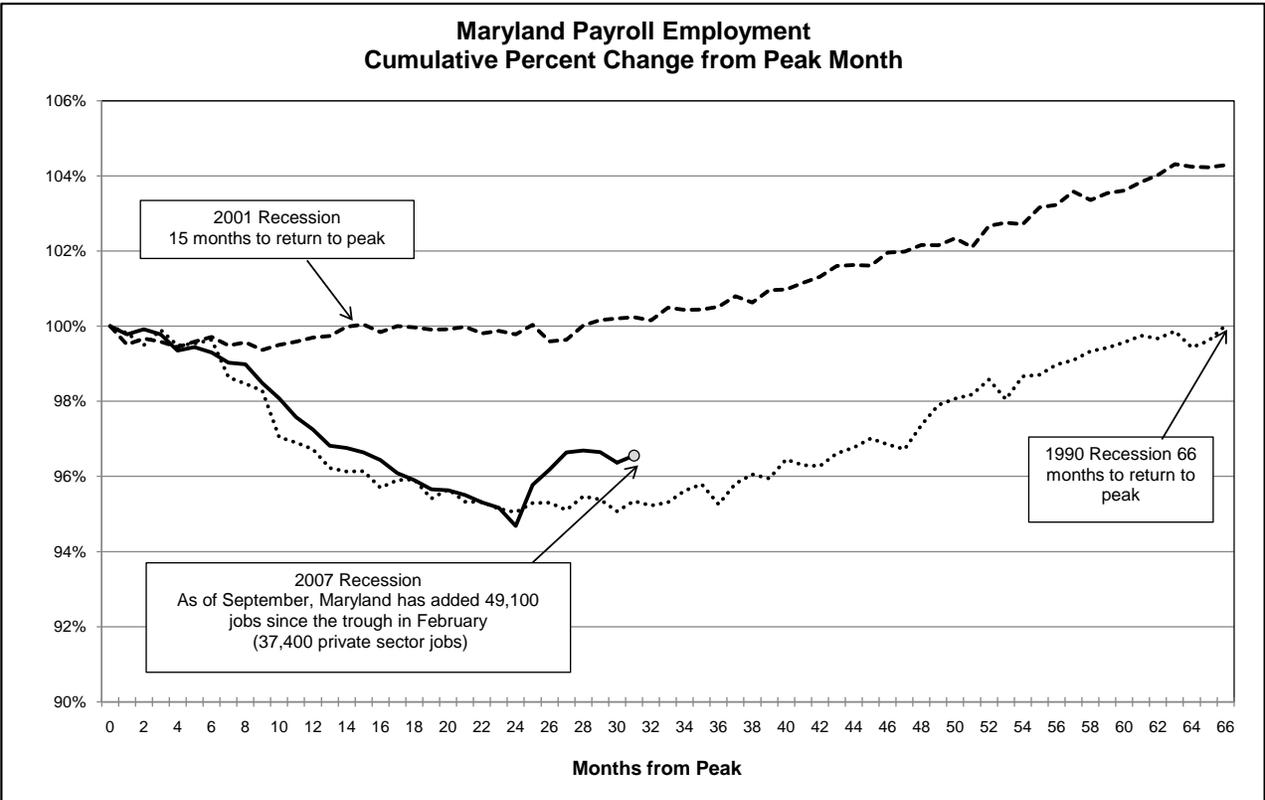
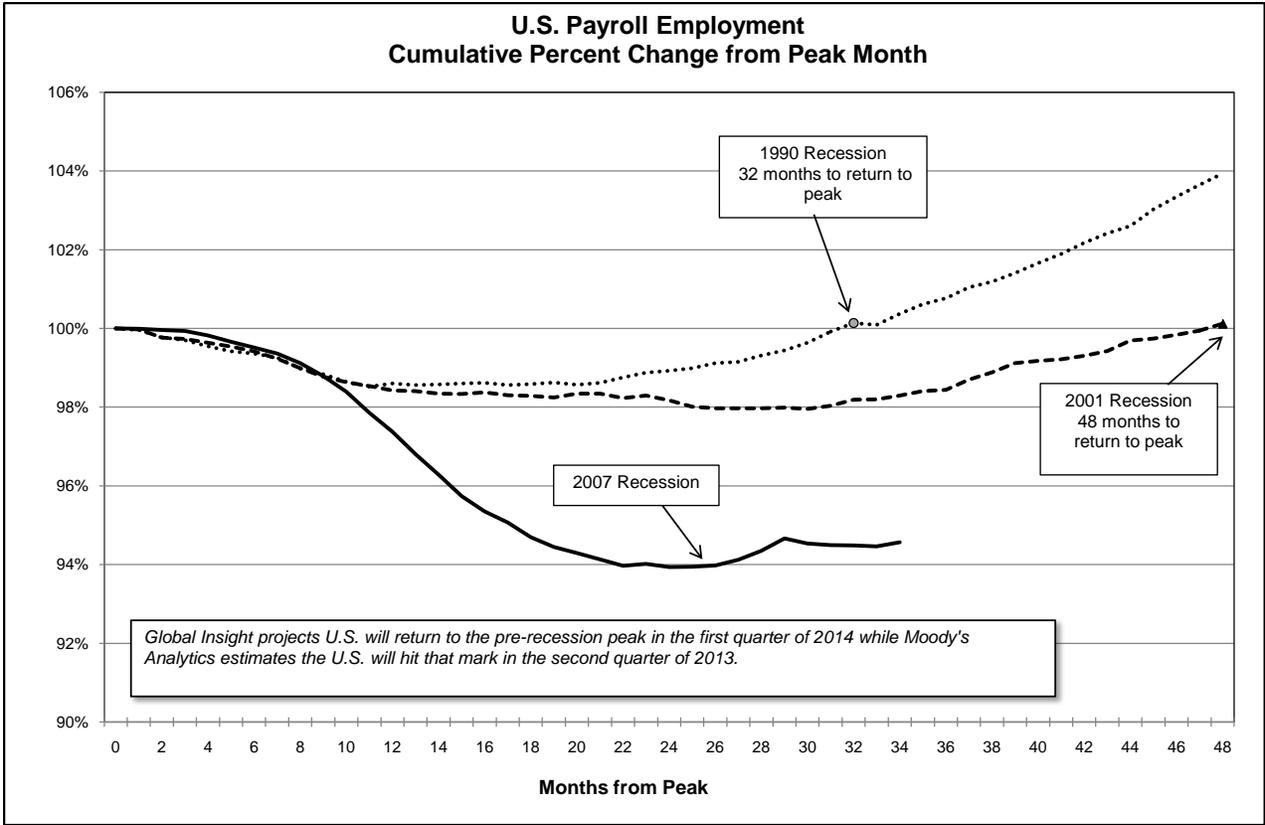
that have been created during fiscal 2011 to date: 32 positions created by the Board of Public Works and 435 higher education positions (as authorized by statute). Of these higher education positions, approximately one-third are State-supported positions; the remaining two-thirds are supported by auxiliary funds, research grants, and other restricted dollars.

The committee finds that the current complement of 79,500 positions is appropriate for the delivery of State services given the State's fiscal condition. The fiscal 2012 budget should maintain 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.

2010 Spending Affordability Committee Report

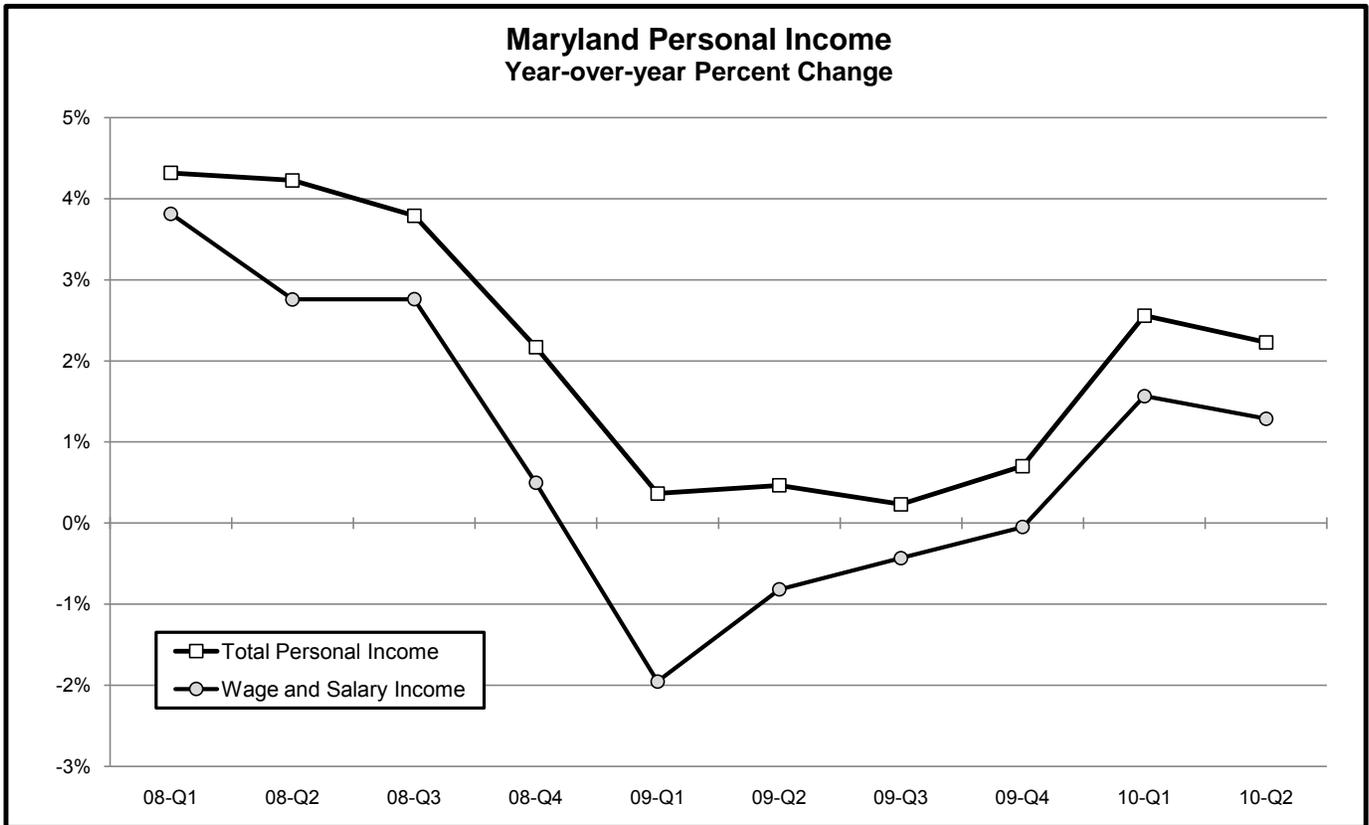
Part 1

Economic Outlook



Maryland Economic Performance Year-over-year Percent Change*

<u>Month-Year</u>	<u>Employment</u>	<u>Unemployment Rate</u>	<u>Initial UI Claims</u>	<u>Existing Home Sales</u>	<u>Vehicle Sales</u>	<u>Sales Tax</u>
Jan-10	-2.5%	7.5%	-3.0%	31.1%	3.0%	-7.6%
Feb-10	-2.6%	7.7%	7.5%	19.6%	-14.8%	-6.7%
Mar-10	-1.2%	7.7%	-3.4%	29.3%	12.9%	8.3%
Apr-10	-0.6%	7.5%	-17.1%	40.5%	13.8%	4.4%
May-10	-0.1%	7.3%	-15.3%	30.0%	8.5%	2.8%
Jun-10	0.2%	7.1%	-8.2%	17.9%	5.9%	2.3%
Jul-10	0.7%	7.1%	-14.5%	-17.1%	-3.1%	3.4%
Aug-10	0.4%	7.3%	-2.8%	-11.3%	3.6%	4.8%
Sep-10	1.0%	7.5%	-5.9%	-13.4%	-1.8%	3.8%
Y-T-D	-0.5%	7.4%	-7.2%	10.4%	3.4%	1.9%



* Except the unemployment rate.

Note: The unemployment rate is based on seasonally adjusted data. The sales tax is gross receipts (excluding assessments) adjusted for law changes. Monthly unemployment insurance claims from the U.S. Bureau of Labor Statistics with seasonal adjustment by Moody's Analytics.

Maryland Economic Forecasts

Year-over-year Percent Change

Calendar <u>Year</u>	Employment		Personal Income	
	<u>Dec. 2009</u>	<u>Sep. 2010</u>	<u>Dec. 2009</u>	<u>Sep. 2010</u>
2007	0.7%	0.7%	4.6%	4.7%
2008	-0.4%	-0.3%	3.1%	3.6%
2009*	-2.9%	-3.0%	0.7%	0.4%
2010E	-0.4%	-0.4%	2.0%	3.2%
2011E	1.6%	1.5%	3.7%	4.3%
2012E	2.3%	1.9%	4.5%	5.1%
2013E	2.4%	1.9%	5.3%	5.6%

Calendar <u>Year</u>	Wage & Salary Income		Taxable Capital Gains Income*	
	<u>Dec. 2009</u>	<u>Sep. 2010</u>	<u>Dec. 2009</u>	<u>Sep. 2010</u>
2007	5.0%	4.8%	20.4%	20.4%
2008	2.4%	2.4%	-63.5%	-62.8%
2009*	-1.4%	-0.8%	-33.5%	-25.0%
2010E	1.2%	2.3%	12.5%	0.0%
2011E	3.5%	3.9%	8.0%	12.5%
2012E	4.5%	4.8%	8.2%	8.0%
2013E	5.5%	5.5%	8.8%	8.0%

