
Spending Affordability Committee Technical Supplement

**Department of Legislative Services
Office of Policy Analysis
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Part 1

Fiscal 2013 Baseline Budget

Technical Supplement Overview

The Baseline Process

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

- current laws, policies, and practices are continued;
- legislation, federal mandates, and multi-year commitments supported by the legislature are implemented and funded;
- efficiency is maintained at current levels;
- nondiscretionary changes in workload are recognized;
- unavoidable shortfalls in budgeted expenditures during the current year are funded as deficiencies;
- inflationary increases in costs are provided; and
- salary adjustment are funded consistent with statutory requirements and known legislative or executive intent.

General Assumptions

Forecasts of individual agency budget requirements are based on amounts appropriated for fiscal 2012. 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 2012 budget deficiencies. The baseline estimate also allows for changes in personnel costs and inflationary increases in the cost of operating expenses.

Personnel Operating Cost Assumptions

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

- ***Fiscal 2013 General Salary Increase Appears but No Merit Increases or Annual Salary Reviews Are Included in Baseline:*** Due to recent employee collective bargaining agreements, the baseline assumes that a 2% general salary adjustment will be awarded to all State employees on January 1, 2013. The increase raises salaries during the second half of fiscal 2013 in the amount of \$50.3 million (\$31.1 million in general funds). Consistent with Section 24 of Chapter 397 of 2011 (the Budget Reconciliation and Financing Act), no merit increases or annual salary reviews are included in the baseline.
- ***Employee and Retiree Health Insurance:*** State health insurance expenditures support employee and retiree pay-as-you-go health insurance costs. The baseline budget projects that fiscal 2013 claims will be \$1.32 billion. This estimate assumes that costs will increase by 5.0%, consistent with recent claims activity, the State's recently negotiated premium levels, slight membership growth due to position reductions, and a survey of projected cost increases. State agency appropriations into the fund are projected to increase by 7.8% as budgeted totals synchronize with actual expenditure levels due to the exhaustion of outstanding balances. Increased employee and retiree contributions due to changes made to retiree prescription plan add to the balance in the insurance fund.
- ***Workers' Compensation Assessments:*** The Injured Workers' Insurance Fund (IWIF) administers the workers' compensation claims of State employees through a nonprofit agreement. The projection for fiscal 2013 uses the actual claims experience in fiscal 2011 as the cost base, and then IWIF's administrative fees are added to calculate the operational cost for the year. The budgeted fiscal 2013 cost projected for workers' compensation claims is \$65.6 million, up \$5.7 million from fiscal 2012, due to higher claims costs, particularly in the Department of Public Safety and Correctional Services and the Department of Human Resources. The baseline does not include funding for the long-term liability for the fourth consecutive fiscal year.
- ***Employees' Retirement and Pensions:*** Fiscal 2013 baseline expenditures are expected to increase when compared to fiscal 2012. Pension reform significantly realigned the funding path of the various systems, altering baseline spending as described:
 - an additional \$83.0 million (\$49.8 million in general funds) for the Employees' State Retirement and Pension Systems;
 - State Police retirement plan appropriations decrease by \$1.7 million (\$1.3 million in general funds);

- appropriations to the Law Enforcement Officers' Pensions System increase by \$812,000 (\$487,000 in general funds);
- the Teachers' Retirement Plan appropriations, for members who are State employees, increase by \$1.4 million (\$862,000 in general funds); and
- an increase of \$1.4 million (all general funds) for the judges' plan.

In addition to these personnel changes, the fiscal 2013 baseline also provides a total of \$29.3 million (\$25.3 million in general funds) for the Statewide Personnel System project. This new system replaces a legacy personnel information technology system from the 1970s. The baseline includes an increase of \$24.5 million over the fiscal 2012 legislative appropriation because the plan proposes to begin systems design and development in fiscal 2013. These appropriations are imbedded in the agency budgets.

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. Specific inflation assumptions are:

- medical contracts and supplies (4.4%);
- prescription drugs for State facilities (4.4%);
- postage (2.1%);
- natural gas and propane (2.0%);
- electricity (2.0%); and
- food (1.9%).

Baseline Results

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

Projected Baseline Budget
Fiscal 2012-2013
(\$ in Millions)

<u>Fund</u> ⁽¹⁾	<u>2012 Adjusted</u> <u>Appropriation</u>	<u>2013</u> <u>Baseline</u>	<u>2012-2013</u> <u>\$ Increase</u>	<u>2012-2013</u> <u>% Change</u>
General ⁽²⁾	\$15,239.2	\$15,935.0	\$695.7	4.6%
Special/Higher Education ⁽³⁾	10,162.4	10,889.3	726.9	7.2%
Federal	9,277.4	9,315.1	37.7	0.4%
Total	\$34,679.0	\$36,139.3	\$1,460.3	4.2%

⁽¹⁾ Excludes reimbursable and nonbudgeted funds.

⁽²⁾ Net of reversions.

⁽³⁾ Higher education funds include current restricted and unrestricted funds net of general and special fund appropriations.

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

Source: Department of Legislative Services

The tables on the following pages summarize the budgetary changes by major category of expenditure. Separate sections of the technical supplement dissect the assumptions used for estimates for 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 20, 2011. 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
Fiscal 2011-2013
(\$ in Millions)

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

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

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

State Expenditures – Special and Higher Education Funds*
Fiscal 2011-2013
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2011</u>	<u>Leg. Appr.</u> <u>FY 2012</u>	<u>Baseline</u> <u>FY 2013</u>	<u>FY 2012 to FY 2013</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$991.5	\$1,055.9	\$1,028.6	-\$27.3	-2.6%
County/Municipal	219.5	192.4	247.9	55.5	28.8%
Community Colleges	0.0	0.8	0.6	-0.1	-18.4%
Education/Libraries	432.8	230.6	267.1	36.5	15.8%
Health	0.0	0.0	0.0	0.0	n/a
<i>Aid to Local Governments</i>	<i>\$652.3</i>	<i>\$423.8</i>	<i>\$515.6</i>	<i>\$91.8</i>	<i>21.7%</i>
Foster Care Payments	\$0.1	\$1.0	\$1.6	\$0.6	56.8%
Assistance Payments	15.4	16.4	16.7	0.3	2.1%
Medical Assistance	511.8	876.8	876.3	-0.5	-0.1%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<i>Entitlements</i>	<i>\$527.3</i>	<i>\$894.2</i>	<i>\$894.7</i>	<i>\$0.5</i>	<i>0.1%</i>
Health	\$310.6	\$306.8	\$324.4	\$17.7	5.8%
Human Resources	81.1	77.9	87.6	9.7	12.4%
Systems Reform Initiative	0.0	0.0	0.0	0.0	n/a
Juvenile Services	1.0	2.7	3.2	0.5	18.9%
Public Safety/Police	222.6	215.1	220.1	5.0	2.3%
Higher Education	3,643.5	3,726.6	3,805.0	78.4	2.1%
Other Education	51.4	50.7	50.7	0.0	-0.1%
Transportation	1,419.1	1,458.5	1,577.2	118.7	8.1%
Agric./Nat'l Res./Environment	206.5	204.1	221.3	17.1	8.4%
Other Executive Agencies	603.6	750.1	828.6	78.5	10.5%
Legislative	0.3	0.1	0.1	0.0	3.4%
Judiciary	55.1	52.6	62.4	9.9	18.8%
<i>State Agencies</i>	<i>\$6,594.8</i>	<i>\$6,845.1</i>	<i>\$7,180.6</i>	<i>\$335.5</i>	<i>4.9%</i>
Deficiencies	\$0.0	\$38.6	\$0.0	-\$38.6	-100.0%
Total Operating	\$8,765.9	\$9,257.7	\$9,619.5	\$361.9	3.9%
Capital	\$866.0	\$904.7	\$1,269.7	\$365.0	40.3%
Grand Total	\$9,631.9	\$10,162.4	\$10,889.3	\$726.9	7.2%

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

Note: The fiscal 2011 working appropriation includes -\$8.1 million in deficiencies. The fiscal 2012 legislative appropriation includes \$100.9 million in additional special fund spending that will be added by budget amendment to replace general fund reductions.

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

<u>Category</u>	<u>Work. Appr.</u>	<u>Leg. Appr.</u>	<u>Baseline</u>	<u>FY 2012 to FY 2013</u>	
	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$9.2	\$11.1	\$12.1	\$1.1	9.6%
County/Municipal	148.3	57.6	3.6	-54.0	-93.7%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	1,483.5	762.1	757.5	-4.6	-0.6%
Health	4.5	4.5	4.5	0.0	0.0%
<i>Aid to Local Governments</i>	<i>\$1,636.3</i>	<i>\$824.3</i>	<i>\$765.7</i>	<i>-\$58.6</i>	<i>-7.1%</i>
Foster Care Payments	\$91.7	\$86.3	\$107.2	\$20.9	24.3%
Assistance Payments	1,318.2	1,318.9	1,289.1	-29.8	-2.3%
Medical Assistance	3,767.4	3,504.3	3,593.7	89.3	2.5%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
<i>Entitlements</i>	<i>\$5,177.3</i>	<i>\$4,909.5</i>	<i>\$4,990.0</i>	<i>\$80.5</i>	<i>1.6%</i>
Health	\$1,011.7	\$1,060.5	\$1,134.1	\$73.6	6.9%
Human Resources	527.9	549.0	475.7	-73.3	-13.3%
Systems Reform Initiative	7.7	7.3	0.0	-7.3	-100.0%
Juvenile Services	16.8	10.5	10.5	0.1	0.6%
Public Safety/Police	109.5	29.9	30.8	0.9	3.1%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	286.6	264.3	256.2	-8.2	-3.1%
Transportation	90.2	87.6	87.8	0.2	0.2%
Agric./Natl Res./Environment	76.4	73.7	71.8	-2.0	-2.6%
Other Executive Agencies	625.0	584.6	567.1	-17.5	-3.0%
Judiciary	4.0	3.6	3.7	0.1	2.6%
<i>State Agencies</i>	<i>\$2,755.6</i>	<i>\$2,671.1</i>	<i>\$2,637.7</i>	<i>-\$33.4</i>	<i>-1.2%</i>
Deficiencies	\$0.0	-\$63.6	\$0.0	\$63.6	-100.0%
Total Operating	\$9,578.4	\$8,352.3	\$8,405.6	\$53.3	0.6%
Capital	\$802.3	\$925.1	\$909.5	-\$15.6	-1.7%
Grand Total	\$10,380.7	\$9,277.4	\$9,315.1	\$37.7	0.4%

Note: The fiscal 2011 working appropriation includes \$635.4 million in deficiencies.

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

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2011</u>	<u>Leg. Appr.</u> <u>FY 2012</u>	<u>Baseline</u> <u>FY 2013</u>	<u>FY 2012 to FY 2013</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$1,000.7	\$1,066.9	\$1,118.7	\$51.8	4.9%
County/Municipal	553.7	436.7	450.0	13.3	3.0%
Community Colleges	258.1	263.1	279.5	16.5	6.3%
Education/Libraries	6,819.6	6,485.0	6,756.2	271.2	4.2%
Health	41.8	41.8	43.1	1.4	3.3%
Aid to Local Governments	\$7,673.2	\$7,226.5	\$7,528.8	\$302.3	4.2%
Foster Care Payments	333.6	325.1	299.8	-25.3	-7.8%
Assistance Payments	1,383.4	1,385.2	1,403.5	18.3	1.3%
Medical Assistance	6,095.2	6,935.2	7,166.5	231.3	3.3%
Property Tax Credits	75.9	79.4	78.1	-1.3	-1.7%
Entitlements	\$7,888.2	\$8,724.9	\$8,947.9	\$223.1	2.6%
Health	2,704.7	2,797.0	2,961.8	164.8	5.9%
Human Resources	872.3	900.8	901.5	0.7	0.1%
Systems Reform Initiative	28.2	26.1	24.9	-1.2	-4.6%
Juvenile Services	275.4	270.6	283.2	12.6	4.6%
Public Safety/Police	1,502.9	1,494.2	1,566.6	72.4	4.8%
Higher Education	4,789.2	4,847.3	4,990.4	143.1	3.0%
Other Education	708.3	661.6	676.8	15.2	2.3%
Transportation	1,509.3	1,546.2	1,665.0	118.8	7.7%
Agric./Nat'l. Res./Environment	385.4	377.9	396.1	18.2	4.8%
Other Executive Agencies	1,772.2	1,899.1	1,983.0	83.9	4.4%
Legislative	75.9	76.5	78.8	2.2	2.9%
Judiciary	429.5	428.5	453.0	24.5	5.7%
State Agencies	\$15,053.1	\$15,325.9	\$15,981.2	\$655.3	4.3%
Deficiencies	0.0	465.5	0.0	-465.5	-100.0%
Total Operating	\$31,615.1	\$32,809.7	\$33,576.6	\$766.9	2.3%
Capital ⁽¹⁾	1,679.1	1,884.3	2,187.3	302.9	16.1%
Reserve Funds	15.0	15.0	405.5	390.5	2603.1%
Appropriations	\$33,309.2	\$34,709.0	\$36,169.3	\$1,460.3	4.2%
Reversions	-34.5	-30.0	-30.0	0.0	0.0%
Grand Total	\$33,274.7	\$34,679.0	\$36,139.3	\$1,460.3	4.2%

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

Note: The fiscal 2011 working appropriation includes deficiencies, \$7.9 million in targeted reversions, and legislative reductions to the deficiencies. The fiscal 2012 legislative appropriation includes \$100.9 million in additional special fund spending that will be added by budget amendment to replace general fund reductions. It also includes a \$15.0 million supplementary appropriation in Health from SB 994 and a \$47.5 million supplementary appropriation in Capital from HB 1213. SB 994 and HB 1213 raise the sales tax on alcohol beverages from 6 to 9%. Budget language restricts \$8.8 million of the Aid to Education budget for the disparity grant (County/Municipal), 50% of which must be provided to the county board of education.

Aid to Local Governments

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

State Aid by Governmental Entity Fiscal 2010-2013 (\$ in Thousands)

<u>Entity</u>	2010	2011	2012	2013	2012-2013	
	<u>Actual</u>	<u>Working</u>	<u>Working</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Change</u>
Public Schools	\$5,506,334	\$5,717,452	\$5,774,673	\$5,923,129	\$148,457	2.6%
County/Municipal	397,175	396,928	400,164	446,035	45,871	11.5%
Community Colleges	256,174	256,174	262,297	278,976	16,680	6.4%
Health	37,283	37,283	37,283	38,656	1,372	3.7%
Libraries	63,890	65,544	65,351	66,863	1,512	2.3%
Total	\$6,260,856	\$6,452,500	\$6,539,768	\$6,753,659	\$213,891	3.3%

Source: Department of Legislative Services

Overview

State aid is projected to total \$6.8 billion in fiscal 2013, representing a \$213.9 million (3.3%) increase over the prior year. As in prior years, most of the State aid in fiscal 2013 is targeted to public schools, while funding for general government of counties and municipalities will account for about 6.6% of total aid. Public schools will receive \$5.9 billion in fiscal 2013, or approximately 87.7% of total State aid. Counties and municipalities will receive \$446.0 million; community colleges will receive \$279.0 million; libraries will receive \$66.9 million; and local health departments will receive \$38.7 million. In terms of year-over-year funding enhancements, State aid for public schools will increase by \$148.5 million (2.6%); library aid will increase by \$1.5 million (2.3%); community college aid will increase by \$16.7 million (6.4%); and local health department aid will increase by \$1.4 million (3.7%). Also, county and municipal governments will realize a \$45.9 million (11.5%) increase in State aid.

Public Schools

Public schools will receive an estimated \$5.9 billion in fiscal 2013, representing a \$148.5 million (2.6%) increase over the prior year. The per-pupil foundation amount is estimated at \$6,761, a 1.0% increase from fiscal 2012, and the first increase since fiscal 2008. Inflation was frozen in fiscal 2009 and 2010 by Chapter 2 of the 2007 special session, inflation levels were negative in fiscal 2011, and the per-pupil amount was level funded in fiscal 2012. The Budget Reconciliation and Financing Act (BRFA) (Chapter 484) of 2010 limits increases in the per-pupil foundation amount to 1.0% in fiscal 2013 through 2015. The per-pupil foundation amount is an important factor in determining State education aid because it is used in five of the large State aid formulas (the foundation program, geographic cost of education index, and 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 are expected to increase by \$22.0 million. Special funds (Education Trust Fund) derived from video lottery revenues relieve general fund expenditures on public schools. These special funds increase by \$126.5 million as compared to the amounts budgeted for fiscal 2012.

Foundation Program

The baseline includes \$2.8 billion for the State's foundation program, a \$36.3 million (1.3%) increase from the fiscal 2012 appropriation. Part of the increase is attributable to the rise in the per-pupil foundation amount from \$6,694 to \$6,761. Another portion of the increase is attributable to a 2,097.5 (0.3%) increase in full-time equivalent students (FTES).

