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# **Spending Affordability Committee Technical Supplement**

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**Department of Legislative Services  
Office of Policy Analysis  
Annapolis, Maryland**

**November 2010**



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# Part 1

## Fiscal 2012 Baseline Budget

### Technical Supplement Overview

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#### The Baseline Process

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

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

#### General Assumptions

Forecasts of individual agency budget requirements are based on amounts appropriated for fiscal 2011. Adjustments are made to remove funds allowed for one-time purposes and to add funds as required to recognize expenses associated with legislation, new facilities, changes in caseloads, and continuing expenses related to fiscal 2011 budget deficiencies. The baseline

estimate also allows for changes in personnel costs and inflationary increases in the cost of operating expenses.

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

- ***No Merit Increases, General Salary Increases, or Annual Salary Reviews Are Included in the Fiscal 2012 Baseline:*** In response to committee narrative from the 2010 session, the baseline does not include increases to salary-related items in order to comply with the budget committees' recommendation of limiting employee compensation to the same level authorized in fiscal 2011.
- ***Employee and Retiree Health Insurance:*** State health insurance costs support employee and retiree PAYGO health insurance costs. The baseline budget projects that fiscal 2012 claims costs will be nearly \$1.3 billion. This estimate assumes that costs will increase by 6.1%, consistent with recent claims activity, membership growth among the ranks of retirees and dependents, and a survey of projected cost increases. State agency appropriations into the fund are projected to increase by 13.0% as budgeted totals synchronize with actual expenditure levels due to the exhaustion of outstanding balances.
- ***Workers' Compensation Assessments:*** The Injured Workers' Insurance Fund (IWIF) administers the workers' compensation claims of State employees through a nonprofit agreement. The projected claims cost for fiscal 2012 uses the actual claims experience in fiscal 2010 as the cost base, and then IWIF's administrative fees are added to calculate the operational cost for the year. Monies to fund the long-term liability are also typically set aside each year. The projected fiscal 2012 cost for workers' compensation claims is \$61.9 million, up \$8.5 million from fiscal 2011, due to the administrative cost formula used by IWIF increasing expenses by \$1.8 million and no recognition of savings from the recently introduced policy of limiting case settlements being included in the assessment. The baseline does not include funding for the long-term liability, as none was included in the fiscal 2010 or 2011 budget.
- ***Employees' Retirement and Pensions:*** Fiscal 2012 baseline budget expenditures are expected to increase when compared to fiscal 2011. The increase is primarily attributable to the continued amortization of past investment losses and payroll totals being lower than actuarial assumptions. The result is to increase baseline spending, as described:
  - an additional \$46.2 million (\$27.5 million in general funds) for the Employees' State Retirement and Pension Systems;
  - State Police retirement plan appropriations increase by \$3.5 million (\$2.1 million in general funds);

- appropriations to the Law Enforcement Officers Pensions System increase by \$1.0 million (\$610,000 in general funds);
- the teachers' retirement plan appropriations, for members who are State employees, increase by \$1.9 million (\$1.1 million in general funds); and
- an additional \$530,000 (all general funds) for the judges' plan.

**Nonpersonnel Operating Cost Assumptions**

The baseline also assumes inflationary changes in specific subobjects. Overall, few inflationary changes were made to the baseline due to a national recession which has suppressed inflation. The most significant increases are reflected in motor vehicle fuel (6.3%) and the cost of electricity, natural gas and propane (5.0%). Specific inflation assumptions are:

- motor vehicle fuel (6.3%);
- natural gas and propane (5.0%);
- electricity (5.0%);
- medical contracts and supplies (4.4%);
- prescription drugs for State facilities (4.4%); and
- food (1.8%).

## Baseline Results

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

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<b>Projected Baseline Budget</b>				
<b>Fiscal 2011-2012</b>				
<b>(\$ in Millions)</b>				
<b><u>Fund</u></b> <sup>(1)</sup>	<b><u>2011 Adjusted</u></b>	<b><u>2012</u></b>	<b><u>2011-2012</u></b>	<b><u>2011-2012</u></b>
	<b><u>Appropriation</u></b>	<b><u>Baseline</u></b>	<b><u>\$ Increase</u></b>	<b><u>% Change</u></b>
General <sup>(2)</sup>	\$13,478.9	\$15,741.3	\$2,262.4	16.8%
Special/Higher Education <sup>(3)</sup>	9,552.9	9,959.9	406.9	4.3%
Federal	9,456.1	8,558.5	-897.6	-9.5%
<b>Total</b>	<b>\$32,487.9</b>	<b>\$34,259.7</b>	<b>\$1,771.8</b>	<b>5.5%</b>

<sup>(1)</sup> Excludes reimbursable and nonbudgeted funds.

<sup>(2)</sup> Net of reversions.

<sup>(3)</sup> Higher education funds include current restricted and unrestricted funds net of general, special, and federal fund appropriations.

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

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The tables on the following pages summarize the budgetary changes by major category of expenditure. Separate sections of the technical supplement dissect the assumptions used for estimates for general fund aid to local governments, entitlements, State agencies, debt service, capital programs, and general fund revenue projections. The baseline estimates described in this document represent the judgments of the Department of Legislative Services as of October 22, 2010. Actions subsequent to that date, including reductions made by the Administration, or further changes to the economic picture, are not reflected here.



**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%
<b>Aid to Local Governments</b>	<b>\$5,741.6</b>	<b>\$5,367.3</b>	<b>\$6,310.2</b>	<b>\$942.9</b>	<b>17.6%</b>
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%
<b>Entitlements</b>	<b>\$1,997.4</b>	<b>\$2,112.2</b>	<b>\$3,326.3</b>	<b>\$1,214.1</b>	<b>57.5%</b>
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./Nat'l. 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
<b>State Agencies</b>	<b>\$5,614.5</b>	<b>\$5,666.3</b>	<b>\$6,023.4</b>	<b>\$357.2</b>	<b>6.3%</b>
Deficiencies	\$0.0	\$337.2	\$0.0	-\$337.2	-100.0%
<b>Total Operating</b>	<b>\$13,353.5</b>	<b>\$13,483.1</b>	<b>\$15,660.0</b>	<b>\$2,176.9</b>	<b>16.1%</b>
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%
<b>Appropriations</b>	<b>\$13,313.1</b>	<b>*13,463.9</b>	<b>\$15,646.3</b>	<b>\$2,182.4</b>	<b>16.2%</b>
Reserve Funds	114.9	15.0	95.0	80.0	533.3%
<b>Grand Total</b>	<b>\$13,428.0</b>	<b>\$13,478.9</b>	<b>\$15,741.3</b>	<b>\$2,262.4</b>	<b>16.8%</b>

**State Expenditures – Special and Higher Education Funds \***  
(\$ in Millions)

<u>Category</u>	<u>Work. Appr. FY 2010</u>	<u>Leg. Appr. FY 2011</u>	<u>Baseline FY 2012</u>	<u>FY 2011 to FY 2012 \$ Change</u>	<u>% Change</u>
Debt Service	\$944.7	\$998.3	\$1,064.9	\$66.6	6.7%
County/Municipal	195.4	178.4	216.3	37.9	21.3%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	10.8	464.0	105.4	-358.6	-77.3%
Health	0.0	0.0	0.0	0.0	n/a
<b>Aid to Local Governments</b>	<b>\$206.2</b>	<b>\$642.4</b>	<b>\$321.7</b>	<b>-\$320.7</b>	<b>-49.9%</b>
Foster Care Payments	0.1	0.1	0.0	0.0	-62.1%
Assistance Payments	13.4	16.4	16.4	0.0	0.0%
Medical Assistance	542.0	453.9	657.6	203.7	44.9%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b>Entitlements</b>	<b>\$555.5</b>	<b>\$470.3</b>	<b>\$674.0</b>	<b>\$203.7</b>	<b>43.3%</b>
Health	297.0	297.2	299.3	2.1	0.7%
Human Resources	98.2	100.9	86.2	-14.7	-14.5%
Systems Reform Initiative	0.0	0.0	0.0	0.0	n/a
Juvenile Services	0.2	0.2	0.2	0.0	3.9%
Public Safety/Police	224.3	221.6	225.2	3.6	1.6%
Higher Education	3,471.8	3,590.0	3,653.6	63.6	1.8%
Other Education	55.1	48.1	46.5	-1.6	-3.3%
Transportation	1,434.8	1,415.1	1,514.3	99.2	7.0%
Agric./Natl Res./Environment	204.7	217.1	226.4	9.4	4.3%
Other Executive Agencies	576.7	610.5	672.2	61.7	10.1%
Judicial/Legislative	53.1	48.7	54.3	5.6	11.5%
Cost-of-Living Allowance	0.0	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$6,415.8</b>	<b>\$6,549.3</b>	<b>\$6,778.2</b>	<b>\$228.9</b>	<b>3.5%</b>
Deficiencies	0.0	57.8	0.0	-57.8	-100.0%
<b>Total Operating</b>	<b>\$8,122.3</b>	<b>\$8,718.3</b>	<b>\$8,838.9</b>	<b>\$120.6</b>	<b>1.4%</b>
Capital	937.5	834.7	1,121.0	286.3	34.3%
<b>Appropriations</b>	<b>\$9,059.8</b>	<b>\$9,552.9</b>	<b>\$9,959.9</b>	<b>\$406.9</b>	<b>4.3%</b>
Reserve Funds	0.0	0.0	0.0	0.0	n/a
<b>Grand Total</b>	<b>\$9,059.8</b>	<b>\$9,552.9</b>	<b>\$9,959.9</b>	<b>\$406.9</b>	<b>4.3%</b>

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

**State Expenditures – Federal 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	\$0.9	\$7.6	\$10.8	\$3.2	41.4%
County/Municipal	82.0	108.6	46.1	-62.5	-57.5%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	1,406.1	1,168.9	746.5	-422.3	-36.1%
Health	4.5	4.5	4.5	0.0	0.0%
<b>Aid to Local Governments</b>	<b>\$1,492.6</b>	<b>\$1,282.0</b>	<b>\$797.2</b>	<b>-\$484.8</b>	<b>-37.8%</b>
Foster Care Payments	125.4	107.0	94.9	-12.1	-11.3%
Assistance Payments	571.8	816.2	919.4	103.2	12.6%
Medical Assistance	3,686.8	3,830.4	3,582.1	-248.3	-6.5%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<b>Entitlements</b>	<b>\$4,384.0</b>	<b>\$4,753.6</b>	<b>\$4,596.4</b>	<b>-\$157.2</b>	<b>-3.3%</b>
Health	913.3	958.6	980.8	22.2	2.3%
Human Resources	565.6	520.5	515.4	-5.1	-1.0%
Systems Reform Initiative	7.3	7.7	7.7	0.0	0.0%
Juvenile Services	16.2	15.9	11.3	-4.6	-29.2%
Public Safety/Police	107.4	96.5	24.4	-72.1	-74.7%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	301.0	225.3	228.7	3.4	1.5%
Transportation	88.4	90.2	90.8	0.6	0.7%
Agric./Nat'l Res./Environment	81.0	68.4	67.4	-1.0	-1.5%
Other Executive Agencies	665.1	522.8	505.8	-17.0	-3.2%
Judicial/Legislative	4.2	4.0	4.1	0.1	2.5%
Cost-of-Living Allowance	0.0	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$2,749.5</b>	<b>\$2,510.0</b>	<b>\$2,436.4</b>	<b>-\$73.6</b>	<b>-2.9%</b>
Deficiencies	0.0	118.3	0.0	-118.3	-100.0%
<b>Total Operating</b>	<b>\$8,627.0</b>	<b>\$8,671.4</b>	<b>\$7,840.7</b>	<b>-\$830.8</b>	<b>-9.6%</b>
Capital	1,168.3	784.7	717.9	-66.8	-8.5%
<b>Grand Total</b>	<b>\$9,795.3</b>	<b>\$9,456.1</b>	<b>\$8,558.5</b>	<b>-\$897.6</b>	<b>-9.5%</b>

**State Expenditures – All 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	\$945.5	\$1,006.0	\$1,075.7	\$69.8	6.9%
County/Municipal	467.1	470.4	456.1	-14.3	-3.0%
Community Colleges	256.2	256.1	261.0	4.9	1.9%
Education/Libraries	6,675.4	6,523.4	6,670.1	146.7	2.2%
Health	41.8	41.8	41.8	0.0	0.0%
<b>Aid to Local Governments</b>	<b>\$7,440.5</b>	<b>\$7,291.7</b>	<b>\$7,429.1</b>	<b>\$137.3</b>	<b>1.9%</b>
Foster Care Payments	365.9	351.9	338.2	-13.8	-3.9%
Assistance Payments	680.7	882.9	1,043.0	160.1	18.1%
Medical Assistance	5,817.1	6,027.8	7,134.1	1,106.3	18.4%
Property Tax Credits	73.2	73.5	81.4	7.9	10.7%
<b>Entitlements</b>	<b>\$6,936.8</b>	<b>\$7,336.2</b>	<b>\$8,596.7</b>	<b>\$1,260.5</b>	<b>17.2%</b>
Health	2,565.7	2,625.1	2,721.4	96.3	3.7%
Human Resources	935.2	884.0	926.4	42.4	4.8%
Systems Reform Initiative	31.8	28.4	28.4	0.0	0.0%
Juvenile Services	277.0	270.2	280.8	10.6	3.9%
Public Safety/Police	1,503.5	1,495.0	1,544.6	49.6	3.3%
Higher Education	4,619.4	4,735.7	4,806.1	70.4	1.5%
Other Education	670.0	622.6	634.0	11.4	1.8%
Transportation	1,523.2	1,505.2	1,605.1	99.8	6.6%
Agric./Nat'l Res./Environment	391.4	388.3	404.2	16.0	4.1%
Other Executive Agencies	1,763.5	1,672.5	1,766.7	94.3	5.6%
Judicial/Legislative	499.2	498.7	520.2	21.6	4.3%
Cost-of-Living Allowance	0.0	0.0	0.0	0.0	n/a
<b>State Agencies</b>	<b>\$14,779.9</b>	<b>\$14,725.6</b>	<b>\$15,238.0</b>	<b>\$512.5</b>	<b>3.5%</b>
Deficiencies	0.0	513.3	0.0	-513.3	-100.0%
<b>Total Operating</b>	<b>\$30,102.7</b>	<b>\$30,872.8</b>	<b>\$32,339.5</b>	<b>\$1,466.7</b>	<b>4.8%</b>
Capital/Heritage Reserve Fund	2,110.9	1,630.1	1,855.2	225.0	13.8%
Reversions	-45.5	-30.0	-30.0	0.0	0.0%
<b>Appropriations</b>	<b>\$32,168.1</b>	<b>\$32,472.9</b>	<b>\$34,164.7</b>	<b>\$1,691.8</b>	<b>5.2%</b>
Reserve Funds	114.9	15.0	95.0	80.0	533.3%
<b>Grand Total</b>	<b>\$32,283.1</b>	<b>\$32,487.9</b>	<b>\$34,259.7</b>	<b>\$1,771.8</b>	<b>5.5%</b>

## Aid to Local Governments

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

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### State Aid by Governmental Entity Fiscal 2009-2012 (\$ in Thousands)

<u>Entity</u>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2011-2012</b>	
	<u>Actual</u>	<u>Working</u>	<u>Working</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Change</u>
Public Schools	\$5,379,229	\$5,506,989	\$5,717,452	\$5,852,849	\$135,397	2.4%
County/Municipal	738,231	396,928	370,541	410,004	39,462	10.6%
Community Colleges	254,713	256,174	256,115	261,017	4,902	1.9%
Health	57,359	37,283	37,283	37,283	0	0.0%
Libraries	63,464	64,082	65,544	70,754	5,210	7.9%
<b>Total</b>	<b>\$6,492,996</b>	<b>\$6,261,456</b>	<b>\$6,446,935</b>	<b>\$6,631,907</b>	<b>\$184,972</b>	<b>2.9%</b>

Source: Department of Legislative Services

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### Overview

State aid is projected to total \$6.6 billion in fiscal 2012, representing a \$185.0 million (2.9%) increase over the prior year. As in prior years, most of the State aid in fiscal 2012 is targeted to public schools, while funding for general government of counties and municipalities will account for about 6.2% of total aid. Public schools will receive \$5.9 billion in fiscal 2012, or approximately 88.3% of total State aid. Counties and municipalities will receive \$410.0 million; community colleges will receive \$261.0 million; libraries will receive \$70.8 million; and local health departments will receive \$37.3 million. In terms of year-over-year funding enhancements, State aid for public schools will increase by \$135.4 million (2.4%); library aid will increase by \$5.2 million (7.9%); community college aid will increase by \$4.9 million (1.9%); and local health departments are level funded at the

fiscal 2011 funding level of \$37.3 million. Also, county and municipal governments will realize a \$39.5 million (10.6%) increase in State aid.

## **Public Schools**

Public schools will receive an estimated \$5.9 billion in fiscal 2012, representing a \$135.4 million (2.4%) increase over the prior year. The per-pupil foundation amount is estimated at \$6,749, a 0.8% increase from fiscal 2011 and the first increase since 2008. Inflation was frozen in fiscal 2009 and 2010 by Chapter 2 of the 2007 special session, and inflation levels were negative in fiscal 2011. The per-pupil foundation amount is used in five of the larger State aid formulas: the foundation program, geographic cost of education index, the compensatory education, special education, and limited English proficiency formulas that, together, account for more than three-quarters of total education aid. Limited inflation results in limited growth in State education aid.

General funds supporting education aid are expected to increase by \$922.5 million. A number of factors account for the large increase. First, fiscal 2011 education formulas were supported by \$422.3 million in federal stimulus funds from the American Recovery and Reinvestment Act of 2009 (ARRA), and this represented the final portion of the ARRA funds available. Second, general funds must replace \$350.0 million in special funds that were transferred from the local income tax reserve account to the Education Trust Fund in 2011 in accordance with Chapter 484 of 2010 (Budget Reconciliation and Financing Act (BRFA)). In addition, projected fiscal 2012 video lottery revenues for the trust fund are \$8.6 million below the amount budgeted in fiscal 2011, meaning general fund spending will need to replace a total of \$358.6 million in special funds that are not available in fiscal 2012. Third, \$6.1 million for the Aging Schools Program, which was funded with bonds in fiscal 2011, is assumed to be funded with general funds in fiscal 2012. Finally, education aid programs are expected to increase by \$135.4 million due to higher student enrollment and a higher per-pupil foundation amount. Combined, these adjustments result in the \$922.5 million in additional general fund spending.

In September 2010, Maryland was granted \$178.9 million from the federal Education Jobs Fund to save or create education jobs for the 2010-2011 school year. The Maryland State Department of Education will retain \$350,000 of the grant to administer the program, and the remaining funds, \$178.6 million, will be distributed to local school systems in accordance with State formula funding. Of the amount devoted to local school systems, \$35.7 million represents one-time enhancement funding for fiscal 2011 and thus does not affect the 2012 baseline budget. The remaining amount is expected to replace fiscal 2011 general fund spending for education, resulting in a savings of \$142.9 million in general funds. These funds will be held and used in fiscal 2012 to support the education budget.

## **Foundation Program**

The baseline includes \$2.8 billion for the State's foundation program, a \$27.1 million increase from the fiscal 2011 appropriation. Part of the increase is attributable to the rise in the per-pupil foundation amount from \$6,694 to \$6,749. Another portion of the increase is attributable to a 1,466.6 increase in full-time equivalent (FTE) students.

## **Geographic Cost of Education Index**

The geographic cost of education index (GCEI) is a discretionary formula that accounts for differences in the costs of educational resources among the local school systems, and provides additional funding to school systems where educational resource costs are above the State average. Thirteen local school systems are eligible for GCEI funds in fiscal 2012. The formula applies a cost adjustment to the foundation amount calculated for a school system; each eligible school system receives additional funds equal to the product of the foundation amount and the cost adjustment. The baseline assumes the formula will be fully funded in fiscal 2012, with funding reaching \$127.7 million.