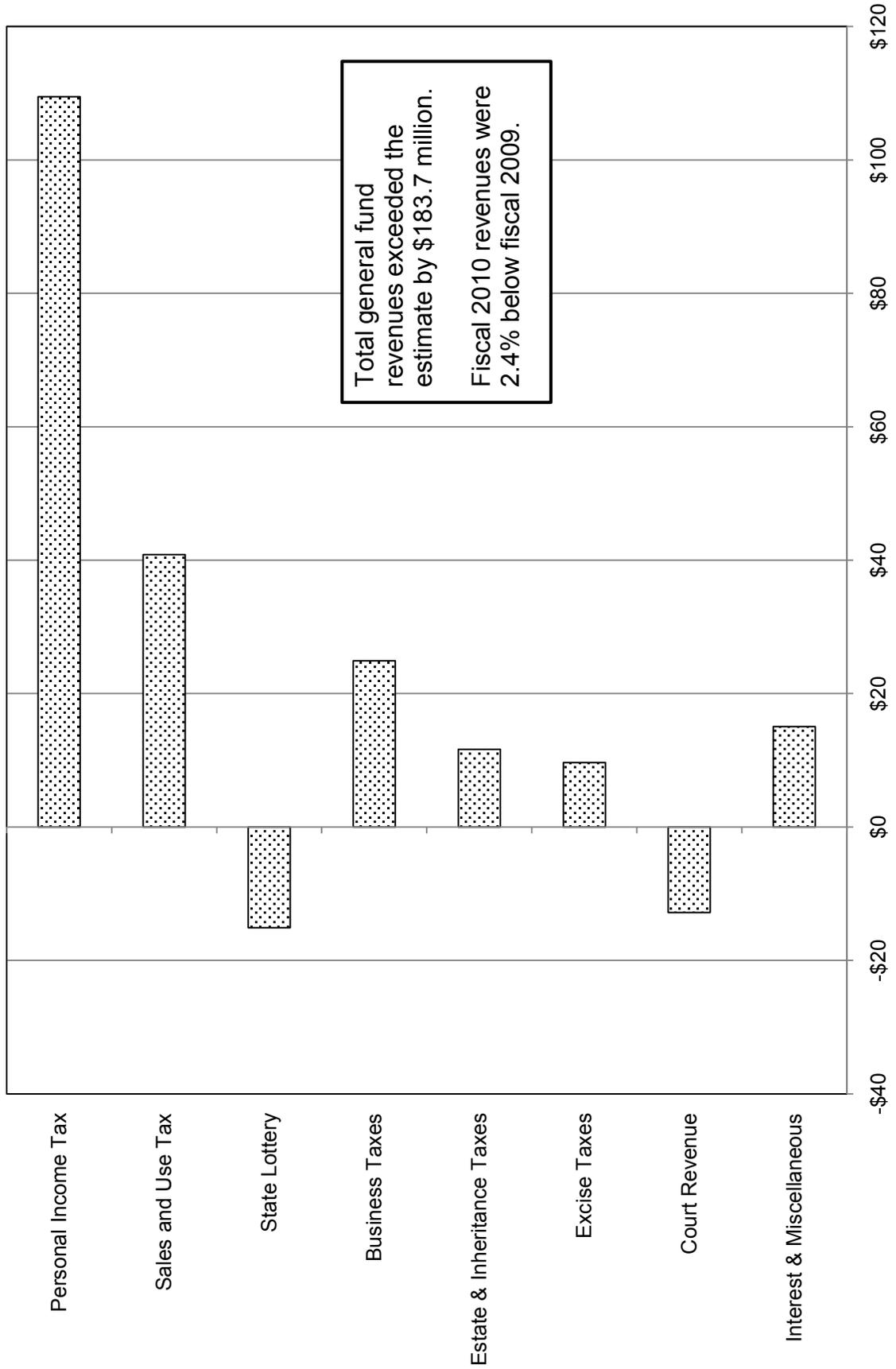
* Calendar 2009 is an estimate for the December 2009 forecast. Calendar 2009 is an estimate for taxable capital gains income for both the December and September forecasts.

Source: Board of Revenue Estimates

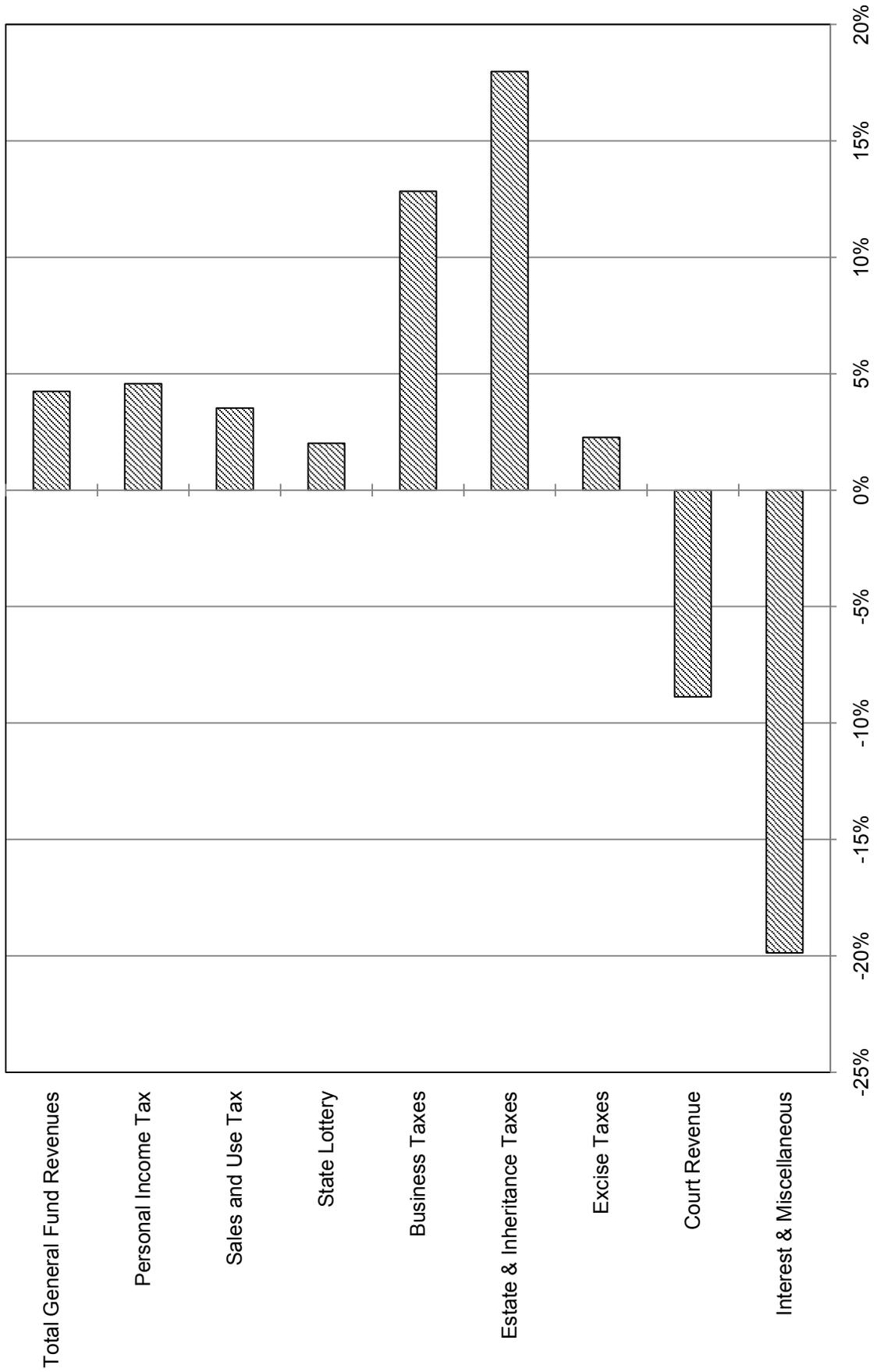
Part 2

General Fund Revenues

**Maryland General Fund Revenues – Fiscal 2010
Difference Over the Estimate
(\$ in Millions)**



**Maryland General Fund Revenues – Fiscal 2011
Percent Difference Over Fiscal 2010
(July-October 2010 vs. July-October 2009)**



Maryland General Fund Revenue Forecast

(\$ in Millions)

<u>Source</u>	<u>FY 2010 Actual</u>	<u>FY 2011 Estimate</u>		<u>Difference</u>	<u>% Change Over FY 2010</u>	<u>FY 2012 Estimate</u>	<u>% Change Over FY 2011</u>
		<u>March</u>	<u>Sept.</u>				
Personal Income Tax	\$6,178.2	\$6,292.0	\$6,360.1	\$68.1	2.9%	\$6,712.1	5.5%
Sales and Use Tax ⁽¹⁾	3,522.8	3,667.2	3,655.5	-11.7	3.8%	3,778.4	3.4%
State Lottery	491.0	527.6	510.9	-16.7	4.1%	519.3	1.7%
Corporate Income Tax	689.3	513.6	543.4	29.8	-21.2%	567.9	4.5%
Business Franchise Taxes	202.5	216.1	202.9	-13.2	0.2%	204.3	0.7%
Insurance Premiums Tax	277.0	273.8	287.0	13.2	3.6%	300.0	4.5%
Estate and Inheritance Taxes	173.5	157.1	182.3	25.2	5.1%	190.1	4.3%
Tobacco Tax	405.9	387.9	404.2	16.3	-0.4%	402.5	-0.4%
Alcohol Beverages Tax	29.9	30.0	30.5	0.5	2.1%	31.2	2.1%
Motor Vehicle Fuel Tax	8.4	5.0	5.0	0.0	-40.4%	0.0	-100.0%
District Courts	87.3	92.6	86.5	-6.1	-1.0%	87.8	1.5%
Clerks of the Court	35.5	46.8	35.1	-11.7	-1.1%	35.4	0.9%
Hospital Patient Recoveries	72.7	67.4	67.4	0.0	-7.2%	66.1	-2.0%
Interest on Investments	50.2	54.0	54.0	0.0	7.5%	63.0	16.7%
Miscellaneous	335.9	338.9	333.9	-5.0	-0.6%	310.1	-7.1%
Tax Amnesty	27.0	5.4	5.4	0.0	-80.0%	0.0	n/a
Subtotal	\$12,587.1	\$12,675.6	\$12,764.2	\$88.6	1.4%	\$13,268.1	3.9%
Highway User Revenue ⁽²⁾	303.7	363.4	363.4	0.0	19.6%	338.4	-6.9%
Total Revenues	\$12,890.8	\$13,039.0	\$13,127.6	\$88.6	1.8%	\$13,606.5	3.6%

Source: Board of Revenue Estimates. The estimate from March has been adjusted for actions taken at the 2010 legislative session.

⁽¹⁾ Fiscal 2011 is the first year to include the sales tax holidays approved in HB 5 from the 2007 special session. The cap on the vendor discount sunsets after fiscal 2011 (SB 2, 2007 special session). Fiscal 2010 includes \$21.1 million and fiscal 2011 includes \$17.1 million from the sales tax on short-term rental vehicles. Under current law, the general fund will not receive any of the sales tax on short-term rental vehicles in fiscal 2012.

⁽²⁾ The Budget Reconciliation and Financing Act of 2010 established a distribution from the Gasoline and Motor Vehicle Revenue Account to the general fund. The distribution to the general fund is 19.5% of revenues in fiscal 2010, 23% in fiscal 2011, 20.4% in fiscal 2012, and 19.3% in fiscal 2013 and after.

Part 3

General Fund Budget and Forecast

2012 Baseline Budget Forecast Assumptions

Inflation Assumptions

- Employee health insurance payments – inflation and enrollment changes (6.1%).
- Natural gas, propane, and electricity (5.0%).
- Vehicle gas and oil (6.3%).
- Medical contracts and supplies and prescription drugs for State facilities (4.4%).
- Food (1.8%).

Legislative Intent

- Consistent with legislative intent that salary costs be maintained at the fiscal 2011 level, no provision is made for employee cost-of-living or merit adjustments and furloughs are assumed to continue.
- Consistent with legislative intent that public higher education be funded at the same State funds per student in fiscal 2012 as in fiscal 2011, increases are provided to reflect only estimated enrollment growth for the University System of Maryland, Morgan State University, and St. Mary's College of Maryland.

Caseload Assumptions

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>Percent Change FY 2011-2012</u>
Pupil Enrollment*	814,609	817,610	819,077	0.2%
Medicaid	614,472	702,290	734,941	4.6%
Medicaid Expansion to Parents	53,276	75,091	84,319	12.3%
Children's Health	97,997	96,781	95,682	-1.1%
Temporary Cash Assistance	67,422	67,556	65,164	-3.5%
Foster Care/Adoption	15,094	15,489	15,746	2.9%
Adult Prison Population	22,168	22,039	22,266	1.0%

*Data for 2010, 2011, and 2012 reflect 9/08, 9/09, and 9/10 (est.) full-time equivalent enrollments.

Fiscal 2011 General Fund Deficiencies (\$ in Millions)

	<u>Dollars</u>
Medicaid: Medicaid and children's health program costs due to enrollment growth, rate increases, and underattainment of ARRA funds (\$227.6 million); legal expenses (\$6.1 million); and to comply with federal changes regarding Medicare Health Savings Accounts (\$5.1 million)	\$239
Health and Mental Hygiene: Mental Hygiene community provider costs (\$37.0 million) for fiscal 2010 and 2011; Developmental Disabilities forensic patients (\$0.7 million), breast and cervical cancer treatment program (\$0.7 million), and other (\$0.8 million)	39
Human Resources: Energy assistance programs	36
Juvenile Services: Underattainment of federal IV-E payments (\$1.5 million); overtime (\$3.0 million); and per diem payments (\$1.0 million)	6
Community Colleges: Health manpower and statewide programs grants	6
Assessment and Taxation: Homeowners and Renters Tax Credit programs (\$2.5 million) and personnel costs (\$0.7 million)	3
Public Safety: Correctional Officers Bill of Rights – Chapter 194 of 2010	3
Other: State Board of Elections (\$2.8 million); Baltimore City and Ocean City convention centers operating subsidy (\$2.3 million); Comptroller (\$0.2 million); and Military (\$0.1 million)	<u>5</u>
Total	\$337