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 2013. The formula applies a cost index 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 index. The baseline assumes the formula will be fully funded in fiscal 2013, with funding reaching \$128.7 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 fiscal 2007 and amended by Chapter 487 of 2009 (BRFA), the supplemental grants

continue at the amount provided in the prior year. The 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 be \$1.1 billion in fiscal 2013, representing a \$29.2 million (2.7%) increase. This program provides additional funding to local school systems based on their enrollment 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 in Public Schools Act of 2002 (Chapter 288) 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 \$3.7 million (1.4%), to a total of \$268.0 million in fiscal 2013. 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 \$3.2 million is anticipated for the nonpublic placement of special education students. This would bring the State's contribution to the program to \$116.0 million in fiscal 2013, a 2.9% increase.

Limited English Proficiency Formula

Another at-risk population identified for additional resources in Chapter 288 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 \$15.6 million (9.6%), to a total of \$178.3 million in fiscal 2013. 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 \$47.2 million in funding for the guaranteed tax base program, a 5.7% decrease from the fiscal 2012 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, nine local school systems will receive funding under this program in fiscal 2013.

Student Transportation Funding

The baseline estimate for student transportation includes \$227.6 million to fund the transportation formula, an increase of \$3.3 million (1.5%) over the fiscal 2012 appropriation. In addition, \$24.0 million is included for the transportation of disabled students, representing a \$72,000 increase in funding. Changes in the student transportation formula are attributable to projected increases in full-time equivalent enrollment in 16 school systems and the 1.0% inflation cap set by Chapter 484 of 2010. 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, and the 2013 baseline budget assumes this program will be funded with general obligation bonds as it was in fiscal 2012. Estimated lease repayments for the TIMS Program decrease from \$1.5 million in fiscal 2012 to \$84,363 in fiscal 2013.

Retirement

During the 2011 legislative session, the General Assembly passed comprehensive pension reform that affects pension benefits for almost all current and future State employees and public school teachers in the State. State payments on behalf of local school boards were reduced by a total of \$74.4 million in fiscal 2012. This does not directly impact the boards since the State pays 100% of these costs; however, changes to the State Teachers' Pension System, which allow the State to recognize the savings, require local board employees to pay more towards retirement costs and reduce the benefits that local board employees hired after June 30, 2011 will receive. The pension reform provisions also require local school boards and community colleges to pay their prorated share of the administrative costs of the State Retirement Agency.

State retirement costs for public school teachers and other professional personnel will total an estimated \$892.3 million in fiscal 2013, representing a \$59.4 million increase (7.1%) from the prior fiscal year. (In addition, local governments will contribute approximately \$12.7 million in fiscal 2013.) Pension reform resulted in an effective State contribution rate of 14.13% for fiscal 2012, and the fiscal 2013 State grant for teachers' retirement reflects a State contribution rate of 15.30% as tempered by a 1.0% decrease in the total salary base of school system employees.

County and Municipal Governments

Approximately 6.6% of State aid is allocated to county and municipal governments to finance transportation, public safety, and recreation projects. County and municipal governments will receive \$446.0 million in fiscal 2013, an increase of \$45.9 million (11.5%) above the prior year. The major State aid programs assisting county and municipal governments include highway user revenues, disparity grants, police aid, video lottery terminal (VLT) local impact aid, and Program Open Space (POS).

Transportation

The State shares various transportation revenues, commonly referred to as highway user revenues (HUR), with the counties and municipalities. Prior to fiscal 2010 cost containment reductions, Maryland's local governments received 30.0% of HURs. For fiscal 2011 and 2012, Chapter 484 of 2010 lowered the local shares to 8.5 and 8.1%, respectively. However, the BRFA of 2011 increased the fiscal 2012 local share to 8.9% and set the fiscal 2013 local share at 10.0%. The local government share of the distribution of HURs is projected to total \$166.0 million in fiscal 2013, a \$17.9 million increase when compared to the fiscal 2012 working appropriation. This estimate is based on projected Transportation Trust Fund revenue of motor fuel taxes, motor vehicle titling taxes, motor vehicle registration fees, and corporate income taxes. Local aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2013 at \$7.2 million.

Disparity Grants

Disparity grants were initiated to 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 received grants, assuming all counties imposed a 2.54% local tax rate. Aid received by a county equaled the dollar amount necessary to raise the county's per-capita income tax revenues to 75.0% of the statewide average. Chapter 487 of 2009 capped each county's funding under the program at the fiscal 2010 level. Chapter 484 of 2010 modified the program to use November net taxable income.

However, the BRFA of 2011 (Chapter 397) enhanced the disparity grant calculation for fiscal 2012 by increasing from 75 to 77% the percentage of statewide per-capita income tax yield used in the disparity grant calculation, contingent on enactment of House Bill 70 (Chapter 395 of 2011) and Senate Bill 994 (Chapter 571 of 2011), and the Governor transferring the funds as authorized in the State budget bill. This results in an \$8.8 million increase in disparity grant aid to Prince George's County in fiscal 2012 only.

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 2013. Funding for this program is projected to total \$110.9 million in fiscal 2013, a decrease equivalent to the one-time \$8.8 million enhancement for fiscal 2012.

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. However, Chapter 484 of 2010 limited the amount a local government may receive through the police aid formula in both fiscal 2011 and 2012 to the amount the jurisdiction received in fiscal 2010. This resulted in \$45.4 million in total police formula aid in those years. Police aid grants in fiscal 2013 are projected to total \$65.7 million, an increase of 44.6%.

Vehicle theft prevention grants increase by \$390,000 (24.2%) for a total of \$2.0 million. Emergency 9-1-1 grants are projected to total \$14.4 million in fiscal 2013, equal to the fiscal 2012 level. Other public safety grants totaling \$24.8 million (targeted crime grants, fire and rescue aid, Baltimore City State's Attorney's grant, etc.) are also level funded in the fiscal 2013 baseline.

Video Lottery Terminal Local Impact Grants

Jurisdictions in which VLT operations are located receive impact grants derived from revenues generated at VLT facilities. Grant funds are to be used for infrastructure, facilities, services, and other improvements. Eighty two percent of this aid goes to the local jurisdictions with video lottery facilities, based on each jurisdiction's percentage of overall gross revenues from VLTs. The remaining 18% of this aid is allocated to the Pimlico Community Development Authority for 15 years beginning in fiscal 2012, after \$1.0 million annually is provided to Prince George's County to be used for capital projects surrounding Rosecroft Raceway. In fiscal 2013, local impact grants are estimated to total \$28.9 million.

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 90.0%) in funding available for local POS efforts from fiscal 2007 to 2011. Further, the fiscal 2011 capital budget authorized and preauthorized 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 2013 funding for local POS increases to \$16.6 million (which includes the minimum \$1.5 million funding level for the Baltimore City special POS grant), a \$7.9 million (or 81.9%) increase over the \$9.1 million fiscal 2012 funding level.

Community Colleges

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. In fiscal 2013, the Cade formula grant is to receive 19.0% of funds per full-time equivalent student (FTES) that the selected public four-year institutions receive per FTES. This amounts to \$210.6 million, an increase of \$16.2 million, or 8.3%. Baltimore City Community College is a State agency and receives funding separately.

The fiscal 2013 baseline also includes \$4.7 million for the English for Speakers of Other Languages Program and \$6.2 million for Statewide and Regional Programs. In addition, small colleges are estimated to receive \$4.6 million in Small College and Mountain Grants and reciprocity agreement funding. The baseline also includes \$52.8 million for benefits to employees of community colleges, a \$5.3 million (9.9%) increase over the fiscal 2012 working appropriation. (In addition, local governments will contribute approximately \$618,000 in fiscal 2013 to support the operating costs of the State Retirement Agency.)

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. Chapter 484 of 2010 maintained fiscal 2011 and 2012 aid for local health departments at the \$37.3 million level. Due to inflation and population adjustments, fiscal 2013 aid increases by 3.7% to \$38.6 million.

Libraries

The baseline estimates an increase of \$259,000 (0.8%) in the State library aid formula, with total funding in fiscal 2013 estimated at \$33.2 million. The BRFA of 2011 sets per-capita funding for local library grants at \$14 through fiscal 2016.

The baseline also reflects an anticipated increase in the State Library Network of \$104,000 (0.7%), bringing total funding for this program to \$15.9 million in fiscal 2013. 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 \$17.7 million, representing a \$1.1 million (6.9%) increase. Comprehensive pension reform passed during the 2011 legislative session reduced fiscal 2012 retirement outlays for librarians by \$1.2 million. Pension reform altered the State contribution rate from 15.45% to an effective rate of 14.13% for

fiscal 2012. Thus, the fiscal 2013 State grant reflects an increase in the State's retirement contribution rate from an effective rate of 14.13 to 15.30% as tempered by a 0.9% decrease in the total salary base of library employees. Unlike the boards of education and community colleges, the State will continue to pay the State Retirement Agency's administrative costs for local library employees.

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 temporarily 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 2010-2013 (\$ in Thousands)

	<u>2010 Actual</u>	<u>2011 Working</u>	<u>2012 Leg. Approp.</u>	<u>2013 Baseline</u>	<u>2012-2013 Increase</u>	<u>% Increase</u>
Expenditures						
SDAT Tax Credit Programs	\$73,746	\$80,191	\$79,413	\$78,094	-\$1,319	-1.7%
DHMH Medicaid Program	5,946,870	6,179,692	6,987,195	7,300,090	312,895	4.5%
DHR Social Services Foster Care Maintenance Payments	329,906	333,625	324,066	299,818	-24,248	-7.5%
DHR Family Investment Assistance Payments	1,073,587	1,413,908	1,421,166	1,440,115	18,949	1.3%
Total	\$7,424,109	\$8,007,415	\$8,811,840	\$9,118,117	\$306,277	3.5%
Fund						
General Fund	\$1,983,252	\$2,188,911	\$2,927,394	\$3,087,603	\$160,209	5.5%
Special Fund	593,961	527,269	851,107	894,695	43,589	5.1%
Federal Fund	4,794,778	5,213,747	4,962,077	5,065,818	103,741	2.1%
Reimbursable Fund	52,117	77,488	71,262	70,000	-1,262	-1.8%
Total	\$7,424,109	\$8,007,415	\$8,811,840	\$9,118,117	\$306,277	3.5%
Personnel						
Regular Positions	140.0	203.0	194.0	194.0	0.0	0%
Full-time Equivalent Contractuals	9.0	8.0	8.0	8.0	0.0	0%

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

Tax Credit Programs

There are four tax credit programs authorized in statute: the Homeowners' Tax Credit Program, the Renters' Tax Credit Program, the Urban Enterprise Zone Tax Credit Program, and the Base Realignment and Closure (BRAC) Revitalization and Incentive Zones Credit Program. The fiscal 2013 baseline reflects a \$1.3 million reduction in these tax credit entitlements as follows:

- 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 2013 appropriation for the Urban Enterprise Zone Tax Credit Program is expected to decline by \$419,482, mostly due to the expiration of credits in Montgomery County.
- Consistent with recent trends, funding for the Renters' Tax Credit Program is expected to decline by \$900,000 to \$2.3 million.
- The baseline assumes that the BRAC Revitalization and Incentive Zones Credit and Homeowners' Tax Credit programs will remain level funded in fiscal 2013 at \$400,000 and \$56.8 million, respectively.

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 was temporarily increased by the federal American Recovery and Reinvestment Act of 2009 (ARRA). However, the enhanced match rate provided by the ARRA ended at the end of fiscal 2011.

Fiscal 2012 Outlook

The fiscal 2012 Medical Assistance Programs working appropriation of just under \$7.0 billion (over \$2.5 billion in general funds) appears to be very close to projected need, with only a \$27.0 million (\$13.5 million general/federal funds) deficit projected. However, the Medical Assistance Programs did rollover bills from fiscal 2011 into fiscal 2012 (an estimated

\$285.9 million, \$142.5 million general/federal funds) for a projected total general fund deficit of \$156.0 million. The lack of funding in fiscal 2011 was anticipated and primarily reflects unfunded Managed Care Organization (MCO) calendar 2011 rate increases and higher than anticipated enrollment.

Expenditures for fiscal 2012 services are expected to exceed fiscal 2011 costs by about 4.9%, a marked decline from the prior year when fiscal 2011 costs grew by 10.3% over fiscal 2010. This reflects a gradual slowing of the increase in program enrollment, the relative increase in the use of managed care to serve program enrollees, the impact of cost containment actions in the fiscal 2012 budget, and a scheduled MCO rate reduction of 1.5% in calendar 2012. Costs per enrollee are actually anticipated to decline slightly between fiscal 2011 and 2012.

Fiscal 2013 Forecast

In fiscal 2013, the expenditures for the Medical Assistance Programs are estimated to be just over \$7.25 billion, a 3.7% increase from the fiscal 2012 estimate. This estimate is based on a continued moderation of enrollment growth (3.5%), continued constraints on medical inflation/utilization including the ongoing effects of MCO rate reductions in the first six months of the fiscal year and the assumption of only modest rate increases in calendar 2013, plus the assumption of growth in the percentage of Medicaid enrollees served in managed care.

As a result, general fund need is expected to grow by \$142 million (5.7%). However, it should be emphasized that this assumes continued reliance on special fund sources (over \$870 million), primarily derived from a variety of provider assessments (on MCOs, hospitals, and nursing homes).

Enrollment and Service Year Expenditures*
Fiscal 2011-2013

	2011	2012	2013	2012-2013
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u>	<u>% Change</u>
Enrollment by Category				
Medicaid	685,742	722,415	745,637	3.21%
MCHP	98,013	97,776	99,697	1.96%
Medicaid Expansion to Parents	71,263	80,950	87,426	8.00%
Total	855,018	901,141	932,760	3.51%
 Cost Per Enrollee	 \$7,627	 \$7,559	 \$7,573	 0.19%
 Total Funds (\$ in Millions)	 \$6,521	 \$6,812	 \$7,064	 3.71%

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 and explains any difference between expenditures cited in the main body of the text versus the chart.

Source: Department of Legislative Services

Department of Human Resources

Foster Care and Subsidized Adoption Caseloads and Expenditure Trends

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 placements – 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, adoption, and guardianship. 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 decrease of 0.5% per year in the combined foster care/subsidized adoption caseload from fiscal 2011 to 2013. This reflects a continuation

**Foster Care and Subsidized Adoption Caseload and Expenditures
Fiscal 2010-2013**

	<u>2010</u>	<u>2011</u>	<u>2012</u> <u>DLS Estimate</u>	<u>2013</u> <u>DLS Estimate</u>	<u>2011-2013</u> <u>Avg.</u> <u>Annual</u> <u>% Change</u>
Caseload					
Foster Care	7,164	6,860	6,826	6,792	-0.5%
Adoptions	7,930	7,800	7,761	7,722	-0.5%
Total	15,094	14,660	14,587	14,514	-0.5%
Expenditures					
Monthly Cost Per Case	\$1,697	\$1,570	\$1,556	\$1,577	0.2%
Total Cost (\$ in Millions)	\$329.9	\$299.4	\$297.6	\$299.8	0.1%

DLS: Department of Legislative Services

Source: Department of Human Resources; Department of Legislative Services

of the downward trend due to the continuing efforts to reduce the number of children in out-of-home care through DHR’s Place Matters initiative. 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.

The monthly cost per case is expected to increase at an annual average rate of 0.2% from fiscal 2011 to 2013. This moderate growth results from the continued shift in the foster care caseload from institutional placements to less expensive placements and the freezing of provider rates for fiscal 2012 at the fiscal 2011 levels mandated in the Budget Reconciliation and Financing Act of 2011. A 2.0% increase in provider rates is assumed for fiscal 2013. Total program costs are forecast to increase at an annual rate of just 0.1% during this period.

Temporary Cash Assistance Caseload and Expenditure Trends

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.

After many years of caseload decline following the adoption of welfare reform, the caseload began increasing starting in fiscal 2008 due to the poor economy. Increases in the average monthly increases varied between 2.4 and 15.7% over the past four years as follows:

<u>Fiscal Year</u>	<u>Increase</u>
2008	2.4%
2009	13.5%
2010	15.7%
2011	7.1%

As shown in the following table, the Department of Legislative Services assumes that the TCA caseload will increase slightly in fiscal 2012 with an average monthly enrollment of 73,473, an increase over the prior year of 1.7%. This is, however, well in excess of the average monthly caseload of 65,005 upon which the budget was based. In fiscal 2013, the baseline budget estimate assumes the caseload will stabilize and remain at the fiscal 2012 level. Weak employment growth projections prevent an assumption of a caseload decline.

The fiscal 2012 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 (MMLL.) The increase in the food stamp benefit amount will obviate the need to increase the TCA grant amount in order to meet the MMLL. In fiscal 2013, an increase of 3.3% for the last three quarters of the year is projected, resulting in an increase of 2.5% over fiscal 2012.

