
Spending Affordability Committee Technical Supplement

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

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Part 1

Fiscal 2014 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 adjustments 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 2013. 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 2013 budget deficiencies. The baseline estimate also allows for changes in personnel costs and inflationary increases in the operating expenses.

Personnel Operating Cost Assumptions

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

- ***Fiscal 2014 General Salary Increase:*** Due to recent employee collective bargaining agreements, the baseline assumes that a 3% general salary adjustment will be awarded to all State employees on January 1, 2014. The increase raises salaries during the second half of fiscal 2014 in the amount of \$50.9 million (\$31.6 million in general funds) for State agencies (excluding higher education). The baseline also assumes that higher education institutions receive a similar general salary increase, which adds \$32.1 million (\$20.6 million in general funds) to higher education spending.
- ***Fiscal 2014 Merit Pay Increases:*** The collective bargaining agreement also provides a merit salary increase in the final quarter of the fiscal year. This is expected to increase State agency (excluding higher education) costs by \$20.4 million (\$12.2 million in general funds). The baseline also assumes that higher education institutions receive a similar merit increase, which adds \$12.8 million (\$8.2 million in general funds) to higher education spending.
- ***Deleting Annual Salary Review (ASR) Is Assumed:*** The fiscal 2013 budget appropriated approximately \$389,000 (\$202,000 in general funds) for ASRs. This provides salary increases for nutrient management specialists, forensic behavioral specialists, contribution tax auditors, correctional managers, and Maryland correctional enterprise representatives. The baseline budget assumes no additional ASRs and deletes these funds.
- ***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 2014 claims will total \$1.42 billion. This estimate assumes that costs will increase by 6.1%, 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.
- ***Employees' Retirement and Pensions:*** Fiscal 2014 baseline expenditures are expected to increase when compared to fiscal 2013. Pension reform significantly realigned the funding path of the various systems, altering baseline spending as described:
 - an additional \$81.5 million (\$48.9 million in general funds) for the Employees' State Retirement and Pension Systems;

- State Police retirement plan appropriations decrease by \$8.6 million (\$6.4 million in general funds);
- appropriations to the Law Enforcement Officers' Pensions System increase by \$4.4 million (\$2.6 million in general funds);
- the Teachers' Retirement Plan appropriations, for members who are State employees, increase by approximately \$432,000 (\$259,000 in general funds); and
- a decrease of \$3.6 million (all general funds) for the judges' plan.

Nonpersonnel Operating Cost Assumptions

The baseline also assumes inflationary changes in specific subobjects. Overall, few inflationary changes were made to the baseline due to a national recession which has suppressed inflation. Specific inflation assumptions are:

- motor vehicle fuel (5.6%);
- electricity (5.0%);
- medical contracts and supplies (4.6%);
- prescription drugs for State facilities (4.6%);
- postage (2.5%); and
- food (1.4%).

Outside of inflationary assumptions, certain adjustments were made across all State agencies. A \$6 million reduction in general funds was made to reflect the abolition of 100 positions as of January 1, 2013. Adjustments were also made to reflect fiscal 2014 funding levels for property and vehicle insurance, Annapolis Data Center charges, and to allocate the costs of the State Retirement Agency.

Baseline Results

Overall, the baseline budget projects budget growth as indicated on the following page by fund type.

Projected Baseline Budget
Fiscal 2013-2014
(\$ in Millions)

Fund⁽¹⁾	2013 Adjusted Appropriation	2014 Baseline	2013-2014 \$ Increase	2013-2014 % Change
General ⁽²⁾	\$14,716.0	\$16,326.4	\$1,610.3	10.9%
Special/Higher Education ⁽³⁾	11,678.2	11,308.7	-369.5	-3.2%
Federal	9,291.0	9,487.3	196.3	2.1%
Total	\$35,685.2	\$37,122.4	\$1,437.2	4.0%

⁽¹⁾Excludes reimbursable and nonbudgeted funds.

⁽²⁾Net of reversions.

⁽³⁾The fiscal 2013 adjusted appropriation reflects \$488.2 million in additional special fund spending that will be added by budget amendment to replace general fund reductions. This includes \$430.3 million from the Budget Restoration Fund. 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 17, 2012. Actions subsequent to that date, including the outcome of the voter referendum on gaming or changes to the economic picture, are not reflected here.