ARRA: American Recovery and Reinvestment Act of 2009

State Expenditures – General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2010</u>	<u>Leg. Appr.</u> <u>FY 2011</u>	<u>Baseline</u> <u>FY 2012</u>	<u>FY 2011 to FY 2012</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$0.0	\$0.0	\$0.0	n/a
County/Municipal	189.6	183.4	193.7	10.3	5.6%
Community Colleges	256.2	256.1	261.0	4.9	1.9%
Education/Libraries	5,258.5	4,890.5	5,818.2	927.7	19.0%
Health	37.3	37.3	37.3	0.0	0.0%
Aid to Local Governments	\$5,741.6	\$5,367.3	\$6,310.2	\$942.9	17.6%
Foster Care Payments	\$240.4	\$244.9	\$243.3	-\$1.6	-0.7%
Assistance Payments	95.5	50.3	107.2	57.0	113.3%
Medical Assistance	1,588.3	1,743.6	2,894.5	1,150.9	66.0%
Property Tax Credits	73.2	73.5	81.4	7.9	10.7%
Entitlements	\$1,997.4	\$2,112.2	\$3,326.3	\$1,214.1	57.5%
Health	\$1,355.3	\$1,369.3	\$1,441.4	\$72.1	5.3%
Human Resources	271.3	262.6	324.8	62.2	23.7%
Systems Reform Initiative	24.4	20.7	20.7	0.0	0.0%
Juvenile Services	260.6	254.1	269.3	15.2	6.0%
Public Safety/Police	1,171.8	1,176.9	1,295.0	118.2	10.0%
Higher Education	1,147.6	1,145.6	1,152.5	6.8	0.6%
Other Education	313.9	349.2	358.8	9.6	2.8%
Agric./Natl. Res./Environment	105.7	102.8	110.4	7.6	7.4%
Other Executive Agencies	521.8	539.1	588.7	49.6	9.2%
Judicial/Legislative	442.0	446.0	461.8	15.9	3.6%
Cost-of-living Allowance	0.0	0.0	0.0	0.0	n/a
State Agencies	\$5,614.5	\$5,666.3	\$6,023.4	\$357.2	6.3%
Deficiencies	\$0.0	\$337.2	\$0.0	-\$337.2	-100.0%
Total Operating	\$13,353.5	\$13,483.1	\$15,660.0	\$2,176.9	16.1%
Capital/Heritage Reserve Fund	5.1	10.8	16.3	5.5	50.9%
Reversions	-45.5	-30.0	-30.0	0.0	0.0%
Appropriations	\$13,313.1	\$13,463.9	\$15,646.3	\$2,182.4	16.2%
Reserve Funds	114.9	15.0	95.0	80.0	533.3%
Grand Total	\$13,428.0	\$13,478.9	\$15,741.3	\$2,262.4	16.8%

Components of Budget Change (\$ in Millions)

Summary of Budget Growth Compared to Working Appropriation	<u>Dollars</u>	<u>Share of Growth</u>
Ongoing Requirements/Entitlements	\$2,213.9	88.1%
Legislation	8.6	0.3%
State Agency Costs	291.6	11.6%
Growth in Operating Budget, including Anticipated Deficiencies	\$2,514.1	
Pay-as-you-go (PAYGO)	5.5	
Appropriation to Reserve Fund	80.0	
Total Baseline Increase in State Expenditures	\$2,599.6	
Less Deficiency Appropriations	-337.2	
Total	\$2,262.4	
Ongoing Requirements/Entitlements		
Medical Assistance – lack of one-time special and federal funds, enrollment and rate increases, and 2011 underfunding	\$1,150.9	
Education funding – general funds in lieu of ARRA; reduction in special funds	552.9	
Teachers retirement payments, including replacement of ARRA funds	301.5	
Education formulas – growth	65.1	
Mental Hygiene Administration – enrollment, utilization, and prior year underfunding	60.3	
Temporary Cash Assistance and Temp. Disability Asst. payments, including enrollment growth and depletion of TANF fund balance	57.0	
Community college retirement	4.5	
Property Tax Credit programs, including deficiencies	4.0	
Enterprise Zone tax credit program	3.8	
Baltimore City grant in lieu of security interest filing fees	3.1	
Aging Schools Program and Technology in Maryland Schools lease payment	3.0	
Annualize Cost of Prior Year Community Placements of Developmentally Disabled	2.8	
Library formula aid	2.4	
Mandated appropriation of payment in lieu of taxes for State park concessions	1.9	
MARBIDCO mandated funding	1.3	
County Library Retirement Payments	1.0	
St. Mary's College of Maryland enrollment growth	0.2	
Foster Care payments due to reduced use of institutional placements	-1.6	
New Legislative Requirements		
Inflationary increase for community health providers	\$4.7	
Correctional Officers Bill of Rights	2.6	
Sexual offenders registration, notification, and lifetime supervision laws	0.9	
Other legislation	0.4	
State Agency Costs		
Statewide Personnel Expenses:		
Employee Retirement	\$31.8	
Employee and Retiree Health Insurance	67.4	
Workers compensation claims and administrative expense	5.1	
Agency Programmatic and Operating Expenses:		
General funds in lieu of ARRA in Public Safety and Correctional Services, Juvenile Services, and State Police	77.9	
Office of Home Energy Programs bill assistance payments, including fiscal 2011 underfunding, due to reduced federal and special funds	50.3	
Major IT projects planned for 2012	18.2	
USM/Morgan State enrollment growth	6.9	

Components of Budget Change (cont.)

Video lottery terminal operating expenses	6.5
Elections equipment and contract expenses, including fiscal 2011 underfunding and depletion of federal funds	5.5
Juvenile services per diem payments and operating expenses – underattainment of federal funds and prior year underfunding	5.5
Increased scholarships, based on assumption of 5% tuition increase	4.1
Master Equipment Lease Payment Costs Statewide	3.1
General funds in lieu of federal and special matching funds in child support enforcement	2.5
Operating subsidy payments for Baltimore City and Ocean City convention centers	2.3
Opening of new housing unit at Maryland Correctional Training Center and vocational education building at Western Correctional Institution	2.1
General funds in lieu of special funds for energy performance contracts	2.0
Maintenance contracts for IT projects in various departments	2.0
Restoration of general funds in lieu of special funds for POS administration	1.2
Breast and Cervical Cancer program, including fiscal 2011 underfunding	0.7
General funds in lieu of federal funds for rape crisis assistance	0.4
Opening of new State Police facilities	0.4
Remove funding for Cecil County community adult rehabilitation center	-0.6
Other	-3.6

PAYGO

Sustainable Communities (Heritage Structure Rehabilitation) Tax Credit	\$5.0
Hazardous Substance Cleanup Program	0.5

Reserve Fund

Repayment for previous transfer of POS funds to general fund	\$50.0
Appropriation to Rainy Day Fund to reach 5% minimum balance	30.0

ARRA: American Recovery and Reinvestment Act of 2009

IT: information technology

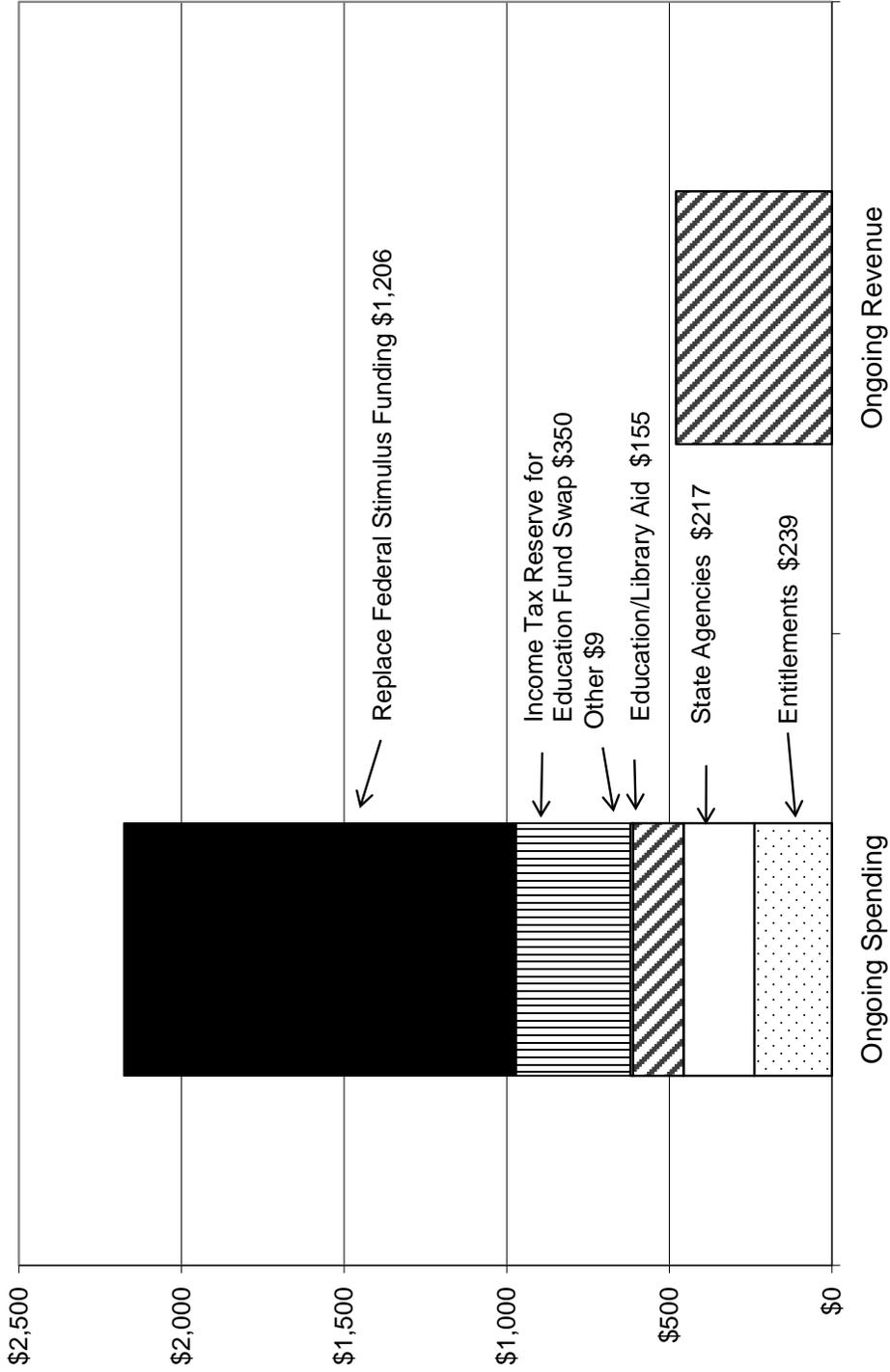
MARBIDCO: Maryland Agricultural and Resource-Based Industry Development Corporation

POS: Program Open Space

TANF: Temporary Assistance for Needy Families

USM: University System of Maryland

Large Fiscal 2012 Budget Gap Results from Loss of Federal Stimulus Funds and Use of Local Income Tax Reserves for Education in Fiscal 2011 (\$ in Millions)



General Fund: Recent History and Outlook

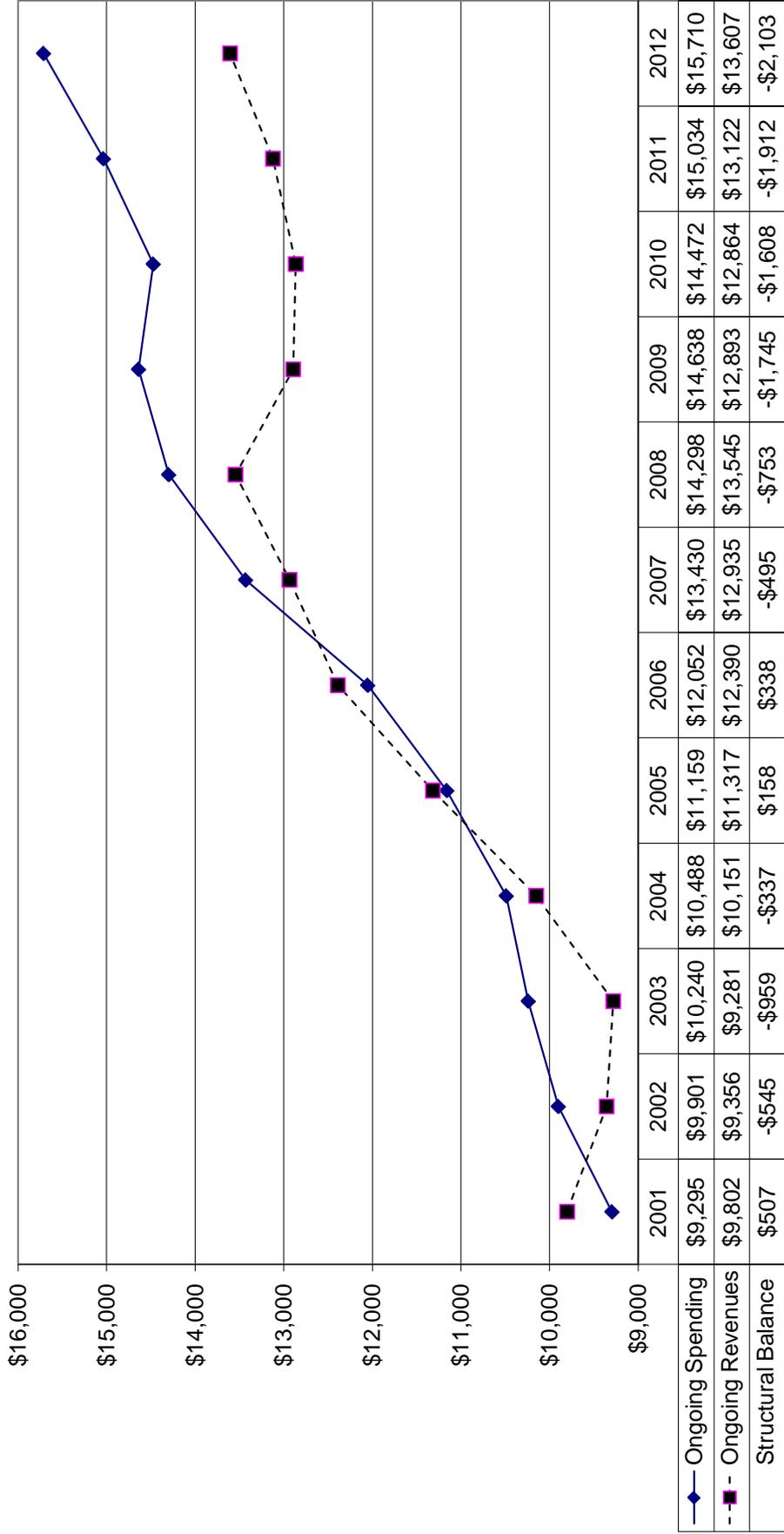
Fiscal 2010-2012

(\$ in Millions)