TCA Enrollment and Funding Trends Fiscal 2011-2013

	<u>2011 Actual</u>	<u>2012 Approp.</u>	<u>2012 Estimate</u>	<u>2013 Estimate</u>	<u>2012-2013 % Change</u>
Average Monthly Enrollment	72,211	65,005	73,473	73,473	0.0%
Average Monthly Grant	\$175.09	\$180.65	\$175.09	\$179.45	2.5%
General Fund (\$ in Millions)	\$0.2	\$7.1	\$7.1	\$51.2	617.3%
Total Funds (\$ in Millions)	\$151.1	\$140.9	\$154.4	\$158.2	2.5%

TCA: Temporary Cash Assistance

Source: Department of Human Resources; Department of Legislative Services

With average monthly TCA caseloads expected to exceed the levels upon which the fiscal 2012 budget was based, an additional \$13.5 million will be needed. Additionally, nearly \$50.0 million of the fiscal 2012 federal TANF grant was used to close out fiscal 2011, and the receipt of contingency TANF funds for fiscal 2012 is doubtful. The fiscal 2012 budget assumes \$45.8 million in contingency TANF funding. These three items – higher caseloads, use of fiscal 2012 grant funds in fiscal 2011, and the absence of contingency TANF funds in fiscal 2012

– result in the need for a general fund deficiency of \$115.0 million in fiscal 2012. Furthermore, since the TANF balance has been exhausted, additional general funds of \$66.3 million will be required in fiscal 2013 for spending that has been paid for with TANF dollars in prior years. Going forward, TANF spending will need to be restricted to the \$229.1 million annual grant level.

Department of Health and Mental Hygiene

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

Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene Fiscal 2010-2013 (\$ in Thousands)

	<u>2010 Actual</u>	<u>2011 Working</u>	<u>2012 Leg. Approp.</u>	<u>2013 Baseline</u>	<u>2012-2013 Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$47,147	\$52,498	\$51,375	\$57,483	\$6,108	11.9%
Office of Health Care Quality	16,308	16,719	16,793	16,736	-57	-0.3%
Health Occupation Boards	24,534	28,081	28,605	28,407	-199	-0.7%
Infectious Disease and Env. Health Admin.	94,623	94,780	100,506	101,477	972	1.0%
Family Health Administration	209,384	221,083	203,655	217,239	13,584	6.7%
Office of the Chief Medical Examiner	9,977	10,405	9,930	10,302	372	3.7%
Office of Preparedness and Response	35,370	26,316	17,388	17,415	27	0.2%
Chronic Disease Services	44,493	44,814	46,149	48,266	2,117	4.6%
Laboratories Administration	24,492	24,165	22,746	23,487	740	3.3%
Alcohol and Drug Abuse Administration	140,146	151,384	150,285	152,321	2,036	1.4%
Mental Hygiene Administration	944,701	1,005,849	1,061,068	1,139,451	78,384	7.4%
Developmental Disabilities Admin.	781,805	805,224	844,451	863,712	19,261	2.3%
Medical Care Programs Administration	57,158	71,310	78,406	80,005	1,599	2.0%
Health Regulatory Commissions	150,807	165,821	166,158	166,483	325	0.2%
Total	\$2,580,945	\$2,718,448	\$2,797,515	\$2,922,785	\$125,269	4.5%
Fund						
General Fund	\$1,355,751	\$1,382,433	\$1,429,717	\$1,503,256	\$73,538	5.1%
Special Fund	282,955	310,589	306,771	324,441	17,670	5.8%
Federal Fund	921,284	1,000,467	1,037,629	1,070,523	32,894	3.2%
Reimbursable Fund	20,954	24,959	23,398	24,565	1,167	5.0%
Total	\$2,580,945	\$2,718,448	\$2,797,515	\$2,922,785	\$125,269	4.5%
Personnel						
Regular Positions	6,584.0	6,511.0	6,411.0	6,407.0	-5.0	-0.1%
Full-time Equivalent Contractuals	307.0	331.0	358.0	358.0	0.0	0%

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

The only baseline change in the DHMH Administration budget is a \$43,000 increase in funding required due to revised master equipment lease requirements.

Health Occupation Boards

There is one adjustment for the Health Occupation Boards that affects the fiscal 2013 baseline budget, namely a reduction of \$366,500 in special funds for one-time expenses related to building a database at the Board of Pharmacy.

Infectious Disease and Environmental Health Administration

There are two baseline adjustments for the Infectious Disease and Environmental Health Administration:

- a reduction of \$1.1 million in federal funds for one-time American Recovery and Reinvestment Act of 2009 (ARRA) grants which will not continue in fiscal 2013; and
- a \$72,058 increase in general funds for one environmental sanitarian position to enforce the Engine Coolant and Antifreeze Bittering Agent Act (Chapter 606 of 2011).

Family Health Administration

The Family Health Administration has four major adjustments to the fiscal 2013 baseline budget. These include:

- an increase of \$14.6 million in the special funds for Statewide Academic Health Centers and Tobacco Use Prevention and Cessation based on statutorily mandated spending levels;
- a transfer of \$1.7 million of the general fund appropriation to the Medical Care Programs Administration for the expansion of the Family Planning Program as a result of Chapter 395 of 2011;

- a reduction of \$0.6 million in federal funds for one-time ARRA grants and an Oral Health Literacy grant which will not continue in fiscal 2012; and
- an increase of \$0.5 million in general funds to establish a Cord Blood Transplant Program within DHMH as a result of Chapters 498 and 499 of 2011.

Alcohol and Drug Abuse Administration

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

- The baseline assumes that revenue to the Problem Gambling Fund established in Chapter 4 of the 2007 special session reaches almost \$3 million in fiscal 2013 based on an expected 7,050 video lottery terminals.
- The baseline also assumes a deficiency and ongoing funding in fiscal 2013 in federal funds (\$344,000) to support a Prescription Drug Monitoring Program created by Chapter 166 of 2011.

Mental Hygiene Administration

The Mental Hygiene Administration's (MHA) fiscal 2012 baseline budget includes several significant items:

- The baseline includes general fund deficiencies of just over \$41.3 million in the community fee-for-service mental health services budget reported as unprovided for general fund payables for fiscal 2011, plus an additional \$2.8 million general fund deficiency anticipated by the Department of Legislative Services for fiscal 2012 based on current enrollment and expenditure trends.
- An additional \$1.2 million in general fund deficits are anticipated at the State-run psychiatric hospitals: \$963,000 based on the unavailability of Strategic Energy Investment Fund funds, and \$218,000 for laboratory and pharmacy services.
- Utilization and enrollment growth in the fee-for-service community mental health services system combined with estimated rate increases of 1.26% for non rate-regulated providers (as provided for under Chapters 497 and 498 of 2010) and 3.0% for rate-regulated providers adds almost \$71.9 million (total funds) to the baseline.
- The assumption of a 1.26% provider adjustment on MHA grants and contracts (in line with that provided for fee-for-service expenditures) adds just over \$677,000 to the baseline.

Developmental Disabilities Administration

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

- annualization of community services provided for first time clients in fiscal 2012 that will be ongoing in fiscal 2013 account for an increase of \$4.8 million in total funds; and
- expenses associated with community service contracts increase by \$13.5 million total funds to account for a 1.69% rate increase for community providers per Chapters 497 and 498 of 2010.

Department of Human Resources

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

Expenditures, Funds, and Positions for the Department of Human Resources Fiscal 2010-2013 (\$ in Thousands)

	<u>2010 Actual</u>	<u>2011 Working</u>	<u>2012 Leg. Approp.</u>	<u>2013 Baseline</u>	<u>2012-2013 \$ Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$205,232	\$198,430	\$178,984	\$193,404	\$14,420	8.1%
Social Services	264,111	264,461	277,774	285,060	7,285	2.6%
Child Support Enforcement	86,516	84,119	84,991	87,010	2,019	2.4%
Family Investment	210,548	203,455	216,258	221,125	4,868	2.3%
Office of Home Energy Programs	160,688	122,186	143,203	115,293	-27,910	-19.5%
Total	\$927,094	\$872,650	\$901,210	\$901,891	\$681	0.1%
Fund						
General Fund	\$273,947	\$263,298	\$273,895	\$320,162	\$46,267	16.9%
Special Fund	115,227	81,119	77,927	87,615	9,689	12.4%
Federal Fund	537,546	527,859	549,014	493,738	-55,276	-10.1%
Reimbursable Fund	375	375	375	377	2	0.5%
Total	\$927,094	\$872,650	\$901,210	\$901,891	\$681	0.1%
Personnel						
Regular Positions	6,742.0	6,677.0	6,568.0	6,568.0	0.0	0%
Full-time Equivalent Contractuals	111.0	73.0	73.0	73.0	0.0	0%

Administration

The fiscal 2013 baseline for DHR Administration includes one anticipated deficiency appropriation. The fiscal 2011 budget for DHR Administration contained \$14.0 million to be used for the implementation of an Enterprise Content Management and Business Process Management System, however, delays in the project led to the cancellation of nearly all of these funds. A deficiency appropriation recognizes \$4.0 million of federal funds expected to be required for this project in fiscal 2012. The fiscal 2013 baseline is adjusted to fund the

remainder of the project, with anticipated federal fund expenditures of approximately \$9.7 million.

Other changes in the Major Information Technology Development Program in DHR Administration in the fiscal 2013 baseline remove \$900,000 in federal funds budgeted for the planning phase of changes to the information technology systems to accommodate health care reform. This project is expected to be funded within the Department of Health and Mental Hygiene.

The fiscal 2013 baseline for the information technology maintenance contract increases by \$679,503 in total funds, \$458,386 in general funds, and \$221,117 in federal funds, primarily due to fiscal 2012 underfunding.

The fiscal 2012 budget for DHR Administration included \$136,656 for a capital lease to purchase a new mail sorter, however, the department decided instead to lease the mail sorter for three years. The fiscal 2013 baseline removes the funding for the capital lease and adds \$178,680 (\$81,244 in general funds and \$97,436 in federal funds) in contractual services for the leasing of this machine.

Child Support Enforcement Administration

The fiscal 2013 baseline budget for the Child Support Enforcement Administration (CSEA) is adjusted to reflect an anticipated deficiency appropriation to provide additional general (\$254,505) and federal (\$494,039) funds to be used in lieu of special funds from the Child Support Reinvestment Funds. The fiscal 2012 legislative appropriation contains more special funds from the Child Support Reinvestment Fund than are expected to be available.

The fiscal 2013 baseline for both local and State operations of CSEA are adjusted to more accurately reflect the federal fund participation in the program as well as the availability of special funds in the State operations, which, in total, result in increases in special (\$611,462) and general (\$21,820) funds and a corresponding decrease in federal funds.

Office of Home Energy Programs

The fiscal 2013 baseline for the Office of Home Energy Programs (OHEP) includes an anticipated deficiency which decreases the fiscal 2012 appropriation by a net of \$27.9 million. This reduction reflects anticipated actions by OHEP to constrain arrearage and bill payment assistance benefits in the Maryland Energy Assistance and Electric Universal Service programs. Despite the net reduction, \$28.0 million in general funds are required in the program to partially offset the decreases in federal Low-Income Home Energy Assistance Program funds (\$48.6 million) due to current federal budget expectations and special funds from the Strategic

Energy Investment Fund (\$7.4 million) as a result of lower than anticipated revenue in the Regional Greenhouse Gas Initiative (RGGI) carbon dioxide emission allowance auctions.

Although the overall budget for OHEP is expected to remain at the fiscal 2012 level in fiscal 2013, changes are expected in the sources of funds to support the appropriation in that year. An increase of \$7.1 million in special funds is the result of the higher total revenue available from RGGI auctions based on the anticipated demand for carbon dioxide emission allowances in the new compliance period. A decrease in federal funds (\$7.3 million) is primarily due to carryover funding from fiscal 2011 expected to be available in fiscal 2012 that will not be available in fiscal 2013. General funds increase slightly to account for the lower availability of federal funds that is not offset by the increase in special funds.

Department of Juvenile Services

The Department of Juvenile Services (DJS) has responsibility for handling the admission of most juveniles who come into contact with the criminal justice system. DJS staffs detention facilities for juveniles awaiting court hearings as well as juveniles adjudicated delinquent but pending placement in a residential facility. The department also staffs residential facilities for juveniles who have been adjudicated delinquent 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.

Expenditures, Funds, and Positions for the Department of Juvenile Services Fiscal 2010-2013 (\$ in Thousands)

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working</u>	<u>2012 Leg.</u> <u>Approp.</u>	<u>2013</u> <u>Baseline</u>	<u>2012-2013</u>	
					<u>\$ Increase</u>	<u>% Increase</u>
Expenditures						
Department of Juvenile Services	\$273,255	\$275,578	\$268,444	\$283,209	\$14,764	5.5%
Total	\$273,255	\$275,578	\$268,444	\$283,209	\$14,764	5.5%
Fund						
General Fund	\$260,636	\$257,516	\$257,477	\$269,483	\$12,006	4.7%
Special Fund	439	994	481	3,175	2,693	559.5%
Federal Fund	10,949	16,843	10,478	10,542	64	0.6%
Reimbursable Fund	1,231	225	8	8	0	2.5%
Total	\$273,255	\$275,578	\$268,444	\$283,209	\$14,764	5.5%
Personnel						
Regular Positions	2,254.0	2,219.0	2,184.0	2,160.0	-24.0	-1.1%
Full-time equivalent Contractuals	75.0	99.0	100.0	100.0	0.0	0%

Projected Deficiencies

The fiscal 2013 baseline budget for DJS includes \$8 million in anticipated general fund deficiency appropriations for fiscal 2012.

Residential Per Diems

The fiscal 2013 baseline budget assumes a fiscal 2012 shortfall of \$2 million for per-diem payments to residential providers. The department has seen an increase in its out-of-home committed population, in addition to the fiscal 2012 appropriation for residential per diems being

approximately \$2 million short of actual fiscal 2011 expenditures. This deficiency funding is an ongoing increase in fiscal 2013, in addition to assuming a 2% provider rate increase.

Operating Expenditures and Staffing Shortages

An additional \$6.0 million in general fund deficiencies for fiscal 2012 are provided for facility operating expenditures and employee overtime. This increased level of funding is assumed to be ongoing for fiscal 2013. The amount of the assumed deficiency is largely based on fiscal 2011 actual expenditures. The fiscal 2012 appropriation for employee overtime is approximately \$4.2 million less than the level of funding required for fiscal 2011. In addition, employee turnover at DJS in the first quarter of fiscal 2012 has averaged near 9%.

Other Changes

Other changes incorporated into the fiscal 2013 baseline include:

- a \$1.6 million reduction in fiscal 2012 and an additional \$500,000 and 24 positions reduced in fiscal 2013 to reflect the transfer of education services at Cheltenham Youth Facility from DJS to the Maryland State Department of Education;
- a \$2.5 million special fund increase in fiscal 2012, carrying forward into fiscal 2013, to reflect additional revenue received from local jurisdictions for nonpublic placements of youth with behavioral issues who are in State care, as a result of changes made in the Budget Reconciliation and Financing Act of 2011; and
- a \$150,000 general fund reduction for alterations in the department's Master Lease Equipment Purchase Program.

Department of Public Safety and Correctional Services

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 (DOC), 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 primarily 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 pay-as-you-go (PAYGO) Capital Programs section.

Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services Fiscal 2010-2013 (\$ in Thousands)

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working</u>	<u>2012 Leg.</u> <u>Approp.</u>	<u>2013</u> <u>Baseline</u>	<u>2012-2013</u> <u>\$ Increase</u>	<u>% Increase</u>
Expenditures						
Office of the Secretary	\$128,023	\$138,143	\$127,307	\$135,778	\$8,471	6.7%
Division of Correction	783,647	773,523	788,920	836,210	47,291	6.0%
Maryland Parole Commission	4,629	4,991	4,834	4,800	-35	-0.7%
Division of Parole and Probation	101,873	106,102	103,430	108,679	5,249	5.1%
Patuxent Institution	46,509	45,517	46,266	47,940	1,674	3.6%
Inmate Grievance Office	599	726	985	997	12	1.2%
Police and Correctional Training Commissions	9,067	9,267	8,676	8,989	314	3.6%
Criminal Injuries Compensation Board	8,102	6,807	6,235	5,880	-354	-5.7%
Maryland Commission on Correctional Standards	439	539	559	600	42	7.4%
Division of Pretrial Detention and Services	151,404	163,472	153,445	157,056	3,611	2.4%
Total	\$1,234,293	\$1,249,087	\$1,240,656	\$1,306,929	\$66,274	5.3%
Fund						
General Fund	\$1,007,312	\$1,004,664	\$1,062,502	\$1,115,041	\$52,539	4.9%
Special Fund	144,195	150,458	141,875	154,468	12,593	8.9%
Federal Fund	75,243	81,832	28,465	29,301	836	2.9%
Reimbursable Fund	7,543	12,133	7,814	8,120	306	3.9%
Total	\$1,234,293	\$1,249,087	\$1,240,656	\$1,306,929	\$66,274	5.3%
Personnel						
Regular Positions	11,396.0	11,223.0	11,168.0	11,168.0	0.0	0%
Full-time Equivalent Contractuals	261.0	369.0	348.0	348.0	0.0	0%

Projected Deficiencies

The baseline for fiscal 2013 includes \$16 million in anticipated deficiency appropriations for fiscal 2012.