## **Supplemental Grants**

To mitigate the impact of a freeze in the per-pupil foundation amount in fiscal 2009 and 2010, Chapter 2 established supplemental grants that ensured at least a 1% annual increase in State funding for each local school system in each year of the freeze. Beginning in fiscal 2011, as approved in the 2007 special session and amended by Chapter 487 of 2009 (Budget Reconciliation and Financing Act), the supplemental grants continue at the amount provided in the prior year. The aggregate amount is \$46.5 million for the nine counties that receive the grant. Eligibility is not redetermined each year.

## **Compensatory Aid Formula**

The compensatory aid program is expected to reach \$1.1 billion in fiscal 2012, representing a \$17.8 million (1.7%) increase. This program provides additional funding to local school systems based on their enrollments of students eligible for free and reduced-price meals. The statewide funding level is calculated using the number of eligible students multiplied by a factor of the per-pupil foundation amount. The projected increase is due to an expected slight increase in the number of children who are eligible for free and reduced-price meals, and also from the increase in the per-pupil foundation amount.

## **Students with Disabilities Funding**

The Bridge to Excellence Act identified students with disabilities as a population with higher needs. The Act replaced the prior special education formula with one in which funding is a function of the special education enrollment, the per-pupil foundation amount, and a weighting

factor. Funding for the special education formula is expected to increase by \$1.4 million (0.5%), to a total of \$265.4 million in fiscal 2012. The increase is attributable to a projected slight increase in the enrollment of students with disabilities and the increase in the per-pupil foundation amount. An increase of \$5.6 million is anticipated for the nonpublic placement of special education students. This would bring the State's contribution to the program to \$383.8 million in fiscal 2012, a 1.9% increase.

### **Limited English Proficiency Formula**

Another at-risk population identified for additional resources in the Bridge to Excellence Act is students for whom English is a second language. Funding is based on estimated limited English proficient (LEP) enrollment counts and the per-pupil foundation amount. This program is expected to increase by \$11.6 million (7.7%), to a total of \$162.8 million in fiscal 2012. This increase is driven by anticipated LEP enrollment growth and the increase in the per-pupil foundation amount.

### **Guaranteed Tax Base Program**

The baseline budget includes \$42.8 million in funding for the guaranteed tax base program, a 9.7% decrease from the fiscal 2011 amount. This program provides additional State funding to local education agencies with less than 80.0% of statewide wealth per pupil through a formula based on local wealth and the amount of local funding each jurisdiction provides to the local school system. As currently estimated, eight local school systems will receive funding under this program in fiscal 2012.

### **Student Transportation Funding**

The baseline estimate for student transportation includes \$223.9 million to fund the transportation formula, an increase of \$3.2 million (1.4%) over the fiscal 2011 appropriation. In addition, \$23.8 million is included for the transportation of disabled students, representing a \$39,000 increase in funding. Changes in the student transportation formula are attributable to projected increases in FTE enrollment in 15 school systems and the 1.0% inflation cap set by Chapter 487 of 2009 (BRFA). The increase in the disabled student transportation formula reflects an expected rise in the enrollment of students with special transportation needs. The State provides \$1,000 annually for each qualifying student.

### **Operating Funding for Public School Facilities**

Funding for public school facilities in the operating budget includes the Aging Schools Program and lease payments for the Technology in Maryland Schools (TIMS) Program. Funding for the Aging Schools Program is level. However, in fiscal 2011, the \$6.1 million program was funded with bonds, while the 2012 baseline budget assumes this program will be funded with general funds in the operating budget. Estimated lease repayments for the TIMS



Program decrease from \$4.6 million in fiscal 2011 to \$1.5 million in fiscal 2012, a decrease of \$3.1 million (67.4%).

## **Retirement**

State retirement costs for public school teachers and other professional personnel will total an estimated \$923.3 million in fiscal 2012, representing a \$73.4 million increase (8.6%) from the prior fiscal year. Increases in the State grant for teachers' retirement reflect 0.8% growth in the total salary base of school system employees and an increase in the State's retirement contribution rate from 14.34% to approximately 15.45%.

## **County and Municipal Governments**

Approximately 6.2% of State aid is allocated to county and municipal governments to finance transportation, public safety, and recreation projects. County and municipal governments will receive \$410.0 million in fiscal 2012, an increase of \$39.5 million (10.6%) above the prior year. The major State aid programs assisting county and municipal governments include highway user revenues, disparity grants, police aid, and Program Open Space (POS).

## **Transportation**

The State shares various transportation revenues, commonly referred to as highway user revenues, with the counties and municipalities. Prior to fiscal 2010 cost containment reductions, Maryland's local governments received 30.0% of highway user revenues. For fiscal 2011 and 2012, the Budget Reconciliation and Financing Act of 2010 lowers the local shares to 8.5 and 8.1%, respectively. The local government share of the distribution of highway user revenues is projected to total \$138.2 million in fiscal 2012, a \$3.9 million increase when compared to the fiscal 2011 working appropriation; this increase is due to projected revenue growth more than offsetting the reduction in local share percentages from fiscal 2011 to 2012. This estimate is based on projected Transportation Trust Fund revenue of motor fuel taxes, motor vehicle titling taxes, motor vehicle registration fees, and corporate income taxes. Local aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2012 at \$7.2 million.

## **Disparity Grants**

Disparity grants address the differences in the abilities of counties to raise revenues from the local income tax, which is one of the larger sources for counties. Counties with per-capita local income tax revenues less than 75.0% of the statewide average receive grants, assuming all counties impose a 2.54% local tax rate. Aid received by a county equals the dollar amount necessary to raise the county's per-capita income tax revenues to 75.0% of the statewide average.

Based on the statutory formula, Baltimore City and seven counties (Allegany, Caroline, Dorchester, Garrett, Prince George's, Somerset, and Wicomico) will qualify for disparity grants in fiscal 2012. The fiscal 2012 grant is based on 2009 population estimates and tax year 2009 income tax revenues. Funding for this program is projected to total \$121.4 million in fiscal 2012, the same amount as in fiscal 2011. Chapter 487 capped each county's funding under the program at the fiscal 2010 level. Chapter 484 modified the program to use November net taxable income.

## **Public Safety**

Maryland's counties and municipalities receive grants for police protection through the police aid formula and special crime grants. The police aid formula allocates funds on a per-capita basis and jurisdictions with higher population density receive greater per-capita grants. Municipalities receive additional grants based on the number of sworn officers. Police aid grants in fiscal 2012 are projected to total \$45.4 million, equal to fiscal 2011 funding.

Emergency 9-1-1 grants are projected to total \$14.4 million in fiscal 2012. Other public safety grants totaling \$28.2 million (targeted crime grants, fire and rescue aid, vehicle theft prevention, Baltimore City State's Attorney's grant, etc.) are level funded in the fiscal 2012 baseline.

## **Program Open Space**

Under POS, the State provides grants to counties and Baltimore City for land acquisition and the development of parks and recreation facilities. Generally, State transfer tax revenues fund POS and related programs. However, reduced transfer tax revenues and the diversion of a portion of POS funding toward the operation of State forests and parks have contributed to a significant decrease (of about 90%) in funding available for local POS efforts from fiscal 2007 to 2011. Further, the fiscal 2011 capital budget authorized and pre-authorized the replacement of all transfer tax revenues diverted from local POS with general obligation debt over the course of fiscal 2011 through 2013. Baseline fiscal 2012 funding for local POS increases to \$29.9 million (which includes the minimum \$1.5 million funding level for the Baltimore City special POS grant), a \$14.6 million (or 96%) increase over the \$15.3 million fiscal 2011 funding level.

## **Community Colleges**

Normally, funding for the State's locally operated community colleges is based on per-pupil support provided to selected public four-year institutions of higher education in Maryland. This funding is distributed through the Senator John A. Cade Funding Formula and also takes into account community college enrollments. However, Chapter 484 set fiscal 2012 funding in statute at \$194.4 million, the same level of support received in fiscal 2011. Baltimore City Community College is a State agency and receives funding separately. The Cade funding

returns to formula in fiscal 2013 and will phase up to 29% of the per-pupil funding provided to selected public four-year institutions by fiscal 2021.

The fiscal 2012 baseline also includes \$4.1 million for the English Speakers of Other Languages Program and \$6.1 million for statewide and regional programs. In addition, small colleges are estimated to receive \$4.4 million in Small College and Mountain Grants, and reciprocity agreement funding. The baseline also includes \$52.0 million for benefits to employees of community colleges, a \$4.5 million (9.4%) increase over the fiscal 2011 working appropriation.

## **Local Health Departments**

The State provides funds to support the delivery of public health services. These services include child health, communicable disease prevention, maternal health, family planning, environmental health, and administration of the departments. Due to declining revenues, the fiscal 2010 appropriation for grants to local health departments was reduced from \$57.4 million to \$37.3 million by the Board of Public Works in August 2009. The BRFA of 2010 maintain fiscal 2011 and 2012 aid for local health departments at the \$37.3 million level.

## **Libraries**

The baseline estimates an increase of \$2.4 million (7.2%) in the State library aid formula, with total funding in fiscal 2012 estimated at \$35.4 million. The BRFA of 2009 froze the per-resident amount used in the local library aid formula at \$14 for fiscal 2010 and 2011. The phase-in of formula enhancements restarts in fiscal 2012 at \$15 per resident. However, the BRFA of 2010 freezes the per-resident amount at that level for subsequent years.

The baseline also reflects an anticipated increase in the State Library Network of \$1.9 million (11.9%), bringing total funding for this program to \$17.5 million in fiscal 2012. The network includes the Central Library of the Enoch Pratt Free Library System in Baltimore City, regional resource centers and regional libraries, and metropolitan cooperative service programs.

Finally, retirement costs for librarians will total an estimated \$17.8 million, representing a \$961,400 (5.7%) increase. The growth is attributable to the 1.9% decrease in the salary base being more than offset by an increase in the State's retirement contribution rate from 14.34% to approximately 15.45%.



## Entitlement Programs

Entitlements include the State Department of Assessments and Taxation's tax credit programs, the Department of Health and Mental Hygiene's Medicaid program, and the Department of Human Resource's (DHR) foster care and cash assistance programs. Although not an entitlement program, DHR's Temporary Disability Assistance Program (TDAP), which is part of the Family Investment Assistance Payments and provides assistance to childless adults who are temporary disabled or are disabled and in the process of applying for federal Supplemental Security Income benefits, has seen increased funding as a result of rising caseloads associated with the economic downturn. Unless and until the Administration changes recent funding practices to limit caseload rolls or reduce benefits, the TDAP will be treated for baseline purposes as if it were an entitlement. The following table shows State support for entitlement programs.

### Expenditures, Funds, and Positions for Entitlement Programs Fiscal 2009-2012 (\$ in Thousands)

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Working</u>	<u>2011 Leg.</u> <u>Approp.</u>	<u>2012</u> <u>Baseline</u>	<u>2011-2012</u> <u>Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
DAT Tax Credit Programs	\$58,773	\$76,174	\$73,512	\$81,371	\$7,859	10.7%
DHMH Medicaid Program	5,502,575	5,864,149	6,101,063	7,186,300	1,085,237	17.8%
DHR Social Services Foster Care Maintenance Payments	351,265	365,897	351,921	338,165	-13,755	-3.9%
DHR Family Investment Assistance Payments	758,655	680,701	882,911	1,043,048	160,137	18.1%
<b>Total</b>	<b>\$6,671,269</b>	<b>\$6,986,921</b>	<b>\$7,409,406</b>	<b>\$8,648,885</b>	<b>\$1,239,479</b>	<b>16.7%</b>
<b>Fund</b>						
General Fund	\$2,241,602	\$1,997,370	\$2,112,242	\$3,326,307	\$1,214,065	57.5%
Special Fund	403,141	554,303	470,338	674,012	203,674	43.3%
Federal Fund	3,973,069	4,383,982	4,753,592	4,596,366	-157,226	-3.3%
Reimbursable Fund	53,458	51,267	73,235	52,200	-21,035	-28.7%
<b>Total</b>	<b>\$6,671,269</b>	<b>\$6,986,921</b>	<b>\$7,409,406</b>	<b>\$8,648,885</b>	<b>\$1,239,479</b>	<b>16.7%</b>

DAT: Department of Assessments and Taxation  
DHMH: Department of Health and Mental Hygiene  
DHR: Department of Human Resources

## Tax Credit Programs

The fiscal 2012 baseline reflects an additional \$7,859,434 in tax credit entitlements for the Renters' Tax Credit, Homeowners' Property Tax Credit, Urban Enterprise Zone Tax Credit, and the Base Realignment and Closure (BRAC) Revitalization and Incentive Zones Credit programs. The following adjustments were made to the budget:

- The Homeowners' Tax Credit Program provides credits against State and local real property taxes for homeowners who qualify based on a sliding scale of property tax liability and income. The Homeowners' Tax Credit Program is expected to require a \$2,182,000 general fund deficiency in fiscal 2011, and the fiscal 2012 appropriation is expected to grow by an additional \$1 million in general funds.
- The Renters' Tax Credit Program provides property tax credits to renters who meet certain income and familial requirements. The Renters' Tax Credit Program is expected to require a \$541,000 general fund deficiency in fiscal 2011.
- The Urban Enterprise Zone Tax Credit Program provides property and income tax credits for businesses that locate or expand within designated areas. Under this program, a business that locates or expands in a designated area is eligible for reduced property taxes for a number of years. The State then reimburses the locality one-half of the lost revenues which otherwise would have been realized from the increased property assessment. The fiscal 2012 appropriation for the Urban Enterprise Zone Tax Credit Program is expected to grow by an additional \$3,836,434 in general funds.
- The BRAC Revitalization and Incentive Zones Credit Program provides tax-related financial incentives for qualifying properties that are located in designated BRAC zones, including State support of up to 100% of the increase in the State property tax of any qualifying property and 50% of the increased value in local tax revenues collected on the qualifying property. Under State law, these financial incentives are limited to \$5 million per year. The fiscal 2012 appropriation for BRAC Revitalization and Incentive Zones credits is expected to grow by an additional \$300,000 in general funds.

## Medicaid Enrollment and Expenditure Trends

### Overview

Maryland's Medical Assistance Programs (Medicaid, Maryland Children's Health Program (MCHP), Primary Adult Care, Employed Individuals with Disabilities, etc.) provide eligible low-income individuals with comprehensive health care coverage. Funding is derived from both federal and State sources with a federal fund participation rate of 50% for Medicaid

and 65% for the MCHP. The federal matching rate has been temporarily increased by the federal American Recovery and Reinvestment Act of 2009 (ARRA). The enhanced match rate provided by the ARRA is scheduled to decline after January 1, 2011 and end beginning July 1, 2011.

In fiscal 2010, the budget for the Medical Assistance Programs accounted for 11.8% of State general fund expenditures. While this represents a lower relative proportion of general fund expenditures than recent years, this figure is distorted by the extent of additional federal fund support provided for Medicaid under the ARRA. Not only will the proportion of the State's general fund budget consumed by Medicaid increase in fiscal 2012 because of the expected end of enhanced federal funding under the ARRA, Medicaid also remains one of the fastest growing segments of the State budget. Over the next five years general fund expenditures for Medical Assistance Programs are expected to rise at a rate of about 12.5% annually compared to expected general fund revenue growth of about 4.2%.

### **Fiscal 2011 Outlook**

The fiscal 2011 Medical Assistance Programs working appropriation of just under \$6.1 billion (\$1.7 billion in general funds) appears to be over \$450 million less than the anticipated need (\$225 million in general funds). The additional need for fiscal 2011 funding above what was originally assumed to be adequate is primarily attributed to:

- the assumption built into the budget concerning the expectation of the ARRA enhanced match was that it would continue through fiscal 2011. The reduced enhanced match which is now anticipated for the second half of fiscal 2011 combined with expectations of higher expenditures due to rate increases and enrollment growth (see below) results in a general deficit of \$147 million;
- higher than expected enrollment growth. Fiscal 2011 enrollment appears to be significantly higher than expected during the 2009 legislative session. This equates to an additional general fund need of \$46 million; and
- a 4.4% calendar 2011 managed care rate increase that was not included in the fiscal 2011 budget (\$32 million general funds).

Expenditures for fiscal 2011 services are expected to exceed fiscal 2010 costs by about 9.1%.

### **Fiscal 2012 Forecast**

In fiscal 2012, the expenditures for the Medical Assistance Programs are estimated to be just over \$7 billion, a 7.4% increase from the fiscal 2011 estimate. This estimate is based on a moderation of enrollment growth (4.7%) compared to the most recent increases and continued constraints on medical inflation/utilization.

However, general fund need is expected to grow by over \$916 million (48.1%) over the fiscal 2011 estimate or over \$1.1 billion (67.9%) over the legislative appropriation. Indeed, the rebalancing of the fund splits in the Medical Assistance Programs with the anticipated end of any enhanced federal fund support in fiscal 2012 is the major budgetary change between fiscal 2011 and 2012. The loss of the enhanced federal match at the end of fiscal 2012 will increase the general fund need by \$749 million.

Further, because the Administration allocated the entire amount of federal enhanced matching funds for Medicaid in the Medical Assistance Programs rather than in all the different agencies with Medicaid spending (for example the Mental Hygiene Administration, the Developmental Disability Administration, and school-based health programs funded through Aid to Education), federal funds in those programs are understated and general funds are overstated. Conversely, in the Medical Assistance Programs, the reverse is true. Thus, the fiscal 2012 realignment of this fund-split imbalance requires an additional amount of general fund support (\$145 million).

Beyond these technical adjustments, the fiscal 2012 forecast assumes the State will provide rate increases to the managed care organizations (4.4% increase amounting to \$130.5 million in total funds); accommodate fiscal 2011 growth (\$92.0 million in total funds); and see increased costs due to higher enrollment, medical inflation and utilization (\$270.0 million total funds).

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**Enrollment and Service Year Expenditures\***  
**Fiscal 2010-2012**

	<b>2010</b> <b><u>Actual</u></b>	<b>2011</b> <b><u>Estimate</u></b>	<b>2012</b> <b><u>Estimate</u></b>	<b>2011-2012</b> <b><u>% Change</u></b>
<b>Enrollment by Category</b>				
Medicaid	614,472	702,291	734,941	4.65%
MCHP	97,997	96,781	95,682	-1.14%
Medicaid Expansion to Parents	53,276	75,091	84,319	12.29%
<b>Total</b>	<b>765,745</b>	<b>874,162</b>	<b>914,941</b>	<b>4.66%</b>
<b>Cost Per Enrollee</b>	<b>\$7,862</b>	<b>\$7,498</b>	<b>\$7,691</b>	<b>2.57%</b>
<b>Total Funds (\$ in Millions)</b>	<b>\$6,020</b>	<b>\$6,554</b>	<b>\$7,037</b>	<b>7.37%</b>

MCHP: Maryland Children's Health Program

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

Source: Department of Legislative Services

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**Department of Human Resources**

**Foster Care and Subsidized Adoption Caseloads**

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

The following table shows an anticipated increase of 2.1% per year in the combined foster care/subsidized adoption caseload from fiscal 2010 to 2012. This reflects an expected average annual decrease of 0.5% in the foster care caseload due to the continuing efforts to reduce the number of children in out-of-home care through DHR’s Place Matters initiative, offset by an expected average annual increase of 4.5% in subsidized adoptions. In fiscal 2002, the combined caseload was over 60.0% foster care, but since fiscal 2006, subsidized adoptions have made up at least half of the total caseload.