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working</u>	<u>2012</u> <u>Baseline</u>
Funds Available			
Ongoing Revenues	\$12,864	\$13,122	\$13,607
Balances and Transfers	895	692	359
One-time Federal Aid	1,144	1,206	143
One-time Generally Accepted Accounting Principles Transfer	0	0	0
Short-term Revenues	27	5	0
Subtotal Funds Available	\$14,931	\$15,025	\$14,109
Appropriations, Deficiencies, and Cost Containment			
Net Ongoing Operating Costs and Deficiencies	\$14,472	\$15,034	\$15,710
One-time Reductions/Withdrawn Appropriations	0	-507	0
PAYGO Capital	0	158	1
Appropriations to Reserve Fund	115	0	30
Subtotal Spending	\$14,587	\$14,685	\$15,741
Cash Balance/Shortfall	\$344	\$340	-\$1,633
Structural			
Balance (Ongoing Revenues Less Operating Costs)	-\$1,608	-\$1,913	-\$2,103
Ratio (Ongoing Revenues/Operating Costs)	89%	87%	87%
Reserve Fund Activity			
Appropriations to Rainy Day Fund	\$176	\$0	\$30
Transfers to General Fund	-210	0	0
Estimated Rainy Day Fund Balance – June 30	\$612	\$630	\$681
Total Cash (Rainy Day, General Fund Balance)	\$956	\$970	-\$952

PAYGO: pay-as-you-go

The Structural Deficit Widens to \$2.1 Billion in Fiscal 2012
Fiscal 2001-2012
(\$ in Millions)



General Fund Budget Outlook
 Fiscal 2011-2016
 (\$ in Millions)

Revenues	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Avg Annual
	Actual	Leg. App.	Baseline	Est.	Est.	Est.	Est.	Change
Opening Fund Balance	\$87	\$344	\$340	\$0	\$0	\$0	\$0	\$0
Transfers	243	348	19	61	63	58	63	63
One-time Revenues/Legislation	593	5	0	0	0	0	0	0
Subtotal One-time Revenue	\$922	\$697	\$359	\$61	\$63	\$58	\$63	-35.2%
Ongoing Revenues	\$12,864	\$13,122	\$13,607	\$14,316	\$14,983	\$15,722	\$16,433	
Revenue Adjustments – Legislation	0	0	0	0	0	0	0	
Subtotal Ongoing Revenue	\$12,864	\$13,122	\$13,607	\$14,316	\$14,983	\$15,722	\$16,433	4.8%
Total Revenues & Fund Balance	\$13,786	\$13,819	\$13,966	\$14,377	\$15,046	\$15,780	\$16,497	4.3%
Ongoing Spending								
Operating Spending*	\$14,478	\$15,124	\$15,735	\$16,458	\$17,226	\$17,975	\$18,737	
VLT Revenues Supporting Education	-11	-114	-105	-228	-448	-491	-530	
Multi-year Commitments	5	25	80	30	80	65	50	
Subtotal Ongoing Spending	\$14,472	\$15,034	\$15,710	\$16,260	\$16,859	\$17,549	\$18,257	3.8%
One-time Spending								
PAYGO Capital	\$0	\$1	\$1	\$1	\$1	\$1	\$1	
One-time Fund Swaps	0	-350	0	0	0	0	0	
Federal Stimulus Funds	-1,144	-1,206	-143	0	0	0	0	
Appropriation to Rainy Day Fund	115	0	30	50	50	50	50	
Subtotal One-time Spending	-\$1,029	-\$1,556	-\$112	\$51	\$51	\$51	\$51	n/a
Total Spending	\$13,442	\$13,479	\$15,598	\$16,311	\$16,910	\$17,600	\$18,308	4.1%
Ending Balance	\$344	\$340	-\$1,633	-\$1,934	-\$1,864	-\$1,819	-\$1,811	
Rainy Day Fund Balance		630	681	716	749	786	822	
Balance over 5% of GF Revenues		-26	0	0	0	0	0	
As % of GF Revenues		4.80%	5.00%	5.00%	5.00%	5.00%	5.00%	
Structural Balance	-\$1,608	-\$1,913	-\$2,103	-\$1,944	-\$1,875	-\$1,826	-\$1,824	

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

* Includes \$337 million in fiscal 2011 deficiency appropriations and American Recovery and Reinvestment Act of 2009 spending supplanting general funds.

General Fund Budget Outlook
Fiscal 2011-2016
(\$ in Millions)

Revenues	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Avg Annual
	Actual	Leg. App.	Baseline	Est.	Est.	Est.	Est.	Change
Opening Fund Balance	\$87	\$344	\$405	\$0	\$0	\$0	\$0	\$0
Transfers	243	364	19	61	63	58	63	63
One-time Revenues/Legislation	593	5	0	0	0	0	0	0
Subtotal One-time Revenue	\$922	\$713	\$425	\$61	\$63	\$58	\$63	-37.8%
Ongoing Revenues*	\$12,864	\$13,189	\$13,625	\$14,331	\$15,013	\$15,703	\$16,400	
Revenue Adjustments – Legislation	0	0	0	0	0	0	0	
Subtotal Ongoing Revenue	\$12,864	\$13,189	\$13,625	\$14,331	\$15,013	\$15,703	\$16,400	4.7%
Total Revenues & Fund Balance	\$13,786	\$13,903	\$14,050	\$14,392	\$15,075	\$15,762	\$16,463	4.0%
Ongoing Spending								
Operating Spending**	\$14,478	\$15,123	\$15,735	\$16,458	\$17,226	\$17,975	\$18,737	
VLT Revenues Supporting Education	-11	-96	-215	-287	-471	-512	-549	
Multi-year Commitments	5	25	80	30	80	65	50	
Ongoing Reductions	0	0	0	0	0	0	0	
Ongoing Spending – Legislation	0	0	0	0	0	0	0	
Subtotal Ongoing Spending	\$14,472	\$15,053	\$15,601	\$16,201	\$16,835	\$17,527	\$18,238	4.0%
One-time Spending								
PAYGO Capital	\$0	\$1	\$1	\$1	\$1	\$1	\$1	
One-time Reductions	0	0	0	0	0	0	0	
One-time Fund Swaps	0	-350	0	0	0	0	0	
One-time Spending – Legislation	0	0	0	0	0	0	0	
Federal Stimulus Funds	-1,144	-1,206	-143	0	0	0	0	
Appropriation to Rainy Day Fund	115	0	30	50	50	50	50	
Subtotal One-time Spending	-\$1,029	-\$1,556	-\$112	\$51	\$51	\$51	\$51	n/a
Total Spending	\$13,442	\$13,497	\$15,489	\$16,253	\$16,886	\$17,578	\$18,289	4.2%
Ending Balance	\$344	\$405	-\$1,439	-\$1,861	-\$1,811	-\$1,817	-\$1,826	
Rainy Day Fund Balance		630	681	716	749	786	822	
Balance over 5% of GF Revenues		-29	1	-1	-2	1	2	
As % of GF Revenues		4.78%	5.01%	4.99%	4.99%	5.01%	5.01%	
Structural Balance	-\$1,608	-\$1,864	-\$1,975	-\$1,870	-\$1,822	-\$1,824	-\$1,838	

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

* Includes effect of federal tax legislation enacted in December 2010 and federal employee pay freeze.

** Includes \$337 million in fiscal 2011 deficiency appropriations and \$1,206 million in the American Recovery and Reinvestment Act of 2009 spending supplanting general funds.

**Comparison of November 2010 General Fund Forecast
With July 2010 Forecast
(\$ in Millions)**

Fiscal 2012 Cash Shortfall – July Forecast		-\$1,646
 Good News		
Fiscal 2010 Close-out	\$191	
Fiscal 2011 and 2012 September Revenue Forecast	144	
Federal Education Money Available in Fiscal 2012	143	
Local Income Tax Reserve	200	
Total		\$678
 Good News Balance		
		-\$968
 Bad News		
Lower Federal Medicaid Match	-\$105	
Less VLT Revenues – FY 2012	-40	
FY 2011 Deficiencies (Net of Lower FMAP)	-232	
Education Aid (Net of Lower VLT Estimate)	-58	
Assistance Payments	-50	
Open Space Payback	-50	
Energy Assistance	-72	
Major Information Technology Projects	-11	
Other	-47	
Total		-\$665
 Current Estimate of Cash Shortfall		 -\$1,633

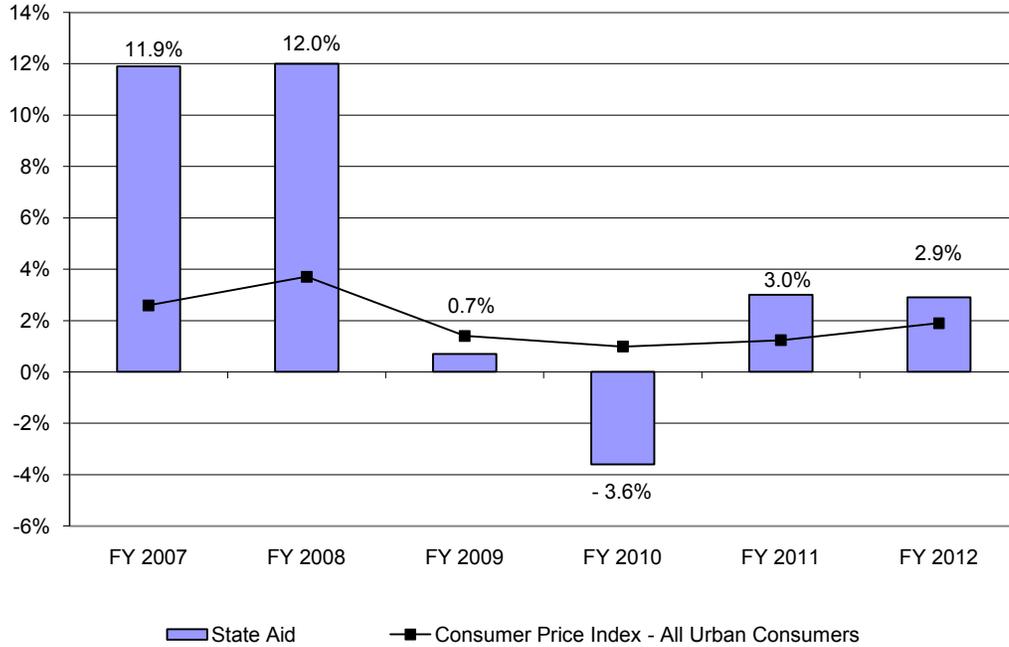
VLT: video lottery terminal

FMAP: Federal Medical Assistance Percentages

Part 4

Local Government Assistance

**Annual Growth in State Aid to Local Governments
General and Special Funds
Fiscal 2007-2012**



**State Aid by Governmental Entity
State Funds
(\$ in Millions)**

	<u>FY 2007</u>	<u>FY 2012</u>	<u>\$ Change</u>	<u>% Change</u>
Public Schools	\$4,029.3	\$4,929.6	\$900.3	22.3%
County/Municipal	951.7	410.0	-541.7	-56.9%
Community Colleges	188.3	223.4	35.1	18.6%
Libraries	46.2	52.9	6.7	14.5%
Local Health	63.7	37.3	-26.4	-41.4%
Subtotal – Direct Aid	\$5,279.1	\$5,653.2	\$374.0	7.1%
Retirement Payments	\$474.8	\$978.7	\$503.9	106.1%
Total	\$5,754.0	\$6,631.9	\$877.9	15.3%

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

	<u>FY 2012 State Aid Amount</u>	<u>Percent of Total</u>
Public Schools	\$5,852.8	88.3%
County/Municipal	410.0	6.2%
Community Colleges	261.0	3.9%
Libraries	70.8	1.1%
Local Health	37.3	0.6%
Total	\$6,631.9	100.0%

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

	<u>FY 2012 Aid Change</u>	<u>Percent Change</u>
Public Schools	\$135.4	2.4%
County/Municipal	39.5	10.6%
Community Colleges	4.9	1.9%
Libraries	5.2	7.9%
Local Health	0.0	0.0%
Total	\$185.0	2.9%

State Aid by Major Programs
Fiscal 2010-2012
State Funds
(\$ in Millions)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>Baseline FY 2012</u>	<u>\$ Change 2011-2012</u>	<u>% Change 2011-2012</u>
Public Schools					
Foundation Program	\$2,726.7	\$2,763.5	\$2,790.6	\$27.1	1.0%
Supplemental Grant	51.2	46.5	46.5	0.0	0.0%
Compensatory Aid	940.2	1,041.1	1,058.9	17.8	1.7%
Student Transportation	241.5	244.4	247.6	3.2	1.3%
Special Education – Formula Aid	267.4	264.0	265.4	1.4	0.5%
Special Education – Nonpublic Placements	112.8	112.8	118.4	5.6	5.0%
Limited English Proficiency Grants	148.6	151.2	162.8	11.6	7.7%
Guaranteed Tax Base	63.8	47.4	42.8	-4.6	-9.7%
Geographic Cost Index	126.3	126.6	127.7	1.1	0.9%
Other Education Programs	69.4	70.2	68.8	-1.4	-2.0%
Subtotal Direct Aid	\$4,747.9	\$4,867.6	\$4,929.6	\$62.0	1.3%
Retirement Payments	759.1	849.8	923.3	73.4	8.6%
Total Public School Aid	\$5,507.0	\$5,717.5	\$5,852.8	\$135.4	2.4%
Libraries					
Library Aid Formula	\$33.2	\$33.0	\$35.4	\$2.4	7.2%
State Library Network	15.6	15.7	17.5	1.9	11.9%
Subtotal Direct Aid	\$48.8	\$48.7	\$52.9	\$4.2	8.7%
Retirement Payments	15.3	16.9	17.8	1.0	5.7%
Total Library Aid	\$64.1	\$65.5	\$70.8	\$5.2	7.9%
Community Colleges					
Community College Formula	\$199.8	\$194.4	\$194.4	\$0.0	0.0%
Other Programs	27.1	28.0	28.9	1.0	3.4%
Subtotal Direct Aid	\$226.9	\$222.4	\$223.4	\$1.0	0.4%
Retirement Payments	29.2	33.7	37.7	3.9	11.7%
Total Community College Aid	\$256.2	\$256.1	\$261.0	\$4.9	1.9%
Local Health Grants	\$37.3	\$37.3	\$37.3	\$0.0	0.0%
County/Municipal Aid					
Transportation	\$167.8	\$141.5	\$145.4	\$3.9	2.7%
Public Safety	89.7	83.0	88.0	5.0	6.0%
Program Open Space/Environment	9.6	15.6	30.2	14.6	94.0%
Disparity Grant	121.4	121.4	121.4	0.0	0.0%
Other Grants	8.5	9.0	25.0	15.9	176.7%
Total County/Municipal Aid	\$396.9	\$370.5	\$410.0	\$39.5	10.6%
Total State Aid	\$6,261.5	\$6,446.9	\$6,631.9	\$185.0	2.9%

**Local Government Salary Actions
Fiscal 2010 and 2011**

<u>COLA Amount</u>	County Government		Public Schools	
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>
No COLA	19	22	14	19
0.5 to 2.9%	2	1	9	3
3.0 to 3.9%	1	0	1	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	2	0	0	0
Still Pending	0	1	0	2

	State Government		CPI-Urban Consumers	
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011¹</u>
COLA Amount	0%	0%	0.99%	1.18%
Furloughs ²	10 Days	10 Days		
Effective COLA ³	-2.6%	-2.6%		

COLA: cost-of-living adjustment

CPI: Consumer Price Index

¹ Forecast of the CPI for 2011 comes from Moody's Economy.com.