Operating Expenses

The fiscal 2013 baseline includes \$11.0 million in general fund deficiency appropriations for custodial agency operating expenses. The majority of the deficiency, \$10.0 million, is for employee overtime. Fiscal 2011 actual overtime expenditures exceed the current fiscal 2012 appropriation by approximately \$3.7 million. In addition, year-to-date actual overtime expenditures for fiscal 2012 reflect a 27% increase over the same time period in fiscal 2011.

Maryland Correctional Enterprises

A \$5 million special fund deficiency appropriation is included for Maryland Correctional Enterprises (MCE). The fiscal 2012 appropriation for supply and material purchases is approximately \$2 million less than fiscal 2011 actual expenditures. In addition, MCE experienced an increase in work orders at the end of fiscal 2011 that has continued into fiscal 2012, creating the need for a deficiency appropriation.

Office of the Secretary

Personnel expenses and growth in contractual services account for the majority of the increase in the fiscal 2013 baseline budget for the Office of the Secretary. The baseline also includes the following significant adjustments:

- a \$250,000 general fund increase to restore the appropriation for Public Safety Death Benefit awards due to the exhaustion of previously accrued fund balance;
- a \$164,000 general fund increase in the Information Technology and Communication Division to support implementation of new legislation, Chapter 103 of 2011, regarding the notification of service on protective orders; and
- a \$110,000 general fund reduction for alterations in the department's Master Equipment Lease Purchase Program.

Division of Correction

Growth in personnel expenses comprises the majority of the increase in the fiscal 2013 baseline budget for DOC. Specific adjustments are made to provide a net \$110,000 reduction in

the amount of funding provided to local correctional facilities for housing offenders. The State provides a \$45 per diem to local facilities for two types of offenders: (1) inmates who are sentenced to the custody of DOC and are awaiting transfer; and (2) offenders who are sentenced and held in a local facility between 12 and 18 months. A \$250,000 increase for offenders awaiting transfer to DOC is offset by a \$360,000 reduction in grants paid for offenders held locally between 12 and 18 months.

Maryland Correctional Enterprises

The fiscal 2013 baseline reflects a \$10 million increase in supply and material purchases for MCE based on an increase in work orders at the end of fiscal 2011 and 2012 projections.

Criminal Injuries Compensation Board

The fiscal 2013 baseline includes an adjustment to reduce funding available for financial assistance to victims of crime by a net \$428,577. The decrease is partially based on a federal formula which reimburses 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. That surplus was exhausted in fiscal 2012. Based on the formula, the anticipated federal funding the State will receive decreases from \$2.5 million in fiscal 2012 to \$2.2 million in fiscal 2013. Special fund revenue collections are also anticipated to decline in fiscal 2013, reducing the anticipated appropriation from \$2.8 million to \$2.6 million.

Division of Pretrial Detention and Services

Growth in personnel expenses accounts for the majority of the increase in the fiscal 2013 baseline budget for DPDS. This growth is slightly offset by a \$1.3 million reduction reflecting the end of the agency's contract with the Volunteers of America. This program had provided contractual housing for up to 95 detainees.

Maryland Department of Transportation

The Maryland Department of Transportation (MDOT) is responsible for statewide transportation planning and the development, operation, and maintenance of key elements of the transportation system. It is involved in all modes of transportation within the State including owning and operating the 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 non-lapsing special fund account whose revenue sources include motor fuel tax receipts, titling tax revenues, vehicle registration fees, a portion of the State's corporate income and rental car 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.

Expenditures, Funds, and Positions for the Maryland Department of Transportation Fiscal 2010-2013 (\$ in Thousands)

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working</u>	<u>2012 Leg.</u> <u>Approp.</u>	<u>2013</u> <u>Baseline</u>	<u>2012-2013</u> <u>\$ Increase</u>	<u>% Increase</u>
Expenditures						
The Secretary's Office	\$71,811	\$72,917	\$75,438	\$77,050	\$1,612	2.1%
Washington Metropolitan Area Transit Authority	215,736	228,276	238,950	272,146	33,196	13.9%
State Highway Administration	296,445	217,970	208,623	254,109	45,487	21.8%
Maryland Port Administration	68,237	51,193	44,219	44,952	732	1.7%
Motor Vehicle Administration	146,316	160,236	162,454	167,242	4,788	3.0%
Maryland Transit Administration	610,284	613,827	650,977	681,789	30,813	4.7%
Maryland Aviation Administration	173,749	172,890	173,788	175,993	2,205	1.3%
Total	\$1,582,579	\$1,517,308	\$1,554,450	\$1,673,282	\$118,833	7.6%
Fund						
Special Fund	\$1,491,818	\$1,427,142	\$1,466,830	\$1,585,508	\$118,679	8.1%
Federal Fund	90,761	90,166	87,620	87,774	154	0.2%
Total	\$1,582,579	\$1,517,308	\$1,554,450	\$1,673,282	\$118,833	7.6%
Personnel						
Regular Positions	7,173.0	7,127.0	7,004.0	7,009.0	6.0	0.1%
Full-time Equivalent Contractuals	89.0	115.0	116.0	120.0	4.0	3.4%

The Secretary's Office

The fiscal 2013 budget includes \$1.3 million in increases for information technology contracts. In addition, there is one new contractual position totaling \$63,000 to implement legislation.

Washington Metropolitan Area Transit Authority

The operating grant subsidy for the Washington Metropolitan Area Transit Authority is underfunded in fiscal 2012 by \$17.8 million. The amount carries forward into fiscal 2013. The subsidy also increases approximately \$15.4 million in fiscal 2013. 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 \$36 million for winter maintenance activities; however, actual expenditures have been closer to \$65 million. The fiscal 2013 budget includes an additional \$30 million for winter maintenance expenditures to reflect actual expenditures. The fiscal 2013 budget also includes an increase of \$15 million in summer maintenance activities to more accurately reflect historical spending and restore funding from fiscal 2012 cost containment actions.

Maryland Port Administration

The fiscal 2013 baseline budget includes a \$147,680 increase in security costs due to contractual obligations and a \$85,738 increase for debt service payments for the Series 2006 Certificates of Participation issued to fund construction of a cargo shed.

Motor Vehicle Administration

The fiscal 2013 budget includes a \$560,000 increase for credit card fees and \$1.6 million in expenditures associated with the central issuance process for driver licenses. The budget also includes 7.5 new regular positions and \$529,400 to implement the Drunk Driving Act and three contractual positions at \$93,000 to implement tax compliance efforts.

Maryland Transit Administration

The following increases were made to the fiscal 2013 budget:

- \$13.5 million for Maryland Rail Commuter Service due to contract increases and increased fuel expenditures;

- \$4.0 million, or 2.75%, in union salaries;
- \$3.5 million in union health and retirement payments;
- \$2.0 million for contract elevator/escalator maintenance;
- \$1.2 million for Metro and Light Rail supplies; and,
- \$1.0 million in commuter bus contracts.

Maryland Aviation Administration

The fiscal 2013 baseline budget includes adjustments for a \$1.3 million increase for shuttle bus, maintenance, and security contracts based on historical growth and a \$212,193 decrease for debt service payments based on established repayment schedules.

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, the 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 2010-2013 (\$ in Thousands)

	<u>2010</u> <u>Actual</u>	<u>2011</u> <u>Working</u>	<u>2012</u> <u>Leg. Approp.</u>	<u>2013</u> <u>Baseline</u>	<u>2012-2013</u> <u>\$ Increase</u>	<u>% Increase</u>
Expenditures						
Morgan State University	\$189,599	\$199,554	\$208,467	\$211,305	\$2,839	1.4%
St. Mary's College of Maryland	62,207	70,062	69,926	70,615	689	1.0%
University of Maryland, Baltimore	944,993	967,935	967,990	1,009,322	41,332	4.3%
University of Maryland, College Park	1,554,967	1,626,357	1,679,502	1,730,880	51,378	3.1%
Bowie State University	95,432	99,555	101,788	102,744	956	0.9%
Towson University	369,688	392,172	402,813	411,240	8,427	2.1%
University of Maryland Eastern Shore	114,124	118,401	119,233	123,061	3,827	3.2%
Frostburg State University	97,084	99,830	100,215	103,002	2,787	2.8%
Coppin State University	84,391	90,133	90,150	90,726	577	0.6%
University of Baltimore	109,187	121,583	119,164	123,053	3,889	3.3%
Salisbury University	138,729	143,542	152,587	156,227	3,640	2.4%
University of Maryland University College	306,586	324,212	310,569	319,975	9,406	3.0%
University of Maryland (UM) Baltimore County	353,879	359,970	364,479	371,712	7,233	2.0%
UM Center for Environmental Science	37,521	43,431	43,922	45,599	1,677	3.8%
University System of Maryland Office	30,207	27,592	22,972	27,376	4,404	19.2%
Baltimore City Community College	87,202	104,849	93,544	93,551	7,229	0.0%
Total	\$4,575,794	\$4,789,178	\$4,847,322	\$4,990,390	\$143,068	3.0%
Fund						
General Fund	\$1,149,506	\$1,145,642	\$1,120,733	\$1,185,421	\$64,687	5.8%
Special Fund	48,511	49,283	65,682	59,184	-6,497	-9.9%
Other Unrestricted	2,227,694	2,354,526	2,404,418	2,432,074	27,657	1.2%
Restricted	1,150,082	1,239,728	1,256,489	1,313,711	57,221	4.6%
Total	\$4,575,794	\$4,789,178	\$4,847,322	\$4,990,390	\$143,068	3.0%
Personnel						
Regular Positions	23,863.8	24,173.2	24,224.2	24,795.4	571.2	2.4%
Full-time Equivalent Contractuals	6,542.0	6,456.2	6,591.1	6,591.1	0.0	0.0%

General Fund Changes

- The baseline budget assumes a \$6.5 million reduction of HEIF revenues in fiscal 2013. This results in an additional corresponding increase in general funds to offset the underattainment of HEIF revenues.
- In fiscal 2013, a 2.0% half-year cost-of-living adjustment totaling \$20.5 million was assumed for USM and MSU. Of this amount, \$13.3 million was presumed to be the State funding (comprised of general funds and the HEIF). The remaining share was assumed to be other current unrestricted and restricted funds.
- The baseline budget provides the State funding portion of USM's mandatory costs. In fiscal 2013, the State funding portion of mandatory costs is estimated to increase \$53.3 million, or 5.0% over fiscal 2012. This includes increases for personnel, normal enrollment growth, new facilities, and other operating costs.
- The State funding portion of MSU's mandatory costs are estimated to increase \$2.2 million, or 3.0% over fiscal 2012. This includes increases for personnel, enrollment growth, and other operating costs.
- Resident undergraduate enrollment growth accounts for \$12.6 million of the total increase in mandatory costs, of which \$11.8 million and \$0.8 million are attributed to USM and MSU, respectively. The cost of enrollment growth was calculated by multiplying the projected fiscal 2012 enrollment by the fiscal 2012 to 2013 growth rate projected by the Maryland Higher Education Commission. The estimated fiscal 2013 enrollment was multiplied by a per-student funding rate, which is based on USM's fiscal 2009 rate that has been inflated by a three-year Higher Education Price Index average.
- General funds for SMCM are expected to increase 1.8%, or \$0.3 million, and tuition and fee revenues 5.3%, or \$1.5 million. SMCM receives State support 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. The implicit price deflator is estimated to be 1.8% in fiscal 2013.
- General funds for BCCC are determined by a statutory formula that takes into account enrollment and State support for selected public four-year institutions. In fiscal 2013, BCCC is to receive 63.5% of funds per full-time equivalent student (FTES) that the selected public four-year institutions receive per FTES. In fiscal 2013, that amount is expected to be \$42.0 million, an increase of \$2.3 million and 5.9% over fiscal 2012. The college also receives funding through the English for Speakers of Other Languages Program, estimated to be \$0.8 million in fiscal 2013.

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, 2.0% increase in nonresident tuition, and a 3.0% increase in fees. Based on this assumption, it was calculated that undergraduate tuition and fee revenues will increase 3.3%, or \$41.8 million.
- For MSU, undergraduate tuition and fee revenues are estimated to increase \$2.5 million, or 4.8% in fiscal 2013 based on the assumption that undergraduate resident tuition will increase 5.0%, 3.0% for nonresident tuition, and a 5.0% increase in fees.
- Of the \$41.8 million in USM undergraduate tuition and fee revenues, \$14.4 million is attributable to new enrollments, which was based on each institution's projected enrollment growth and the projected fiscal 2013 resident and nonresident tuition and fee rate. For MSU, \$0.8 million of the \$2.5 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 \$10.4 million and \$0.2 million, respectively, assuming a 3.0% increase in tuition and fees at USM and 4.5% increase at MSU.
- Other current revenues are estimated to increase \$29.5 million for USM institutions, assuming auxiliary and other sources increase 3.0%.
- Other current revenues are estimated to increase \$1.1 million for MSU assuming auxiliary and other sources increase 3.0%.

Other State Agencies

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 2013 baseline budget is primarily driven by the following adjustments:

- a projected increase of \$8.1 million in special funds from the Land Records Improvement Fund to support the expansion of major information technology development projects; and
- the restoration of a one-time \$5.0 million general fund reduction replaced with prior-year general fund encumbrances.

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 (OAG) 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 2013 baseline budget includes a \$1.1 million budget amendment to increase reimbursable funds, allowing the agency to recover indirect costs from other Executive Branch agencies. The baseline also assumes a \$167,678 increase in reimbursable funds for the transfer of two positions from the Maryland Department of Transportation to handle civil litigation.

C82D Office of the State Prosecutor

The Office of the State Prosecutor investigates and prosecutes certain criminal offenses committed by public officials. The office conducts these investigations on its own initiative or at the request of the Governor, Attorney General, the General Assembly, the State Ethics Commission, or a State's Attorney. The fiscal 2013 baseline budget includes a \$164,617 general fund increase resulting from Chapter 575 of 2011, which established reporting requirements for specified independent expenditures for campaign material.

C90G00 Public Service Commission

The Public Service Commission regulates gas, electric, telephone, water, sewage disposal, and certain for-hire passenger transportation companies doing business in Maryland. The following adjustments were made to the fiscal 2013 baseline budget:

- the special fund budget for consultant services was increased to \$2.2 million to reflect the three-year average of actual expenditures;
- an increase of two positions and associated regular earnings (\$72,185) for the implementation of Chapters 407 and 408 of 2011 which allows solar water heaters to be considered a Tier 1 renewable source eligible to meet the solar portion of the Renewable Portfolio Standard;
- a decrease of \$59,715 in federal funds is the result of the reduced availability of grant funds through the federal American Recovery and Reinvestment Act of 2009 (ARRA); \$325,245 is available from this source in fiscal 2013; and
- delete one contractual position and the associated salary (\$29,120).

D05E01 Board of Public Works

The budget for the Board of Public Works contains funds for the administrative staff of the board, a contingency fund to supplement general fund appropriations when necessary, grant funds for private nonprofit groups, funds to pay settlements and judgments against the State, and funds for certain capital purposes. The fiscal 2013 baseline budget assumes an increase of \$6,497 in general funds for an increase in membership dues payable to the Council of State Governments.

D10A01 Executive Department – Governor

As chief executive, the Governor exercises supervision over the agencies of the Executive Branch. Annually, the Governor presents to the legislature in the annual budget a work program and the financial requirements for the ensuing year and reports to the legislature on the condition of the State. In discharging the duties of the office, the Governor appoints officials and grants pardons and reprieves. The Governor represents the State in its relations with other jurisdictions and the public. The fiscal 2013 baseline includes a technical adjustment to delete \$138,918 in reimbursable funds for personnel costs associated with the Governor's energy advisor. This position was transferred to the Maryland Energy Administration in fiscal 2011. The baseline also includes a \$3,144 increase for office rent.