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**Foster Care and Subsidized Adoption Caseload and Expenditures  
Fiscal 2009-2012**

<u>Caseload</u>	<u>2009</u>	<u>2010</u>	<u>2011 DLS Estimate</u>	<u>2012 DLS Estimate</u>	<u>2010-2012 Avg. Annual % Change</u>
Foster Care	7,173	7,164	7,163	7,091	-0.5%
Adoptions	7,119	7,930	8,326	8,655	4.5%
<b>Total</b>	<b>14,292</b>	<b>15,094</b>	<b>15,489</b>	<b>15,746</b>	<b>2.1%</b>
<b>Expenditures</b>					
Monthly Cost Per Case	\$1,925	\$1,697	\$1,673	\$1,670	-0.8%
<b>Total Cost (\$ in Millions)</b>	<b>\$351.3</b>	<b>\$329.9</b>	<b>\$333.5</b>	<b>\$338.2</b>	<b>1.2%</b>

DLS: Department of Legislative Services

Source: Department of Human Resources; Department of Legislative Services

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## **Funding**

The monthly cost per case is expected to decline at an annual average rate of 0.8% from fiscal 2010 to 2012. This results from a combination of a shift in the foster care caseload from institutional placements to less expensive placements, and the freezing of provider rates for fiscal 2011 at the fiscal 2010 levels mandated in the Budget Reconciliation and Finance Act of 2010. Total program costs are forecast to increase at an annual rate of 1.2% during this period reflecting the increased combined caseload and the assumption that provider costs, which are used to determine rates, will increase 2.0% in fiscal 2012.

## **Temporary Cash Assistance Caseload and Expenditure Trends**

### **Background**

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

### **Caseload Trends**

In the early years of welfare reform, efforts to transition individuals from welfare to work and a growing economy led to a rapid reduction in the number of TCA recipients. After dropping at rates exceeding 20.0% per year during the 1990s, the pace of caseload decline slowed considerably in the early years of this decade. With the recovering economy and the implementation of a universal engagement policy in fall 2003 – a policy that requires participation in activities such as up-front job search, orientation, assessment of employability, development of an Independence Plan, training, and subsidized employment – the caseload decline accelerated again falling by 1.0% in fiscal 2004, 7.2% in fiscal 2005, 12.5% in fiscal 2006, and 12.9% in fiscal 2007. Deteriorating economic conditions reversed this trend and led to increases in the average monthly caseload of 2.4% in fiscal 2008, 13.5% in fiscal 2009, and 15.7% in 2010.

### **Fiscal 2011 and 2012 Forecast**

As shown in the following table, the Department of Legislative Services (DLS) assumes that the TCA caseload will stabilize in fiscal 2011 with an average monthly enrollment of 67,556, an increase over the prior year of just 0.2%. This assumption reflects the decline in the average monthly caseload experienced during the last half of fiscal 2010. If the economy continues to improve, the fiscal 2012 caseload should continue to decline at a moderate rate resulting in an average monthly caseload of 65,164, a decrease of 3.5% from fiscal 2011 projections.

The fiscal 2011 average monthly TCA grant remains unchanged from the prior year. This flat grant amount is made possible because of the increase in the food stamp benefit provided by the ARRA. State law provides that the combined value of the TCA and food stamp benefits should be no less than 61% of the Maryland Minimum Living Level (MML.) The increase in the food stamp benefit amount will obviate the need to increase the TCA grant amount in order to meet the MML. In fiscal 2012, an increase of 3.3% for the last three quarters of the year is projected, resulting in an increase of 2.5% over fiscal 2011.

**TCA Enrollment and Funding Trends**  
**Fiscal 2010-2012**

	<b>2010</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>	<b>2011-2012</b>
	<u>Actual</u>	<u>Approp.</u>	<u>Estimate</u>	<u>Estimate</u>	<u>% Change</u>
Average Monthly Enrollment	67,422	63,987	67,556	65,164	-3.5%
Average Monthly Grant	\$174.17	\$180.31	\$174.17	\$178.51	2.5%
General Fund (\$ in Millions)	\$53.1	\$7.1	\$7.1	\$60.8	752.1%
<b>Total Funds (\$ in Millions)</b>	<b>\$140.9</b>	<b>\$138.5</b>	<b>\$141.2</b>	<b>\$139.6</b>	<b>-1.1%</b>

TCA: Temporary Cash Assistance

Source: Department of Human Resources; Department of Legislative Services

The DLS projected funding requirement for fiscal 2011 is \$2.7 million more than was included in the budget. This increase can be covered using TANF funds, however, this will deplete the TANF balance. In the past, the TANF balance and additional TANF funding made available through ARRA has allowed TANF spending in the budget to greatly exceed the \$229 million annual block grant. In fiscal 2012, however, the absence of the balance and supplemental TANF grants will require increased general fund spending. General fund support for TCA is projected to increase by \$53.7 million to \$60.8 million in fiscal 2012. The amount of additional general funds could be reduced if DHR is successful in obtaining contingent TANF funding available to “needy states,” a designation given to states experiencing large increases in their Supplemental Nutrition Assistance Program (SNAP). DHR advises it has applied for an allocation of \$45.0 million.

**Temporary Disability Assistance Program Caseload and Expenditure Trends**

**Background**

The TDAP, the State’s program for childless disabled adults, provides a limited monthly cash benefit. The State is responsible for clients with a short-term disability (at least 3 months

but less than 12 months). If the disability will last longer, the client may be eligible for federal disability payments through Supplemental Security Income (SSI). If so, they are required to pursue an SSI application and may receive help doing so. Those clients receive State cash assistance until their SSI applications are approved. SSI applicants reimburse the State for cash assistance received during their SSI application approval process. This program is funded entirely with State funds.

### **Caseload and Expenditure Trends and Forecast**

The table below shows that both the average monthly caseloads and total funding for the TDAP were fairly stable between fiscal 2006 through 2008. With the deterioration of the economy, the caseload and program funding increased substantially in fiscal 2009 and 2010 as people with disabilities experienced high rates of unemployment. The caseload is expected to continue to increase, though at a slower rate, throughout fiscal 2011, exceeding 21,000 by the end of the year and resulting in an average monthly caseload of 20,751. The average monthly caseload is projected to increase to 21,325 in fiscal 2012.

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### **TDAP Enrollment and Funding Trends** **Fiscal 2006-2012** **(\$ in Millions)**

<u>Fiscal Year</u>	<u>Average Monthly Caseload</u>	<u>Total Funding</u>
2006	10,972	\$23.8
2007	11,491	24.2
2008	11,645	24.9
2009	15,355	33.4
2010	19,080	41.6
2011 Est	20,751	45.2
2012 Est	21,325	46.5

TDAP: Temporary Disability Assistance Program

Source: Department of Human Resources; Department of Legislative Services

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## Department of Health and Mental Hygiene

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

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### Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene Fiscal 2009-2012 (\$ in Thousands)

	<u>2009 Actual</u>	<u>2010 Working</u>	<u>2011 Leg. Approp.</u>	<u>2012 Baseline</u>	<u>2011-2012 Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Administration	\$45,896	\$46,073	\$46,904	\$47,368	\$464	1.0%
Office of Health Care Quality	16,239	16,270	16,719	16,724	5	0%
Health Occupation Boards	23,841	26,947	27,714	27,943	229	0.8%
Infectious Disease and Env. Health Admin.	88,269	89,684	92,562	93,101	539	0.6%
Family Health Administration	225,931	204,759	205,142	208,604	3,462	1.7%
Office of the Chief Medical Examiner	9,574	9,508	10,322	10,290	-31	-0.3%
Office of Preparedness and Response	24,666	32,495	21,129	21,151	22	0.1%
Chronic Disease Services	44,618	44,456	44,621	46,390	1,769	4.0%
Laboratories Administration	24,085	24,312	23,075	23,993	918	4.0%
Alcohol and Drug Abuse Administration	147,815	144,597	147,876	140,436	-7,440	-5.0%
Mental Hygiene Administration	944,166	953,555	978,272	1,058,082	79,809	8.2%
Developmental Disabilities Admin.	784,553	789,169	804,936	819,665	14,729	1.8%
Medical Care Programs Administration	58,497	56,484	67,332	69,419	2,087	3.1%
Health Regulatory Commissions	134,261	156,099	161,400	161,502	101	0.1%
<b>Total</b>	<b>\$2,572,410</b>	<b>\$2,594,409</b>	<b>\$2,648,004</b>	<b>\$2,744,668</b>	<b>\$96,664</b>	<b>3.7%</b>
<b>Fund</b>						
General Fund	\$1,402,245	\$1,359,514	\$1,369,305	\$1,441,366	\$72,061	5.3%
Special Fund	263,603	297,008	297,156	299,277	2,121	0.7%
Federal Fund	883,632	913,330	958,602	980,756	22,154	2.3%
Reimbursable Fund	22,931	24,557	22,941	23,269	328	1.4%
<b>Total</b>	<b>\$2,572,410</b>	<b>\$2,594,409</b>	<b>\$2,648,004</b>	<b>\$2,744,668</b>	<b>\$96,664</b>	<b>3.7%</b>
<b>Personnel</b>						
Regular Positions	7,237.0	6,584.0	6,570.0	6,580.0	10.0	0.2%
Full-time Equivalent Contractuals	542.0	352.0	330.0	330.0	0.0	0%

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## Major Program Changes

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

### DHMH Administration

There are three small baseline changes in the DHMH Administration budgets. All three serve to reduce expenditures in fiscal 2012:

- The fiscal 2011 budget included \$250,000 in one-time funding for staff support of the Health Care Reform Coordinating Council. This council, established by executive order, is charged with leading the State's implementation of the recently enacted federal health care reform legislation. The council is due to complete its work in January 2011. Accordingly, no funding is allocated for fiscal 2012.
- As a result of Chapter 4 of 2010 (The Maryland False Health Claims Act), two positions and \$140,000 were transferred from the DHMH Administration budget to the Office of Attorney General (OAG). In fiscal 2011, this transfer occurred through the establishment of a reimbursable fund appropriation in OAG. The fiscal 2012 baseline simply removes the funding from DHMH and makes a corresponding adjustment adding the positions and funding in OAG.
- The final baseline change is a reduction of just over \$100,000 due to revised master equipment lease requirements.

### Infectious Disease and Environmental Health Administration

There are two adjustments for the Infectious Disease and Environmental Health Administration. These include:

- a reduction of \$1.8 million in federal funds for one time American Recovery and Reinvestment Act of 2009 (ARRA) grants which will not continue in fiscal 2012; and
- an increase of \$206,665 in federal funds to fund five positions created by the Board of Public Works in August 2010.

## **Family Health Administration**

The Family Health Administration has two issues that resulted in adjustments to the fiscal 2012 baseline budget. These include:

- an adjustment in the amount of \$2.0 million increases the federal funding in the fiscal 2012 budget for various grants that have been awarded in fiscal 2011; and
- a deficiency adjustment in the amount of \$0.7 million to increase the general fund appropriation for the Breast and Cervical Cancer Diagnosis and Treatment Program (BCCDTP). Despite the availability of other programs, the BCCDTP expenditures continue to increase from year to year. Due to unprovided for general fund payables in fiscal 2009 and projected shortfall in fiscal 2010, the fiscal 2011 budget is underfunded by \$0.7 million in general funds.

## **Office of the Chief Medical Examiner**

There are two adjustments for the Office of the Chief Medical examiner that affect the fiscal 2012 baseline budget. These include:

- a reduction of \$319,391 in general funds for onetime expenses related to moving to the new Forensic Medical Building in East Baltimore; and
- a deficiency of \$31,196 in general funds to fill invoices posted in prior fiscal years.

## **Chronic Disease Services**

The baseline includes two fiscal 2011 deficiency adjustments for the two State-run chronic disease hospitals:

- \$304,001 in general funds and \$1,477 in special funds to fill invoices posted in prior fiscal years; and
- \$412,788 for Deer's Head Hospital Center to cover special payments payroll for contract and agency nurses.

## **Alcohol and Drug Abuse Administration**

The major baseline changes for the Alcohol and Drug Abuse Administration (ADAA) are two-fold:

- The fiscal 2012 baseline assumes that the cost of the expansion of substance abuse services for the Primary Adult Care Program is removed from the ADAA budget and funded instead through Medical Assistance.
- The baseline also assumes revenue to the Problem Gambling Fund established in Chapter 4 of the 2007 special session reaches \$977,500 based on the expected 2,300 video lottery terminals.

### **Mental Hygiene Administration**

The Mental Hygiene Administration's (MHA) fiscal 2012 baseline budget includes several significant items, all of which are related to the community services mental health budget:

- The baseline includes general fund deficiencies of almost \$21.4 million reported as unprovided for general fund payables for fiscal 2010, plus an additional \$15.6 million general fund deficiency anticipated by the Department of Legislative Services for fiscal 2011 based on current enrollment and expenditure trends.
- Utilization and enrollment growth in the fee-for-service community mental health services system combined with estimated rate increases of 0.98% for non rate-regulated providers (as provide for under Chapters 497 and 498) and 2.0% for rate-regulated providers adds over \$72.5 million (total funds) to the baseline. The significant size of this increase in part reflects the underfunding of the current fiscal year.
- The assumption of a 0.98% provider adjustment on MHA grants and contracts (in line with that provided for fee-for-service expenditures because of Chapters 497 and 498) adds just over \$400,000 to the baseline.

### **Developmental Disabilities Administration**

The following changes were made to the baseline budget of the Developmental Disabilities Administration (DDA):

- Annualization of community services provided for first time clients in fiscal 2011 that will be ongoing in fiscal 2012 account for an increase of \$4.8 million in total funds to the fiscal 2012 baseline budget.
- A rebuild of expenses associated with community service contracts increases the fiscal 2012 baseline budget by \$7.3 million total funds and reflects a 0.98% rate increase for community providers, per Chapter 497 and 498. The increase was based on the number



of clients served in fiscal 2011 and is correlated to the annual increases to expenditures for which the Executive agencies will budget in fiscal 2012.

- An adjustment of \$1.3 million to address an anticipated deficiency in DDA's budget to serve court-committed individuals in the community. The number of individuals identified by the court system continues to grow each year. The fiscal 2011 budget allows for only 25 individuals to be served. However, there was an average of 45 individuals served in fiscal 2009 and 2010 through the court system. The deficiency baseline adjustment accounts for this underfunding.
- An adjustment of \$36,215 to increase general funds to address a deficiency needed for various vendors at the Holly Center.
- An adjustment of \$150,000 to increase federal funds as a result of a new federal grant for community service training opportunities.



## Department of Human Resources

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

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### Expenditures, Funds, and Positions for the Department of Human Resources Fiscal 2009-2012 (\$ in Thousands)

	<u>2009 Actual</u>	<u>2010 Working</u>	<u>2011 Leg. Approp.</u>	<u>2012 Baseline</u>	<u>2011-2012 Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Administration	\$212,874	\$199,694	\$202,577	\$192,636	-\$9,941	-4.9%
Social Services	262,387	277,530	264,161	273,241	9,081	3.4%
Child Support Enforcement	85,711	86,290	83,553	85,747	2,194	2.6%
Family Investment	213,236	210,864	203,180	209,811	6,631	3.3%
Office of Home Energy Programs	175,399	161,162	130,915	165,355	34,440	26.3%
<b>Total</b>	<b>\$949,607</b>	<b>\$935,539</b>	<b>\$884,386</b>	<b>\$926,790</b>	<b>\$42,404</b>	<b>4.8%</b>
<b>Fund</b>						
General Fund	\$308,028	\$271,347	\$262,638	\$324,835	\$62,197	23.7%
Special Fund	67,200	98,205	100,886	86,208	-14,679	-14.6%
Federal Fund	570,778	565,612	520,487	515,372	-5,115	-1.0%
Reimbursable Fund	3,601	375	375	376	1	0.2%
<b>Total</b>	<b>\$949,607</b>	<b>\$935,539</b>	<b>\$884,386</b>	<b>\$926,790</b>	<b>\$42,404</b>	<b>4.8%</b>
<b>Personnel</b>						
Regular Positions	6,851.0	6,742.0	6,707.0	6,703.0	-4.0	-0.1%
Full-time Equivalent Contractuals	78.0	74.0	73.0	73.0	0.0	0%

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### Administration

The fiscal 2012 baseline for DHR Administration includes three adjustments for transfers and reductions anticipated to occur in fiscal 2011 but are not yet reflected in the fiscal 2011 budget:

- a transfer of approximately \$7.4 million of the federal fund appropriation and 9 positions to the Governor's Office of Crime Control and Prevention (GOCCP) for the Victims of Crime Assistance Program as a result of Chapter 186 of 2009 as amended by Chapter 72 of 2010 transferring the authority over the administration of the funding to GOCCP;
- a transfer of \$2.0 million (approximately \$1.2 million special funds and \$980,000 federal funds) for a contract for the Office of Home Energy Programs (OHEP) data system to the Office of Technology for Human Services (OTHS) as a result of budget bill language in Chapter 482 of 2010 (the fiscal 2011 budget bill) restricting the use of those funds originally included in the OHEP to the OTHS; and
- abolition of 15 positions in Local General Administration as part of the consolidation of local department administrative functions in DHR as a result of Section 24 of Chapter 482 of 2010 (the fiscal 2011 budget bill).

The fiscal 2012 baseline is also adjusted to reflect changes in anticipated major information technology development projects:

- a decrease of approximately \$16.6 million in federal funds for four projects requiring funding in only fiscal 2011;
- an increase of approximately \$4.2 million in federal funds for enhancements to the Client Automated Resource and Eligibility System (CARES) to create an interface with the Medicaid Management Information System (MMIS) as part of the ongoing replacement of the MMIS; and
- an increase of \$812,940 in federal funds for enhancements to the Maryland Children's Electronic Social Services Information Exchange (MD CHESSIE) deferred in fiscal 2011 by the General Assembly to allow the agency to focus on four other projects.

The general fund portion of the CARES and MD CHESSIE enhancements are included in the baseline for the Major Information Technology Development Project Fund.

Other adjustments in the fiscal 2012 baseline for DHR Administration are:

- recognition of the anticipated cost of the information technology maintenance contract in fiscal 2012 (approximately \$24.9 million) which is an increase of approximately \$4.0 million (approximately \$1.5 million general funds and \$2.5 million federal funds);
- an increase of \$436,070 general funds to replace federal funds in GOCCP used to support the program in fiscal 2011; and

- a decrease of \$102,631 (\$48,720 general funds and \$53,911 federal funds) due to the end of a capital lease payment in fiscal 2011.

## **Child Support Enforcement Administration**

The fiscal 2012 baseline for the Child Support Enforcement Administration (CSEA) is adjusted to reflect an increased need for general funds (\$1.5 million) to replace special funds which were used in fiscal 2011 to draw down federal funds in both the local and State operations of CSEA. As a result of the American Recovery and Reinvestment Act of 2009, CSEA was able to match Child Support Reinvestment Funds with federal funds through September 30, 2010. General funds will be needed in fiscal 2012 to draw down the federal funds.

In addition, the fund sources in the fiscal 2012 baseline for both local operations and State operations of CSEA are adjusted to more accurately reflect the federal fund participation in the program, resulting in a \$1 million increase of general funds and corresponding federal fund decrease.

## **Family Investment Administration**

The fiscal 2012 baseline for the Family Investment Administration includes 20 new positions created by the Board of Public Works. These positions, which are funded equally with special and federal funds, will be located in hospitals and nursing home facilities and will be determining Medicaid eligibility. Total salary for these positions is \$670,000.

## **Office of Home Energy Programs**

The fiscal 2012 baseline for the Office of Home Energy Programs (OHEP) includes two adjustments to reflect expected changes in fiscal 2011:

- approximately \$43.3 million to bring the fiscal 2011 budget for energy assistance benefits through the Maryland Energy Assistance Program (MEAP) and Electric Universal Service Program (EUSP) to the level of the fiscal 2010 benefit expenditures (approximately \$156.7 million). This includes approximately \$7.0 million of federal funds available as a result of lower than anticipated expenditures in fiscal 2010 and a release of additional federal funding in September 2010 and approximately \$36.3 million of general funds. These additional funds are required due to an anticipated return to historic levels of federal appropriation for the Low Income Home Energy Assistance Program and lower than anticipated revenue from the Strategic Energy Investment Fund (SEIF);

- a transfer of \$2.0 million, approximately \$1.0 million of special funds and \$980,000 of federal funds, to the Office of Technology for Human Services (OTHS) to support the contract for the OHEP data system due to language in Chapter 482 of 2010 (the fiscal 2011 budget bill) restricting the use of the funds to OTHS.