Revised October 31, 2012

State Expenditures – General Funds
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u> <u>FY 2012</u>	<u>Leg. Appr.</u> <u>FY 2013</u>	<u>Baseline</u> <u>FY 2014</u>	<u>FY 2013 to FY 2014</u>	
				<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$0.0	\$0.0	\$160.0	\$160.0	n/a
County/Municipal	186.6	159.0	237.7	78.7	49.5%
Community Colleges	263.3	249.4	302.2	52.8	21.2%
Education/Libraries	5,620.2	5,454.6	5,761.1	306.5	5.6%
Health	38.3	37.3	38.2	0.9	2.5%
Aid to Local Governments	\$6,108.4	\$5,900.3	\$6,339.2	439.0	7.4%
Foster Care Payments	237.7	234.3	236.5	2.1	0.9%
Assistance Payments	87.8	81.7	49.8	-31.9	-39.1%
Medical Assistance	2,469.0	2,389.7	2,611.9	222.1	9.3%
Property Tax Credits	81.8	82.0	86.2	4.2	5.1%
Entitlements	\$2,876.4	\$2,787.7	\$2,984.3	196.5	7.0%
Health	1,446.3	1,465.3	1,553.8	88.6	6.0%
Human Resources	276.5	275.2	344.8	69.6	25.3%
Systems Reform Initiative	23.5	16.9	20.6	3.7	21.5%
Juvenile Services	269.2	263.0	280.3	17.4	6.6%
Public Safety/Police	1,275.3	1,294.3	1,392.7	98.4	7.6%
Higher Education	1,133.9	1,105.3	1,215.1	109.8	9.9%
Other Education	382.3	337.5	399.1	61.7	18.3%
Agric./Nat'l. Res./Environment	105.8	103.6	109.0	5.4	5.2%
Other Executive Agencies	547.1	579.8	645.0	65.3	11.3%
Legislative	76.8	78.3	82.9	4.5	5.8%
Judiciary	374.6	387.4	400.9	13.5	3.5%
State Agencies	\$5,911.4	\$5,906.5	\$6,444.3	537.8	9.1%
Deficiencies	0.0	123.0	0.0	-123.0	-100.0%
Total Operating	\$14,896.2	\$14,717.6	\$15,927.8	\$1,210.2	8.2%
Capital ⁽¹⁾	54.5	0.7	7.3	6.6	942.9%
Reserve Funds	15.0	27.8	421.3	393.5	1417.6%
Appropriations	\$14,965.7	\$14,746.0	\$16,356.4	\$1,610.3	10.9%
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	\$14,935.7	\$14,716.0	\$16,326.4	\$1,610.3	10.9%

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

Note: The fiscal 2012 working appropriation includes deficiencies, targeted reversions, and legislative reductions to the deficiencies.

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

Category	Work. Appr.	Leg. Appr.	Baseline	FY 2013 to FY 2014	
	FY 2012	FY 2013	FY 2014	\$ Change	% Change
Debt Service	\$1,055.9	\$1,102.4	\$1,031.9	-\$70.5	-6.4%
County/Municipal	205.1	278.4	271.5	-7.0	-2.5%
Community Colleges	0.0	19.9	0.0	-19.9	-100.0%
Education/Libraries	91.1	422.2	311.1	-111.1	-26.3%
Health	0.0	0.0	0.0	0.0	n/a
Aid to Local Governments	\$296.2	\$720.5	\$582.6	-\$137.9	-19.1%
Foster Care Payments	0.0	2.5	4.6	2.1	83.5%
Assistance Payments	16.4	19.4	16.7	-2.7	-14.1%
Medical Assistance	910.3	1,037.7	905.9	-131.8	-12.7%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$926.7	\$1,059.6	\$927.2	-\$132.4	-12.5%
Health	491.3	525.5	462.3	-63.1	-12.0%
Human Resources	78.0	81.9	77.9	-4.0	-4.9%
Systems Reform Initiative	0.0	0.0	0.0	0.0	n/a
Juvenile Services	3.6	2.7	1.8	-0.8	-31.8%
Public Safety/Police	214.7	216.6	231.8	15.1	7.0%
Higher Education	3,878.3	4,024.8	4,078.8	54.0	1.3%
Other Education	66.9	81.9	64.1	-17.9	-21.8%
Transportation	1,479.8	1,513.7	1,646.8	133.2	8.8%
Agric./Natl. Res./Environment	207.2	211.4	220.2	8.8	4.2%
Other Executive Agencies	607.7	742.9	530.8	-212.2	-28.6%
Legislative	0.1	0.0	0.0	0.0	n/a
Judiciary	52.7	56.3	49.8	-6.5	-11.6%
State Agencies	\$7,080.3	\$7,457.6	\$7,364.3	-\$93.4	-1.3%
Deficiencies	0.0	46.7	0.0	-46.7	-100.0%
Total Operating	\$9,359.0	\$10,386.9	\$9,905.9	-\$480.9	-4.6%
Capital	980.9	1,291.3	1,402.5	111.2	8.6%
Grand Total	\$10,339.9	\$11,678.2	\$11,308.4	-\$369.8	-3.2%