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 following changes were made to the fiscal 2013 baseline budget:

- a decrease of four contractual positions and approximately \$4.7 million in administrative expenditures due to the expiration of ARRA funds;
- a decrease of \$1.3 million of funds from the Strategic Energy Investment Fund (SEIF) from the Rate Relief Program. Chapter 397 of 2011 (the Budget Reconciliation and Financing Act (BRFA)) altered the allocation of revenue from the Regional Greenhouse Gas Initiative (RGGI) for fiscal 2012 through 2014, eliminating the allocation for the Rate Relief Program. Funds were available for this program in fiscal 2012 under a previous allocation;
- an increase to SEIF funds available for administrative expenditures, Energy Efficiency and Conservation programs, and the Renewable and Clean Energy Programs and Initiatives by approximately \$2.9 million. Although revenue has continued to decline recently as fewer carbon dioxide emission allowances are sold in RGGI auctions, a higher level of carbon dioxide emission allowances are expected to be sold in fiscal 2013 reflecting the anticipated demand in the new compliance period. The baseline budget assumes an allowance price of \$1.89, the current minimum price. In addition, the fiscal 2013 budget assumes some funds allocated for administrative expenditures from auctions held during fiscal 2012 but not expended are available for use in fiscal 2013; and
- a decrease of \$175,000 in contractual services from the Energy Overcharge Restitution Fund, which is expected to be exhausted in fiscal 2012.

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. Funding for Police Aid is discussed in the Aid to Local Governments section. The following adjustments were made to the budget:

- an increase of \$21,800 in general funds to hire a contractual full-time equivalent statistical analyst position. Chapter 172 of 2011 requires the office to collect and analyze statistical data pertaining to race-based traffic stops; and

- a \$10.4 million reduction in federal stimulus funding for criminal justice initiatives.

D16A06 Secretary of State

The Secretary of State is responsible for a number of State functions, including administering the Public Notary Laws, attesting to the Governor's signature on all public papers and documents, and compiling and publishing all of the State's administrative regulations in the *Maryland Register* and *Code of Maryland Regulations* (COMAR). Though the sale of printed copies of the *Maryland Register* and COMAR are a source of special fund revenue for the Secretary of State's office, both publications are available for free online. As a result, special fund revenues have been falling for several years and are expected to decline further in fiscal 2013.

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. The commission often receives multi-year federal grants for special projects and artifact restoration but does not expect any federal grants in fiscal 2013. Therefore, the baseline estimates no federal funds for HSMCC.

D26A07 Department of Aging

The Department of Aging has responsibility for administering community-based long-term care programs and services for older Marylanders, evaluating services they need, and determining the extent to which public and private programs meet those needs. The fiscal 2013 baseline budget for the Department of Aging recognizes an increased federal fund match for certain administrative expenses for the Older Adults Medicaid Waiver as a result of funding these expenses as part of case management services.

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 fiscal 2012 deficiency of \$2.0 million for the expected increase in the operating deficits of the convention centers. The fiscal 2013 estimate maintains this increased level of funding.

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 following adjustments were made to the fiscal 2013 baseline budget.

- The fiscal 2013 baseline contains one anticipated deficiency appropriation to implement Chapters 292 and 293 of 2011. The chapters authorize the use of \$250,000 of funds from the Fair Campaign Financing Fund for the implementation of online voter registration. The fiscal 2013 baseline is reduced by \$195,000 leaving \$55,000 of special funds for the ongoing maintenance costs of this system.
- Chapters 288 and 289 of 2011 authorize SBE to enter into agreements with other states to share data necessary to maintain accurate voter registration lists. The fiscal 2013 baseline recognizes a fiscal 2012 budget amendment which provides \$100,000 in federal funds to support the annual cost of this interstate agreement to support the Electronic Registration Information Center through the Pew Center on the States.
- Uncodified language in Chapters 288 and 289 requires SBE and the Motor Vehicle Administration (MVA) to jointly submit a report regarding actions taken and plans made to implement a fully automated voter registration system at MVA. The fiscal 2013 baseline recognizes \$363,000 of federal funds included in a fiscal 2012 budget amendment to implement this interface. The fiscal 2013 baseline is reduced by \$308,000 leaving \$55,000 in special funds for the ongoing costs of this system.
- A fiscal 2012 budget amendment provided \$200,000 in federal funds for a call center contract. The fiscal 2013 baseline assumes the contract will continue at the same level, but will be funded instead equally by general and special funds.
- The fiscal 2013 baseline decreases the appropriation for existing capital lease payments from \$7.4 million to \$3.7 million, an increase of \$1.1 million in special funds and decreases of \$2.7 million in general funds and \$2.2 million in federal funds. This change reflects the end of the original ePollbook capital leases and slight decreases in payments for the Phase 2 purchase of the touchscreen voting system and the ePollbooks purchased by some counties for the 2008 presidential elections.
- The fiscal 2013 baseline also reflects changes to the anticipated cost of the voting system services contract, an increase of \$616,319 split equally between general and special funds.

Baseline adjustments are also made totaling \$13.0 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 been implemented. Of the \$13.0 million, \$3.5 million in general funds

and \$2.0 million in special funds from the Fair Campaign Financing Fund are included in the Major Information Technology Development Project Fund. The remaining \$7.5 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 (\$5.5 million in special funds); and
- for additional ballot printing, supplies, maintenance, vendor support, and software licenses (\$1.9 million split equally between 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 2013 baseline assumes the following changes:

- an increase of \$0.5 million in general funds for operating expenses that were defrayed in fiscal 2012 for the Maryland Heritage Areas Authority funding per the BRFA of 2011;
- a decrease of \$0.3 million in reimbursable funds reflects the transfer of responsibility for land planning functions to the Department of Natural Resources as part of Chapter 410 of 2011;
- an increase of \$0.1 million in special funds to reflect Sustainable Communities Tax Credit Program funding available for operations made by the Sustainable Communities Tax Credit Program (Chapter 383 of 2011);
- a decrease of \$0.1 million in general funds to reflect the assumed end of redistricting expenditures; and
- an increase of \$0.1 million in general funds and one position to reflect staffing needed to operate the Jefferson Patterson Park and Museum's Riverside Interpretive Trails and Exhibit Stations capital project.

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. Major changes to the 2013 baseline budget are as follows:

- an increase of \$2.6 million in special funds for the Volunteer Company Assistance Fund (VCAF) in fiscal 2013. Chapter 416 of 2006, as amended by Chapters 484 and 735 of 2010, and Chapter 397 of 2011, requires that the revenue generated from a \$7.50 traffic citation surcharge be credited to the VCAF;
- an increase of \$140,340 in operating costs due to the anticipated completion of the La Plata, Westminster, and Salisbury Readiness centers. The baseline allocates these costs on a 50% federal/50% State general fund cost-share basis;
- a \$4.3 million reduction in federal homeland security grant funds consistent with the federal fiscal 2011 appropriation; and
- a fiscal 2012 deficiency in the amount of \$100,000 for the State's share of the costs associated with the activation of the Maryland National Guard due to inclement weather resulting from Hurricane Irene. It is anticipated that the federal government will reimburse the State for 75% of eligible costs.

D80Z01 Maryland Insurance Administration

The Maryland Insurance Administration (MIA) develops policies, procedures, and regulations and implements laws that affect Maryland's insurance industry. Two adjustments are made to the fiscal 2013 baseline budget to recognize funding from a federal grant added to the fiscal 2012 budget via the budget amendment process and to add federal funds for fiscal 2013 reflecting the first installment of a new three-year federal grant. Both federal grants are intended to help MIA improve its health insurance rate review process.

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 the fiscal 2013 baseline budget are as follows:

- an increase of \$350,000 in reimbursable funds for the acquisition of additional data storage capacity at the Annapolis Data Center. The Comptroller anticipates funding this item via the Treasurer's Master Equipment Lease-Purchase Program;
- an increase of \$158,090 in general funds to comply with legislation enacted during the 2011 session. Chapters 315 and 352 of 2011 require the Comptroller to regulate certain slot machines and to mail notices regarding the earned income tax credit;

- a decline of \$1.6 million in special funds for information technology expenditures related to the Modernized Integrated Tax System;
- a fiscal 2012 general fund deficiency of \$472,900 to hire 17 additional contractual full-time equivalent positions due to legislation enacted during the 2011 session. Chapters 204 and 397 of 2011 require the Comptroller to review the records of direct wine shippers and to assist with the administration of the driver's license/vehicle registration tax clearance program; and
- an increase of \$50,000 in special funds for payroll garnishments made via the attachment process (*e.g.*, judgment creditors and student loan collection agencies) consistent with Chapter 397 of 2011.

E50C State Department of Assessments and Taxation

The State Department of Assessments and Taxation (SDAT) supervises the assessment of all property in the State. The department performs assessments on one-third of all real property and all personal property in the State every year and certifies to the local taxing authorities the assessment of every piece of property. The department also administers four tax credit programs. Consistent with Chapter 397 of 2011, the baseline reflects an additional \$33.9 million in special funds for costs associated with SDAT's Real Property Valuation, Business Valuation, and Office of Information Technology (IT) programs. Chapter 397 required the counties to reimburse SDAT for 90% of the costs associated with the aforementioned programs. The fiscal 2013 baseline also reflects an additional \$1.5 million for IT-related expenses associated with the Annapolis Data Center and the Assessment Administration and Valuation System. It is assumed that 90% of these costs will be reimbursed by the counties.

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 special and general fund spending for the operation of the two existing facilities and for the opening of a third facility. The additional VLT costs total approximately \$25.2 million. The baseline also reflects an increase of \$42.3 million in special funds for payments to licensed VLT vendors based on increased revenues.

F10A02 Department of Budget and Management

The Department of Budget and Management (DBM), in coordination with the Governor and State agencies, develops the State's annual capital and operating budgets. It also oversees statewide personnel issues, such as the employee health insurance program, and administrative functions like recruitment and procurement. Several adjustments have been made to remove items centrally budgeted in DBM that have been subsequently transferred to the departments to whom the funds were ultimately destined:

- \$55.4 million (\$39.2 million in general funds) for a one-time \$750 employee bonus.
- \$3.2 million (\$2.7 million in general funds) for additional salary and overtime expenditures related to State Law Enforcement Officer Labor Alliance bargaining items.
- \$4.7 million (\$2.9 million in general funds) for cost-of-living adjustment payments made to community health providers as a result of Chapter 497 of 2010.

Finally, due to the implementation of an administrative charge to employer users of the State Retirement Agency, a \$12.4 million expense (\$7.6 million in general funds) is included in the statewide expense portion of the DBM budget to represent the portion of the charge related to State agencies.

F50 Department of Information Technology

The Department of Information Technology (DoIT) provides IT leadership to effectively manage State IT resources. DoIT's most substantial fiscal 2013 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 for the Department of Budget and Management (DBM). No deficiency adjustments are made. The MITDPF adjustments are:

- rebuilding the cost of currently approved projects by adding \$17.3 million in all funds (increasing general funds by \$23.2 million and reducing special funds by \$5.9 million). This estimate assumes that the special funds supporting the SDAT's Assessment Administration and Valuation System project and the Department of State Police's Computer Aided Dispatch/Records Management System project will need to be funded with general funds. Fiscal 2012 also included special fund appropriations available from de-obligating appropriated funds for projects in prior years. The baseline assumes that these funds will not be available in fiscal 2013; and

- adding \$5.5 million (\$3.5 million in general funds and \$2.0 million in special funds) for an Optical Scan Voting System project required by Chapters 547 and 548 of 2007. The project supports the operations of the State Board of Elections.

DoIT is also managing two IT projects for DBM. The baseline adjusts the cash flows of these projects. DoIT advises that the cost estimates did not change between January and October 2011. The adjustments made are:

- reduce special funds for the Central Collection Unit project by \$6.3 million (from \$8.6 million in fiscal 2012 to \$2.3 million in fiscal 2013); and
- increase the reimbursable funds appropriated for the Statewide Personnel System project to \$29.3 million. Fiscal 2012 appropriations totaled \$5.0 million. Approximately 80% of the fiscal 2012 appropriation was supported by general funds. Consequently, the baseline assumes that approximately \$24.0 million of the baseline appropriation is supported by general funds.

Finally, an adjustment is made to the administrative units of DoIT. The department's share of the new Annapolis Data Center mainframe computer is projected to increase general fund expenditures by approximately \$179,000.

G20J01 State Retirement Agency

The State Retirement Agency (SRA), under the supervision of a board of trustees, manages a \$37 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 2013 are attributable to the following factors:

- The implementation of an administrative charge to employer users of the system. Under the charge mechanism, SRA receives special fund income from all State agencies and local school boards and community colleges that utilize its administrative services. Consequently, the agency's expenditures become reimbursable funds instead of the previous accounting convention that treated the funds removed from the pension trust to finance its operations as special funds.
- The removal of \$2.5 million from SRA's operating budget for the second phase of the Maryland Pension Administration computer project due to the agency's decision to postpone its continuation until an off-site disaster protocol is developed.

H00 Department of General Services

The Department of General Services performs a variety of functions including planning, design, and construction management; facilities maintenance; procurement of goods and services; receipt and distribution of excess property; and provision of real estate services. Major changes to the fiscal 2013 baseline budget include:

- an additional \$162,348 in the Facilities Operations and Maintenance Program for costs associated with Naval Academy parking, the Annapolis Bus Shuttle, and insurance premiums;
- a \$31,358 reduction in the debt service payment for the Calvert Street Garage;
- a \$451,404 reduction in reimbursable funds due to the transfer of six positions from the Office of Real Estate Management to the Department of Natural Resources (DNR). Chapter 410 of 2011 consolidated the State land acquisition and planning functions related to open space, recreation, conservation, and other purposes within DNR; and
- a \$1.5 million fiscal 2012 deficiency for utilities.

K00A Department of Natural Resources

The Department of Natural Resources manages the protection, enhancement, and use of the State's natural resources. The fiscal 2013 baseline includes the addition of six positions to reflect the transfer of positions to DNR already paid for out of DNR special fund revenues as part of Chapter 410 of 2011. The baseline also reflects the conversion of 17 contractual positions to regular positions as authorized at the June 15, 2011 Board of Public Works meeting. The conversions occur across multiple programs and reflect an increase in federal and reimbursable fund appropriations due to the greater value of fringe benefits for regular positions than for contractual positions. Additional adjustments are as follows:

- an increase of \$6.4 million in special funds for a total of \$29.9 million to reflect funding of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund based on estimated revenues and a provision in Chapter 397 of 2011 transferring \$15.1 million of the revenues to the general fund;
- a decrease of \$2.5 million in federal funds to reflect a projected decrease in the National Oceanic and Atmospheric Administration federal crab fishery disaster designation funding;
- a decrease of \$1.8 million in special funds to reflect that DNR does not anticipate receiving oyster restoration funding reflected in the fiscal 2012 budget;

- an increase of \$1.7 million in special funds in the Maryland Park Service to replace general fund reduction;
- an increase of \$1.4 million in special funds for reflecting a contract change for Chesapeake Forestlands logging revenues, which will now go to DNR before a contractor is paid as opposed to the contractor paying DNR for the difference between its contractual amount and the timber revenues;
- an increase of \$1.2 million in special funds to reflect Chapter 397 of 2011 provision allowing Program Open Space transfer tax funding to be used for administrative expenses;
- an increase of \$0.3 million in general funds to reflect operating expenses and the transfer of three positions from the Maryland Department of Agriculture and one position from the Maryland Department of the Environment as part of Chapter 411 of 2011;
- a decrease of \$0.8 million in combined special and federal funds for the Maritime Law Enforcement Information Network information technology project;
- an increase of \$0.2 million in special funds for the Maryland Outdoor Customer Service Delivery System information technology project;
- an increase of \$0.1 million in combined general and special funds to reflect insurance changes for motor vehicles and fixed charges; and
- an increase of \$0.1 million in special funds and the addition of four regular positions and two contractual full-time equivalents to reflect staffing needed for partial year operation of the Harriet Tubman Underground Railroad State Park.

L00A Maryland Department of Agriculture

The Maryland Department of Agriculture administers and promotes agricultural activities throughout the State. The fiscal 2013 baseline includes the following adjustments:

- an increase of \$0.6 million in special funds to reflect the assumption that sufficient racing revenue will be available to fund the statutory formula for agricultural boards and fairs;
- a decrease of \$0.3 million in general funds to reflect the transfer of three positions and operating funding to DNR as part of Chapter 411 of 2011;

- an increase of \$0.3 million in general funds to a total of \$3.0 million to reflect the statutory funding amount for the Maryland Agricultural and Resource-Based Industry Development Corporation;
- a decrease of \$0.3 million in general funds to reflect reduced master capital lease funding needs for computer hardware and mosquito control equipment; and
- an increase of \$0.1 million in general funds to reflect funding for fertilizer certification and public education programs as part of Chapters 484 and 485 of 2011 (the Fertilizer Use Act).

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 a small increase in general funds for the implementation of new legislation governing the fairness of job applications. Additionally, the baseline assumes that local impact aid from horse racing fees will return to normal levels in fiscal 2013 after being eliminated in fiscal 2012. Finally, the baseline reflects increases in horse racing purse enhancements (\$9.0 million); racetrack facility enhancements (\$3.2 million); and local impact aid (\$7.0 million) based on expected VLT revenues in fiscal 2013.