Adjustments are also made to the fiscal 2012 baseline to reflect changes in funding sources. The funds to support the benefit expenditures for the three programs are maintained at the fiscal 2010 level. The adjustments are made to:

- reflect the amount of revenue in the SEIF anticipated to be available in fiscal 2012, a decrease from \$42.7 million in the fiscal 2011 budget to approximately \$30.3 million in fiscal 2012. Special funds from the SEIF are available from the sale of carbon dioxide emission allowances in the quarterly Regional Greenhouse Gas Initiative auctions. This reduction reflects both declining allowance prices and number of allowances expected to be sold;
- remove one-time carryover special (\$1.5 million) and federal funds and the removal of the September 2010 release of federal funds available in fiscal 2011 (approximately \$7.0 million); and
- the general fund appropriation needed to maintain the fiscal 2012 benefit expenditures at the fiscal 2010 level for the MEAP and the EUSP compared to the fiscal 2011 anticipated deficiency appropriation, to a level of approximately \$50.3 million as a result of the special and federal fund changes in fiscal 2012.

## Department of Juvenile Services

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

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### Expenditures, Funds, and Positions for the Department of Juvenile Services Fiscal 2009-2012 (\$ in Thousands)

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Working</u>	<u>2011 Leg.</u> <u>Approp.</u>	<u>2012</u> <u>Baseline</u>	<u>2011-12</u> <u>Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Department of Juvenile Services	\$275,369	\$277,895	\$270,465	\$280,420	\$9,956	3.7%
<b>Total</b>	<b>\$275,369</b>	<b>\$277,895</b>	<b>\$270,465</b>	<b>\$280,420</b>	<b>\$9,956</b>	<b>3.7%</b>
<b>Fund</b>						
General Fund	\$266,941	\$260,637	\$254,125	\$269,345	\$15,220	6.0%
Special Fund	165	203	203	211	8	3.9%
Federal Fund	7,383	16,171	15,912	11,274	-4,638	-29.2%
Reimbursable Fund	880	883	225	-409	-634	-281.9%
<b>Total</b>	<b>\$275,369</b>	<b>\$277,895</b>	<b>\$270,465</b>	<b>\$280,420</b>	<b>\$9,956</b>	<b>3.7%</b>
<b>Personnel</b>						
Regular Positions	2,272.0	2,254.0	2,240.0	2,246.0	6.0	0.3%
Full-time equivalent Contractuals	121.0	126.0	98.0	98.0	0.0	0%

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### Federal Funding

The fiscal 2012 baseline includes multiple adjustments to reflect anticipated changes in federal funding relating to Title IV-E and Medicaid payments for eligible youth. DJS anticipates Medicaid funding to increase in fiscal 2012 by approximately \$750,000, from \$2.4 million in fiscal 2011 to \$3.15 million. This funding is used to support employee salaries and contractual per diems. The fiscal 2012 baseline also provides a \$1.5 million general fund deficiency needed as a result of underattainment of federal funding for the Title IV-E program. The fiscal 2011 federal fund appropriation is also reduced to reflect the underattainment.

**Operational Deficiencies**

Inadequate funds were appropriated in fiscal 2011 to support the department's use of Evidence Based Services (EBS) programs. DJS has been expanding the number of EBS slots across the State in an effort to keep eligible youth in a home environment, where appropriate. The fiscal 2012 baseline assumes a \$1 million fiscal 2011 general fund deficiency appropriation to support the expanded use of these programs.

Additionally, the baseline includes a \$3 million fiscal 2011 general fund deficiency appropriation to support additional employee overtime. The additional funding is needed as a result of continual understaffing at DJS facilities.

**Other Changes**

The fiscal 2012 baseline reflects a \$4.5 million reduction in federal recovery act funding. The baseline assumes that this funding will be replaced with general funds.

An increase of nearly \$250,000 in general funds and the addition of six positions is also assumed to reflect the estimated fiscal impact of implementing new Sex Offender Registration and Notification Act regulations enacted by Chapter 174 of 2010.



## Department of Public Safety and Correctional Services

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

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### Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services Fiscal 2009-2012 (\$ in Thousands)

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Working</u>	<u>2011 Leg.</u> <u>Approp.</u>	<u>2012</u> <u>Baseline</u>	<u>2011-12</u> <u>Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Office of the Secretary	\$133,358	\$135,230	\$129,012	\$130,150	\$1,138	0.9%
Division of Correction	795,697	790,131	776,930	806,453	29,523	3.8%
Maryland Parole Commission	4,989	5,110	4,991	4,968	-23	-0.5%
Division of Parole and Probation	100,426	103,248	106,102	108,130	2,028	1.9%
Patuxent Institution	47,278	47,098	46,465	48,144	1,679	3.6%
Inmate Grievance Office	563	602	726	738	12	1.7%
Police and Correctional Training Commissions	8,353	8,325	7,629	8,076	448	5.9%
Criminal Injuries Compensation Board	6,914	7,594	6,694	6,045	-649	-9.7%
Maryland Commission on Correctional Standards	419	501	539	594	55	10.2%
Division of Pretrial Detention and Services	160,006	159,239	162,639	167,723	5,084	3.1%
<b>Total</b>	<b>\$1,258,004</b>	<b>\$1,257,077</b>	<b>\$1,241,726</b>	<b>\$1,281,023</b>	<b>\$39,297</b>	<b>3.2%</b>
<b>Fund</b>						
General Fund	\$1,076,861	\$1,007,787	\$1,003,660	\$1,094,341	\$90,681	9.0%
Special Fund	149,589	168,292	156,958	158,027	1,069	0.7%
Federal Fund	18,053	73,055	73,562	21,161	-52,402	-71.2%
Reimbursable Fund	13,501	7,943	7,546	7,494	-51	-0.7%
<b>Total</b>	<b>\$1,258,004</b>	<b>\$1,257,077</b>	<b>\$1,241,726</b>	<b>\$1,281,023</b>	<b>\$39,297</b>	<b>3.2%</b>
<b>Personnel</b>						
Regular Positions	11,627.0	11,308.0	11,304.0	11,345.0	41.0	0.4%
Full-time Equivalent Contractuals	284.0	380.0	377.0	377.0	0.0	0%

## **New Legislation**

Three pieces of legislation adopted during the 2010 session are expected to have a fiscal impact on the department. The most significant legislation is Chapter 194, the Correctional Officer Bill of Rights. The baseline assumes a one-time \$3.0 million general fund deficiency appropriation to support implementation of the legislation and ongoing expenses in fiscal 2012 totaling \$2.6 million.

The fiscal 2012 baseline also includes \$99,500 in the Division of Parole and Probation to support implementation of Chapter 176, the Sex Offender Registration and Notification Act. Approximately \$64,000 is included for the Police and Correctional Training Commissions to develop a cultural competency training program, as required by Chapter 370.

## **New Facilities**

The department is expected to open three new facilities within the Division of Correction during fiscal 2012, with a total estimated operating budget impact of approximately \$2.4 million in general funds and 41 new positions.

- A new 192-cell housing unit and additional support space is nearing completion at the Maryland Correctional Training Center in Hagerstown. All new spaces are expected to be occupied by April 2011. The fiscal 2012 baseline includes \$770,000 in general funds and 17 new positions to support this new facility.
- At the North Branch Correctional Institution in Cumberland, a new Maryland Correctional Enterprises (MCE) upholstery/re-upholstery plant is expected to be completed by November 2011. The baseline includes \$872,000 in special funds and 14 new positions for this facility. All associated operating costs and positions will be funded using MCE special funds.
- A new vocational education building is expected to open in December 2012 at the Western Correctional Institution in Cumberland. The estimated fiscal 2012 operating impact is \$772,000 in general funds and 10 new positions.

## **Other Changes**

Across the department, the baseline reflects a \$53.5 million reduction in federal funding to reflect American Recovery and Reinvestment Act of 2009 funds which will no longer be available in fiscal 2012. It is assumed that these federal funds will be replaced with general funds.

## **Office of the Secretary**

The fiscal 2012 baseline for the Office of the Secretary includes three additional significant adjustments:

- a \$500,000 general fund increase within the Information Technology and Communication Division (ITCD) for management of the Electronic Patient Health Records System. Fiscal 2011 was the first year ITCD was responsible for the system and the budget included \$800,000 for its operation;
- a \$214,000 general fund reduction for alterations in the department's Master Equipment Lease Purchase program; and
- a \$956,000 reduction in federal funds to reflect the loss of a one-time grant to support E911 technology within the Emergency Number Systems Board.

## **Division of Correction – Maryland Correctional Enterprises**

Offsetting the additional funding included for the new facility in Cumberland, the fiscal 2012 baseline for MCE is reduced by nearly \$2.1 million in special funds. A \$1.7 million reduction for the purchase of supplies and materials reflects an estimated 5.5% decline in projected MCE revenues. There is also a \$370,000 reduction in the estimated cost for upgrading the MCE computer system. Funds were included in fiscal 2011, but the procurement was delayed. Fiscal 2012 reflects a revised estimate for the system.

## **Division of Parole and Probation**

The fiscal 2012 baseline for the Division of Parole and Probation includes a \$641,000 general fund reduction to reflect elimination of State support for the Community Adult Rehabilitation Center in Cecil County.

## **Criminal Injuries Compensation Board**

The fiscal 2012 baseline includes an adjustment to reduce funding available for financial assistance to victims of crime by a net \$700,000. The decrease is based on a federal formula which reimburses for 60% of all eligible State compensation payments during the federal fiscal year two years previous to the grant award year. Over the years, the State has been using less special funds to make victim compensation awards in order to spend down a federal fund surplus. Based on the formula, the anticipated federal funding the State will receive decreases from \$3.1 million in fiscal 2011 to \$2.4 million in fiscal 2012.



# Maryland Department of Transportation

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

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

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

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## Expenditures, Funds, and Positions for the Maryland Department of Transportation Fiscal 2009-2012 (\$ in Thousands)

	<u>2009 Actual</u>	<u>2010 Working</u>	<u>2011 Leg. Approp.</u>	<u>2012 Baseline</u>	<u>2011-2012 Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
The Secretary's Office	\$67,649	\$72,950	\$72,917	\$74,286	\$1,370	1.9%
Washington Metropolitan Area Transit Authority	210,394	215,776	224,450	246,717	22,267	9.9%
State Highway Administration	239,347	211,425	217,970	245,080	27,109	12.4%
Maryland Port Administration	97,900	100,613	51,193	47,076	-4,117	-8.0%
Motor Vehicle Administration	148,106	149,241	160,236	164,514	4,278	2.7%
Maryland Transit Administration	591,720	606,936	613,827	656,101	42,274	6.9%
Maryland Aviation Administration	170,453	174,541	172,890	179,520	6,630	3.8%
<b>Total</b>	<b>\$1,525,570</b>	<b>\$1,531,481</b>	<b>\$1,513,482</b>	<b>\$1,613,294</b>	<b>\$99,812</b>	<b>6.6%</b>
<b>Fund</b>						
Special Fund	\$1,431,841	\$1,443,033	\$1,423,316	\$1,522,520	\$99,204	7.0%
Federal Fund	93,729	88,448	90,166	90,774	608	0.7%
<b>Total</b>	<b>\$1,525,570</b>	<b>\$1,531,481</b>	<b>\$1,513,482</b>	<b>\$1,613,294</b>	<b>\$99,812</b>	<b>6.6%</b>
<b>Personnel</b>						
Regular Positions	7,252.0	7,174.0	7,142.0	7,126.0	-16.0	-0.2%
Full-time Equivalent Contractuals	111.0	141.0	115.0	116.0	1.0	0.9%

### **The Secretary's Office**

The fiscal 2012 budget includes \$1.0 million in increases for information technology contracts.

### **Washington Metropolitan Area Transit Authority**

The operating grant subsidy for the Washington Metropolitan Area Transit Authority increases approximately \$22.3 million or 9.9% in fiscal 2012. This increase is due to escalating operating costs for personnel, paratransit services, and other formula driven costs for bus and rail services that are not paid from farebox revenues.

### **State Highway Administration**

The State Highway Administration has budgeted \$31 million for winter maintenance activities; however, actual expenditures have been closer to \$50 million. The fiscal 2012 budget includes an additional \$20 million for winter maintenance expenditures to reflect actual expenditures. The fiscal 2012 budget also includes an increase of \$5 million in summer maintenance activities to more accurately reflect historical spending.

### **Maryland Port Administration**

The fiscal 2012 baseline budget includes the following adjustments:

- \$5.5 million decrease and the abolition of 16 positions as a result of cost savings realized from the public-private partnership for Seagirt Marine Terminal;
- \$300,000 increase for security contracts with the Maryland Transportation Authority Police and Securitas due to increased closed circuit television monitoring;
- \$147,575 increase for debt service payments for the Series 2006 Certificates of Participation issued to construct a paper shed at South Locust Point; and
- \$79,000 increase in snow removal services due to the year-round cruises now being offered at the Port of Baltimore.

### **Motor Vehicle Administration**

The fiscal 2012 budget includes a \$230,000 increase for credit card fees and \$500,000 in expenditures associated with the move of a Motor Vehicle Administration branch office in Baltimore City.

## **Maryland Transit Administration**

The following increases were made to the fiscal 2012 budget:

- \$16.4 million in union wages to reflect the decision made by the arbitrator in binding arbitration;
- \$10.0 million increase, or 10% growth, in the MARC contract;
- \$3.4 million in union health expenditures;
- \$2.3 million for the projected growth in the paratransit Mobility service;
- \$1.4 million increase for the start of commuter bus service on the InterCounty Connector;
- \$1.2 million in commuter bus contracts; and
- \$0.5 million in costs associated with the move of the Maryland Transit Administration police.

## **Maryland Aviation Administration**

The fiscal 2012 baseline budget includes the following increases:

- \$2.5 million for snow removal and the purchase of jet fuel for resale at Martin State Airport;
- \$1.8 million for the shuttle bus, janitorial and various repair and maintenance contracts due to contract rebids and renewals, an expected increase in passengers, and an end to certain cost containment actions that were taken over the last several years; and
- \$0.5 million increase in security contracts with the Maryland Transportation Authority Police due to the end of certain cost containment actions taken over the last several years and an expected increase in passengers.





## Higher Education – State Colleges and Universities

The baseline budget is comprised of estimated current unrestricted and restricted revenues for the University System of Maryland (USM), Morgan State University (MSU), St. Mary's College of Maryland (SMCM), and Baltimore City Community College (BCCC). Current unrestricted revenues are based on estimated general funds, Higher Education Investment Fund (HEIF), tuition and fees, and other fund sources such as the sale of auxiliary and educational services, and grants and contracts at each institution. The following table shows total State support for USM institutions, MSU, SMCM, and BCCC.

### Expenditures, Funds, and Positions for Higher Education Fiscal 2009-2012 (\$ in Thousands)

	2009 <u>Actual</u>	2010 <u>Working</u>	2011 <u>Leg. Approp.</u>	2012 <u>Baseline</u>	2011-2012	
					<u>Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Morgan State University	\$185,792,637	\$196,631,484	\$199,554,122	\$200,393,542	\$839,420	0.4%
St. Mary's College of Maryland	60,676,541	67,718,672	70,061,517	70,493,429	431,912	0.6%
University of Maryland (UM), Baltimore	908,748,210	934,444,729	942,820,818	951,975,416	9,154,598	1.0%
University of Maryland, College Park	1,505,716,294	1,552,501,061	1,616,019,409	1,650,033,041	34,013,632	2.1%
Bowie State University	95,344,457	97,746,091	99,090,158	100,059,840	969,682	1.0%
Towson University	361,587,232	377,834,499	390,957,009	394,858,006	3,900,997	1.0%
University of Maryland Eastern Shore	110,144,294	109,166,435	114,260,659	116,296,468	2,035,809	1.8%
Frostburg State University	94,280,510	93,439,901	95,015,769	97,333,015	2,317,246	2.4%
Coppin State University	79,151,967	88,606,557	90,133,474	91,541,983	1,408,509	1.6%
University of Baltimore	103,076,778	110,687,735	115,582,668	117,259,077	1,676,409	1.5%
Salisbury University	126,618,603	136,490,962	139,416,537	142,346,251	2,929,714	2.1%
UM University College	288,255,731	300,422,509	305,261,700	306,832,560	1,570,860	0.5%
UM Baltimore County	336,571,103	341,841,467	348,899,870	356,637,024	7,737,154	2.2%
UM Center for Environmental Science	36,528,763	44,101,510	42,961,833	43,668,060	706,227	1.6%
University System of Maryland Office	72,010,027	75,602,961	72,981,654	73,920,115	938,461	1.3%
Baltimore City Community College	79,368,768	92,132,221	92,649,330	92,450,779	-198,551	-0.2%
<b>Total</b>	<b>\$4,443,871,915</b>	<b>\$4,619,368,794</b>	<b>\$4,735,666,527</b>	<b>\$4,806,098,607</b>	<b>\$70,432,080</b>	<b>1.5%</b>
<b>Fund</b>						
General Fund	\$1,131,867,152	\$1,147,616,901	\$1,145,641,959	\$1,152,453,079	\$6,811,120	0.6%
Special Fund	64,792,550	48,511,483	49,283,022	53,752,831	4,469,809	9.1%
Other Unrestricted	2,190,562,939	2,266,811,706	2,351,233,902	2,393,793,314	42,559,412	1.8%
Restricted	1,056,649,274	1,156,428,704	1,189,507,644	1,206,099,383	16,591,739	1.4%
<b>Total</b>	<b>\$4,443,871,915</b>	<b>\$4,619,368,794</b>	<b>\$4,735,666,527</b>	<b>\$4,806,098,607</b>	<b>\$70,432,080</b>	<b>1.5%</b>
<b>Personnel</b>						
Regular Positions	23,767.8	23,863.8	23,846.8	24,282.2	435.4	1.8%
Full-time Equivalent Contractuals	6,285.4	6,276.7	6,301.5	6,301.5	0.0	0.0%

## General Fund Changes

- The baseline budget is based on legislative intent language adopted in the 2010 session which states the growth in State funds (general funds and HEIF) in fiscal 2012 for USM, MSU, and SMCM is limited to the same amount of State funding institutions received per full-time equivalent student (FTES) in fiscal 2011.
- The constraint on the growth of State funding for fiscal 2012 for USM, MSU, and SMCM was determined by first calculating the State funding per FTES for each institution for fiscal 2011. Next, enrollment growth for fiscal 2012 was estimated by multiplying the projected fiscal 2011 enrollment by the fiscal 2011-2012 growth rate in the Maryland Higher Education Commission enrollment projections. Finally, the estimated fiscal 2012 enrollment was multiplied by the fiscal 2011 State funding per FTES resulting in a projected increase of \$11.2 million in State funding for USM, MSU, and SMCM.
- The baseline budget provides the State funding portion of USM's mandatory cost. In fiscal 2012, the State fund portion of the mandatory costs, taking account of the funding limit, is estimated to increase \$9.9 million, or 0.9% over fiscal 2011. This includes increases for personnel, new facilities, and other operating costs.
- The State funding portion of MSU's mandatory costs are estimated to increase, taking into account the funding limit, \$1.1 million, or 1.5% over fiscal 2011. This includes increases for personnel and other operating costs.
- For SMCM, general funds are expected to increase 1.3% and tuition and fee revenues 5.9%. SMCM normally receives general funds through a statutory formula that increases the working appropriation by the funds required to offset inflation as determined by the implicit price deflator for State and local government. However, during the 2010 legislative session, the General Assembly expressed intent for public four-year institutions to be funded at the same level per student in fiscal 2012 as in fiscal 2011. The Department of Legislative Services projects SMCM will grow by \$225,395 in general funds.
- State support for BCCC is normally determined by a formula that takes into account enrollment and State support for selected public four-year institutions. However, Chapter 484 of 2010 set fiscal 2012 funding in statute at \$40.2 million, the same level of support the college received in fiscal 2011. The college is also expected to receive \$0.8 million for the English Speakers of Other Languages Program.