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

Note: The fiscal 2013 legislative appropriation reflects \$488.2 million in additional special fund spending that will be added by budget amendment to replace general fund reductions. This includes \$430.3 million from the Budget Restoration Fund.

Revised October 31, 2012

State Expenditures – Federal Funds
(\$ in Millions)

<u>Category</u>	<u>Work. Appr.</u>	<u>Leg. Appr.</u>	<u>Baseline</u>	<u>FY 2013 to FY 2014</u>	
	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
Debt Service	\$11.5	\$12.0	\$12.4	\$0.4	3.7%
County/Municipal	57.6	51.9	51.9	0.0	0.0%
Community Colleges	0.0	0.0	0.0	0.0	n/a
Education/Libraries	760.2	796.9	796.9	0.0	0.0%
Health	4.5	4.5	4.5	0.0	0.0%
Aid to Local Governments	\$822.3	\$853.3	\$853.3	\$0.0	0.0%
Foster Care Payments	86.3	79.5	94.1	14.6	18.4%
Assistance Payments	1,293.1	1,141.9	1,195.9	54.0	4.7%
Medical Assistance	3,424.4	3,560.4	3,780.1	219.8	6.2%
Property Tax Credits	0.0	0.0	0.0	0.0	n/a
Entitlements	\$4,803.8	\$4,781.8	\$5,070.1	\$288.3	6.0%
Health	1,098.9	1,153.3	1,216.5	63.3	5.5%
Human Resources	547.3	551.5	525.9	-25.6	-4.6%
Systems Reform Initiative	0.0	0.0	0.0	0.0	n/a
Juvenile Services	10.6	8.3	7.6	-0.8	-9.2%
Public Safety/Police	30.5	28.9	30.3	1.3	4.6%
Higher Education	0.0	0.0	0.0	0.0	n/a
Other Education	279.2	262.9	261.6	-1.3	-0.5%
Transportation	87.7	85.4	86.2	0.8	1.0%
Agric./Natl. Res./Environment	75.8	70.1	70.1	0.0	0.0%
Other Executive Agencies	624.7	532.3	544.1	11.9	2.2%
Judiciary	3.6	3.4	3.6	0.2	4.8%
State Agencies	\$2,758.4	\$2,696.0	\$2,745.9	\$49.9	1.8%
Deficiencies	0.0	10.0	0.0	-10.0	-100.0%
Total Operating	\$8,396.0	\$8,353.0	\$8,681.6	\$328.6	3.9%
Capital	895.8	937.9	805.7	-132.3	-14.1%
Grand Total	\$9,291.8	\$9,291.0	\$9,487.3	\$196.3	2.1%

Note: The fiscal 2012 working appropriation includes deficiencies and legislative reductions to the deficiencies.

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State Expenditures – All Funds
(\$ in Millions)