R00A01 Maryland State Department of Education Headquarters

The Maryland State Department of Education (MSDE) coordinates the State's K-12 education policies. The fiscal 2013 baseline budget includes:

- a \$10.3 million increase in general funds for the Child Care Subsidy Program to replace Temporary Assistance to Needy Families funding;
- federal fund reductions for major information technology projects, including \$698,159 for a school nutrition project and \$944,075 for projects related to the Race to the Top Program;
- the transfer of the educational program at the Cheltenham Youth Facility from the Department of Juvenile Services to MSDE adds \$1.4 million in general funds, \$171,691 in federal funds, and 24 positions to the MSDE budget; and
- a reimbursable fund increase of \$327,532 for funds collected from local boards of education for youth in State care.

R00A04 Children's Cabinet Interagency Fund

The Maryland Children's Cabinet works to ensure the effective, efficient, and comprehensive delivery of services to Maryland's children and families by coordinating the programs, policies, and budgets of the State's child-serving agencies. The fiscal 2013 baseline budget reduces general funds by \$1.2 million to reflect the funding needed for the Care Management Entity (CME) contract for the current number of slots being utilized. The CME contract provides community-based wraparound services to children to keep them out of residential institutions. A second adjustment was made to add general funds in the amount of \$7,323,989 to replace Temporary Assistance to Needy Families funding.

R15P00 Maryland Public Broadcasting Commission

The Maryland Public Broadcasting Commission operates Maryland Public Television, the State's public broadcasting affiliate. One adjustment was made to the fiscal 2013 baseline budget to reduce Master Equipment Lease-Purchase payments from \$739,585 in fiscal 2012 to \$596,043 in fiscal 2013.

R62I Maryland Higher Education Commission

The Maryland Higher Education Commission is the State's coordinating body for the 13 campuses of the University System of Maryland (USM), Morgan State University, St. Mary's College of Maryland, 16 community colleges, and the State's private colleges and universities. Adjustments to the fiscal 2013 baseline budget include the following:

- an increase of \$2.8 million in general funds for the Sellinger Program for private institutions to reflect funding at 9.7% of the current year appropriation to select public four-year institutions on a per-student basis.
- a decrease of \$1.2 million in federal funds due to the end of a federal Gaining Early Awareness and Readiness for Undergraduate programs grant;
- an increase of \$330,000 in federal funds from a Race to the Top grant for information technology upgrades related to the Longitudinal Data System;
- a decrease of \$311,391 in general funds to reflect the completion of the Private Donation Incentive Program;
- an increase of \$253,208 in special funds to recognize revenue from new program approval fees;

- an increase of \$250,000 in general funds for Regional Higher Education Centers to reflect legislative intent;
- a decrease of \$99,969 in special funds to reflect an anticipated change in Nurse Support Program II expenditures;

Scholarship programs were adjusted upward 5% to reflect an assumed 5% tuition increase for undergraduates at USM institutions. The largest program, Educational Excellence Awards, is set at \$80.2 million in general funds, which includes additional general funds to replace \$1.3 million in federal funds from the discontinued Leveraging Educational Assistance Partnerships. Additional scholarship adjustments to the fiscal 2013 baseline budget include the following:

- an increase of \$358,028 in special funds to the Riley Fire and EMS Tuition Reimbursement Program to reflect actions taken in the BRFA;
- an increase of \$240,006 in general funds to restore funding for the Veterans of the Afghanistan and Iraq Conflicts scholarship program and reflect the 5% tuition increase;
- an increase of \$36,600 in general funds in the Janet L. Hoffman Loan Assistance Repayment Program to recognize anticipated revenues from a new State Court Administrator fee.

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 2013 baseline budget is impacted by the following adjustments:

- a \$37.7 million decrease to reflect federal funds from the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 that will not be available in fiscal 2013. The funds support the Emergency Mortgage Assistance Program which makes loans of up to \$50,000 or two years, whichever comes first, to homeowners facing foreclosure due to loss of income;
- the removal of \$453,242 in federal low-income weatherization funds made available from the ARRA, the last of which were expended during fiscal 2012; and
- the removal of \$60,000 in special funds that were expended in fiscal 2012 for the final implementation phase of a new information technology project.

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 2013 baseline reflects operating and investment expenses related to the InvestMaryland program (Chapter 409 of 2011). The program encourages venture capital investments, in part, through the Maryland Small Business Development Financing Authority and the Maryland Venture Fund. The baseline reflects increases in both of these programs.

Further, the baseline assumes the removal of a one-time \$2.4 million general fund appropriation to the Maryland Industrial Development Financing Authority and a one-time \$4.5 million general fund appropriation to the Maryland Economic Development Assistance Authority and Fund.

Adjustments were also made to the Division of Tourism, Film and the Arts. Specifically, the baseline reflects an increase of \$1.0 million to the Maryland Tourism Board to account for the sunset of cost containment funding for the board. Similarly, cost containment restraints have sunset for grants under the Maryland State Arts Council. As such, the baseline reflects an increase in arts grants of 2.8% which is the estimated amount of general fund growth (per statute). Further, Chapter 516 of 2011 altered the department's film incentives from a rebate program to a tax credit program. Accordingly, the baseline reflects a decrease in grants by \$2.0 million. Finally, the baseline shows a decline of \$500,000 to account for the sunset of the Special Fund for the Preservation of Cultural Arts.

U00A Maryland Department of the Environment

The Maryland Department of the Environment 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 2013 baseline includes the following adjustments:

- an increase of \$5.0 million in special funds to reflect the increase in debt service for Bay Restoration Fund revenue bonds assuming that an additional \$50.0 million in revenue bonds will be issued at the end of fiscal 2012 which will incur debt service costs in fiscal 2013;
- an increase of \$2.0 million in special funds to reflect operation and maintenance funding for wastewater treatment plants upgraded to enhanced nutrient removal technology as the fiscal 2012 legislative appropriation of \$1.0 million was deleted and the need has since increased by an additional \$1.0 million due to more plants coming online;
- a decrease of \$1.0 million in federal funds to reflect the end of ARRA funding for leaking underground storage tank mitigation (\$500,000), administrative funding for the Water

Quality State Revolving Loan Fund (\$380,000), and Drinking Water State Revolving Loan Fund (\$100,000);

- a decrease of \$0.4 million in special funds to reflect the end of funding for the Web Revamp Project – Phase 2 information technology project;
- a decrease of \$0.2 million in special funds to reflect decreased use of non-project set asides funding from the Drinking Water State Revolving Loan Fund federal appropriation;
- a decrease of \$0.2 million in federal funds to reflect decreased funding needed for the Water Supply Program Tracking System information technology project;
- an increase of \$0.1 million in special funds to reflect increased demand during the next carbon dioxide allowance auction compliance period, which leads to increased funds for climate change programs;
- an increase of \$0.1 million in combined general and special funds for Master Equipment Lease-Purchase Program payments for computer hardware and emergency response vehicles; and
- a decrease of \$34,000 in general funds to reflect the transfer of one position to DNR as part of Chapter 411 of 2011.

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. Major changes to the fiscal 2013 baseline budget include the following:

- the deletion of 46 positions and related funding (\$5.2 million) due to the elimination of the Resident Trooper Program in Carroll County;
- an additional \$390,000 in special funds for vehicle theft prevention grants. The increase is consistent with State law requiring that \$2.0 million be appropriated annually to the Vehicle Theft Prevention Fund;
- an additional \$934,000 in general and special funds to rent hangar space at the Frederick Municipal and Martin State airports. The Federal Aviation Administration's revenue-use policy concerning the use of airport revenue requires tenants to pay fair market value for hangar space leased at airports that receive federal funding;

- an additional \$1.2 million in salaries and wages for 16 additional trooper paramedic positions; and
- a \$9.8 million general fund swap to replace speed camera revenues beginning in fiscal 2013. Chapter 500 of 2009, as amended by Chapter 397 of 2011, requires that the balance of speed camera revenues be distributed to the Transportation Trust Fund beginning in October 2012. Consistent with Chapter 500, the baseline assumes that \$4.3 million in speed camera revenues will remain in the 2013 budget for personnel and roadside enforcement activities. The baseline also assumes that an additional \$3.0 million will be appropriated in fiscal 2013 for the purchase of replacement vehicles and related motor vehicle equipment.

Y01A State Reserve Fund

The State Reserve Fund baseline budget consists of the Revenue Stabilization Account (Rainy Day Fund), Dedicated Purpose Account (DPA), and Catastrophic Event Account. 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 \$10.0 million from two fiscal years prior to the allowance year shall be appropriated into the Rainy Day Fund. An appropriation totaling \$50.0 million is also required if projected revenues are less than 7.5% of general fund revenues. Fiscal 2011 ended with an unappropriated general fund balance totaling \$400.5 million. This total was adjusted to reflect \$10.0 million that remains in the general fund and \$50.0 million that is required to be appropriated in the DPA to reimburse Program Open Space (see the following paragraph for a description). The remaining \$340.5 million is appropriated into the Rainy Day Fund.

With respect to the DPA, two adjustments are made. Consistent with an agreement with Prince George's County, \$15 million is appropriated for the Prince George's County Hospital. Another \$50 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. There was no repayment in fiscal 2012. The Department of Legislative Services estimates that \$90 million is to be reimbursed. The baseline includes the first repayment, which totals \$50 million.

**Expenditures and Funds in Other State Agencies
General, Special, and Federal Funds Only
Fiscal 2010-2013**

Expenditures		2010	2011	2012	2013	2012-2013	
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Increase</u>
B75	General Assembly	\$71,680,202	\$75,858,502	\$76,519,621	\$78,765,327	\$2,245,706	2.9%
C00A00	Judiciary	407,713,434	429,459,855	428,521,745	453,036,471	24,514,726	5.7%
C80B00	Office of the Public Defender	85,170,776	84,696,183	83,509,542	86,691,781	3,182,239	3.8%
C81C	Office of the Attorney General	24,763,182	25,428,536	24,474,340	25,038,046	563,706	2.3%
C82D00	Office of the State Prosecutor	1,234,222	1,198,763	1,254,851	1,483,716	228,865	18.2%
C85E00	Maryland Tax Court	573,741	626,685	633,077	654,610	21,533	3.4%
C90G00	Public Service Commission	15,034,518	17,786,066	16,447,407	17,362,783	915,376	5.6%
C91H00	Office of People's Counsel	3,083,376	3,138,994	3,166,755	3,245,448	78,693	2.5%
C94I00	Subsequent Injury Fund	1,913,153	1,971,699	1,969,166	2,016,914	47,748	2.4%
C96J00	Uninsured Employers' Fund	1,053,553	1,149,580	1,128,979	1,189,897	60,918	5.4%
C98F00	Worker's Compensation Commission	13,844,321	13,680,383	13,882,879	14,292,354	409,475	2.9%
D05E01	Board of Public Works	6,942,692	7,494,662	7,525,851	7,566,271	40,420	0.5%
D10A01	Executive Department - Governor	9,329,742	9,615,251	10,345,731	10,471,406	125,675	1.2%
D11A0401	Office of the Deaf and Hard of Hearing	291,236	321,414	320,545	328,821	8,276	2.6%
D12A02	Department of Disabilities	4,802,432	5,268,186	5,120,225	5,166,013	45,788	0.9%
D13A13	Maryland Energy Administration	55,527,549	66,025,737	19,266,808	15,924,633	-3,342,175	-17.3%
D15A05	Executive Dept - Boards, Commissions and Offices	11,199,246	10,302,103	11,261,850	11,274,642	12,792	0.1%
D15A0516	Governor's Office of Crime Control and Prevention	91,319,698	102,987,691	106,636,696	116,723,602	10,086,906	9.5%
D16A06	Secretary of State	2,357,233	2,243,287	2,249,671	2,224,138	-25,533	-1.1%
D17B0151	Historic St Mary's City Commission	2,471,761	2,858,624	2,795,033	2,871,917	76,884	2.8%
D18A18	Governor's Office for Children	34,115,237	30,639,045	28,296,749	27,111,630	-1,185,119	-4.2%
D25E03	Interagency Committee on School Construction	1,467,383	1,457,222	1,519,018	1,547,974	28,956	1.9%
D26A07	Department of Aging	54,059,428	53,878,228	53,723,054	53,961,440	238,386	0.4%
D27L00	Maryland Commission on Human Relations	3,300,494	3,188,825	3,120,824	3,243,321	122,497	3.9%
D28A03	Maryland Stadium Authority	35,094,732	37,442,357	34,706,849	36,610,232	1,903,383	5.5%
D38I01	State Board of Elections	21,401,993	29,393,902	21,532,169	26,326,957	4,794,788	22.3%
D39S00	Maryland State Board of Contract Appeals	592,645	597,153	620,308	652,761	32,453	5.2%

		2010	2011	2012	2013	2012-2013	
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Increase</u>
D40W01	Department of Planning	16,650,617	18,522,955	16,452,228	17,203,740	751,512	4.6%
D50H01	Military Department	100,169,109	117,656,510	74,521,956	74,157,364	-364,592	-0.5%
D53T00	MD Institute Emergency Medical Services Systems	12,094,934	12,853,808	12,562,262	12,836,306	274,044	2.2%
D55P00	Department of Veterans Affairs	18,475,625	22,580,805	21,836,728	21,976,985	140,257	0.6%
D60A10	State Archives	7,705,355	8,988,151	8,617,522	8,750,236	132,714	1.5%
D79Z02	Maryland Health Insurance Plan	119,128,860	142,736,003	166,208,568	166,237,682	29,114	0.0%
D80Z01	Maryland Insurance Administration	26,424,843	28,371,577	27,347,209	29,594,398	2,247,189	8.2%
D90U00	Canal Place Preservation and Development Authority	529,457	577,421	556,259	566,227	9,968	1.8%
D99A11	Office of Administrative Hearings	14,123	832,600	813,596	835,665	22,069	2.7%
E00A	Comptroller of the Treasury	108,958,963	97,280,603	94,898,790	96,956,070	2,057,280	2.2%
E20B	State Treasurer	6,233,161	7,905,685	7,496,735	7,609,945	113,210	1.5%
E50C	Department of Assessments and Taxation	46,185,638	45,124,591	10,446,974	47,701,111	37,254,137	356.6%
E75D	State Lottery Agency	56,635,686	109,895,780	222,457,848	290,568,247	68,110,399	30.6%
E80E	Property Tax Assessment Appeals Boards	1,016,605	954,893	961,095	1,019,358	58,263	6.1%
F10A	Department of Budget and Management - Secretary	17,969,007	19,246,260	19,004,362	19,053,948	49,586	0.3%
F10A02	Department of Budget and Management - Personnel	9,013,835	6,632,757	69,572,103	23,432,808	-46,139,295	-66.3%
F50	Department of Information Technology	28,571,906	37,766,438	36,645,666	53,537,794	16,892,128	46.1%
G20J01	State Retirement Agency	27,196,238	30,771,582	27,627,664	25,768,273	-1,859,391	-6.7%
G50L00	Maryland Supplemental Retirement Plans	1,475,830	1,536,946	1,479,683	1,485,807	6,124	0.4%
H00	Department of General Services	54,744,745	57,070,431	56,012,149	57,436,099	1,423,950	2.5%
K00A	Department of Natural Resources	168,717,219	192,703,439	201,279,322	211,594,113	10,314,791	5.1%
L00A	Department of Agriculture	54,377,265	67,261,790	54,043,291	55,369,529	1,326,238	2.5%
P00	DLLR Workforce Development	193,683,595	195,022,269	205,600,040	208,437,483	2,837,443	1.4%
P00C	DLLR Business Regulation	36,194,410	56,079,869	96,764,948	116,541,787	19,776,839	20.4%
R00A01	MSDE Headquarters	226,302,244	282,110,478	241,948,967	249,598,873	7,649,906	3.2%
R00A03	MSDE Funding for Educational Organizations	26,324,771	26,955,902	27,025,681	27,067,177	41,496	0.2%
R00A99	MSDE Early Childhood Development	37,450,098	40,343,031	39,821,751	40,803,979	982,228	2.5%
R15P00	Maryland Public Broadcasting Commission	27,602,454	28,397,985	27,641,109	27,896,590	255,481	0.9%
R62I0001	Maryland Higher Education Commission	67,847,845	70,609,367	70,800,899	72,526,402	1,725,503	2.4%
R62I0010	MHEC Scholarship Programs	105,218,811	103,261,906	101,937,193	106,711,682	4,774,489	4.7%
R99E	Maryland School for the Deaf	27,998,531	28,462,107	27,757,589	27,618,898	-138,691	-0.5%

		<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2012-2013</u>	
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Increase</u>
S00A	Department of Housing and Community Development	312,906,059	262,946,545	270,614,137	271,253,689	639,552	0.2%
S50B	Maryland African American Museum Corporation	2,100,000	2,000,000	2,000,000	1,800,000	-200,000	-10.0%
T00	Department of Business and Economic Development	85,452,710	101,960,804	93,923,388	115,205,951	21,282,563	22.7%
T50T01	Maryland Technology Development Corporation	15,743,192	13,858,192	15,673,192	15,673,192	0	0.0%
U00A	Department of the Environment	117,970,042	125,719,555	121,101,726	129,371,745	8,270,019	6.8%
W10A00	Department of State Police	251,882,581	282,243,699	277,403,324	284,250,246	6,846,922	2.5%
Y01A	State Reserve Fund	114,947,579	15,000,000	15,000,000	405,457,774	390,457,774	2603.1%
	Total	\$3,492,251,922	\$3,680,951,667	\$3,726,405,697	\$4,329,690,278	\$603,284,581	16.2%
	Fund						
	General Fund	\$1,711,351,148	\$1,688,190,881	\$1,718,786,277	\$2,202,198,403	\$483,412,126	28.1%
	Special Fund	838,219,973	1,018,828,112	1,135,177,652	1,279,554,614	144,376,962	12.7%
	Federal Fund	942,680,801	973,932,674	872,441,768	847,937,261	-24,504,507	-2.8%
	Total	\$3,492,251,922	\$3,680,951,667	\$3,726,405,697	\$4,329,690,278	\$603,284,581	16.2%
	Personnel						
	Regular Positions	20,766.3	20,616.1	20,469.9	20,494.9	25.0	0.1%
	Full-time Equivalent Contractuals	1,834.7	1,814.5	2,024.1	2,024.1	0.0	0.0%

DLLR: Department of Labor, Licensing, and Regulation
MHEC: Maryland Higher Education Commission
MSDE: Maryland State Department of Education

Debt Service

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).