**Other Unrestricted Fund Changes**

- In the past, USM proposed its tuition rate plan before the baseline budget was calculated. In the absence of this information, the Department of Legislative Services assumed a 5.0% increase in undergraduate resident and nonresident tuition and a 4.0% increase in fees. Based on this assumption, it was calculated that undergraduate tuition and fee revenues will increase 3.5%, or \$41.8 million.
- For MSU, undergraduate tuition and fee revenues are estimated to increase \$2.8 million, or 5.7% in fiscal 2012 based on the assumption undergraduate resident and nonresident tuition will increase 5.0% and the fee rate increase will be 4.5%.
- Of the \$41.8 million in USM undergraduate tuition and fee revenues, \$11.6 million is attributable to new enrollments, which was based on each institution's projected enrollment growth and the projected fiscal 2012 resident and nonresident tuition and fee rate. For MSU, \$0.9 million of the \$2.8 million of undergraduate tuition and fee revenues is attributable to new enrollments.
- Graduate tuition and fee revenues for USM institutions and MSU are estimated to increase \$16.5 million and \$2.8 million, respectively, assuming a 5% increase in tuition and fees.
- Other current revenues are estimated to increase \$41.8 million for USM institutions assuming auxiliary and other sources increase 4 and 3%, respectively.
- Other current revenues are estimated to increase \$0.8 million for MSU assuming auxiliary and other sources increase 2 and 3%, respectively.



## Other State Agencies

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This section describes significant general, special, and federal fund baseline activity in State agencies not included in other sections.

### **C00A      Judiciary**

The Judiciary is composed of four courts and six agencies which support the administrative, personnel, and regulatory functions of the Judicial Branch of government. The four courts are the Court of Appeals, Court of Special Appeals, circuit courts, and District Courts. The fiscal 2012 baseline budget is primarily driven by the following adjustments:

- increased earnings for the Maryland Legal Services Corporation in the amount of \$6.5 million in special funds;
- the restoration of \$6.4 million in general funds that were reduced from the fiscal 2011 budget for cost containment purposes;
- a \$1.6 million special fund decrease for major information technology development projects;
- the withdraw of \$1.4 million in one-time general funds that will be utilized in fiscal 2011 to outfit the new Rockville District Court; and
- postage savings of \$106,926 in general funds as a result of Chapter 160 of 2010 which imposes limitations on mailings from the District Court.

### **C80B      Office of the Public Defender**

The Office of the Public Defender provides counsel and related services to indigent persons. Representation is provided in criminal trials, appeals, juvenile cases, post-conviction proceedings, parole and probation revocations, and involuntary commitments to mental institutions. The fiscal 2012 baseline budget includes an adjustment of \$154,420 in general funds for the master equipment lease-purchase program. The baseline also reflects an additional \$295,000 in general funds for the salaries of five assistant public defenders. These positions will address increased workload due to the enactment of Chapter 176 of 2010 regarding the lifetime supervision of some sexual offenders.

**C81C Office of the Attorney General**

The Attorney General acts as legal counsel to the Governor; General Assembly; Judiciary; and all departments, boards, and commissions. The Office of the Attorney General represents the State in all matters of interest to the State, including civil litigation and criminal appeals in all State and federal courts. The fiscal 2012 baseline budget includes a \$140,000 increase in general funds and two positions that are needed to address the requirements of the Maryland False Health Claims Act of 2010.

**C90G00 Public Service Commission**

The Public Service Commission (PSC) regulates, gas, electric, telephone, water, sewage disposal, and certain for-hire passenger transportation companies doing business in Maryland.

- The fiscal 2012 baseline budget reflects a fiscal 2011 budget amendment that increased the special fund appropriation of PSC by \$2.5 million for consultant services, which is carried forward into fiscal 2012. This level of consultant spending is more in line with the average actual spending on consultant services from fiscal 2007 to 2009.
- An increase of 2 regular positions and associated regular earnings and operating expenses totaling \$71,043 in the fiscal 2012 baseline is the result of Chapter 494 of 2010 which, in part, accelerated the State's solar requirements in the Renewable Portfolio Standard. This acceleration is expected to require additional personnel in PSC to assist in the certification of solar facilities.

**C94 Subsequent Injury Fund**

The Subsequent Injury Fund (SIF) compensates injured workers whose preexisting injuries, diseases, or congenital conditions are substantially worsened by a current injury to encourage the employment of disabled individuals by limiting an employer's liability should a subsequent occupational injury render an individual permanently disabled or result in death. The baseline reflects an inter-agency transfer of resources between the SIF and the Uninsured Employers' Fund (UEF). Previously, SIF had provided financial and personnel functions to UEF in exchange for a \$60,000 reimbursable fund transfer. Following legislative audit recommendations, this practice will be ceased and SIF will transfer a position to UEF to complete these tasks in house.

## **C96 Uninsured Employers' Fund**

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under State Workers' Compensation Law. The UEF reviews and investigates claims filed by employees, or in the case of death, by their dependents. The baseline reflects an inter-agency transfer of resources between the UEF and the Subsequent Injury Fund (SIF). Previously, SIF had provided financial and personnel functions to UEF in exchange for a \$60,000 reimbursable fund transfer. Following legislative audit recommendations, this practice will be ceased and UEF will receive a transferred position from SIF to complete these tasks in house and a one-time \$50,000 increase to establish IT connectivity to State personnel systems.

## **D12A02 Department of Disabilities**

The Maryland Department of Disabilities (MDOD) is the principal State agency responsible for developing, maintaining, revising, and enforcing statewide disabilities policies and standards throughout the units of State government.

- The fiscal 2012 baseline for MDOD decreases the reimbursable fund appropriation by \$55,548 to reflect the regular earnings for an emergency preparedness position abolished by the General Assembly in the 2010 session.
- The baseline also reduces \$182,943 of the federal fund appropriation to reflect carryover funding available from the Medicaid Infrastructure Grant in fiscal 2011 that will not be available in fiscal 2012.

## **D13A13 Maryland Energy Administration**

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy-related policies and activities among State and local agencies.

- The fiscal 2012 baseline assumes that funding available to MEA from the American Recovery and Reinvestment Act of 2009 (ARRA) is fully expended in fiscal 2011 and, therefore, unavailable in fiscal 2012. As a result, approximately \$18.2 million is removed from the energy efficiency and conservation-low and moderate income sector, energy efficiency and conservation-all other sectors, and renewable energy programs of MEA's operating budget in the fiscal 2012 baseline.
- The fiscal 2012 baseline was adjusted to reflect a decrease in available Strategic Energy Investment Funds (SEIF) as a result of a decrease in the number of allowances expected

to be sold in the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions in fiscal 2012 compared to fiscal 2010, as well as a lower estimated price per allowance. The baseline assumes approximately 30.8 million allowances, including both current and future vintages, will be sold in fiscal 2012, with allowance prices of \$1.97 for current year vintage and \$1.86 for future year vintage. These prices represent the average of the four most recent auctions. As a result of these adjustments, SEIF available for MEA programs in rate relief, energy efficiency and conservation-low and moderate income sector, energy efficiency and conservation-all other sectors, and renewable energy programs decreases from approximately \$24.9 million to approximately \$21.0 million.

- The administration program of MEA is reduced by 7 regular positions, 6 contractual full-time equivalents, and \$1.3 million (\$1.2 million in federal funds and \$116,639 in special funds) to reflect the elimination of ARRA funding and the lower SEIF revenue to support administrative expenses in fiscal 2012. This adjustment brings administrative expenses more in line with the special and federal fund revenue expected to be available to support administrative functions.
- The fiscal 2012 baseline decreases by \$716,000 in contractual services from the Energy Overcharge Restitution Fund, which is expected to be exhausted in fiscal 2011.
- The fiscal 2012 baseline decreases the statewide cost allocation to \$77,382, a decrease of \$137,152, to reflect MEA's anticipated allocation.

## **D15A05 Boards, Commissions, and Offices**

Boards, Commissions, and Offices is a budget unit containing various smaller entities that are budgeted together. The fiscal 2012 baseline for the State Ethics Commission increases by 0.5 contractual full-time equivalents and \$23,168 in general fund salaries per the enactment of Chapter 227 of 2010. Additionally, the baseline budget for the State Labor Relations Board increases by 1.4 regular positions and \$102,636 in general fund salaries due to the enactment of Chapter 234 of 2010.

### **D15A0516 Governor's Office of Crime Control and Prevention**

The Governor's Office of Crime Control and Prevention (GOCCP) is responsible for the development of Maryland's Comprehensive State Crime Control and Prevention Plan. GOCCP also administers many of the State's law enforcement grants and performs strategic planning, statistical analysis, and best practices research. Chapter 186 of 2009, as amended by Chapter 72 of 2010, designated GOCCP as the administering agency of federal funds received under the Victims of Crime Act (VOCA). Consistent with Chapters 186 and 72, the fiscal 2012 baseline



reflects the anticipated transfer of nine positions and related VOCA grant funding totaling \$7.4 million from the Department Human Resources to GOCCP. The baseline also reflects a \$900,000 reduction in federal stimulus funding.

### **D17B00     Historic St. Mary’s City Commission**

The Historic St. Mary’s City Commission (HSMCC) performs archeology and research at St. Mary’s City, Maryland’s first capital. In fiscal 2012, special fund revenue from ticket and gift shop sales and site rentals is expected to increase by \$22,253. In addition, a federal grant for conservation work will bring in an additional \$73,739 into the HSMCC budget. Together, \$95,992 in general funds is expected to be offset with this revenue.

### **D27L00     Maryland Commission on Human Relations**

The Maryland Commission on Human Relations (COHR) is responsible for prosecuting discrimination cases in the areas of housing, employment, and public accommodations and receives funding from the federal Department of Housing and Urban Development and the Equal Employment Opportunity Commission to assist in prosecuting cases. Parts of the COHR budget supported by federal funds are expected to decline by \$49,600 in fiscal 2012 due to tighter case length restrictions enforced by the federal government.

### **D28A03     Maryland Stadium Authority**

The Maryland Stadium Authority (MSA) manages facilities for professional baseball and football teams and studies, constructs, and finances other projects such as convention centers. Statute requires that MSA contribute two-thirds of the operating deficit of the Baltimore City Convention Center and one-half of the operating deficit of the Ocean City Convention Center. The current economic conditions are negatively impacting the profitability of the convention centers. As such, the baseline reflects a deficiency of \$2.3 million for the expected increase in the operating deficits of the convention centers.

### **D38I01     State Board of Elections**

The State Board of Elections (SBE) supervises and manages elections and ensures compliance with State and federal election laws. The fiscal 2012 baseline includes adjustments for four anticipated one-time deficiency appropriations:

- a \$2.0 million general fund deficiency appropriation to fully fund the ePollbook capital lease payments in fiscal 2011; the appropriation was reduced to reflect action taken in the Budget Reconciliation and Financing Act of 2010 (BRFA);
- a \$699,779 general fund deficiency appropriation to encumber the remaining funds related to the fiscal 2009 suspended and withheld payments from Premier Elections Systems (Premier) as a result of the dispute between SBE and Premier;
- a \$500,000 special fund deficiency appropriation to recognize authorization in the BRFA of 2010 of the use of Fair Campaign Financing Funds for the development of an online campaign financing reporting system; and
- a \$115,700 deficiency appropriation (half of which is general and half special funds) to provide funding for expedited ballot delivery related to the Military and Overseas Voter Empowerment Act (MOVE Act) and brochures.

A series of adjustments increase the fiscal 2012 baseline by a net of \$1.7 million (includes an increase of \$2.3 million in general funds, an increase of \$689,050 in special funds, and a decrease of \$1.4 million in federal funds) to reflect anticipated changes in expenditures related to contracts for voting system services, networking costs, voter registration system support, and the University of Maryland.

The fiscal 2012 baseline decreases the appropriation for existing capital lease payments from \$9.2 million to \$7.4 million to reflect the end of the payments for the Phase 3 purchase of the touchscreen voting system and slight decreases in required payments related to ePollbooks and the Phase 2 purchase of the touchscreen voting system. Despite the overall decrease in required payments, the general fund and special fund portion of the payments increase to reflect the end of the use of federal funds for this purpose.

Baseline adjustments are also made totaling approximately \$11.1 million to reflect costs associated with the implementation of an optical scan voting system, which is required under Chapters 547 and 548 of 2007 but has not yet been implemented. Of the \$11.1 million, \$4.9 million of general fund adjustments are included in the Major Information Technology Development Project Fund. The remaining \$6.2 million, primarily the county share of the costs, are included in the baseline for SBE:

- for lease payments for the optical scan equipment, ballot marking device equipment, and ballot on demand equipment as well as costs for testing, certification, and related optical scan supplies (approximately \$4.9 million special fund appropriation); and
- for additional ballot printing and voter outreach costs (\$1.3 million split equally between general and special funds).

Some costs related to a new voting system are anticipated to be comparable to expenditures for the existing voting system already included in the budget (for example software licenses and warranties) and are therefore not adjusted in the fiscal 2012 baseline.

The fiscal 2012 baseline was also adjusted to reflect the decrease in availability of federal funds (\$898,182), which will result in the need for additional general and special funds.

## **D40W01 Maryland Department of Planning**

The Maryland Department of Planning develops, coordinates, reviews, and monitors public and private sector plans for growth and development in the State. The fiscal 2012 baseline assumes the following changes:

- an increase of \$0.4 million in general funds and four positions to reflect staffing and operating funding needed for the Patterson Center Renovations project at Jefferson Patterson Park and Museum;
- an increase of \$0.1 million in general funds and two positions to reflect staffing and operating funding needed for the Riverside Interpretive Trails and Exhibit Stations project at Jefferson Patterson Park and Museum; and
- an increase of \$0.1 million in general funds and two regular positions to reflect the legislative intent that existing funding be used to fund the new African American Heritage Preservation Program (Chapters 278 and 279 of 2010) and thus the loss of funding for other programs that will need to be replaced.

## **D50H Military Department**

The Military Department provides overall direction, development, and maintenance of the Maryland National Guard, which is comprised of the Maryland Army Guard and the Maryland Air Guard. The Military Department also operates the Maryland Emergency Management Agency. The following adjustments were made to the budget:

- Chapter 416 of 2006 required that half of the revenue generated from a \$7.50 traffic citation surcharge be credited to the Volunteer Company Assistance Fund (VCAF). However, legislation enacted during 2010 (Chapter 735 of 2010) expanded the list of eligible traffic violations and altered the distribution of the collected surcharge, thereby requiring that all of the revenue generated from the surcharge be allocated entirely to the VCAF until the fund attains \$20 million. The baseline assumes that an additional \$4 million will be appropriated to the VCAF in fiscal 2012.

- The baseline reflects a modification to the 60% federal and 40% State cost-share allocation for the Freestate Challenge Academy. It is anticipated that the federal government will assume 75% of the costs associated with the academy beginning in fiscal 2012, thereby resulting in an additional \$387,000 in federal funds. The baseline reflects a corresponding reduction in the State cost-share (general funds).
- The baseline assumes that a fiscal 2011 general fund deficiency in the amount of \$100,000 will be required for costs associated with the gubernatorial inauguration.

### **D99A Office of Administrative Hearings**

The Office of Administrative Hearings (OAH) was created to centralize the hearing functions in various units of State government. OAH holds hearings in contested cases involving State agencies. The fiscal 2012 baseline budget converts funding from contractual positions to regular full-time positions that were created to address OAH's expanded authority under Chapter 485 of 2010. That legislation allows homeowners facing foreclosure to request a hearing before an administrative law judge. The baseline also reflects a \$29,996 decrease for the master equipment lease-purchase program.

### **E00A Comptroller of the Treasury**

The Comptroller of the Treasury is charged with the general supervision of the State's fiscal matters, including collecting taxes, distributing revenues, and administering financial accounts. Major changes to fiscal 2011 and to the fiscal 2012 baseline budget include the following:

- an additional \$400,000 in general and special funds for the acquisition of check imaging software. The Comptroller's Office has opted to purchase check imaging software instead of new remittance processors;
- an additional \$350,000 in reimbursable funds for the acquisition of a new mainframe computer for the Annapolis Data Center. The computer will be acquired via the Treasurer's Master Equipment Lease-Purchase Program;
- a special fund reduction of \$300,000 for expenditures incurred by the Comptroller's Office for carrying out the provisions of the Kids First Act (Chapters 329 and 692 of 2008). The baseline assumes that beginning in fiscal 2012, the Comptroller's Office will receive \$100,000 in reimbursable funds from the Department of Health and Mental Hygiene for carrying out the provisions of Chapter 734 of 2010. Chapter 734 extended

the requirement for the Comptroller to mail taxpayers certain notices of eligibility for the Medicaid and Maryland Children's Health Insurance programs;

- a special fund reduction of \$2,702,454 related to the information technology expenditures for the Modernized Integrated Tax System (MITS). The reduction will be offset by the contractual conversion of 16 full-time equivalent revenue examiner positions used to operate MITS; and
- a \$171,000 fiscal 2011 general fund deficiency due to higher than anticipated postage expenditures.

## **E20B Office of the State Treasurer**

The State Treasurer is responsible for the management and protection of State funds and property. In this capacity, the Treasurer selects and manages the depository facilities for State funds, issues or authorizes agents to issue payments of State funds, invests excess funds, safeguards all State securities and investments, and provides insurance protection against sudden and unanticipated damage to State property or liability of State employees. The State Treasurer plans, prepares, and advertises State of Maryland general obligation bond issues, and through the Capital Debt Affordability Committee, reviews the size and condition of State tax-supported debt and other debt of State units on a continuing basis.

Baseline adjustments comprise an estimated increase in insurance coverage (reimbursable funds) of \$2.9 million and a \$452,500 decrease, primarily special funds, in bond sale expenses.

## **E75D State Lottery Agency**

The State Lottery Agency is responsible for administering and operating lottery games that generate revenue for the State. Chapter 4 of the 2007 special session outlines the agency's new responsibilities for administering a system of video lottery terminals (VLT). The baseline reflects increases in spending for the first full year of operations of two VLT facilities. The additional VLT costs total approximately \$10.6 million. The baseline also reflects an increase of \$30.9 million in payments to licensed VLT vendors based on increased revenues.

## **F50 Department of Information Technology**

The Department of Information Technology (DoIT) provides information technology (IT) leadership to effectively manage State IT resources. DoIT's most substantial fiscal 2012 baseline budget adjustments relate to major IT projects funded by the Major Information Technology Development Project Fund (MITDPF). Adjustments are also made to major IT

projects managed by DoIT and DoIT's administration. No deficiency adjustments are made. MITDPF adjustments are:

- Adding \$16.1 million in general funds (resulting in \$32.5 million total costs) to previously funded projects. This estimate assumes that the reimbursable funds supporting the Medicaid Management Information System (MMIS) replacement project and the Computer Aided Dispatch/Records Management System project will need to be funded with general funds;
- Adding \$1.7 million in general funds for the CHESSIE IV project. The project was delayed by the General Assembly because the Department of Human Resources (DHR) was already working on four other projects; and
- Adding approximately \$469,000 in general funds for a DHR/Department of Health and Mental Hygiene interface for MMIS.

DoIT is also managing two IT projects for the Department of Budget and Management (DBM). The baseline adjusts the cash flows of these projects. DoIT advises that the cost estimates did not change between January and October 2010. The adjustments made are:

- Adding \$6.5 million in special funds (resulting in \$8.6 million in total costs) to the Central Collection Unit project; and
- Adding \$4.7 million in all funds (resulting in \$6.8 million in total costs) to the Statewide Personnel System project. The general fund increase for this project is \$4.3 million (resulting in \$6.1 million in total general fund expenditures).

Adjustments are also made to the administrative units of DoIT. The baseline recognizes \$100,000 in general fund costs related to upgrading financial and procurement management systems required in Chapters 507 and 508 of 2010. Finally, DoIT's share of the new Annapolis Data Center mainframe computer is projected to increase general fund expenditures by approximately \$58,000.