² Maximum number of furlough and service reduction days based on salary level.

³ Effective COLA in fiscal 2010 and 2011 ranges from -1.2 to -3.8% depending on the number of furlough days.

Local Government Salary Actions in Fiscal 2011

County	County Government		Board of Education		Comments
	Generally	Teachers	COLA	Step	
Allegany	0.0%	No	1.0%	Yes	<p>¹ Anne Arundel County Public Schools had agreed to give its employees 1% COLAs in fiscal 2011 under multi-year collective bargaining agreements. However, the system is currently renegotiating the contracts to eliminate the COLA for fiscal 2011.</p> <p>² Baltimore City Public Schools are still in negotiations with its teacher's union on a new contract.</p> <p>³ Howard County fire department employees are receiving 6% COLAs in fiscal 2011. No other county employees are receiving COLAs in fiscal 2011.</p> <p>⁴ Prince George's County is still in negotiations with its employee unions.</p> <p>⁵ Queen Anne's County Public School employees will receive one quarter of a planned step increase on April 1, 2011.</p> <p>⁶ Washington County Public Schools had agreed to give teachers and support staff a 3% COLA in fiscal 2011 under multi-year collective bargaining agreements. However, the system was forced to renegotiate this increase and is at impasse with the unions.</p>
Anne Arundel ¹	0.0%	No	0.0%	No	
Baltimore City ²	0.0%	Yes	Pending	Pending	
Baltimore	0.0%	Yes	0.0%	Yes	
Calvert	0.5%	No	0.5%	Yes	
Caroline	0.0%	No	0.0%	No	
Carroll	0.0%	No	0.0%	No	
Cecil	0.0%	No	1.8%	Yes	
Charles	0.0%	No	0.0%	No	
Dorchester	0.0%	No	0.0%	No	
Frederick	0.0%	No	0.0%	No	
Garrett	0.0%	No	0.0%	No	
Harford	0.0%	No	0.0%	No	
Howard ³	0.0%	Yes	0.0%	Yes	
Kent	0.0%	No	0.0%	No	
Montgomery	0.0%	No	0.0%	No	
Prince George's ⁴	Pending	Pending	0.0%	No	
Queen Anne's ⁵	0.0%	No	0.0%	Yes	
St. Mary's	0.0%	Yes	0.0%	Yes	
Somerset	0.0%	No	0.0%	Yes	
Talbot	0.0%	No	0.0%	Yes	
Washington ⁶	0.0%	No	Pending	Pending	
Wicomico	0.0%	No	0.0%	No	
Worcester	0.0%	No	0.0%	No	
Number Granting	1	4	3	9	

COLA: cost-of-living adjustment

Local Government Furlough and Salary Reduction Plans in Fiscal 2011

<u>County</u>	<u>Furlough/ Reduction</u>	<u>Layoffs</u>	
Allegany	No	No	
Anne Arundel	Yes	No	Most county employees will receive up to 12 furlough days, with the number of furlough days depending on the position. Only police officers are exempt from furloughs.
Baltimore City	Yes	Yes	City employees will receive from 3 to 11 furlough days based on salary. The city also laid off 66 employees, although some of these employees may have subsequently been rehired by other city departments that had vacancies. Board of Education is still negotiating with teachers' unions.
Baltimore	No	No	
Calvert	No	No	
Caroline	No	No	
Carroll	No	Yes	School system eliminated 18 teacher positions and 18 nonteacher positions.
Cecil	No	No	
Charles	No	No	
Dorchester	Yes	No	All county employees will receive 8 furlough days.
Frederick	No	No	
Garrett	No	No	
Harford	No	No	
Howard	Yes	No	All county employees will receive 4 furlough days except for public safety, court system, sheriff's office, and blue collar employees.
Kent	Yes	No	All county employees will receive a 1.92% reduction in pay in the form of 5 service reduction days.
Montgomery	Yes	Yes	County employees will receive from 3 to 8 furlough days. The school system initially laid off 16 people, including 12 teachers, but 5 were subsequently recalled to service.
Prince George's	Yes	Yes	Year-round school system employees will receive 9 furlough days, and 10- and 11-month employees will receive 4 furlough days. The number of contract days was reduced by 28 to 69 days for 402.5 contractual school system positions. The school system laid off 183 employees, including 144 in school-based positions. The county government is still in negotiations with its employee unions.
Queen Anne's	Yes	Yes	County employees will receive from 5 to 10 furlough days depending on salary. The county also laid off 6 contractual parks and recreation employees.

<u>County</u>	<u>Furlough/ Reduction</u>	<u>Layoffs</u>
St. Mary's	No	No
Somerset	No	No
Talbot	No	No
Washington	No	Pending
Wicomico	Yes	Yes
Worcester	No	No

School system indicated that layoffs are possible later in the fiscal year.

School system at impasse with teachers and support staff; layoffs are possible.

County employees will receive from 5 to 10 furlough days depending on salary. The county also laid off 18 employees.

Number of Counties Changing Local Tax Rates
Fiscal 2007-2011

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
	▲ ▼	▲ ▼	▲ ▼	▲ ▼	▲ ▼
Real Property	0 17	1 5	0 5	1 7	2 5
Local Income	0 1	1 0	1 0	0 0	1 0
Recordation	0 0	2 0	2 0	0 0	0 0
Transfer	0 0	0 0	0 0	0 0	0 0
Admissions/Amusement	0 1	0 0	0 0	0 0	0 0
Hotel/Motel	0 0	0 0	1 0	0 0	1 0

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

Source: 2010 Local Government Tax Rate and Salary Action Survey, Department of Legislative Services

Local Tax Rates in Fiscal 2010 and 2011

<u>County</u>	<u>Real Property</u>		<u>Local Income</u>		<u>Recordation</u>		<u>Transfer</u>		<u>Admissions/Amusement</u>		<u>Hotel/Motel</u>	
	<u>FY 2010</u>	<u>FY 2011</u>	<u>CY 2010</u>	<u>CY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2011</u>
Allegany	\$0.983	\$0.983	3.05%	3.05%	\$3.25	\$3.25	0.5%	0.5%	7.5%	7.5%	8.0%	8.0%
Anne Arundel	0.876	0.880	2.56%	2.56%	3.50	3.50	1.0%	1.0%	10.0%	10.0%	7.0%	7.0%
Baltimore City	2.268	2.268	3.05%	3.20%	5.00	5.00	1.5%	1.5%	10.0%	10.0%	7.5%	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	1.048	3.05%	3.05%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Cecil	0.940	0.915	2.80%	2.80%	4.10	4.10	0.0%	0.0%	6.0%	6.0%	3.0%	3.0%
Charles	1.026	1.026	2.90%	2.90%	5.00	5.00	0.0%	0.0%	10.0%	10.0%	5.0%	5.0%
Dorchester	0.896	0.896	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	1.064	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%	5.0%
Kent	0.972	1.022	2.85%	2.85%	3.30	3.30	0.5%	0.5%	4.5%	4.5%	5.0%	5.0%
Montgomery	0.916	0.915	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	0.770	0.767	2.85%	2.85%	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	0.900	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	0.432	2.25%	2.25%	3.30	3.30	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	0.759	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. The income tax is a percentage of taxable income. Recordation tax is per \$500 of transaction.

Source: 2010 Local Government Tax Rate and Salary Action Survey, Department of Legislative Services

Part 5

Debt Management and Capital Program

State Debt Policy

State Debt Has Increased Substantially Since 2000

- Since 2000, State general obligation (GO) bond authorizations have increased, the State has authorized new kinds of State debt, and debt outstanding has more than doubled.
 - GO bond authorizations were increased above the previous year's limit 10 of 11 years;
 - The limit on transportation bonds outstanding was increased three times, from \$1.2 billion to \$2.6 billion; and
 - Grant Anticipation Revenue Vehicles, Bay Restoration Fund Revenue, and Program Open Space bonds were authorized.
-

GO and Transportation Debt Outstanding Fiscal 2000-2016 (\$ in Millions)

<u>Fiscal Year</u>	<u>GO Debt Outstanding</u>	<u>% Increase Over FY 2000</u>	<u>Transportation Bonds Outstanding</u>	<u>% Increase Over FY 2000</u>
2000	\$3,349		\$725	
2001	3,451	3%	648	-11%
2002	3,544	6%	714	-1%
2003	3,932	17%	961	33%
2004	4,102	22%	1,186	64%
2005	4,512	35%	1,070	48%
2006	4,868	45%	1,078	49%
2007	5,142	54%	1,111	53%
2008	5,494	64%	1,269	75%
2009	5,874	75%	1,583	118%
2010	6,523	95%	1,645	127%
2011	6,978	108%	1,742	140%
2012	7,396	121%	1,949	169%
2013	7,777	132%	2,140	195%
2014	8,105	142%	2,265	213%
2015	8,394	151%	2,358	225%
2016	8,598	157%	2,447	238%

GO: general obligation

Source: *Report of the Capital Debt Affordability Committee on Recommended Debt Authorizations*, September 2010

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 2016.
-

State Affordability Ratios Fiscal 2000-2016

<u>Fiscal Year</u>	<u>Debt Outstanding as a % of Personal Income</u>	<u>Debt Service as % of Revenues</u>
2000	2.50%	5.73%
2001	2.41%	5.35%
2002	2.34%	5.86%
2003	2.58%	6.15%
2004	2.58%	5.93%
2005	2.55%	5.54%
2006	2.56%	5.55%
2007	2.69%	5.40%
2008	2.80%	5.55%
2009	3.18%	6.21%
2010	3.30%	6.85%
2011	3.40%	6.87%
2012	3.48%	7.18%
2013	3.50%	7.24%
2014	3.43%	7.52%
2015	3.33%	7.64%
2016	3.22%	7.89%

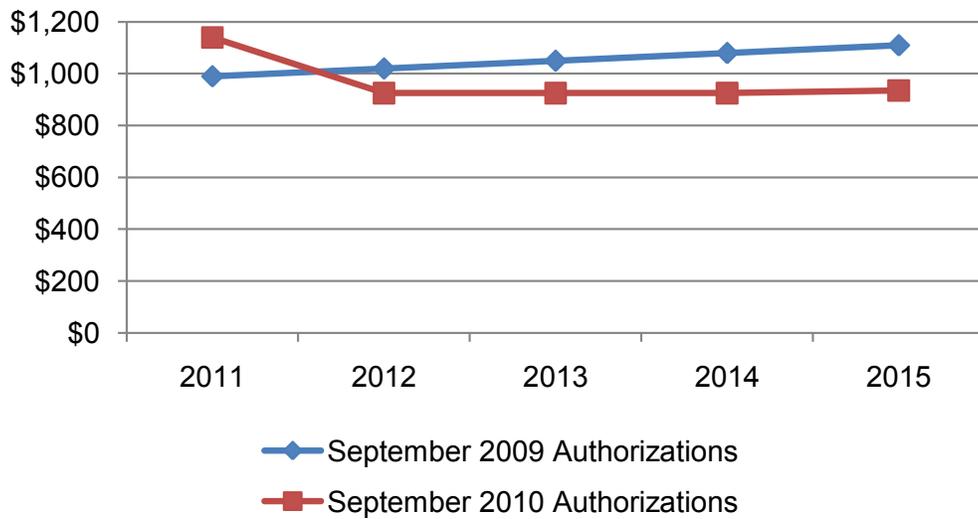
Source: *Report of the Capital Debt Affordability Committee on Recommended Debt Authorizations*, September 2010

State Debt Policy (cont.)

GO Bond Authorizations Are Reduced In Response to Reaching the Debt Limit

- Since September 2009, \$400 million was taken out of the GO bond program.
-

**Change in GO Bond Authorizations
September 2009 U.S. September 2010 Plans
(\$ in Millions)**



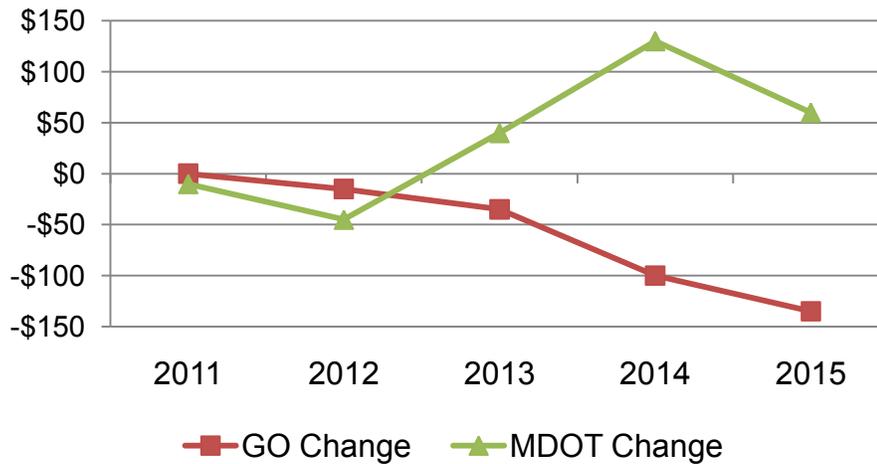
GO: general obligation

Source: Capital Debt Affordability Committee, 2009 and 2010 reports

State Debt Policy (cont.)

- Similar reductions were not made to other debt-funded programs.
-

**GO Bond and MDOT Projected Issuances
(\$ in Millions)
Fiscal 2011-2015**



GO: general obligation
MDOT: Maryland Department of Transportation

Source: Capital Debt Affordability Committee, 2009 and 2010 reports

State Debt Policy (cont.)