Expenditures and Funds for Debt Service Fiscal 2010-2013 (\$ in Thousands)

	<u>2010 Actual</u>	<u>2011 Working</u>	<u>2012 Leg. Approp.</u>	<u>2013 Baseline</u>	<u>2012-2013</u>	
					<u>\$ Increase</u>	<u>% Increase</u>
Expenditures						
MDOT – Debt Service	\$145,037	\$163,985	\$184,671	\$197,428	\$12,757	6.9%
Public Debt	777,523	836,746	882,263	921,302	39,039	4.4%
Total	\$922,560	\$1,000,731	\$1,066,935	\$1,118,730	\$51,796	4.9%
Fund						
General Fund	\$0	\$0	\$0	\$78,000	\$78,000	0%
Special Fund	921,703	991,529	1,055,874	1,028,610	-27,264	-2.6%
Federal Fund	857	9,202	11,060	12,120	1,060	9.6%
Total	\$922,560	\$1,000,731	\$1,066,935	\$1,118,730	\$51,796	4.9%

MDOT: Maryland Department of Transportation

Public Debt

The fiscal 2013 baseline budget for GO bond debt service costs reflects steady increases in debt issuance, from \$675 million in fiscal 2007 to \$1.1 billion in fiscal 2010. To reflect these changes, debt service costs were increased by \$39 million in fiscal 2013.

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

In recent years, debt service costs have increased at a higher rate than State property tax revenues. Fiscal 2012 State property tax receipts are projected at \$761.8 million compared to

debt service costs totaling \$867.5 million (after adjusting for federal funds and savings from bond refunding). In fiscal 2013, debt service costs are expected to increase and the State Department of Assessment and Taxation (SDAT) expects a decline in State property tax receipts. In the past, the cost difference was supported by the ABF balance, which was primarily attributable to bond sale premiums. The Department of Legislative Services estimates that gap between revenues and expenditures has widened to the point that general funds will be needed to support debt service in fiscal 2013. The amount of general funds required to avoid an increase in State property tax rates will vary depending on interest rates, which affect bond sale premiums, and housing values, which are likely to change State property tax revenues when SDAT revises revenue estimates at the end of November. As interest rates and housing value estimates are updated, the general fund appropriation will also need to be updated. Changes in interest rates or housing values could substantially affect the amount of general fund appropriations required to fund debt service without a State property tax rate increase.

Maryland Department of Transportation Bonds

Similarly, MDOT's fiscal 2013 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 from fiscal 2008 to 2010 and anticipate a large issuance in fiscal 2012. This increasing use of debt adds \$12.8 million to the fiscal 2013 baseline.

PAYGO Capital Programs

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

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 Maryland 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 2012 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 being transferred to the general fund and replaced with GO bond funds as was the case in each of the past three budgets.

Expenditures, Funds, and Positions for PAYGO Capital Programs Fiscal 2010-2013 (\$ in Thousands)

	<u>2010 Actual</u>	<u>2011 Working</u>	<u>2012 Leg. Approp.</u>	<u>2013 Baseline</u>	<u>2012-2013 \$ Increase</u>	<u>% Increase</u>
Expenditures						
Board of Public Works	\$0	\$0	\$47,500	\$0	-\$47,500	-100.0%
Maryland Energy Administration	2,683	10,250	5,000	5,000	0	0%
Department of Planning	5,150	10,100	9,100	7,150	-1,950	-21.4%
Military Department	13,899	0	27,823	22,000	-5,823	-20.9%
Department of Veterans Affairs	4,436	3,873	0	0	0	0%
Department of Information Technology	0	0	43,763	47,400	3,637	8.3%
MDOT – Secretary's Office	28,643	52,863	55,506	66,000	10,494	18.9%
Washington Metropolitan Area Transit Authority	80,785	119,949	146,616	140,216	-6,400	-4.4%
MDOT – State Highway Administration	689,759	740,001	807,059	829,616	22,556	2.8%
MDOT – Maryland Port Administration	70,023	75,617	94,526	111,615	17,090	18.1%
MDOT – Motor Vehicle Administration	21,508	22,047	17,735	23,053	5,318	30.0%
MDOT – Maryland Transit Administration	305,787	371,213	361,148	393,647	32,499	9.0%
MDOT – Maryland Aviation Administration	30,092	49,651	57,022	70,703	13,681	24.0%
Department of Natural Resources	29,881	18,928	7,627	60,984	53,357	699.6%

	2010	2011	2012 Leg.	2013	2012-2013	
	Actual	Working	Approp.	Baseline	\$ Increase	% Increase
Department of Agriculture	14,174	17,116	5,438	39,417	33,979	624.8%
Department of Public Safety and Correctional Services	1,200	10,000	0	10,000	10,000	0.0%
Dept of Housing and Community Development	163,264	44,319	46,000	46,600	600	1.3%
Department of the Environment	299,835	138,400	163,000	335,528	172,528	105.9%
Total	\$1,761,120	\$1,684,327	\$1,894,863	\$2,208,929	\$314,066	16.6%
Fund						
General Fund	\$5,060	\$10,800	\$56,500	\$8,000	-\$48,500	-85.8%
Special Fund	785,815	862,627	901,363	1,281,179	379,816	42.1%
Federal Fund	957,578	802,279	925,106	909,535	-15,571	-1.7%
Reimbursable Fund	12,667	8,620	11,894	10,215	-1,679	-14.1%
Total	\$1,761,120	\$1,684,327	\$1,894,863	\$2,208,929	\$314,066	16.6%
Personnel						
Regular Positions	1,840.0	1,837.0	1,803.0	1,803.0	0.0	0%
Full-time Equivalent Contractuals	12.0	22.0	23.0	23.0	0.0	0%

MDOT: Maryland Department of Transportation

PAYGO: pay-as-you-go

Board of Public Works – School Construction

Chapter 572 of 2011 authorized \$47.5 million in general funds to supplement authorized GO and Qualified Zone Academy Bond authorizations for public school construction. The legislation authorized the supplementary funding for fiscal 2012 only and has, therefore, been removed from the fiscal 2013 baseline budget.

Maryland Department of Planning

The fiscal 2013 baseline estimate for the Maryland Department of Planning includes the following:

- \$7 million in general funds for the Sustainable Communities Tax Credit Program which level-funds the program at the fiscal 2012 appropriation; and
- \$150,000 in special funds for the Maryland Historical Trust Revolving Loan Fund, which is consistent with the 2011 *Capital Improvement Program (CIP)* and estimated special fund revenues.

Military Department

The Military Department's capital improvements are typically made on a 75% federal and 25% State cost-share basis for eligible project costs. Grants from the National Guard Bureau provide the source for the federal fund portion of the cost-share. The baseline removes \$27.8 million in federal funds appropriated in the fiscal 2012 budget for the construction of the La Plata and Westminster Readiness centers. Contrary to the typical cost-sharing arrangement, the La Plata and Westminster Readiness centers are funded entirely with federal funds. The baseline, however, includes \$22.0 million in federal PAYGO funding for the Dundalk Readiness Center which is expected to require the typical cost-sharing arrangement with the National Guard Bureau. It is anticipated, therefore, that the State will be responsible for nearly 25% of the project's estimated total cost of \$29.0 million.

Department of Information Technology

The Department of Information Technology (DoIT) administers the One Maryland Broadband Network project. The project's objectives include the installation of 1,294 miles of fiber optic lines across Maryland. These lines will be constructed in all 24 of Maryland's jurisdictions to connect over 1,000 community anchor institutions, such as schools, libraries, and government buildings. The total costs are estimated to be \$158.4 million, including \$115.2 million in federal funds. The remaining funds are GO bonds, State in-kind contributions, and local funds and in-kind contributions. All federal funds must be expended by August 31, 2013.

The fiscal 2013 baseline includes \$47.4 million in federal funds which represents a \$3.6 million increase over the fiscal 2012 legislative appropriation. This estimate is based on DoIT's January 2011 estimate, which assumes that much of the projects work is expected to be completed in fiscal 2013.

Maryland Department of Transportation

Based in part on an improving revenue picture, baseline adjustments increase the department's capital budget by \$95.2 million, including \$109.1 million in special funds and a decrease of \$13.9 million in federal funds. The baseline includes increased spending for the Maryland Transit Administration in fiscal 2013 due to revised estimates of project cash flow requirements.

Maryland Department of Natural Resources

The fiscal 2013 baseline for the Department of Natural Resource's Program Open Space (POS) includes \$41.4 million in special funds and \$3.0 million in federal funds reflecting a \$37.7 million increase over the fiscal 2012 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 as has been the case in each of the past three budgets; this accounts for the substantial increase in the special fund baseline estimate. The baseline is impacted by a \$31.4 million fiscal 2011 revenue underattainment that significantly lessens the amount of available transfer tax revenues to support fiscal 2013 spending. In addition, the baseline includes \$3.0 million in federal funds, which is level with the fiscal 2012 legislative appropriation. The baseline also assumes that \$1.2 million in transfer tax funding will be used in the operating budget for administrative expenses as allowed for in the Budget Reconciliation and Financing Act of 2011 (Chapter 397).

The baseline includes \$13.0 million in special funds for the Rural Legacy Program, which provides funds for the acquisition of conservation easements. As with POS, the baseline assumes the statutory distribution of transfer tax revenues to the Rural Legacy Program in fiscal 2013 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 2013, the baseline includes \$18.0 million, an increase of \$13.5 million relative to the fiscal 2012 legislative appropriation all funds included.

No funding is assumed for the Ocean City Beach Maintenance Program in the fiscal 2013 baseline because the Ocean City Beach Maintenance Fund balance is expected to be at or above the \$15 million cap. Interest on the local funding will continue to accrue to the benefit of Worcester County and Ocean City and be credited toward their next contribution.

The baseline includes an upward adjustment in the amount of special and federal fund revenue available to support the Waterway Improvement Program (WIP) for fiscal 2013. 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 2013 baseline is \$3.6 million, which includes a federal fund revenue adjustment from \$0.5 million to \$0.6 million and a special fund revenue adjustment from \$2.0 million to \$3.0 million. Although, the 2011 CIP projects \$2.5 million, additional fund balance is expected and available to fund the higher level of special fund appropriation. The recent decline in special fund revenues is attributable to reduced boat sales and subsequently the reduced vessel excise tax revenue available to fund the WIP.

Maryland Department of Agriculture

The 2013 baseline for the Maryland Agricultural Land Preservation Program consists of \$35.2 million in special funds and \$1.5 million in federal funds. The special fund baseline estimate is comprised of funding from the counties (\$18.0 million), the State transfer tax statutory distribution (\$16.9 million), agricultural transfer tax (\$200,000), and miscellaneous fees (\$50,000). Overall, the baseline reflects an aggregate special and federal fund decrease of \$6.7 million relative to the 2011 CIP, primarily due to lower than anticipated State transfer tax revenues.

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program was reduced by \$1.5 million by the Board of Public Works on October 15, 2008, and funding continues at that level. While the fiscal 2013 baseline reflects a decrease for tobacco buyout, it reflects an increase in agricultural land preservation spending. Therefore, the baseline estimate for the program's overall fiscal 2013 funding, consistent with the fiscal funding level reflected in the 2011 CIP, reflects a \$1.4 million increase over the fiscal 2012 working appropriation. 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 fiscal 2013 baseline budget includes \$10 million in federal PAYGO funding to reflect the final payment from the Office of Federal Detainee Trustees for construction of the Dorsey Run Correctional Facility in Jessup. This funding is provided as part of an agreement with the federal government to utilize the former Maryland Correctional Adjustment Center in Baltimore City as a facility for housing federal detainees.

Maryland 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, and the 2011 CIP. Overall, the fiscal 2013 baseline assumes DHCD's PAYGO programs will decrease \$1.2 million compared to fiscal 2012 appropriation levels primarily due to a decline in available federal funds. Since the fiscal 2013 baseline makes use of the agency's available special fund balances, it reduces the reliance on GO bond financing. However, the baseline budget does not reflect GO bond funds which may be essential in bridging gaps in special funds to level-fund certain programs.

All nine of DHCD's capital programs are level funded in the baseline estimate when factoring out one-time federal Energy Efficiency and Conservation Block Grant Retrofit

Program (EECBG) funds. The EECBG helps finance energy-efficiency retrofits and bulk purchases of supplies and equipment to assist businesses, homeowners, and multi-family housing units in reducing energy costs. EECBG funds are made available in fiscal 2011 through 2013 only, and are expected to decrease by \$1.3 million in the fiscal 2013 baseline estimate. Though all programs are level funded notwithstanding the EECBG, two are expected to substitute a portion of GO bonds with special funds. As a result, the following adjustments were made to the fiscal 2013 baseline budget:

- **Rental Housing Programs:** The baseline estimate reflects an overall \$1.0 million decrease in funding. This is due to a \$1.0 million drop in EECBG funds for this program in fiscal 2013. Special funds remain unchanged in fiscal 2013 and are derived from loan repayments as well as transfers from the Maryland Housing Fund and Homeownership and Special Loan programs. Federal Home Investments Partnership Program (HOME) funds also remain unchanged.
- **Homeownership Programs:** The baseline estimate reflects an overall \$100,000 decrease in funding. This is driven by a \$100,000 reduction in EECBG funding in fiscal 2013. Federal HOME funds decrease by \$1.0 million, though this is offset with a \$500,000 increase in special funds and a \$500,000 increase in GO bonds. The special funds are available from a small fund balance, and GO bonds make up the difference. This action level-funds the program at the fiscal 2012 level when excluding EECBG funding.
- **Special Loan Programs:** The baseline estimate for fiscal 2013 level-funds Special Loan Programs. However, the baseline budget includes \$500,000 in special funds due to available fund balance. As a result, the use of GO bonds could decrease by \$500,000 in order to level-fund the program to the fiscal 2012 level. Federal HOME funds remain unchanged.
- **Neighborhood Business Development Program:** The baseline estimate for fiscal 2013 level-funds the Neighborhood Business Development Program. However, the fiscal 2013 baseline budget reflects the availability of \$1.9 million in special funds due to available fund balance from loan repayments. Whereas the program was fully funded with GO bonds in fiscal 2012, the availability of \$1.9 million in special funds could decrease the GO reliance by the same amount in order to level-fund the program.
- **Community Development Block Grant Program:** The fiscal 2013 baseline estimate includes a \$200,000 decrease in available EECBG funds. However, when excluding the one-time federal funds, the Community Development Block Grant Program is level funded in fiscal 2013.

Funding for the Community Legacy, Partnership Rental, Maryland Base Realignment and Closure Preservation Loan, and Shelter and Transitional Housing Facilities Grant programs are expected to remain unchanged.