## **G20J01      State Retirement Agency**

The State Retirement Agency, under the supervision of a board of trustees, manages a \$34 billion pension fund. It also administers retirement, death, and disability benefits for more than 250,000 current and former teachers and State and municipal employees. The changes in fiscal 2012 are attributable to the following factors:

- An increase in annual operating and maintenance expenses for the newly operational Maryland Pension Administration System (MPAS) information technology system. MPAS will require \$300,000 more per year to maintain than the legacy system it replaced in the operating budget of the agency. However, because MPAS-1 has been completed, all of the \$4.2 million previously included in the major IT portion of the agency's budget for this project have been removed.
- An additional \$1.0 million in special funds for the continuation of the second phase of the project (MPAS-2) is also included, making a total of \$2.5 million available for MPAS-2 in the fiscal 2012 baseline.

## **H00 Department of General Services**

The Department of General Services (DGS) performs a variety of functions including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; and provision of real estate services. The fiscal 2012 baseline assumes that \$2.9 million will be required for energy performance contract (EPC) payments. While the fiscal 2011 budget included \$2.5 million in RGGI funds for EPC payments and personnel expenditures within the Office of Energy Performance and Conservation, the fiscal 2012 baseline budget reflects a \$2.3 million reduction in RGGI funding. The baseline assumes that the majority of this funding will be replaced with general funds.

Lastly, the baseline assumes that the lease payment for the Prince George's County Justice Center will increase by \$189,933 to \$3.0 million.

## **K00A Department of Natural Resources**

The Department of Natural Resources manages the protection, enhancement, and use of the State's natural resources. The fiscal 2012 baseline includes the following adjustments:

- an increase of \$22.7 million in special funds for a total of \$42.7 million to reflect full funding of the estimated Chesapeake and Atlantic Coastal Bays 2010 Trust Fund revenues;
- a one-time deficiency of \$5.9 million in special funds based on an available fund balance in the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund;
- a decrease of \$3.7 million in federal funds to reflect a projected decrease in the National Oceanic and Atmospheric Administration federal crab fishery disaster designation funding, which is in line with the three-year \$15.0 million distribution plan;

- an increase of \$1.9 million in general funds to reflect the return of Maryland Park Service revenue sharing payments to counties following short-term elimination of such payments in the Budget Reconciliation and Financing Act of 2009 (Chapter 487 of 2009);
- an increase of \$1.2 million in general funds to reflect the need to backfill support received from the State transfer tax for Program Open Space operating expenses made available for fiscal 2010-2011 only as part of Chapter 487 of 2009;
- an increase of \$0.2 million in general funds, four new regulation positions, and two new contractual full-time equivalents and operating expenses for the Harriet Tubman Underground Railroad State Park – Visitor Center;
- a decrease of \$0.2 million in special funds to reflect the reduction in Maryland Outdoor Customer Service Delivery System information technology costs; and
- a decrease of \$0.1 million in special funds to reflect the end of Maritime Law Enforcement Information Network information technology project costs.

## **L00A Maryland Department of Agriculture**

The Maryland Department of Agriculture administers and promotes agricultural activities throughout the State. The fiscal 2012 baseline includes the following adjustments:

- a decrease of \$4.0 million in special funds for the Maryland Agricultural and Resource-Based Industry Development Corporation (MARBIDCO) to reflect the infeasibility of the leveraged installment purchase agreements program and the changes made to the allocation of State transfer tax by Agricultural Land Transfer Tax – Distribution and Use of Revenue (Chapter 210 of 2010);
- an increase of \$1.5 million in special funds from the Cigarette Restitution Fund for the Tobacco Transition Program to reflect \$18,000 in additional operating expenses and \$1.5 million in additional bond repayment expenses based on the assumption that the Department of Budget and Management’s bond repayment plan is adopted;
- an increase of \$1.3 million in general funds to reflect the statutorily mandated funding level for MARBIDCO;
- an increase of \$0.4 million in general funds and five positions to reflect the lapsing of the fiscal 2010-2011 provisions of the Budget Reconciliation and Financing Act of 2009 (Chapter 487 of 2009), the statutorily mandated fiscal 2012 funding for Soil Conservation



Districts of \$10.0 million, and the assumption that this funding will be used for new positions in order to help meet the 110 field position statutory mandate;

- an increase of \$0.4 million in special funds to reflect the assumption that there will be sufficient agricultural transfer tax to support the MARBIDCO Next Generation Farmland Acquisition Program;
- a decrease of \$0.1 million in special funds for the Maryland Agricultural Fair Board to reflect decreased racing revenues in fiscal 2010 that are assumed to continue;
- an increase of \$73,000 in special funds to reflect the increase in special fund expenditures in the Maryland Horse Industry Board as allowed for by Maryland Horse Industry Fund – Fees (Chapter 19 of 2010);
- a decrease of \$68,000 in general funds to reflect reduced master capital lease funding needs for insecticide sprayers and all-terrain vehicles; and
- an increase of \$28,000 in special funds and 0.5 contractual full-time equivalent to reflect a new program created by Maryland Agricultural Land Preservation Foundation – Farmland Preservation Partnership Program (Chapter 36 of 2010).

## **P00 Department of Labor, Licensing, and Regulation**

The Department of Labor, Licensing, and Regulation is responsible for administering programs related to business regulation, worker safety, occupational and professional licensing, workforce development, and unemployment insurance. The baseline assumes an increase of \$6.0 million in federal funds for the operation of the unemployment insurance program. The baseline also assumes small increases in special and general funds for the implementation of new legislation governing the regulation of foreclosure mediation and retail employee safety. Additionally, the baseline assumes that local impact aid from horse racing fees will return to normal levels in fiscal 2012.

### **R00A01 Maryland State Department of Education Headquarters**

The Maryland State Department of Education coordinates the State's K-12 education policies. The Headquarters budget includes the addition of \$95,252 to implement legislation passed during the 2010 session. This includes Chapter 254 to establish Braille standards, Chapter 209 reimbursing certain workers' compensation premiums, and Chapter 743 authorizing virtual schools.

**R15P00 Maryland Public Broadcasting Commission**

The Maryland Public Broadcasting Commission is responsible for operating the Maryland public broadcasting affiliate, Maryland Public Television. An adjustment was made to reduce Master Equipment Lease-Purchase payments from \$740,024 in fiscal 2011 to \$688,921 in 2012.

**R99E Maryland School for the Deaf**

The Maryland School for the Deaf provides pre-kindergarten through grade 12 education to deaf students in either a day or residential program. The fiscal 2012 baseline budget includes replacement of \$2 million in fiscal 2011 special funds from the Universal Service Trust Fund with general funds and small adjustments for a pension liability increase and a facility operating decrease.

**S00A Department of Housing and Community Development**

The Department of Housing and Community Development (DHCD) works to encourage homeownership, expand affordable rental housing, and revitalize communities. The fiscal 2012 baseline budget is impacted by the following adjustments:

- a \$3.2 million decrease to reflect federal funds from ARRA that will not be available in fiscal 2012. The baseline estimate includes only \$450,000 in federal ARRA funds that remain for low-income weatherization efforts;
- the removal of \$875,000 in special funds that were made available in fiscal 2011 for the implementation of a new information technology project; and
- a \$106,825 projected decrease in special funds from RGGI auctions that support the Weatherization Assistance Program.

**T00 Department of Business and Economic Development**

The Department of Business and Economic Development aims to increase business investment and promote job creation. The fiscal 2012 baseline assumes \$1.7 million less in special funds for the department's financing programs due to lower expected repayments to the funds. Further, the baseline assumes the removal of a one-time \$5 million appropriation to the Maryland Industrial Development Financing Authority. The BRFA of 2010 made other changes to spending mandates based on cost containment efforts. The baseline for the State Arts Council

and the Maryland Tourism Board remain unchanged. However, an increase of \$2.4 million in special funds is assumed for the Preservation of Cultural Arts.

## **U00A Maryland Department of the Environment**

The Maryland Department of the Environment (MDE) is responsible for protecting and restoring the quality of the State's air, land, and water resources and safeguarding citizens from health risks associated with pollution. The fiscal 2012 baseline includes the following adjustments:

- a decrease of \$15.0 million in special funds to reflect reduced debt service needs for Bay Restoration Fund revenue bonds since the \$150.0 million revenue bond issuance has been delayed;
- an increase of \$4.1 million in federal funds to reflect increased non-project set asides funding available from the overall increased Drinking Water Revolving loan Fund appropriation;
- a decrease of \$2.6 million to reflect the end of American Recovery and Reinvestment Act federal funds for leaking underground storage tank mitigation (\$1.6 million), Water Quality and Drinking Water Revolving Loan Fund operating funding (\$0.7 million), diesel emissions reductions grants (\$0.2 million), and Total Maximum Daily Load technical development (\$0.2 million);
- an increase of \$1.0 million in special funds to reflect mandatory operation and maintenance funding for wastewater treatment plants upgraded to enhanced nutrient removal technology that was reduced in fiscal 2011;
- a decrease of \$0.7 million in special funds to reflect an anticipated reduction in available Strategic Energy Investment Fund allocation for greenhouse gas-related projects due to lower carbon auction revenue projections;
- a decrease of \$0.5 million in special funds to reflect one-time funding for three new ozone monitoring sites and three new nitrogen dioxide monitoring sites;
- a decrease of \$0.4 million in special funds to reflect reduced funding needs for the Web Site Revamp – Phase 2 information technology project;
- a decrease of \$0.3 million primarily in special funds for master equipment lease purchase program items;

- an increase of \$0.2 million in special funds to reflect three new positions and operating expenses for Department of the Environment – Oil and Gas Production Permits – Fees (Chapter 383 of 2010);
- an increase of \$0.1 million in special funds to reflect funding for Marine Contractors – Licensure and Regulation – Tidal Wetlands Licenses (Chapter 286 of 2010); and
- an increase of \$17,000 in general funds to reflect half a new contractual position and operating expenses for Environment – Decabrominated Diphenyl Ether – Prohibitions (Chapter 320 of 2010).

### **W10A00 Department of State Police**

The Maryland State Police exists to safeguard persons within the State, protect property, and assist in providing all persons equal protection under the law. The following major adjustments were made to the fiscal 2012 baseline budget:

- the baseline includes \$6.9 million in reimbursable funds for the Computer Aided Dispatch/Records Management System;
- the baseline reflects an additional \$363,088 in general funds due to the State's assumption of operating expenses associated with the new Hagerstown Barrack and Garage and the new Tactical Services Facility Garage;
- the baseline includes an additional \$238,626 in general funds for energy performance contract payments; and
- the baseline reflects a \$19.9 million reduction in federal ARRA funding and assumes that this funding will be replaced with general funds.

### **Y01A State Reserve Fund**

The State Reserve Fund baseline budget consists of the Revenue Stabilization Account (Rainy Day Fund), Dedicated Purpose Account, and Catastrophic Event Account. There is no activity projected in the Catastrophic Event Account.

The Rainy Day Fund was created to retain revenues to meet future needs. Section 7-311 of the State Finance and Procurement Article requires that an amount equal to the unappropriated general fund surplus exceeding \$10 million from two fiscal years prior to the allowance year shall be appropriated into the Rainy Day Fund. An appropriation totaling \$50 million is also

required if projected revenues are less than 7.5% of general fund revenues. The fiscal 2011 BRFA suspends this requirement, so no appropriation is required under this provision even though the fund balance is less than 7.5% and the fiscal 2010 unappropriated general fund surplus was \$344.0 million. The baseline includes an appropriation of \$30.0 million in general funds to the Rainy Day Fund to maintain a 5% balance.

With respect to the Dedicated Purpose Account, two adjustments were made. Consistent with an agreement with Prince George's County, \$15.0 million is appropriated for the Prince George's County Hospital. Another \$50.0 million appropriation is made to reimburse Program Open Space for transfer tax funds transferred to the general fund. Section 13-209 of the Tax – Property Article requires that up to \$50 million of the unappropriated general fund surplus be appropriated beginning in fiscal 2012. DLS estimates that \$90.0 million is to be reimbursed. The fiscal 2012 baseline includes the first repayment.

**Expenditures and Funds in Other State Agencies**  
**General, Special, and Federal Funds Only**  
**Fiscal 2009-2012**  
**(\$ in Thousands)**

		2009	2010	2011	2012	2011-2012	
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Increase</u>
<b>Expenditures</b>							
B75	General Assembly	\$73,988,408	\$76,502,622	\$75,708,502	\$77,904,750	\$2,196,248	2.9%
C00A00	Judiciary	413,032,495	432,238,317	422,959,855	442,332,425	19,372,570	4.6%
C80B00	Office of the Public Defender	90,162,646	85,267,060	83,868,129	86,554,460	2,686,331	3.2%
C81C	Office of the Attorney General	24,764,620	24,814,230	24,979,316	25,825,309	845,993	3.4%
C82D00	Office of the State Prosecutor	1,337,169	1,188,593	1,198,763	1,247,004	48,241	4.0%
C85E00	Maryland Tax Court	574,693	623,652	626,685	662,713	36,028	5.7%
C90G00	Public Service Commission	17,619,600	14,414,188	14,780,066	17,308,714	2,528,648	17.1%
C91H00	Office of People's Counsel	2,793,499	3,130,478	3,138,994	3,189,404	50,410	1.6%
C94I00	Subsequent Injury Fund	1,849,117	1,913,928	1,921,699	1,976,449	54,750	2.8%
C96J00	Uninsured Employers' Fund	1,092,342	1,080,098	1,089,663	1,188,072	98,409	9.0%
C98F00	Worker's Compensation Commission	13,282,154	13,639,371	13,680,383	14,087,724	407,341	3.0%
D05E01	Board of Public Works	6,867,946	7,637,692	7,494,662	7,525,365	30,703	0.4%
D10A01	Executive Department - Governor	9,378,183	9,508,249	9,359,509	9,544,720	185,211	2.0%
D11A0401	Office of the Deaf and Hard of Hearing	279,066	280,407	321,414	329,860	8,446	2.6%
D12A02	Department of Disabilities	4,321,898	5,187,782	5,268,186	5,104,272	-163,914	-3.1%
D13A13	Maryland Energy Administration	22,225,927	81,782,611	47,719,968	23,485,412	-24,234,556	-50.8%
D15A05	Executive Dept - Boards, Commissions and Offices	10,020,461	12,027,465	10,199,401	10,479,229	279,828	2.7%
D15A0516	Governor's Office of Crime Control and Prevention	103,544,508	92,533,226	95,787,691	102,559,624	6,771,933	7.1%
D16A06	Secretary of State	2,587,517	2,487,121	2,243,287	2,310,898	67,611	3.0%
D17B0151	Historic St Mary's City Commission	2,784,809	2,607,963	2,716,262	2,736,185	19,923	0.7%
D18A18	Governor's Office for Children	2,761,012	2,607,648	2,871,491	2,952,497	81,006	2.8%
D25E03	Interagency Committee on School Construction	1,487,866	1,467,383	1,457,222	1,470,388	13,166	0.9%
D26A07	Department of Aging	51,439,306	54,079,365	52,183,243	52,322,277	139,034	0.3%
D27L00	Maryland Commission on Human Relations	3,350,965	3,300,494	3,188,825	3,224,931	36,106	1.1%

		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2011-2012</b>	
		<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Leg. Approp.</u></b>	<b><u>Baseline</u></b>	<b><u>\$ Increase</u></b>	<b><u>% Increase</u></b>
D28A03	Maryland Stadium Authority	34,229,757	35,241,848	34,706,211	36,960,441	2,254,230	6.5%
D38I01	State Board of Elections	24,975,277	24,674,492	26,893,902	35,020,445	8,126,543	30.2%
D39S00	Maryland State Board of Contract Appeals	589,244	590,645	591,486	617,178	25,692	4.3%
D40W01	Department of Planning	19,899,235	17,526,582	16,737,344	17,560,011	822,667	4.9%
D50H01	Military Department	75,849,848	98,202,365	75,001,267	80,114,921	5,113,654	6.8%
D53T00	MD Institute Emergency Medical Services Systems	12,210,140	12,321,850	12,373,808	12,647,249	273,441	2.2%
D55P00	Department of Veterans Affairs	17,778,254	18,616,384	17,688,367	17,833,417	145,050	0.8%
D60A10	State Archives	8,446,808	8,919,423	8,838,151	8,922,289	84,138	1.0%
D79Z02	Maryland Health Insurance Plan	92,189,564	129,484,639	147,986,003	147,992,013	6,010	0.0%
D80Z01	Maryland Insurance Administration	37,645,549	27,196,093	27,371,577	28,394,022	1,022,445	3.7%
D90U00	Canal Place Preservation and Development Authority	431,297	536,677	577,421	586,263	8,842	1.5%
D99A11	Office of Administrative Hearings	17,345	92,668	832,600	819,867	-12,733	-1.5%
E00A	Comptroller of the Treasury	87,918,878	111,879,270	97,280,603	97,414,365	133,762	0.1%
E20B	State Treasurer	5,844,705	6,861,518	7,905,685	7,549,000	-356,685	-4.5%
E50C	Department of Assessments and Taxation	45,754,059	45,649,521	44,315,690	45,809,067	1,493,377	3.4%
E75D	State Lottery Agency	60,224,047	55,490,476	109,571,420	152,046,789	42,475,369	38.8%
E80E	Property Tax Assessment Appeals Boards	946,904	1,008,229	954,893	1,002,472	47,579	5.0%
F10A	Department of Budget and Management - Secretary	18,935,572	20,205,223	19,246,260	19,387,121	140,861	0.7%
F10A02	Department of Budget and Management - Personnel	6,581,449	12,396,493	6,632,757	15,196,618	8,563,861	129.1%
F50	Department of Information Technology	27,222,985	39,139,044	42,766,438	74,623,761	31,857,323	74.5%
G20J01	State Retirement Agency	27,992,560	29,879,597	30,771,582	28,318,914	-2,452,668	-8.0%
G50L00	Maryland Supplemental Retirement Plans	1,436,942	1,479,028	1,495,946	1,526,901	30,955	2.1%
H00	Department of General Services	57,423,500	54,828,955	57,007,931	58,412,629	1,404,698	2.5%
K00A	Department of Natural Resources	173,161,268	191,498,922	199,587,654	224,803,309	25,215,655	12.6%
L00A	Department of Agriculture	60,750,030	60,939,239	57,999,621	58,765,312	765,691	1.3%
P00	DLLR Workforce Development	142,340,579	210,575,718	172,484,292	174,577,923	2,093,631	1.2%
P00C	DLLR Business Regulation	36,323,043	37,370,324	55,686,313	70,708,600	15,022,287	27.0%
R00A01	MSDE Headquarters	239,469,463	244,481,527	217,146,675	220,089,698	2,943,023	1.4%
R00A03	MSDE Funding for Educational Organizations	27,386,176	26,365,558	26,955,902	27,310,000	354,098	1.3%
R00A04	Children's Cabinet Interagency Fund	41,542,722	31,763,464	28,367,554	28,367,554	0	0.0%