Demand Exceeds Resources

- Capital budget spending pressures will continue, for example:
 - GO bonds requests total \$8.4 billion from fiscal 2012 to 2016, while recommended debt authorizations are limited to \$4.7 billion;
 - Annual State transportation capital spending is projected to decrease from \$890 million in fiscal 2013 to \$813 million in fiscal 2016. This estimate assumes substantial growth in transportation revenues. Should revenues underperform, capital spending would be reduced even more. In the past, shrinking capital programs led to legislation increasing transportation revenues that can support additional debt issuances;
 - Bay restoration bonds are projected to provide \$530 million. Total estimated project costs are \$1.482 billion, which is \$537 million more than projected bonds and revenues of \$945 million. Additional funds are needed to fully fund this program; and
 - New leases, such as video lottery terminals, are procured periodically. Because of the nature of leases, they are often not anticipated in debt affordability projections.

Recommendations

- The Department of Legislative Services (DLS) concurs with the recommendation to maintain the GO bond authorization level at \$925 million.
- Insofar as debt service costs are increasing more than revenues and the State's general fund is facing a structural deficit, DLS recommends against increasing the GO bond authorization if the Board of Revenue Estimates increases projected general fund revenues.
- DLS recommends that the Administration prepare a comprehensive long-term debt plan and submit this plan with the capital budget. It is also recommended that annually the Administration propose and the General Assembly adopt legislation that sets limits on all the different types of State debt as part of the capital budget process.

Estimated Annuity Bond Fund Activity
Fiscal 2011-2016
(\$ in Millions)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Special Fund Revenues						
Property Tax Receipts	\$790	\$775	\$796	\$802	\$802	\$819
Transfer Tax Revenues ¹	7	0	0	4	6	6
Bond Sale Premiums ²	77	17	0	0	0	0
Other Revenues	2	2	2	2	2	2
ABF Fund Balance Transferred from Prior Year	71	125	49	1	0	0
Subtotal Special Fund Revenues Available	\$948	\$919	\$847	\$809	\$812	\$828
General Fund Appropriations	0	0	66	171	219	306
Federal Fund Appropriations	9	11	11	11	11	11
Total Revenues	\$957	\$930	\$924	\$991	\$1,041	\$1,145
Projected Debt Service Expenditures	\$832	\$881	\$923	\$990	\$1,041	\$1,145
ABF End-of-year Fund Balance	\$125	\$49	\$1	\$1	\$0	\$1

ABF: Annuity Bond Fund

¹ Supports \$70 million of general obligation bonds issued in 2010 to support Program Open Space.

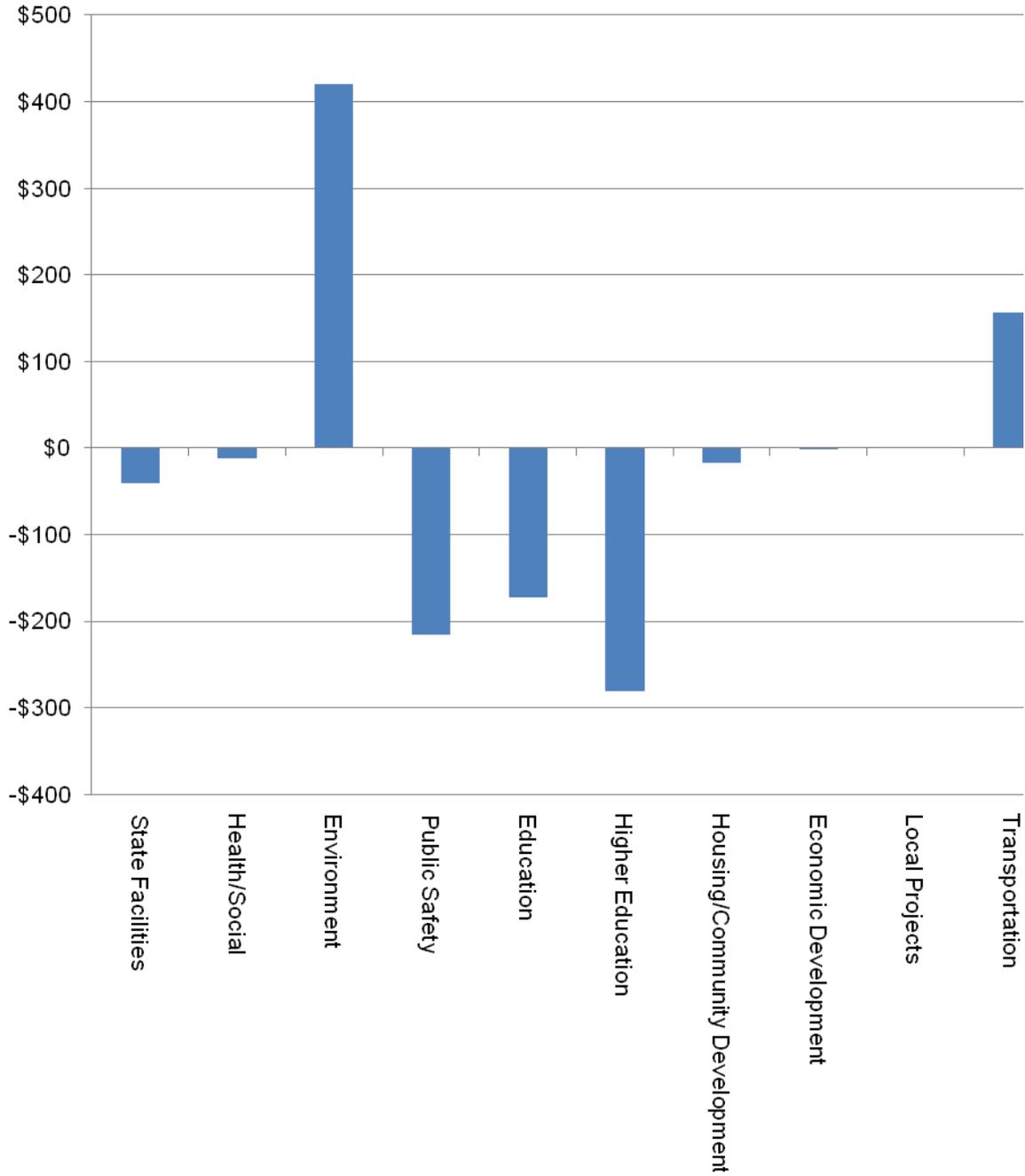
²Projects \$30 million bond sale premium in March 2011 bond sale and \$17 million in July 2011 bond sale.

Source: Department of Legislative Services, November 2010

Capital Program
Use of General Obligation (GO) Bond Program to Relieve Operating
Budget Pressure
(\$ in Millions)

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
<ul style="list-style-type: none"> ● Special Fund Revenue Replacement: In fiscal 2010, \$172.3 million of transfer tax was replaced with \$102.3 million of GO bond funds and \$70.0 million of Program Open Space (POS) revenue bonds. Fiscal 2011 included the transfer of \$113.7 million of estimated revenues from multiple capital program accounts replaced with \$102.4 million of GO bonds in fiscal 2011 and \$11.3 pre-authorized for fiscal 2012. 	\$102.3	\$102.4
<ul style="list-style-type: none"> ● Fund Balance Replacement: Fiscal 2010 included the transfer of \$330.1 million of unexpended fund balance from multiple capital program accounts. A multi-year GO bond replacement plan includes \$176.9 million in fiscal 2011 and \$116.6 million programmed for fiscal 2012. 	0.0	176.9
<ul style="list-style-type: none"> ● InterCounty Connector Funding: \$55.0 million authorized in fiscal 2010 – another \$89.3 million authorized in fiscal 2011 with the remaining \$67.6 million expected in fiscal 2012. 	55.0	89.3
<ul style="list-style-type: none"> ● Medevac Helicopter Replacement: \$52.5 million authorized in fiscal 2010, and another \$20.0 million pre-authorized for fiscal 2012 to fund up to six helicopters. Final determination on the total number of new helicopters pending submission of Medevac Base Study. 	52.5	0.0
<ul style="list-style-type: none"> ● Use of GO Bond Funds to Fund Capital Programs Traditionally Funded with General Funds: This principally includes funding for grant and loan programs administered by the Department of Housing and Community Development and the Maryland Department of the Environment. 	28.1	43.7
Total	\$238.1	\$414.3

**General Obligation Bond Capital Program Comparison
2009 vs. 2010 Capital Improvement Program Major Variances
(\$ in Millions)**

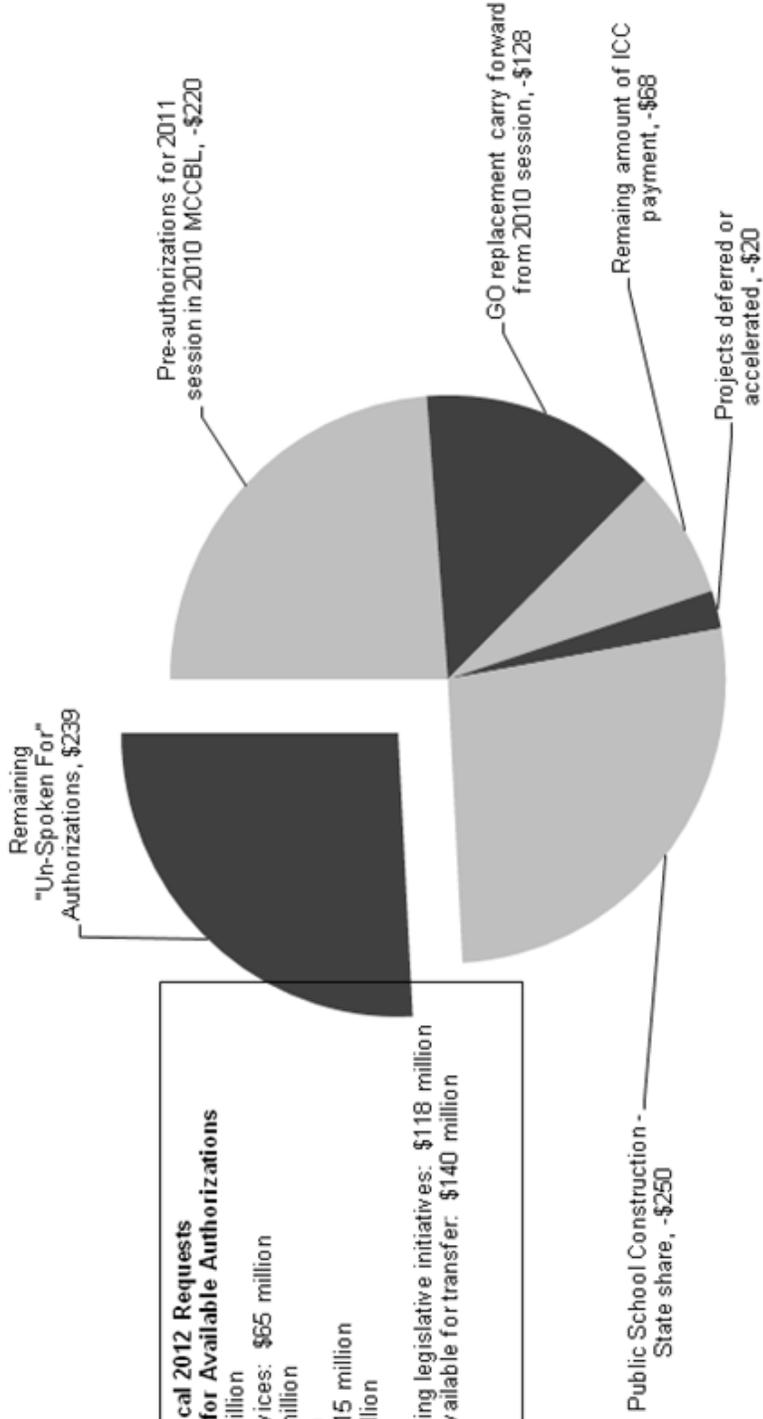


Outlook for 2011 Session Reduced Authorization Level and Continued GO Bond Replacement of Fund Transfers (\$ in Millions)

CDAC Recommended GO Authorization **\$925**

Less Bond Replacement and Pre-authorizations and Commitments:

- Pre-authorizations for 2011 session in 2010 MCCBL -220
- GO bond replacement carryforward from 2010 session -128
- Remaining amount of ICC payment -68
- Projects deferred or accelerated -20
- Public School Construction – State share -250



**Fiscal 2012 Requests
Competition for Available Authorizations**

- State Facilities: \$73 million
- Health and Social Services: \$65 million
- Environment: \$ 100 million
- Education: \$23 million
- Higher Education: \$115 million
- Public Safety: \$35 million
- Housing: \$29 million
- Miscellaneous - including legislative initiatives: \$118 million
- Revenue potentially available for transfer: \$140 million

Total: \$698 million

CDAC: Capital Debt Affordability Committee
 GO: general obligation
 ICC: InterCounty Connector
 MCCBL: Maryland Consolidated Capital Bond Loan

Pre-authorizations Included in 2010 MCCBL for 2011

<u>Project Title</u>	2011 Session Pre-authorization Amounts
BPW: State Government Center – Annapolis Legislative Facilities Low House Office Building	\$4,250,000
MSDE: Western Maryland Regional Library	2,500,000
MHEC: Community College Facilities Grant Program	33,633,000
DNR: Harriet Tubman Underground Railroad State Park – Visitor Center	1,650,000
DPSCS: New Youth Detention Facility	38,000,000
UMCP: Physical Sciences Complex	44,100,000
UB: New Law School Building	38,500,000
UMBC: New Performing Arts and Humanities Facility	37,400,000
DSP: State Police Helicopters	20,000,000
Total	<u>\$220,033,000</u>

BPW: Board of Public Works
 DNR: Department of Natural Resources
 DPSCS: Department of Public Safety and Correctional Services
 DSP: Department of State Police
 MCCBL: Maryland Consolidated Capital Bond Loan
 MHEC: Maryland Higher Education Commission
 MSDE: Maryland State Department of Education
 UB: University of Baltimore
 UMBC: University of Maryland Baltimore County
 UMCP: University of Maryland, College Park

Note: The pre-authorization for the MHEC Community College Grant Program includes \$9,466,000 for Howard Community College – Allied Health Building; \$6,064,000 for Hagerstown Community College – Arts and Sciences Complex; \$868,000 for Prince George’s Community College – Center for Health Studies; \$2,586,000 for Prince George’s Community College – Circulation/Roadway Modifications; \$3,500,000 for Anne Arundel Community College – Library Renovation and Addition; \$3,245,000 for College of Southern Maryland – Phase II Campus Development; and \$7,904,000 for Harford Community College – Susquehanna Center.