Maryland Department of the Environment

The Maryland Department of the Environment's baseline assumes that Water Quality Revolving Loan Fund Program (WQRLF) funding will be greater than what is planned in the 2011 CIP. A projected \$61.7 million increase in special funds in fiscal 2013 relative to the 2011 CIP primarily reflects the spending down of available fund balance. The baseline assumes federal funds at \$34.3 million, which reflects an \$11.3 million decrease from the 2011 CIP due to a lower federal fiscal 2011 appropriation. The 20% match for the federal funds is assumed to be \$7.1 million in GO bonds – the fund source used in the fiscal 2012 legislative appropriation and the source reflected in the 2011 CIP. The WQRLF 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 (DWRLF) baseline estimate of \$39.0 million reflects \$28.4 million in special funds and \$10.6 million in federal funds, which is a \$20.8 million increase in special funds and a \$2.9 million decrease in federal funds relative to the 2011 CIP. The total federal funding, which requires the 20% match is \$14.4 million; \$10.6 million is reflected in the PAYGO budget and \$3.8 million is reflected in the operating budget as non-project set aside funding. A total of \$3.0 million is needed to match the federal funds and is expected to be made in GO bonds due to the constrained use of general funds to support the capital program. The DWRLF 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 \$1.0 million in general funds, which is level with the 2011 CIP but reflects a \$1.0 million increase from fiscal 2012. No appropriation was provided in fiscal 2012 due to high unencumbered and unexpended funds levels. 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 2011 CIP at \$8.5 million. The baseline estimate for the Enhanced Nutrient Removal Program funded by a fee on public sewer/water users is \$86.0 million in special funds, which is a \$51.0 million increase from the 2011 CIP. This increase is due to a switch from a three year to a four year cash payment model for the Enhanced Nutrient Removal Program upgrades. The fiscal 2012 legislative appropriation for the Enhanced Nutrient Removal Program includes no special funds since the \$40.0 million in special funds were transferred to the general fund in order to help balance the State operating budget and were replaced with \$21.8 million in GO bonds in fiscal 2012. An additional \$18.2 million in GO bond replacement funding was preauthorized for fiscal 2013. No new revenue bond

authorization is anticipated in fiscal 2013, as the program has reached its initially planned \$530 million revenue bond authorization level.

Part 2

General Fund Revenue Projections

Fiscal 2012 to 2016

Introduction

In September 2011, the Board of Revenue Estimates (BRE) issued a new forecast of the Maryland economy and general fund revenues. The projections are done by revenue source and reflect a combination of modeling and trend analysis. The major revenue sources are modeled based on the historical relationship between the sources and various economic factors. Therefore, the revenue projection process begins with developing an economic forecast.

United States and Maryland's 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, their forecasts from September 2011 were used. The U.S. forecasts are important because we 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. Recent revisions show that the recession was even deeper than previously thought. Inflation-adjusted gross domestic product fell, peak to trough, 5.1%. Employment fell 6.3%, or 8.8 million jobs. The unemployment rate rose from 4.4% before the recession to 10.1%. Personal income fell 4.3% in calendar 2009, the first annual decline in nominal income since 1949. Nominal wage and salary income dropped 4.3%, the first decline since 1954. Adjusted for inflation, however, 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 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. Since the trough, inflation-adjusted gross domestic product has increased 5.0% but as of the second quarter of 2011 it remains below the pre-recession peak. Since bottoming out in February 2010, employment has increased by 2.1 million jobs, or 1.6%. Private sector jobs are up 2.6 million since the trough (2.4%) but government jobs are down 2.2%, or about a half a million jobs. Cutbacks in the public sector are now a significant drag on growth. The unemployment rate has declined from its October 2009 peak of 10.1% but has been stuck at around 9.0% throughout 2011. New claims for unemployment insurance have fallen substantially since spring 2009 when they were running

over 600,000 per week. But new claims have not gotten consistently below 400,000 per week, a level generally considered necessary for sustained job growth. Personal income has grown 5.4% in the first eight months of 2011, helped by the reduction in the payroll tax that began in January. Wage and salary income is up 4.0% through August 2011, but growth has slowed throughout the year. Consumer spending has rebounded, rising 4.8% from January through August 2011, although that partly reflects higher gas prices in the spring.

Most economists expect anemic growth in the U.S. economy for the remainder of calendar 2011. Shocks to the global economy earlier in the year – like the earthquake in Japan and the spike in oil prices during the “Arab Spring” – were thought to be only temporary impediments to a sustained, albeit muted, economic recovery. Now even that scenario is in question as policy mistakes in both the United States (the debt ceiling showdown) and Europe (the European Central Bank raised interest rates twice) has shaken business and consumer confidence in the economy. Timid central banks in both the United States and Europe, combined with policymakers focused on deficit reduction, have resulted in economic growth at virtually a standstill.

As a result, the risks of the U.S. economy falling back into recession have risen substantially to 40% in the next 6 to 12 months. The biggest risks to the economy include the Eurozone banking crisis and premature tightening of U.S. fiscal policy. Regardless of whether the U.S. economy meets the technical definition of a recession, economic growth over the next year is likely to be too slow to make much progress in lowering the unemployment rate. The unemployment rate is expected to remain at around 9% throughout calendar 2012 and decline slowly in the years after. Current projections have the economy not fully recouping the jobs lost in the recession until late 2014 or 2015. In other words, it is estimated to take seven to eight 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 be below 6% until 2016 or later.

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 5.6%, or 145,000 jobs. Since February 2010 included two significant snowstorms, this drop in employment is somewhat overstated. The total decline as of January 2010 was 4.5%, or almost 117,000 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 May 2007 to 7.7% in January 2010, the highest level since April 1983. The impact of the shrinking labor market on income was significant. Recently revised data shows that nominal personal income fell 1.6% in 2009, the first decline in the post-World War II period. Nominal wage and salary income fell 0.8% in calendar 2009, the first decline since 1954. Adjusted for inflation, total income fell in 2009 for the first time since 1991. Inflation-adjusted wage and salary income fell in both 2008 and 2009, the first back-to-back decline since 1981 to 1982.

U.S. Economic Outlook
Year-over-year Percent Change*

	Actual	Estimate	Estimate	Estimate
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Real Gross Domestic Product				
Moody's Analytics	3.0%	1.6%	2.7%	3.5%
IHS Global Insight	3.0%	1.5%	1.8%	2.3%
U.S. Payroll Employment				
Moody's Analytics	-0.7%	0.9%	0.7%	1.8%
IHS Global Insight	-0.7%	0.9%	1.0%	1.3%
U.S. Unemployment Rate				
Moody's Analytics	9.6%	9.1%	9.0%	8.3%
IHS Global Insight	9.6%	9.1%	9.2%	8.9%
U.S. Personal Income				
Moody's Analytics	3.7%	5.4%	6.3%	6.5%
IHS Global Insight	3.7%	5.3%	3.6%	3.5%
Consumer Price Index				
Moody's Analytics	1.6%	3.0%	2.1%	2.8%
IHS Global Insight	1.6%	3.2%	1.6%	1.8%
30-year Fixed Mortgage Rate				
Moody's Analytics	4.7%	4.7%	5.8%	6.7%
IHS Global Insight	4.7%	4.5%	4.3%	4.4%

* Except unemployment and mortgage rates. The projections for Moody's Analytics and HIS Global Insight are from their respective September 2011 forecasts.

Source: Moody's Analytics and IHS Global Insight

Even if employment growth is better, that does not mean all is right with the Maryland economy. Although down substantially early in calendar 2011, by October, initial claims for unemployment insurance were only slightly below year-ago levels. The unemployment rate has come down but remains above 7.0%. Total personal income grew 5.1% in the first six months of 2011, helped by the payroll tax cut. Wage and salary income was up 3.4%. The business income of individuals rose 6.1% in the first half of 2011 after growing 9.7% in 2010.

Vehicle sales in Maryland have increased 2.7% in the first nine months of calendar 2011 with new car sales up 7.6% and used car sales up 0.6%. After increasing on a year-over-year basis for 12 straight months, sales tax gross receipts (a proxy for retail sales) fell in March 2011 by 1.2%. Since March, sales tax receipts have been growing over year-ago levels but weakly. Existing home sales are down 6.8% for the 9 months of 2011 as sales in 2010 were pumped up by the federal first-time homebuyers' tax credit. The median home price is down 6.9% and has not increased on a year-over-year basis since July 2007.

In September 2011, BRE issued a revised economic forecast for Maryland, its first since December 2010. BRE's new forecast expects significantly slower growth over the next several years compared to the previous forecast. Employment is projected to grow around 1% for the next three years. Personal income growth is expected to be stronger in calendar 2011 largely due to the payroll tax cut. The assumed expiration of the tax cut in 2013 similarly depresses personal income growth in that year.

Maryland Economic Outlook
Forecasted Year-over-year Percentage Change

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

Note: The figures for 2010 under the December 2010 columns are Board of Revenue estimates.

Source: Board of Revenue Estimates

General Fund Revenue Projections

The process of doing revenue projections begins with the close-out of the recently completed fiscal year, fiscal 2011 in this case. Based on the revenue performance in fiscal 2011, relative to the estimate, as well as revised economic assumptions, the revenue estimate for the current fiscal year (fiscal 2012) is revised. Fiscal 2013 was then built off the newly revised estimate for the current fiscal year.

Fiscal 2011 Close-out

Fiscal 2011 general fund revenues were above the estimate by \$314.2 million. General fund revenues totaled \$13.5 billion in fiscal 2011, an increase of 5.0% over fiscal 2010.

The personal income tax accounted for almost all of the overattainment, exceeding expectations by \$304.1 million. Withholding exceeded the estimate by \$30.7 million and grew

4.3% over fiscal 2010. Estimated payments were over the estimate by \$110.2 million and up 7.3%. Final payments with returns were over the estimate by \$169.0 million while refunds were below by \$171.0 million. In all, State and local income tax net receipts grew 9.4% over fiscal 2010 and exceeded the estimate by \$505.7 million. Compared to fiscal 2010, general fund personal income tax receipts grew 7.5%.

General fund corporate income tax revenues were below the estimate by \$40 million and fell 17.1% from fiscal 2010. Fiscal 2010 revenues included a one-time payment of \$129 million that was credited entirely to the general fund per the Budget Reconciliation and Financing Act (BRFA) of 2010 (Chapter 484). Fiscal 2010 also included \$22 million of other one-time items. Compared to an adjusted fiscal 2010, general fund corporate income revenues in fiscal 2011 were up 6.1%.

Fiscal 2011 general fund sales tax receipts grew 3.8% over fiscal 2010, the first increase in three years. But revenues were below the estimate by \$52.2 million. Growth was strong in the first half of fiscal 2011 but weakened considerably in the spring as rising gas prices cut into other consumer spending.

The lottery exceeded the estimate by \$6.8 million and grew just 1.7% over fiscal 2010. Lottery sales were up just 0.5% for the second year in a row. Sales for the largest game, Instant tickets, were up 0.5% following two years of declines. Pick 3 sales were down 2.3% while Pick 4 sales increased 3.2%. The combined Keno and Racetrax games grew 1.0% over fiscal 2010 and the combined MegaMillions and Powerball sales were up 3.4%. Revenues grew 1.7% as prize expenses fell 0.3% in fiscal 2011.

General Fund Revenues
Fiscal 2010-2011
(\$ in Millions)

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

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

** For administrative reasons, receipts from the tax amnesty in fiscal 2011 cannot be shown separately. Any revenues received in fiscal 2011 are included in the specific revenue sources.

Fiscal 2012 Revised Estimate

The overattainment in fiscal 2011, combined with the slow economic recovery, results in an upward revision to fiscal 2012 revenues that is substantially smaller than the overattainment in fiscal 2011. In September 2011, BRE raised their estimate for fiscal 2012 general fund revenues by \$195 million but also lowered the expected growth rate over fiscal 2011 from 5.2 to 4.2%.

The largest revision was to the personal income tax which was increased by \$322.7 million. This is bit more than the \$304.0 million overattainment in fiscal 2011, the result of carrying the overage into fiscal 2012 compounded by the expected growth rate of 5.5%. The expected growth rate for the income tax in fiscal 2012 remains the same as in the previous forecast despite the much stronger growth in fiscal 2011. Strong payments for tax year 2010 will continue in the first half of fiscal 2012 but the second half of the year will be dominated by weaker growth in payments for tax year 2011.

The sales tax estimate for fiscal 2012 was lowered by \$102.0 million, substantially more than the \$52.2 million underattainment in fiscal 2011. This reflects both the weak performance of the sales tax during the last quarter of fiscal 2011 and the revised economic outlook. Net receipts are projected to grow 3.5% in fiscal 2012, down from 3.8% in the previous forecast. Factoring in legislation from the 2011 session which extended the cap on the vendor credit and increased the sales tax on alcohol beverages to 9%, net receipts are expected to grow 5.3% in fiscal 2012 versus 6.4% in the old forecast. Legislation also changed the distribution of sales tax revenues which results in general fund revenues growing a projected 11.1% in fiscal 2012.

The estimate for interest on investments was lowered from \$70 million to \$30 million in fiscal 2012 and falls 48.6% from the fiscal 2011 level. Although fiscal 2011 interest earnings slightly exceeded the estimate, short-term interest rates are close to zero and are expected to stay at that level throughout fiscal 2012. The previous estimate had assumed rising interest rates.

Fiscal 2012 general fund revenues through September are up 4.8% from last year. Personal income tax revenues grew 4.0% with quarterly estimated payments up 9.4% but growth in withholding was just 1.1%. General fund sales tax revenues are up 8.2% through September, but that reflects the elimination of the distribution to the Transportation Trust Fund (TTF). Net receipts have increased 2.5% and if we exclude the additional revenue from the higher alcohol tax, net receipts are up just 0.6%. Corporate income tax revenues are down 3.4% due to a 5.3% drop in gross receipts and a 3.3% decline in refunds. Lottery revenues are up 3.8% through September, but sales are up just 1.0%. Prize payouts are flat overall with a big decline in Pick 3 as prize expenses in fiscal 2011 for Pick 3 were unusually high.

Fiscal 2013 Revenue Projection

General fund revenue growth is expected to be 2.8% in fiscal 2013. This reflects the elimination of the general fund distribution from highway user revenues. Excluding this change, general fund revenues are projected to grow 4.2% in fiscal 2013, down from 5.7% in fiscal 2012. The forecast assumes that the payroll tax cut will expire at the end of calendar 2012 resulting in slower growth in personal income in calendar 2013. Slower growth in final payments combined with a rebound in refunds results in the personal income tax growing 4.4% in fiscal 2013, down from 5.5% in the previous year.

General fund sales tax receipts are forecasted to grow just 2.8% in fiscal 2013 reflecting the slower growth in disposable personal income as the payroll tax cut expires. The corporate income tax grows 25.6% in fiscal 2013 but this reflects a change in the distribution of revenues. The BRFA of 2011 (Chapter 397) reduced the share of corporate income tax going to the TTF from 24.0% of net receipts (excluding the first 15.15%) to 9.5% in fiscal 2013.

Lottery sales are projected to grow 0.5% in fiscal 2013 after increasing 0.8% in fiscal 2012. This would mean four straight years of sales growth below 1.0%. Net revenues are expected to grow 2.4% in fiscal 2012 but fall 1.0% in fiscal 2013. Competition from slots is assumed to shave 1.0% off of sales growth in the non-jackpot games in fiscal 2013.

**Board of Revenue Estimates
General Fund Revenue Projections
Fiscal 2011-2013
(\$ in Millions)**

<u>Revenue Source</u>	<u>Actual 2011</u>	<u>Dec. Est. 2012</u>	<u>Sep. Est. 2012</u>	<u>Difference</u>	<u>% Change Over 2011</u>	<u>Estimate 2013</u>	<u>% Change Over 2012</u>
Personal Income Tax	\$6,643.4	\$6,688.1	\$7,010.8	\$322.7	5.5%	\$7,321.8	4.4%
Sales and Use Tax	3,656.0	4,164.1	4,062.0	-102.2	11.1%	4,177.7	2.8%
State Lottery	499.4	503.9	511.7	7.7	2.5%	506.4	-1.0%
Corporate Income Tax	571.3	622.5	588.7	-33.8	3.0%	739.3	25.6%
Business Franchise Taxes	210.2	206.1	209.2	3.1	-0.5%	208.9	-0.1%
Tax on Insurance Premiums	285.9	300.0	298.9	-1.1	4.5%	308.1	3.1%
Estate and Inheritance Taxes	216.0	212.0	214.0	2.1	-0.9%	205.3	-4.1%
Tobacco Tax	407.6	408.7	407.5	-1.2	0.0%	406.9	-0.2%
Alcohol Beverages Tax	30.4	31.2	30.5	-0.7	0.3%	31.1	1.8%
Motor Vehicle Fuel Tax	5.0	5.0	5.0	0.0	0.0%	5.0	0.0%
District Courts	86.9	87.8	80.8	-7.0	-7.0%	80.8	0.0%
Clerks of the Court	29.3	31.6	33.5	2.0	14.5%	34.3	2.5%
Hospital Patient Recoveries	74.2	68.0	68.0	0.0	-8.4%	68.0	0.0%
Interest on Investments	58.4	70.0	30.0	-40.0	-48.6%	35.0	16.7%
Miscellaneous	386.2	323.1	363.6	40.4	-5.9%	365.6	0.6%
Subtotal	\$13,160.3	\$13,722.0	\$13,914.2	\$192.1	5.7%	\$14,494.3	4.2%
Highway User Revenue	\$377.1	\$188.0	\$190.9	\$2.9	-49.4%	0.0	-100.0%
Total Revenues	\$13,537.4	\$13,910.0	\$14,105.1	\$195.0	4.2%	\$14,494.3	2.8%

Note: Estimates for fiscal 2012 to 2013 from Board of Revenue Estimates, September 2011.