		<b>2011-2012</b>					
		<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2011-2012</b>	<b>%</b>
		<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Leg. Approp.</u></b>	<b><u>Baseline</u></b>	<b><u>\$ Increase</u></b>	<b><u>Increase</u></b>
R00A99	MSDE Early Childhood Development	36,706,782	36,876,488	37,203,336	38,804,648	1,601,312	4.3%
R15P00	Maryland Public Broadcasting Commission	28,099,511	29,081,233	26,017,985	26,424,044	406,059	1.6%
R62I0001	Maryland Higher Education Commission	77,140,229	69,853,470	70,374,788	71,712,687	1,337,899	1.9%
R62I0010	MHEC Scholarship Programs	108,176,048	103,625,211	103,261,906	107,385,102	4,123,196	4.0%
R99E	Maryland School for the Deaf	28,563,158	28,660,761	28,281,960	28,049,187	-232,773	-0.8%
S00A	Department of Housing and Community Development	241,339,318	330,599,851	263,946,545	260,824,401	-3,122,144	-1.2%
S50B	Maryland African American Museum Corporation	2,083,000	2,100,000	2,000,000	2,000,000	0	0.0%
T00	Department of Business and Economic Development	93,721,023	98,254,678	99,660,804	97,463,224	-2,197,580	-2.2%
T50T01	Maryland Technology Development Corporation	22,227,000	15,743,192	15,858,192	15,858,192	0	0.0%
U00A	Department of the Environment	113,851,695	139,352,974	130,989,955	120,998,111	-9,991,844	-7.6%
W10A00	Department of State Police	244,104,999	272,288,733	277,121,677	287,412,500	10,290,823	3.7%
Y01A	State Reserve Fund	211,543,342	114,947,579	15,000,000	95,000,000	80,000,000	533.3%
<b>Total</b>		<b>\$3,454,619,512</b>	<b>\$3,726,919,885</b>	<b>\$3,500,255,717</b>	<b>\$3,741,632,930</b>	<b>\$241,377,213</b>	<b>6.9%</b>
<b>Fund</b>							
General Fund		\$1,991,684,068	\$1,735,472,324	\$1,680,111,534	\$1,876,412,848	\$196,301,314	11.7%
Special Fund		785,100,008	970,001,060	1,018,817,790	1,101,493,121	82,675,331	8.1%
Federal Fund		677,835,436	1,021,446,501	801,326,393	763,726,961	-37,599,432	-4.7%
<b>Total</b>		<b>\$3,454,619,512</b>	<b>\$3,726,919,885</b>	<b>\$3,500,255,717</b>	<b>\$3,741,632,930</b>	<b>\$241,377,213</b>	<b>6.9%</b>
<b>Personnel</b>							
Regular Positions		20,994.9	20,774.6	20,750.8	20,807.2	56.4	0.3%
Full-time Equivalent Contractuals		1,674.9	1,738.0	1,774.1	1,755.6	-18.5	-1.0%

DLLR: Department of Labor, Licensing, and Regulation

MHEC: Maryland Higher Education Commission

MSDE: Maryland State Department of Education



## Debt Service

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

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### Expenditures, Funds, and Positions for Debt Service

Fiscal 2009-2012

(\$ in Thousands)

	<u>2009 Actual</u>	<u>2010 Working</u>	<u>2011 Leg. Approp.</u>	<u>2012 Baseline</u>	<u>2011-2012 Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
MDOT – Debt Service	\$136,730	\$159,698	\$163,985	\$189,129	\$25,144	15.3%
Public Debt	744,799	785,844	841,984	886,600	44,616	5.3%
<b>Total</b>	<b>\$881,529</b>	<b>\$945,542</b>	<b>\$1,005,968</b>	<b>\$1,075,729</b>	<b>\$69,761</b>	<b>6.9%</b>
<b>Fund</b>						
General Fund	\$0	\$0	\$0	\$0	\$0	0%
Special Fund	881,529	944,685	998,329	1,064,929	66,600	6.7%
Federal Fund	0	857	7,640	10,800	3,160	41.4%
<b>Total</b>	<b>881,529</b>	<b>945,542</b>	<b>1,005,968</b>	<b>1,075,729</b>	<b>69,761</b>	<b>6.9%</b>

MDOT: Maryland Department of Transportation

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### Public Debt

The fiscal 2012 baseline budget for GO bond debt service costs reflects steady increases in debt issuance, from \$675.0 million in fiscal 2007 to \$1.1 billion in fiscal 2010. To reflect these changes, debt service costs were increased by \$44.6 million in fiscal 2012. Bond sale premiums realized from bonds sold in 2010 provide sufficient revenues in the ABF so that no general funds are assumed in the baseline budget.

Federal funds represent the federal reimbursement for Build America Bonds (BABs) issued by the State. The federal government reimburses the State for 35% of the interest costs of BABs. The additional debt service reflects BAB issuances.

### **Maryland Department of Transportation Bonds**

Similarly, MDOT's fiscal 2012 baseline budget debt service requirements represent steady increases in debt issuance. The baseline assumes that bonds essentially sell at par, resulting in no sizeable bond sale premiums. The baseline adjustments reflect large bond issuances in fiscal 2004 and 2009, and anticipate large issuances in fiscal 2011 and 2012. This increasing use of debt adds \$25.1 million to the fiscal 2012 baseline.

## PAYGO Capital Programs

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

The baseline assumes that the State's fiscal condition will continue to restrain the use of general funds to support grant and loan programs administered by the Department of Housing and Community Development (DHCD) and the Department of the Environment. Accordingly, the baseline maximizes the use of estimated special and federal funds with the goal of level funding programs to the fiscal 2011 legislative appropriation. However, to the extent that these funds are not sufficient to level fund the programs the use of GO bond funds may be considered in much the same manner that bond funds have been used in place of general funds in recent budgets. The baseline also assumes that special fund revenues, in particular those derived from the State transfer tax and those accruing to the Bay Restoration Fund, will be available and distributed according to statutory requirements as opposed to transferred to the general fund and replaced with GO bond funds as was the case in the fiscal 2011 budget.

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### Expenditures, Funds, and Positions for PAYGO Capital Programs Fiscal 2009-2012 (\$ in Thousands)

	<u>2009</u> <u>Actual</u>	<u>2010</u> <u>Working</u>	<u>2011 Leg.</u> <u>Approp.</u>	<u>2012</u> <u>Baseline</u>	<u>2011-2012</u> <u>\$ Increase</u>	<u>% Increase</u>
<b>Expenditures</b>						
Board of Public Works	\$1,000	\$0	\$0	\$0	\$0	0%
Maryland Energy Administration	4,681	10,500	7,250	5,500	-1,750	-24.1%
Department of Planning	10,200	7,150	10,100	15,100	5,000	49.5%
Military Department	0	13,900	0	0	0	0%
Department of Veterans Affairs	1,810	4,436	0	0	0	0%
MDOT – Secretary's Office	29,396	48,429	27,223	36,733	9,510	34.9%
Washington Metropolitan Area Transit Authority	74,915	52,041	102,041	133,500	31,459	30.8%
MDOT – State Highway Administration	817,831	844,768	704,262	782,369	78,107	11.1%
MDOT – Maryland Port Administration	102,338	82,680	85,754	107,119	21,365	24.9%
MDOT – Motor Vehicle Administration	17,633	29,613	23,218	18,742	-4,476	-19.3%
MDOT – Maryland Transit Administration	268,524	451,714	433,035	355,333	-77,701	-17.9%
MDOT – Maryland Aviation Administration	28,558	38,866	25,527	46,962	21,435	84.0%
Department of Natural Resources	88,776	46,752	20,045	91,637	71,592	357.2%
Department of Agriculture	52,229	17,920	16,316	37,888	21,572	132.2%

	<u>2009 Actual</u>	<u>2010 Working</u>	<u>2011 Leg. Approp.</u>	<u>2012 Baseline</u>	<u>2011-2012</u>	
					<u>\$ Increase</u>	<u>% Increase</u>
Department of Labor, Licensing and Regulation	744	0	0	0	0	0%
Department of Public Safety and Correctional Services	0	10,000	0	0	0	0%
Dept of Housing and Community Development	74,054	169,037	44,319	46,250	1,931	4.4%
Department of Business and Economic Development	7,235	0	0	0	0	0%
Department of the Environment	155,892	302,000	136,300	203,128	66,828	49.0%
Department of State Police	497	0	0	0	0	0%
<b>Total</b>	<b>\$1,736,312</b>	<b>\$2,129,805</b>	<b>\$1,635,390</b>	<b>\$1,880,262</b>	<b>\$244,872</b>	<b>15.0%</b>
<b>Fund</b>						
General Fund	\$23,685	\$7,060	\$10,800	\$16,300	\$5,500	50.9%
Special Fund	991,224	941,897	831,316	1,146,026	314,710	37.9%
Federal Fund	720,154	1,168,294	784,653	717,868	-66,786	-8.5%
Reimbursable Fund	1,249	12,554	8,620	68	-8,553	-99.2%
<b>Total</b>	<b>\$1,736,312</b>	<b>\$2,129,805</b>	<b>\$1,635,390</b>	<b>\$1,880,262</b>	<b>\$244,872</b>	<b>15.0%</b>
<b>Personnel</b>						
Regular Positions	1,882.0	1,839.0	1,838.0	1,838.0	0.0	0%
Full-time Equivalent Contractuals	14.0	23.0	22.0	22.0	0.0	0%

MDOT: Maryland Department of Transportation

PAYGO: pay-as-you-go

## Maryland Energy Administration

The Maryland Energy Administration (MEA) operates two capital programs: the Jane E. Lawton Loan Program (JELLP) and the State Agency Loan Program (SALP). The JELLP provides low-interest loans for energy conservation projects to nonprofits, businesses, and local governments. The SALP provides zero interest loans with a 1% administrative fee for energy conservation projects to State agencies. The SALP loans are often made in conjunction with an energy performance contract.

The fiscal 2012 baseline for the JELLP reflects a transfer in fiscal 2011 of federal funds available as a result of the American Recovery and Reinvestment Act of 2009 (ARRA) from the JELLP to the SALP, a decrease of approximately \$2.6 million. The fiscal 2011 operating budget bill restricted the federal fund appropriation of the JELLP to be used for the SALP. After accounting for this transfer, approximately \$2.2 million is available for the JELLP in fiscal 2011. The fiscal 2012 baseline for the JELLP of \$3.0 million is consistent with the 2010 *Capital Improvement Program (CIP)*, an increase in the funding of \$812,075. This program is expected to be funded out of special funds from the revolving loan fund in fiscal 2012.

The fiscal 2012 baseline for the SALP includes two adjustments to reflect changes in the available funding in fiscal 2011. The first adjustment reflects the transfer of approximately \$2.6 million of federal ARRA funding from the JELLP to the SALP due to the budget bill language restricting the use of the federal funds in the JELLP for the SALP. In addition, a budget amendment brought in \$3.0 million of federal ARRA funding into the SALP in fiscal 2011. After accounting for these adjustments, the fiscal 2011 appropriation for the SALP is approximately \$8.1 million. The fiscal 2012 baseline for the SALP of \$2.5 million is consistent with the 2010 CIP – approximately \$5.6 million lower than the amount available in fiscal 2011. In fiscal 2012, the SALP is expected to be funded entirely through the revolving loan fund.

## **Maryland Department of Planning**

The fiscal 2012 baseline estimate for the Maryland Department of Planning includes the following:

- \$15.0 million in general funds for the new Sustainable Communities Tax Credit Program, a \$5.0 million increase relative to the fiscal 2011 legislative appropriation reflecting the reauthorization of the Maryland Heritage Structure Rehabilitation Tax Credit Program via Smart, Green, and Growing – the Sustainable Communities Act of 2010 (Chapter 487); and
- \$100,000 in special funds for the Maryland Historical Trust Revolving Loan Fund which is a \$100,000 reduction relative to the 2010 CIP due to lower than anticipated special fund revenues.

## **Maryland Department of Transportation**

Based in part on an improving revenue picture and a higher bond sale, baseline adjustments increase the department's capital budget by \$20.6 million, including \$169.0 million in special funds and a decrease of \$148.4 million in federal funds. The largest reduction was in the Maryland Transit Administration due to cash flow changes in projects. Spending for the Washington Metropolitan Area Transit Authority increases in fiscal 2011 due to additional funding to as a result of a new capital funding agreement. Other modes largely experienced increases due to cash flow changes in projects.

## **Maryland Department of Natural Resources**

The fiscal 2012 baseline for the Department of Natural Resource's (DNR) Program Open Space (POS) includes \$72.4 million in special funds and \$2.0 million in federal funds reflecting a \$74.4 million increase over the fiscal 2011 legislative appropriation. The baseline assumes that transfer tax revenues used to fund POS will be distributed in accordance with the statutory formula and not transferred to the general fund through budget reconciliation and financing legislation to provide operating budget relief as was the case in fiscal 2011. This, and the overall estimated increase in available transfer tax revenues in fiscal 2012 (\$135.4 million estimated for fiscal 2012 compared to \$92.8 million for fiscal 2011 accounting for any under or over attainment adjustment), account for the substantial increase reflected in the baseline. In addition, the baseline includes \$2.0 million in federal funds, a \$9.1 million decrease from the \$11.1 million fiscal 2011 legislative appropriation, and reflects a reduced federal participation in strategic land acquisitions. Should certain negotiated land acquisitions warrant federal participation, additional federal funds could be made available through the budget amendment process.

The baseline includes \$14.8 million in special funds for the Rural Legacy Program, which provides funds for the acquisition of conservation easements. As is the case with POS, the baseline assumes that statutory distribution of transfer tax revenues to the Rural Legacy Program in fiscal 2012 as opposed to the use of these revenues for operating budget relief which accounts for the substantial increase in the baseline estimate for this program. Assuming the mandated \$5.0 million GO bond appropriation in fiscal 2012, the baseline includes \$19.8 million, an increase of \$13.5 million relative to the fiscal 2011 legislative appropriation all funds included.

Ocean City Beach Maintenance Program funding of \$1.0 million in special funds is assumed in the baseline for fiscal 2012 because the Ocean City Beach Maintenance Fund balance will be below the \$15.0 million cap.

The baseline includes a downward adjustment in the amount of special fund and federal fund revenue available to support the Waterway Improvement Program (WIP) for fiscal 2012. The WIP provides grants and loans to local, State, and federal government agencies for projects that improve and promote recreational and commercial capabilities, conditions, and safety of Maryland's waterways for the benefit of the general boating public. The total fiscal 2012 baseline is \$1.5 million, which includes a federal fund revenue adjustment from \$1.0 million to \$0.5 million consistent with the 2010 CIP and a special fund revenue adjustment from \$5.0 million to \$1.0 million, which is not consistent with the \$5.0 million in the 2010 CIP. The recent decline in special fund revenues is attributed to reduced boat sales and subsequently the reduced vessel excise tax revenue available to fund the WIP.

## **Maryland Department of Agriculture**

The 2012 baseline for the Maryland Agricultural Land Preservation Programs (MALPP) consists of \$35.2 million in special funds and includes adjustments to reflect the elimination of \$2.0 million in federal funds and a \$2.0 million decrease in the special fund contribution from counties. Overall, the baseline reflects an aggregate special and federal fund increase of \$21.1 million. This increase is attributable to the expected use of transfer tax revenues in accordance with statutory formula and no use of GO bonds funds

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program was decreased by \$1.5 million due to the Board of Public Work's (BPW) reductions on October 15, 2008, and funding continues at that level. While the fiscal 2012 baseline reflects an increase in bond repayment in the operating budget, as noted, the overall level of funding across the operating and PAYGO budgets is unchanged. Therefore, the Tobacco Transition Program's fiscal 2012 PAYGO baseline is consistent with the 2010 CIP. The Tobacco Transition Program provides funds for the voluntary tobacco buyout program and agricultural land preservation efforts.

## **Maryland Department of Public Safety and Correctional Services**

The baseline budget for fiscal 2012 does not include federal funds to assist the State with the design and construction of a minimum security complex at the Jessup Community Correctional Facility. In exchange for being able to house 500 federal detainees at the Maryland Correctional Adjustment Center in Baltimore City and having sole use of the facility, the federal authorities have indicated a willingness to provide \$20 million for capital construction costs, in addition to a per-diem fee for each federal detainee held. Although half of the federal funding was included in the fiscal 2010 budget, with the remaining \$10 million programmed in the 2010 CIP for fiscal 2012, delays in receiving the first round of federal funding are expected to result in the delay of subsequent project phases and the remaining federal contributions to fiscal 2013.

## **Maryland Department of Housing and Community Development**

The Department of Housing and Community Development (DHCD) works to encourage homeownership, expand affordable rental housing, and revitalize communities. The baseline budget includes changes in various PAYGO capital grant and loan programs based on the agency's estimates of revenues, encumbrances, fund balances, the 2011 CIP, and one-time federal funds made available from the ARRA. Overall, the fiscal 2012 baseline assumes DHCD's PAYGO programs will increase \$1.9 million compared to fiscal 2011 appropriation levels primarily due to additional federal funding and available fund balances.

The baseline assumes that the State's fiscal condition will continue to restrain the use of general funds to support DHCD grant and loan programs. While the various adjustments outlined below seek to maximize the use of estimated special fund balances, special fund revenues, and federal funds, while striving to level fund programs from fiscal 2011 to 2012, as has been the case in recent budgets, the use of GO bond funds will be needed to level fund the programs to the fiscal 2011 legislative appropriation level should general funds continue to be unavailable to support program activity.

Overall the adjustments outlined below result in a \$3.0 million decrease in reimbursable funds, largely offset by a \$2.1 million increase in federal funds and a \$2.9 million increase in special funds. Overall, eight of nine capital programs are level funded in the baseline estimate when factoring out one-time federal funds available during fiscal 2011. Four programs are expected to experience shifts in fund sources based on available balances and increased federal funds. Therefore, the following adjustments were made to the fiscal 2012 baseline budget:

- **Rental Housing Programs:** The baseline estimate reflects an overall \$2.2 million decrease in funding. This is due to the loss of \$3.0 million in reimbursable funds made available in fiscal 2011 by the ARRA for the Maryland Energy Efficiency and Housing Affordability Program. The one-time funds will not be available in fiscal 2012. However, when excluding the one-time ARRA funds, the baseline budget estimate increases by \$800,000 because federal HOME funds are expected to increase slightly. Special funds remain unchanged in fiscal 2012 and are derived from loan repayments as well as transfers from the Maryland Housing Fund and Homeownership and Special Loan programs.
- **MD BRAC Preservation Fund Programs:** The baseline estimate includes a \$1.0 million decrease in special funds. The initial grant from the MacArthur Foundation capitalized the fund in fiscal 2010 and 2011, but moving forward special funds will be derived from loan repayments, county partner matches, and other fees collected by the department.
- **Homeownership Programs:** The baseline estimate reflects an overall \$40.0 million decrease in funding. This is due to the loss of one-time federal funds made available in fiscal 2011 by the federal Department of Housing and Urban Development for the Emergency Homeowners Loan Program. The one-time funds will not be available in fiscal 2012. However, when excluding the one-time ARRA funds, the Homeownership Programs are level funded. Nevertheless, the availability of \$1.5 million in special funds from loan repayments and \$1.0 million in federal HOME funds will result in a shift in fund sources. Whereas the program was fully funded with GO bonds in fiscal 2011, the availability of \$2.5 million in special and federal funds will decrease the GO reliance by the same amount in the baseline.
- **Special Loan Programs:** The baseline estimate for fiscal 2012 level funds special loan programs. However, the fiscal 2012 baseline budget reflects the availability of



\$2.2 million in special funds from loan repayments and a \$300,000 increase in federal HOME funds. The availability of special funds and slight increase in federal funds will decrease the need for GO bonds by \$2.5 million in the baseline.

- ***Neighborhood Business Development Program:*** The baseline estimate for fiscal 2012 level funds special loan programs. However, the fiscal 2012 baseline budget reflects the availability of \$2.1 million in special funds. Whereas the program was fully funded with GO bonds in fiscal 2011, the availability of \$2.1 million in special funds will decrease the GO reliance by the same amount in the baseline.
- ***Community Development Block Grant Program:*** The fiscal 2012 baseline estimate includes an adjustment for \$5.0 million in one-time federal Neighborhood Stabilization Program funds that are only available in fiscal 2011. However, when excluding the one-time federal funds, the Community Development Block Grant Program is level funded in fiscal 2012.
- ***Partnership Rental Housing Program:*** The baseline estimate for fiscal 2012 level funds the Partnership Rental Housing Program. However, special funds that were available in fiscal 2011 from a one-time loan repayment will not be available in fiscal 2012. Accordingly, the decrease in special funds will be offset by an increase in GO bonds in the baseline.

Funding for the Community Legacy and Shelter and Transitional Housing Facilities Grant programs are expected to remain unchanged. Both programs are expected to be fully funded with GO bonds in the fiscal 2012 baseline budget.

## **Maryland Department of the Environment**

The Maryland Department of the Environment's (MDE) baseline assumes that Water Quality Revolving Loan Fund Program funding will be greater than what is planned in the 2010 CIP. A projected \$13.4 million increase in special funds in fiscal 2012 relative to the 2010 CIP reflects funds available from loan repayments, which have increased substantially in the last two years due to the availability of funds derived from the \$92.8 million in the ARRA funds received in fiscal 2010. The baseline assumes federal funds at \$49.3 million, which reflects a \$32.8 million increase from the 2010 CIP. The 20% match for the federal funds is assumed to be \$9.9 million in GO bonds – the fund source used in the fiscal 2011 legislative appropriation and the source reflected in the 2010 CIP. The Water Quality Revolving Loan Fund Program provides low-interest loans to local governments and eligible private entities for water quality improvement projects such as upgrading wastewater treatment plants and capping closed landfills.