**Fund Transfers and Multi-year General Obligation Bond Replacement Plan
(\$ in Millions)**

<u>Program</u>	<u>Transfers</u>			<u>Fund Replacement</u>					<u>Total Amount of Fund Transfers to Be Replaced in the CIP</u>
	<u>Prior Special Fund Balance</u>	<u>FY 2011 Special Funds</u>	<u>Total Transfers</u>	<u>FY 2011 Special Funds Replaced in FY 2011</u>	<u>Prior Funds Replaced in FY 2011</u>	<u>Funds Replaced in FY 2012</u>	<u>Funds Replaced in FY 2013</u>	<u>Total</u>	
Waterway Improvement Program	\$12.5	\$3.9	\$16.4	\$3.9	\$6.3	\$6.3	\$0.0	\$16.4	
Program Open Space (POS) – Stateside	4.6	13.1	17.6	8.1	3.0	6.6	0.0	17.6	
POS – Local	103.1	12.4	115.5	12.4	41.8	29.0	32.3	115.5	
Rural Legacy	10.6	12.6	23.3	6.3	10.6	6.3	0.0	23.3	
Ocean City Beach Replenishment – POS	2.1	1.0	3.1	1.0	2.1	0.0	0.0	3.1	
Ocean City Beach Replenishment – Local	3.4	0.0	3.4	0.0	3.4	0.0	0.0	3.4	
Natural Resources Development Fund	17.7	0.0	17.7	0.0	10.1	3.8	1.4	15.3	
Critical Maintenance Program	3.2	3.2	6.3	3.2	3.2	0.0	0.0	6.3	
Dam Rehabilitation Program	0.7	0.0	0.7	0.0	0.2	0.5	0.0	0.7	
House Assessment Program	0.9	0.0	0.9	0.0	0.3	0.4	0.1	0.7	
Hurricane Isabel Funds	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0	
Neighborhood Business Development	3.6	3.2	6.8	3.2	3.6	0.0	0.0	6.8	
Community Legacy Program	0.4	0.0	0.4	0.0	0.4	0.0	0.0	0.4	
Homeownership Programs	0.0	3.0	3.0	3.0	0.0	0.0	0.0	3.0	
Special Loan Programs	2.1	2.5	4.6	2.5	2.1	0.0	0.0	4.6	
Tobacco Transition Program	0.0	2.0	2.0	2.0	0.0	0.0	0.0	2.0	
Agricultural Land Preservation Program	10.0	11.8	21.8	11.8	10.0	0.0	0.0	21.8	
Bay Restoration Fund	155.0	45.0	200.0	45.0	80.0	75.0	0.0	200.0	
Total	\$330.1	\$113.7	\$443.7	\$102.3	\$176.9	\$127.9	\$33.7	\$440.9	

CIP: Capital Improvement Program

Part 6

Transportation

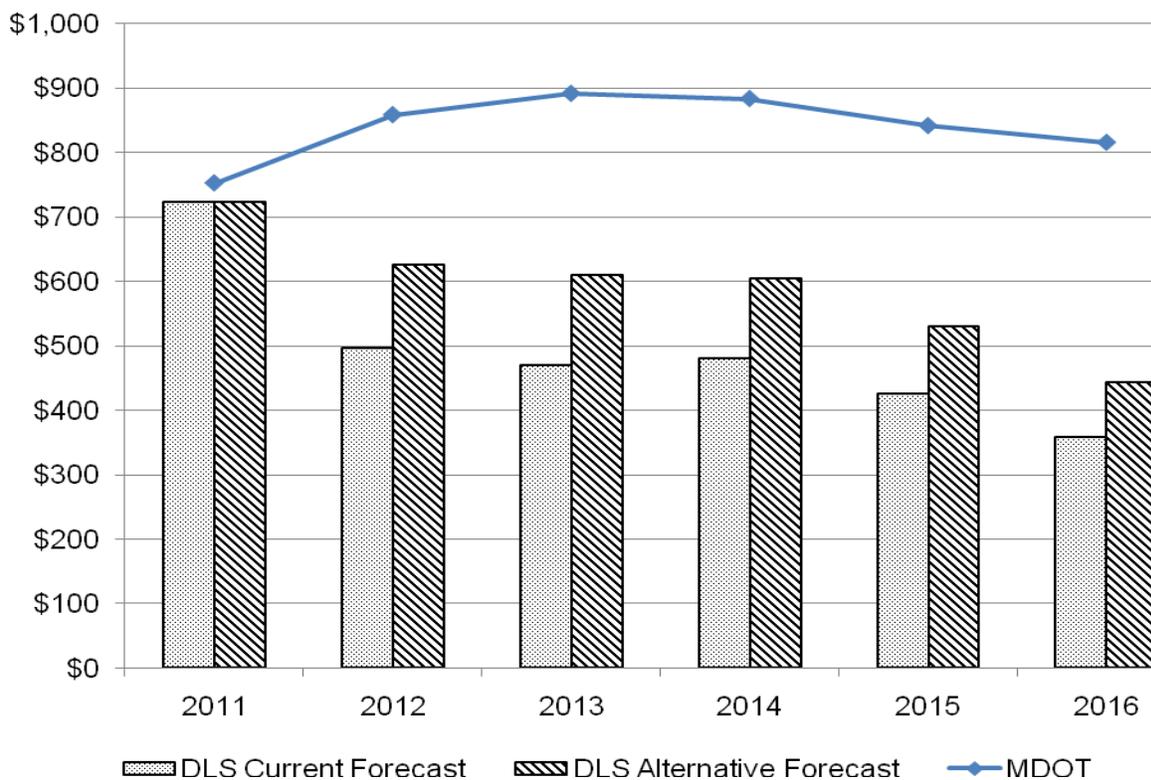
Transportation Trust Fund

Downside Risks to the Department's Six-year Capital Program Persist as Reflected in the Department of Legislative Services Forecast (\$ in Millions)

<u>Revenue</u>	<u>Six-year Total</u>
Titling Tax – The Department of Legislative Services (DLS) assumes a less robust recovery in vehicle sales resulting in an average annual growth rate of 6.8% compared to 7.6% for MDOT.	-\$405
Motor Fuel – DLS assumes less growth in the out years due to less robust estimates of economic activity.	-60
Other Revenues – Sales and corporate income tax revenue as well as registration fee revenue are less due to lower estimates of growth in the economy in the out-years.	-154
Bonds Issued – Due to less revenue and higher levels of operating budget spending, bond sales are constrained throughout the six-year period.	-1,390
Total	-\$2,009
Spending/Transfers	
Operating Budget – DLS assumes average annual growth of 5.3% compared to 4.0% for the Maryland Department of Transportation (MDOT). The 10-year historical spending rate is 5.4%. The largest differences are in estimates for transit and winter maintenance expenditures.	\$395
Capital Program – Less cash is available due to lower revenue estimates and higher operating budget spending. Furthermore, bond sales for the capital program are constrained by the net income test.	-2,080
Debt Service – Reduced bond sales lowers the amount of debt service payments.	-200
General Fund Transfer – Declining revenues result in less revenue for distribution.	-86
Local Highway User Revenue Distribution – Declining revenues result in less revenue for distribution.	-39
Total	-\$2,009

Transportation Trust Fund

Downside Risks Show That the Department May Not Be Able to Deliver Its Planned Capital Program (\$ in Millions)



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

- The chart presents two funding scenarios which highlight the downside risks to the department's capital program to varying degrees. The DLS forecast reflects lower debt issuances and capital expenditures based on less robust revenue assumptions and historical spending patterns. Additional capital spending in the alternative forecast is a result of allowing the department to fall below its administrative bond coverage ratio.
- The department's current revenue structure may be insufficient to meet the department's needs. It is also noteworthy that the department's ability to issue debt for the capital program could also be constrained by broader State debt measures.
- MDOT's current forecast does not account for the operating or capital impact of large capital projects such as the three different transit lines under consideration.

**Department of Legislative Services
Transportation Trust Fund Forecast
Fiscal 2010-2016**

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Estimate</u>	<u>2012</u> <u>Estimate</u>	<u>2013</u> <u>Estimate</u>	<u>2014</u> <u>Estimate</u>	<u>2015</u> <u>Estimate</u>	<u>2016</u> <u>Estimate</u>
Opening Fund Balance	\$245	\$252	\$100	\$100	\$100	\$100	\$100
Closing Fund Balance	\$252	\$100	\$100	\$100	\$100	\$100	\$100
<u>Net Revenues</u>							
Taxes and Fees	\$1,657	\$1,682	\$1,798	\$1,896	\$2,025	\$2,082	\$2,129
Operating & Miscellaneous	530	492	473	474	478	483	488
Transfers Between TTF and GF	0	0	0	0	0	0	0
MDTA Transfer	-30	0	0	0	0	0	0
Net Revenues Subtotal	\$2,157	\$2,175	\$2,270	\$2,371	\$2,503	\$2,565	\$2,617
Bonds Sold	\$140	\$130	\$30	\$0	\$0	\$0	\$0
Bond Premiums	6	0	0	0	0	0	0
Total Revenues	\$2,303	\$2,305	\$2,300	\$2,371	\$2,503	\$2,566	\$2,617
<u>Expenditures</u>							
Debt Service	\$151	\$158	\$179	\$184	\$202	\$212	\$217
Operating Budget	1,571	1,575	1,624	1,718	1,819	1,927	2,040
State Capital	575	724	497	470	482	427	360
Total Expenditures	\$2,297	\$2,457	\$2,300	\$2,371	\$2,503	\$2,566	\$2,617
<u>Debt</u>							
Debt Outstanding	\$1,645	\$1,692	\$1,619	\$1,510	\$1,377	\$1,226	\$1,064
Debt Coverage – Net Income	2.9	2.5	2.6	2.8	2.8	3.0	2.8
<u>Revenue Transfers</u>							
Local Highway User Revenues	\$163	\$134	\$133	\$158	\$162	\$166	\$169
HUR Transfer to GF	304	364	333	330	341	348	354
<u>Capital Summary</u>							
State Capital	\$575	\$724	\$497	\$470	\$482	\$427	\$360
Net Federal Capital (Cash Flow)	794	789	625	631	568	392	388
Subtotal Capital Expenditures	\$1,369	\$1,513	\$1,122	\$1,101	\$1,050	\$819	\$748
GARVEE Debt Service	\$87	\$87	\$87	\$87	\$87	\$87	\$87

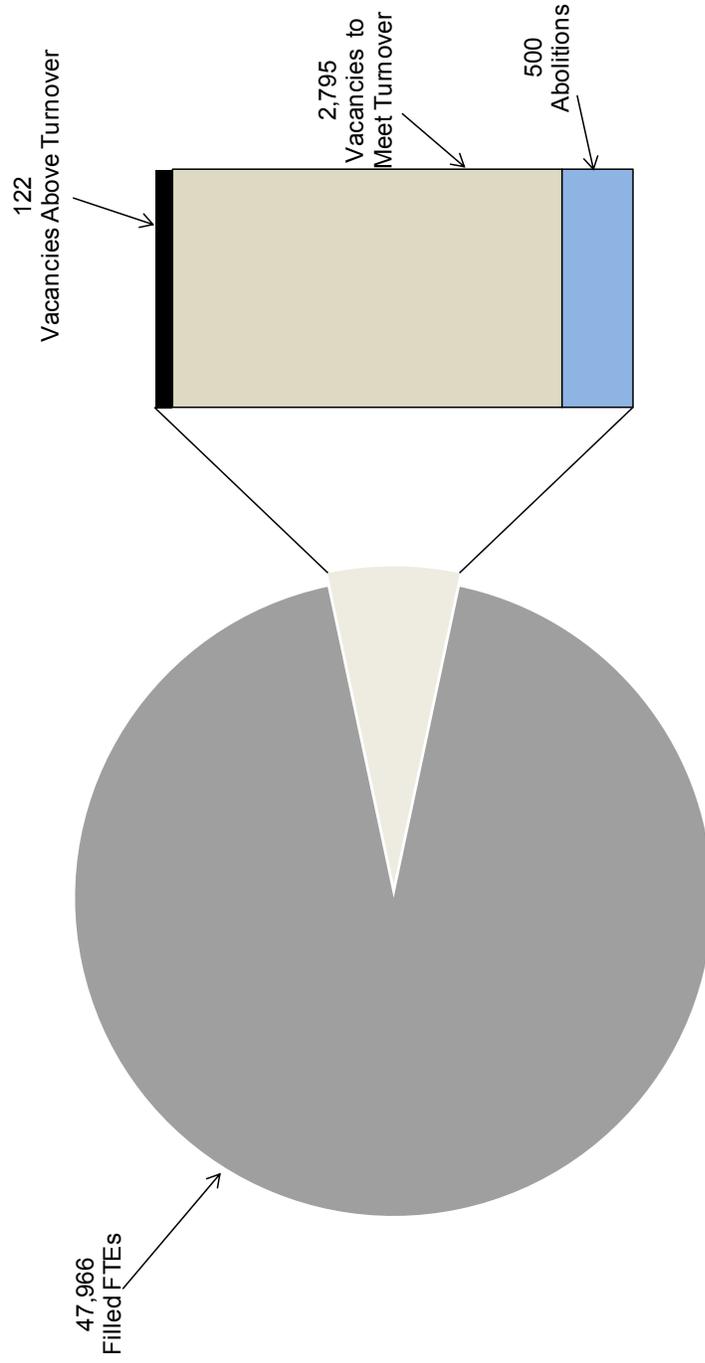
GARVEE: Grant Anticipation Revenue Vehicles
 GF: general funds
 HUR: highway user revenue
 MDTA: Maryland Transportation Authority

Part 7

State Employment and Employee Benefits

Executive Branch Positions and Vacancies

Fiscal 2011 through October 2010



- There were 51,383 full-time equivalent (FTE) positions authorized for fiscal 2011, but the budget bill requires another 500 positions be abolished by June 30, 2011.
- In response, vacancies have risen to allow many of the reductions to be realized through attrition.
- So, once these abolitions and turnover-based salary reductions are accounted for, vacancies in the Executive Branch are at appropriate budgeted levels – as budgeted vacancy funding equals 122 positions, or 0.24% of the workforce. In fiscal 2009, this funded vacancy figure was 1,856 positions.