The Drinking Water Revolving Loan Fund Program baseline estimate of \$19.7 million reflects \$5.2 million in special funds and \$14.5 million in federal funds, which is an \$0.8 million increase in special funds and a \$6.7 million increase in federal funds relative to the 2010 CIP. The total federal funding is \$21.1 million, which requires the 20% match, but only \$14.5 million is reflected in the PAYGO budget because the remainder of \$6.6 million is reflected in the operating budget as nonproject set asides funding. The 20% match of \$4.2 million for the federal funds is expected to be made in GO bonds due to the constrained use of general funds to support the capital program. The Drinking Water Revolving Loan Fund Program provides low-interest loans to local governments and eligible private entities for drinking water projects such as the construction of water distribution mains, water storage facilities, and water treatment plant upgrades.

The baseline for the Hazardous Substance Cleanup Program assumes that the program will receive \$1.3 million in general funds, which is level with the 2010 CIP but a \$0.5 million increase from the fiscal 2011 legislative appropriation. The Hazardous Substance Cleanup Program provides funds for cleanup of uncontrolled sites listed on the federal National Priorities List (Superfund) and other uncontrolled waste sites within the State that do not qualify for federal funding through the Superfund program.

The baseline estimate for the capital grant program associated with the Bay Restoration Fund fee on septic system users is consistent with the 2010 CIP at \$9 million. The baseline estimate for the Enhanced Nutrient Removal Program funded by a fee on public sewer/water users is \$40 million in special funds, which also is consistent with the 2010 CIP. The fiscal 2011 legislative appropriation for the Enhanced Nutrient Removal Program includes no special funds since the \$45 million in special funds were transferred to the general fund and replaced with GO bonds in order to help balance the State operating budget. An additional \$180 million in revenue bonds also is assumed for the program.

## **Part 2**

# **General Fund Revenue Projections**

## **Fiscal 2011-2016**

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### **Introduction**

In September 2010, the Board of Revenue Estimates (BRE) issued a new short-term forecast of the Maryland economy and general fund revenues. BRE released revised estimates for fiscal 2011 and 2012 and the Department of Legislative Services (DLS) prepared projections of general fund revenues for fiscal 2013 to 2016. The projections are done by revenue source and reflect a combination of modeling and trend analysis. The major revenue sources are modeled based on the historical relationship between the sources and various economic factors. Therefore, the revenue projection process begins with developing an economic forecast.

### **U.S. and Maryland Economic Projections**

The State contracts with two private economic consulting firms to provide projections for the U.S. economy: Moody's Analytics and IHS Global Insight. While these firms update their U.S. forecasts monthly, for the purposes of the revenue projections, DLS used their forecasts from October 2010. The U.S. forecasts are important because DLS assume that the Maryland economy will generally follow the broad trends in the U.S. 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. Inflation-adjusted gross domestic product fell, peak to trough, 4.1%. Employment fell 6.1%, or 8.4 million jobs. The unemployment rate rose from 4.4% before the recession to 10.1%. Personal income fell 1.7% in calendar 2009, the first annual decline in nominal income since 1949. Nominal wage and salary income dropped 4.1%, the first decline since 1954. Adjusted for inflation, however, both total personal income and wage and salary income fell in 2008 as weak nominal growth was combined with the strongest inflation in 17 years. In response, consumers cut back sharply and consumer spending, adjusted for inflation, fell in both calendar 2008 and 2009. This was the first decline in consumer spending since 1980 and the first back-to-back declines in the entire series going back to the 1940s.

Although the recession is over and there have been significant improvements since calendar 2009, growth has been weak and tentative. The U.S. economy has added a little over 600,000 jobs since December 2009, an increase of just 0.5%. The unemployment rate has declined from its October 2009 peak of 10.1% but only to 9.6% (September 2010). New claims for unemployment insurance have fallen substantially since the spring of 2009 when they were running over 600,000 per week. But new claims are still well over 400,000 per week, a level not

consistent with substantial job growth. Personal income has grown 2.4% in the first eight months of 2010 and wage and salary income is up 1.0%. Consumer spending has rebounded, rising 3.4% in 2010 through August.

Most economists expect the U.S. economy to grow slowly through 2011 as consumers continue to deleverage and businesses remain cautious. Cut backs by state and local governments will also be a drag on growth in the near term. The housing and labor markets in particular continue to struggle. The gains in the housing market have been supported by government policy, particularly the first time home-buyers tax credit. With the credit over, home sales have fallen substantially. Foreclosures and delinquencies remain a significant problem and government efforts at foreclosure mitigation have had only modest effects. In the labor market, the job gains in 2010 are a substantial improvement over the big losses in 2009. But so far the employment gains have been small and not large enough to offset the natural growth in the labor force let alone make much of a dent in the 8 million jobs lost during the recession.

The risks of the U.S. economy falling back into recession have risen but in the absence of a new external shock, most economists believe the recovery will continue. Unfortunately, recovery is likely to be a slow, drawn out process, especially in the labor market. Current projections have the economy not fully recouping the jobs lost in the recession until 2013. In other words, it is estimated to take over five years just to return to the level of employment (about 138 million jobs) that existed in December 2007, when the recession began. With the population continuing to grow over this time period, the unemployment rate is, therefore, expected to remain high for years to come. The unemployment rate is not projected to reach the full-employment level of 5.5% until 2015.

**U.S. Economy Outlook**  
**Year-over-year Percent Change\***  
**Calendar 2009-2015**

	<b>Actual 2009</b>	<b>Est. 2010</b>	<b>Est. 2011</b>	<b>Est. 2012</b>	<b>Est. 2013</b>	<b>Est. 2014</b>	<b>Est. 2015</b>
Real Gross Domestic Product							
Moody's Analytics	-2.6%	2.7%	3.0%	5.0%	4.3%	2.8%	2.3%
Global Insight	-2.6%	2.6%	2.2%	3.0%	2.7%	3.1%	3.0%
U.S. Payroll Employment							
Moody's Analytics	-4.3%	-0.5%	1.0%	2.5%	3.3%	2.4%	1.3%
Global Insight	-4.3%	-0.5%	0.9%	2.2%	2.0%	1.6%	1.4%
U.S. Unemployment Rate							
Moody's Analytics	9.3%	9.9%	8.3%	6.4%	5.5%	5.5%	5.6%
Global Insight	9.3%	9.6%	9.1%	8.5%	7.9%	7.3%	6.8%
U.S. Personal Income							
Moody's Analytics	-1.8%	2.5%	3.9%	6.8%	6.8%	5.6%	4.5%
Global Insight	-1.8%	2.8%	3.2%	4.0%	4.3%	5.6%	5.6%
Consumer Price Index							
Moody's Analytics	-0.3%	1.6%	1.5%	2.5%	2.9%	2.5%	2.5%
Global Insight	-0.3%	1.6%	1.6%	1.9%	2.0%	2.1%	2.1%
30-year Fixed Mortgage Rate							
Moody's Analytics	5.0%	4.7%	5.3%	6.6%	6.5%	6.1%	6.1%
Global Insight	5.0%	4.7%	4.2%	4.8%	6.1%	6.2%	7.1%

\*Except unemployment and mortgage rates. The projections for Moody's Analytics and Global Insight are from their respective October 2010 forecasts.

Source: Moody's Analytics and IHS Global Insight

While the national recession officially began in December 2007, Maryland's employment peaked in February 2008. Employment fell over the next two years by a total of 5.3%, or 139,000 jobs. Since February 2010 included two significant snowstorms, this drop in employment is probably somewhat overstated. The total decline as of January 2010 was 4.8%, or almost 127,000 jobs. By either measure, the decline in employment is on par with the experience in the early 1990s recession which saw a total peak to trough decline of 5.0%, also over 24 months.

The unemployment rate in Maryland increased from a low of 3.5% in January 2008 to 7.7% in March 2010, the highest level since April 1983. The impact of the shrinking labor market on income was significant. Total personal income went from growth of over 6.0% in calendar 2006 to an increase of just 0.4% in calendar 2009. Nominal wage and salary income fell 0.8% in calendar 2009, the first decline since 1954. Adjusted for inflation, both total income and wage and salary income fell in calendar 2008 for the first time since 1991. Inflation-adjusted wage and salary income fell again in calendar 2009, the first back-to-back decline since 1981 to 1982.

As of September 2010, the Maryland economy had added 49,000 jobs since the bottom in February, an increase of 2.0%. But since February employment was depressed by the bad weather, this exaggerates the improvement in the labor market. Compared to January, September employment was up by almost 36,400 jobs, or 1.5%. Initial claims for unemployment insurance have fallen but remain only slightly below year ago levels. The unemployment rate has come down but remains above 7.0%. Income growth has accelerated significantly in calendar 2010. After growing just 0.4% in calendar 2009, total personal income grew 2.4% in the first six months of calendar 2010. Wage and salary income was up 1.4%, the first year-over-year increase since the end of calendar 2008. The business income of individuals was up for the first time since the end of calendar 2006, rising 2.3% in the first half of calendar 2010.

After falling for five straight years, vehicle sales in Maryland have increased 3.4% in the first 9 months of calendar 2010. After falling on a year-over-year basis for 19 straight months, sales tax gross receipts (a proxy for retail sales) increased in April 2010 and have increased every month since. Through the first 8 months of calendar 2010, sales tax gross receipts are up 1.7% over the same period in calendar 2009. Existing home sales are up 10.4% for the first 9 months of calendar 2010 but fell 14% in the third quarter (July-September) after the federal first-time homebuyers tax credit expired. With the inventory to sales ratio over 11 months, the housing market is likely to struggle for some time.

In September, BRE issued a revised economic forecast for Maryland, its first since March. BRE's new forecast is 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 (BRAC) process.

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**Maryland Economic Outlook**  
**Forecasted Year-over-year Percentage Change**

<b>Calendar Year</b>	<b>Employment</b>		<b>Personal Income</b>	
	<b><u>Dec. 2009</u></b>	<b><u>Sep. 2010</u></b>	<b><u>Dec. 2009</u></b>	<b><u>Sep. 2010</u></b>
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%	3.3%
2011E	1.6%	1.5%	3.7%	4.2%
2012E	2.3%	1.9%	4.5%	5.1%
2013E	2.4%	1.9%	5.3%	5.5%

Note: The figures for 2009 under the Dec. 2009 columns are Board of Revenue's estimates.

Source: Board of Revenue Estimates

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## General Fund Revenue Projections

The process of doing long-term revenue projections begins with the close-out of the recently completed fiscal year, fiscal 2010 in this case. Based on the revenue performance in fiscal 2010, relative to the estimate, as well as revised economic assumptions, the revenue estimate for the current fiscal year (fiscal 2011) is revised. Future fiscal years (2012-2016) are then built off the newly revised estimate for the current fiscal year.

### Fiscal 2010 Close-out

Fiscal 2010 general fund revenues were above the estimate by \$183.7 million. General fund revenues totaled \$12.6 billion in fiscal 2010, a decline of 2.4% from fiscal 2009.

The personal income tax accounted for most of the overattainment, exceeding expectations by \$109.5 million. Both withholding and final payments with returns exceeded the estimate by significant amounts. At the same time, refunds were a bit more than expected. Compared to fiscal 2009, general fund personal income tax receipts fell 4.6%.

General fund corporate income tax revenues were above the estimate by \$28.5 million, and grew 25.3% over fiscal 2009. Fiscal 2010 revenues included a one-time payment of about \$129 million that was credited entirely to the general fund per the Budget Reconciliation and Financing Act of 2010. Fiscal 2010 also included another \$65 million of other one-time items that helped boost revenues over the estimate.

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.

The Lottery was below the estimate in fiscal 2010 by \$15.1 million but grew 3.8% over fiscal 2009. Lottery sales were up just 0.5%, the worst performance since fiscal 1997. Sales for the largest game, Instant tickets, were down 3.2% following a decline of 1.3% in fiscal 2009. This is the first back-to-back decline in the history of the Instant game. Despite the weak sales growth, revenues were up as prize expense grew slower than sales and the agent commission was cut from 5.5 to 5.0%. The Budget Reconciliation and Financing Act of 2009 lowered the agent commission to 5.0% for fiscal 2010 to 2012.

Fiscal 2011 general fund revenues through September are up 5.0% from last year. Personal income tax revenues are up 6.0% with quarterly estimated payments down 7.3% and withholding up 4.7%. General fund sales tax revenues are up 3.4% through September but up about 4.4% after adjusting for the sales tax holiday for clothing which was held in August. Corporate income tax revenues are up strongly (22.5%) due to an 8.5% increase in gross receipts

and an 18.8% decline in refunds. However, most corporate refunds are paid out in October and November so current year-to-date performance may not be indicative of the whole year.

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### Fiscal 2010 General Fund Revenues (\$ in Millions)

<u>Source</u>	<u>Actual</u>	<u>----- Fiscal 2010 -----</u>			<u>Percent Change 2009-2010</u>
	<u>FY 2009</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
Personal Income	\$6,477.2	\$6,068.8	\$6,178.2	\$109.5	-4.6%
Sales and Use Tax	3,620.4	3,481.9	3,522.8	40.8	-2.7%
State Lottery	473.2	506.1	491.0	-15.1	3.8%
Corporate Income Tax	550.7	660.8	689.3	28.5	25.2%
Business Franchise Taxes	201.4	216.1	202.5	-13.7	0.5%
Insurance Premiums Tax	275.2	266.9	277.0	10.1	0.7%
Estate and Inheritance Taxes	205.5	161.8	173.5	11.7	-15.6%
Tobacco Tax	405.6	396.6	405.9	9.3	0.1%
Alcohol Beverages Tax	29.2	29.5	29.9	0.4	2.4%
Motor Vehicle Fuel Tax	6.5	8.4	8.4	0.0	29.0%
District Courts	89.4	91.0	87.3	-3.7	-2.3%
Clerks of the Court	40.5	44.6	35.5	-9.1	-12.4%
Hospital Patient Recoveries	96.5	71.0	72.7	1.7	-24.6%
Interest on Investments	83.0	46.9	50.2	3.3	-39.5%
Miscellaneous	338.3	332.2	335.9	3.7	-0.7%
GAAP Transfer	7.9	0.0	0.0	0.0	n/a
Tax Amnesty	0.0	20.7	27.0	6.3	n/a
<b>Grand Total</b>	<b>\$12,900.5</b>	<b>\$12,403.4</b>	<b>\$12,587.1</b>	<b>\$183.7</b>	<b>-2.4%</b>

GAAP: generally accepted accounting principles

\* From the Board of Revenue Estimates, March 2010 with adjustments for actions at the 2010 legislative session.

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### Fiscal 2011 Revised Estimate

The overattainment in fiscal 2010, combined with the slow economic recovery, results in an upward revision to fiscal 2011 revenues that is substantially smaller than the overattainment in fiscal 2010. In September, BRE raised their estimate for fiscal 2011 general fund revenues by \$88.6 million but also lowered the expected growth rate over fiscal 2010 from 2.7 to 1.8%.



The largest revision was to the personal income tax which was increased by \$68 million. This is considerably less than the \$110 million overattainment in fiscal 2010 as revenues are expected to grow 2.9% over fiscal 2010 compared to the previous estimate of 3.7% growth. This reflects in part the expectation that capital gains income will be flat in tax year 2010 versus the previous estimate of 12.5% growth.

Although the sales tax exceeded the estimate in fiscal 2010, the new forecast lowers the estimate for fiscal 2011 by \$11.7 million. Growth over fiscal 2010 is now projected to be 3.8%, down from the previous estimate of 5.3%. A weaker near term outlook for the housing market is partly to blame for the reduced expectations for sales tax revenues.

### **Fiscal 2012 to 2016 Revenue Projections**

Revenue growth is expected to improve in fiscal 2012 rising 3.6% over fiscal 2011. The economy should be improving throughout fiscal 2012 with a likely bounce back in capital gains income in tax year 2011. The State will also begin to see the impact from the BRAC process which is expected to bring around 20,000 direct jobs to Maryland. Rising interest rates should also boost earnings on investments by a considerable amount.

General fund sales tax receipts are forecasted to grow more slowly in fiscal 2012 than in 2011 due to law changes. Senate Bill 2 from the 2007 special session (Chapter 3) included a cap on the amount of sales tax receipts vendors can retain to cover their cost of collecting the sales tax. This cap is estimated to have increased general fund revenues by about \$15 million a year but it sunsets after fiscal 2011. The Budget Reconciliation and Financing Act of 2010 (Chapter 484) allocated \$17.1 million of the sales tax revenue from short-term rental vehicles to the general fund. Under currently law, in fiscal 2012, all of the short-term rental vehicle revenues will be distributed to the Transportation Trust Fund and the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund.

Growth further improves in fiscal 2013 to 5.2%. General fund revenue growth slows in fiscal 2014 to 4.7% reflecting in part the increase in the Transportation Trust Fund's share of the sales tax from 5.3 to 6.5%.

**Board of Revenue Estimates/Department of Legislative Services  
General Fund Revenue Projections  
Fiscal 2010-2016  
(\$ in Millions)**

<b><u>Revenue Source</u></b>	<b><u>Actual FY 2010</u></b>	<b><u>Estimate FY 2011</u></b>	<b><u>Estimate FY 2012</u></b>	<b><u>Estimate FY 2013</u></b>	<b><u>Estimate FY 2014</u></b>	<b><u>Estimate FY 2015</u></b>	<b><u>Estimate FY 2016</u></b>
Personal Income Tax	\$6,178.2	\$6,360.1	\$6,712.1	\$7,111.2	\$7,539.5	\$7,993.5	\$8,469.1
Sales and Use Tax	3,522.8	3,655.5	3,778.4	3,987.4	4,141.4	4,349.6	4,528.9
State Lottery	491.0	510.9	519.3	514.3	518.6	523.0	527.4
Corporate Income Tax	689.3	543.4	567.9	611.1	633.7	654.1	657.6
Business Franchise Taxes	202.5	202.9	204.3	204.9	204.5	205.9	210.3
Tax on Insurance Premiums	277.0	287.0	300.0	315.9	333.0	348.5	362.2
Estate & Inheritance Taxes	173.5	182.3	190.1	204.9	220.0	234.7	245.6
Tobacco Tax	405.9	404.2	402.5	401.2	400.0	398.7	397.6
Alcohol Beverages Tax	29.9	30.5	31.2	31.7	32.3	32.8	33.4
Motor Vehicle Fuel Tax	8.4	5.0	0.0	0.0	0.0	0.0	0.0
District Courts	87.3	86.5	87.8	89.2	90.6	92.1	93.5
Clerks of the Court	35.5	35.1	35.4	38.9	41.7	43.6	45.7
Hospital Patient Recoveries	72.7	67.4	66.1	67.2	68.2	69.2	70.2
Interest on Investments	50.2	54.0	63.0	96.3	102.1	107.1	111.9
Miscellaneous	335.9	333.9	310.1	306.4	311.2	315.6	319.8
Highway User Revenue	303.7	363.4	338.4	334.3	345.5	351.6	356.7
Tax Amnesty	27.0	5.4	0.0	0.0	0.0	0.0	0.0
<b>Total Revenues</b>	<b>\$12,890.8</b>	<b>\$13,127.6</b>	<b>\$13,606.5</b>	<b>\$14,314.9</b>	<b>\$14,982.4</b>	<b>\$15,720.1</b>	<b>\$16,430.1</b>
<i>Percent Change</i>		<i>1.8%</i>	<i>3.6%</i>	<i>5.2%</i>	<i>4.7%</i>	<i>4.9%</i>	<i>4.5%</i>

Note: Estimates for fiscal 2011 to 2012 from the Board of Revenue Estimates (September 2010). Projections for fiscal 2013 to 2016 from the Department of Legislative Services (October 2010).