Regular Full-time Equivalent Position Changes

Fiscal 2002 Actual to Fiscal 2012 Baseline

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2011 Legis. Appropriation</u>	<u>2002-2011 Change</u>	<u>2012 Baseline</u>	<u>2011-2012 Change</u>
Health and Human Services					
Health and Mental Hygiene	8,555	6,570	-1,985	6,580	10
Human Resources	7,364	6,707	-657	6,703	-4
Juvenile Services	2,123	2,240	117	2,246	6
Subtotal	18,041	15,517	-2,524	15,529	12
Public Safety					
Public Safety and Correctional Services	11,663	11,304	-359	11,345	41
Police and Fire Marshal	2,590	2,421	-169	2,423	2
Subtotal	14,252	13,724	-528	13,767	43
Transportation	9,538	8,979	-559	8,963	-16
Other Executive					
Legal (Excluding Judiciary)	1,364	1,489	125	1,498	9
Executive and Administrative Control	1,603	1,620	17	1,634	14
Financial and Revenue Administration	2,151	1,971	-180	1,987	16
Budget and Management	517	451	-66	451	0
Retirement	194	207	14	207	0
General Services	793	593	-200	593	0
Natural Resources	1,618	1,284	-334	1,288	4
Agriculture	480	413	-68	418	5
Labor, Licensing, and Regulation	1,706	1,669	-37	1,671	2
MSDE and Other Education	1,956	1,951	-5	1,951	0
Housing and Community Development	416	311	-105	311	0
Business and Economic Development	324	236	-88	236	0
Environment	1,028	970	-58	974	4
Subtotal	14,149	13,163	-986	13,218	54
Executive Branch Subtotal	55,980	51,383	-4,597	51,476	93
<i>Fiscal 2011 Budget Bill Section 44 reduction*</i>					
	-	-	-	-500	-500
Higher Education	21,393	23,847	2,454	24,282	435
Judiciary	3,010	3,581	572	3,581	0
Legislature	730	747	17	747	0
Grand Total	81,113	79,558	-1,555	79,587	29

MSDE: Maryland State Department of Education

*The General Assembly instructed the Governor to abolish 500 positions across the Executive Branch by June 30, 2011, 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

Contractual Full-time Equivalent Position Changes

Fiscal 2002 Actual to Fiscal 2012 Baseline

<u>Department/Service Area</u>	<u>2002 Actual</u>	<u>2011 Legis. Appropriation</u>	<u>2002-2011 Change</u>	<u>2012 Baseline</u>	<u>2011-2012 Change</u>
Health and Human Services					
Health and Mental Hygiene	409	330	-79	330	0
Human Resources	111	73	-38	73	0
Juvenile Services	119	98	-21	98	0
Subtotal	639	501	-138	501	0
Public Safety					
Public Safety and Correctional Services	298	377	79	377	0
Police and Fire Marshal	46	33	-13	33	0
Subtotal	344	410	66	410	0
Transportation	142	138	-4	139	1
Other Executive					
Legal (Excluding Judiciary)	99	41	-58	41	0
Executive and Administrative Control	208	173	-35	168	-6
Financial and Revenue Administration	35	54	19	38	-16
Budget and Management	33	18	-15	18	0
Retirement	30	15	-15	15	0
General Services	35	45	10	45	0
Natural Resources	332	373	41	375	2
Agriculture	36	51	15	52	1
Labor, Licensing, and Regulation	176	203	27	203	0
MSDE and Other Education	218	229	11	229	0
Housing and Community Development	49	66	17	66	0
Business and Economic Development	49	6	-44	6	0
Environment	32	46	14	46	1
Subtotal	1,332	1,320	-12	1,301	-19
Executive Branch Subtotal	2,457	2,369	-88	2,352	-18
Higher Education	6,079	6,302	223	6,302	0
Judiciary	371	384	13	384	0
Grand Total	8,907	9,055	148	9,037	-18

MSDE: Maryland State Department of Education

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

Vacant Positions, Turnover Rate, and Positions Above Turnover
Fiscal 2011 Legislative Appropriation

Department/Service Area	2011 Legislative		October 2010		October 2010	Turnover	Positions To	Positions
	Appropriation	Vacancies	Vacancies	Vacancy Rate	Vacancy Rate	Rate	Meet	Above
							Turnover	Turnover
Health and Human Services								
Health and Mental Hygiene	6,570	557		8.5%		6.9%	450	107
Human Resources*	6,707	437		6.5%		5.1%	341	96
Juvenile Services	2,240	168		7.5%		2.0%	46	122
Subtotal	15,517	1,162		7.5%		4.9%	837	325
Public Safety								
Public Safety and Correctional Services	11,304	606		5.4%		5.7%	650	-44
Police and Fire Marshal	2,421	193		8.0%		7.3%	178	15
Subtotal	13,724	799		5.8%		6.3%	827	-29
Transportation	8,979	483		5.4%		5.0%	450	33
Other Executive								
Legal (Excluding Judiciary)	1,489	114		7.7%		3.7%	56	58
Executive and Administrative Control	1,620	139		8.6%		5.9%	96	44
Financial and Revenue Administration	1,971	134		6.8%		4.3%	85	48
Budget and Management	451	56		12.5%		2.4%	11	45
Retirement	207	8		3.9%		3.1%	6	2
General Services	593	61		10.3%		4.9%	29	32
Natural Resources	1,284	94		7.3%		6.2%	79	15
Agriculture	413	38		9.1%		7.8%	32	5
Labor, Licensing, and Regulation	1,669	135		8.1%		5.2%	86	49
MSDE and Other Education	1,951	112		5.8%		5.6%	109	4
Housing and Community Development	311	14		4.5%		4.1%	13	1
Business and Economic Development	236	14		5.9%		4.0%	10	4
Environment	970	53		5.5%		7.1%	69	-16
Subtotal	13,163	973		7.4%		4.9%	680	293
Executive Branch Subtotal	51,383	3,417		6.6%		5.2%	2,795	622 *
Higher Education	23,847	1,119		4.7%		3.8%	908	211
Judiciary	3,581	200		0.8%		4.2%	149	50
Legislature	747.0	18		0.5%		2.0%	15	3
Grand Total	79,558	4,753		6.0%		4.7%	3,867	886

MSDE: Maryland State Department of Education

* In response to the fiscal 2011 budget bill's requirement that 500 positions be abolished by June 30, 2011, vacancies have risen to realize the reductions through attrition. Assuming the removal of 500 vacant positions from the 622 shown in the above turnover calculation, the Executive Branch has 122 positions more than turnover accounts for, a figure below the levels seen in last year's baseline process (151).

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

State Pension System – Contribution Rates and Budgeted Funding Levels

Fiscal 2009 Actual to Fiscal 2012 Estimate

(\$ in Million)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 Est.</u>	<u>2011-12 Change</u>
Employees' System – State Rate	8.73%	9.93%	11.69%	13.40%	14.6%
Employees' System – State \$	\$242	\$291	\$343	\$389	\$46
Teacher System – State Rate	11.70%	13.15%	14.34%	15.45%	7.7%
Teacher System – State \$	\$676	\$827	\$924	\$1,000	\$76
Other Systems* State \$	\$57	\$72	\$103	\$108	\$5
Total \$ Contribution	\$975	\$1,190	\$1,371	\$1,497	\$127

Fund Types

General Fund	\$848	\$896	\$946	\$1,280	\$334
Stimulus (ARRA)	\$0	\$137	\$228	\$0	-\$228
Other Fund Types (SF/FF)	\$127	\$156	\$197	\$217	\$21

- The total increase in State contributions across all systems is approximately \$127 million, with the Teacher's system representing 60% of the increase.
- Rate growth stems primarily from recognizing the remainder of prior-year investment losses, which are partially tempered by fiscal 2010's positive returns, and payroll totals coming in lower than the actuarial assumptions.
- Over \$228 million in ARRA funds were used to finance the 2011 increase in the grant for local teacher pension benefits. These funds, and the \$137.3 million used in fiscal 2010, must be replaced with general funds in fiscal 2012 and all future years.

ARRA: American Recovery and Reinvestment Act of 2009

FF: federal funds

SF: special funds

*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.

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

Employee and Retiree Health Insurance Funding

Fiscal 2009-2012
(\$ in Millions)

	2009 <u>Actual</u>	2010 <u>Actual</u>	2011 <u>Budget</u>	2012 <u>Est.</u>
Beginning Balance	\$246	\$138	\$179	\$138
Receipts				
Agencies (Employer Contribution)	\$772	\$882	\$895	\$1,007
Employees/Retirees Contribution	214	237	237	242
Rebates, Recoveries	16	49	50	48
Total Receipts	\$1,002	\$1,168	\$1,181	\$1,297
% Growth in Receipts		16.5%	1.1%	9.8%
Expenditures				
Payments	-\$1,110	-\$1,126	-\$1,223	-\$1,297
% Growth in Payments		1.4%	8.6%	6.1%
Ending Balance	\$138	\$179	\$138	\$138

- Balance increase at the end of fiscal 2010 because:
 - Fiscal 2009 had 53 weeks of claims, lowering fiscal 2010's total growth;
 - Cost containment actions in Rx program during fiscal 2010 lowered expenses; and
 - Immature EPO experience postponing approximately \$16 million in claims for fiscal 2010.
- Fiscal 2011 costs increase due to:
 - Inclusion of full EPO experience estimate;
 - Member premiums held constant by administration; and
 - Growth in dependent and retiree membership.
- Fiscal 2012 is the last year that the approximately \$23 million in annual Medicare D federal reimbursements will be directed to the health program instead of the Post-employment Benefits Trust.

EPO: Exclusive Provider Organization

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

Part 8

Video Lottery Terminals

Video Lottery Terminals (VLTs)

- Under the State Constitution, five geographic areas are authorized for video lottery facilities. In fall 2009, the Video Lottery Facility Location Commission awarded video lottery operation licenses for three of these areas.
- Penn Cecil Maryland, Inc. (Penn Cecil) was awarded a license to operate a facility with 1,500 VLTs in Perryville in Cecil County. Penn Cecil paid the required initial license fee of \$9.0 million for 1,500 VLTs. The facility opened to the public with 1,500 VLTs on September 27, 2010. The State Lottery reports that the facility has generated \$13.5 million in revenues as of November 5, 2010.
- Ocean Enterprise 589, LLC (OE 589) was awarded a license to operate a facility with 800 VLTs at Ocean Downs Racetrack in Worcester County. OE 589 paid the required initial license fee of \$4.8 million for 800 VLTs. The facility is under construction and expected to open in December 2010 with 750 VLTs, with the full complement of 800 VLTs in place by spring 2011.
- Power Plant Entertainment Casino Resorts Maryland, LLC (PPE Casino Resorts) was awarded a license to operate a facility with 4,750 VLTs at the Arundel Mills Mall in Anne Arundel County, contingent upon local zoning approval. PPE Casino Resorts paid the required initial license fee of \$28.5 million for 4,750 VLTs. County officials approved zoning legislation in December 2009, but that legislation was petitioned to a local voter referendum. On November 2, 2010, Anne Arundel County voters approved the zoning legislation.
- In February 2009, the Location Commission rejected the single proposal for Allegany County for failing to meet the minimum requirements of the VLT law and the Request for Proposals, including failure to pay the required initial license fee. The Location Commission rebid the Allegany County location in July 2010, but received no proposals by the deadline of November 9, 2010.
- In December 2009, the commission rejected the single proposal for Baltimore City, finding that the proposal was not in the best interest of the State. A protest of the commission's rejection of the Baltimore City proposal is pending before the State Board of Contract Appeals.

**Estimates of Anticipated Revenues at
Each VLT Facility Location
Fiscal 2011-2015
(\$ in Millions)**

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Anne Arundel ⁽¹⁾	\$0.0	\$0.0	\$226.9	\$368.7	\$412.9
Baltimore City ⁽²⁾	0.0	0.0	0.0	296.9	334.0
Cecil ⁽³⁾	86.7	132.3	149.6	160.9	168.4
Worcester ⁽⁴⁾	45.4	85.2	94.3	97.1	97.1
Allegany (Rocky Gap)	0.0	0.0	0.0	0.0	0.0
Total Annual Gross	\$132.1	\$217.4	\$470.8	\$923.5	\$1,012.4

VLT: video lottery terminal

⁽¹⁾ Assumes facility opening in November 2012.

⁽²⁾ Assumes facility opening in July 2013.

⁽³⁾ Facility opened on September 27, 2010.

⁽⁴⁾ Assumes facility opening in December 2010.

Note: Numbers may not sum due to rounding.

Distribution of Anticipated VLT Revenues
Fiscal 2011-2015
(\$ in Millions)

	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>
Total Annual Gross	\$132.1	\$217.4	\$470.8	\$923.5	\$1,012.4
Education Trust Fund (48.5%)	64.1	105.4	228.3	447.9	491.0
Facility Licensees (33.0%)	43.6	71.7	155.3	304.8	334.1
Racing Purses/Bred Funds (7.0%)	9.2	15.2	33.0	64.6	70.9
Local Impact Grants (5.5%)	7.3	12.0	25.9	50.8	55.7
Racetrack Renewal (2.5%)	3.3	5.4	11.8	23.1	25.3
State Lottery Operations (2.0%)	2.6	4.3	9.4	18.5	20.2
Small/Minority/Women-owned Business Investment (1.5%)	2.0	3.3	7.1	13.9	15.2

VLT: video lottery terminal

Note: Numbers may not sum due to rounding.

Part 9

Reserve Fund

State Reserve Fund Activity
Fiscal 2011 and 2012
(\$ in Millions)

	<u>Rainy Day Fund</u>	<u>Dedicated Purpose Acct.</u>	<u>Catastrophic Event Acct.</u>
Estimated Balances 6/30/10	\$611.6	\$0.1	\$1.0
Fiscal 2011 Appropriations	0.0	15.0	0.0
Expenditures			
Prince George's County Health System		-15.1	
Transfers to General Fund	0.0		0.0
Estimated Interest	18.7		
Estimated Balances 6/30/11	\$630.3	\$0.0	\$1.0
Fiscal 2012 Appropriations	\$30.0	\$65.0	\$0.0
Expenditures			
Prince George's County Health System		-15.0	
POS Repayment for GF Transfers		-50.0	
Transfers to General Fund	0.0	0.0	0.0
Estimated Interest	20.4		
Estimated Balances 6/30/12	\$680.7	\$0.0	\$1.0
Balance in Excess of 5% GF Revenues¹	\$0.4		

GF: general funds
POS: Program Open Space

¹ The Budget Reconciliation and Financing Act of 2010 does not require the Governor to appropriate funds into the Rainy Day Fund in fiscal 2012.