Category	Work. Appr.	Leg. Appr.	Baseline	FY 2013 to FY 2014	
	FY 2012	FY 2013	FY 2014	\$ Change	% Change
Debt Service	\$1,067.4	\$1,114.4	\$1,204.3	\$89.9	8.1%
County/Municipal	449.3	489.3	561.0	71.7	14.7%
Community Colleges	263.3	269.3	302.2	32.9	12.2%
Education/Libraries	6,471.5	6,673.6	6,869.1	195.5	2.9%
Health	42.8	41.8	42.7	0.9	2.2%
Aid to Local Governments	\$7,226.9	\$7,474.0	\$7,775.1	\$301.0	4.0%
Foster Care Payments	324.1	316.4	335.2	18.8	6.0%
Assistance Payments	1,397.3	1,243.0	1,262.3	19.3	1.6%
Medical Assistance	6,803.7	6,987.8	7,297.9	310.1	4.4%
Property Tax Credits	81.8	82.0	86.2	4.2	5.1%
Entitlements	\$8,606.9	\$8,629.2	\$8,981.6	\$352.4	4.1%
Health	3,036.5	3,144.0	3,232.7	88.7	2.8%
Human Resources	901.8	908.6	948.6	40.0	4.4%
Systems Reform Initiative	23.5	16.9	20.6	3.7	21.5%
Juvenile Services	283.4	274.0	289.7	15.8	5.8%
Public Safety/Police	1,520.5	1,539.8	1,654.7	114.9	7.5%
Higher Education	5,012.2	5,130.1	5,293.9	163.8	3.2%
Other Education	728.4	682.3	724.8	42.5	6.2%
Transportation	1,567.5	1,599.0	1,733.0	134.0	8.4%
Agric./Nat'l. Res./Environment	388.8	385.0	399.3	14.3	3.7%
Other Executive Agencies	1,779.6	1,855.0	1,719.9	-135.0	-7.3%
Legislative	76.9	78.3	82.9	4.5	5.8%
Judiciary	431.0	447.1	454.3	7.1	1.6%
State Agencies	\$15,750.0	\$16,060.2	\$16,554.4	\$494.2	3.1%
Deficiencies	0.0	179.7	0.0	-179.7	-100.0%
Total Operating	\$32,651.2	\$33,457.5	\$34,515.4	\$1,057.9	3.2%
Capital ⁽¹⁾	1,931.2	2,230.0	2,215.5	-14.5	-0.6%
Reserve Funds	15.0	27.8	421.3	393.5	1417.6%
Appropriations	\$34,597.4	\$35,715.2	\$37,152.1	\$1,436.9	4.0%
Reversions	-30.0	-30.0	-30.0	0.0	0.0%
Grand Total	\$34,567.4	\$35,685.2	\$37,122.1	\$1,436.9	4.0%

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

Note: The fiscal 2012 working appropriation includes deficiencies, targeted reversions, and legislative reductions to the deficiencies. The fiscal 2013 legislative appropriation reflects \$488.2 million in additional special fund spending that will be added by budget amendment to replace general fund reductions. This includes \$430.3 million from the Budget Restoration Fund.

State 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 2011-2014 (\$ in Thousands)

<u>Entity</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	
	<u>Actual</u>	<u>Working</u>	<u>Working</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Change</u>
Public Schools	\$5,714,852	\$5,781,650	\$5,841,236	\$6,008,051	\$166,815	2.9%
County/Municipal	380,660	387,912	455,994	509,142	53,148	11.7%
Community Colleges	258,114	263,061	269,328	302,244	32,916	12.2%
Libraries	64,950	65,351	66,756	70,239	3,482	5.2%
Health	37,283	38,273	37,283	38,205	921	2.5%
Total	\$6,455,859	\$6,536,247	\$6,670,598	\$6,927,881	\$257,283	3.9%

Overview

State aid is projected to total \$6.9 billion in fiscal 2014, representing a \$257.3 million (3.9%) increase over the prior year. As in prior years, most of the State aid in fiscal 2014 is targeted to public schools, while funding for counties and municipalities will account for 7.3% of total State aid. Public schools will receive \$6.0 billion in fiscal 2014, or 86.7% of total State aid. Counties and municipalities will receive \$509.1 million; community colleges will receive \$302.2 million; libraries will receive \$70.2 million; and local health departments will receive \$38.2 million. In terms of year-over-year funding enhancements, State aid for public schools will increase by \$166.8 million (2.9%); library aid will increase by \$3.5 million (5.2%); community college aid will increase by \$32.9 million (12.2%); and local health department grants will increase by \$0.9 million (2.5%). Also, county and municipal governments will realize a \$53.1 million (11.7%) increase in State aid.

Public Schools

Public schools will receive an estimated \$6.0 billion in fiscal 2014, representing a \$166.8 million (2.9%) increase over the prior year. The per-pupil foundation amount is estimated at \$6,829, a 1.0% increase from fiscal 2013. Inflationary adjustments were 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) of 2010 (Chapter 484) 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 major 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 \$166.9 million. Special funds increase by \$25.0 million while GO bond funding (for the Aging Schools Program) decreases by \$25.0 million. Special funds (Education Trust Fund, or ETF) derived from video lottery revenues relieve general fund expenditures for public schools. These special funds are estimated to total \$311.1 million in fiscal 2014. This estimate reflects current law as of October 2012. Because the referendum question required under Chapter 1 of the Second Special Session of 2012 passed, 24 hour per day/seven day per week video lottery operations will be authorized, resulting in an estimated ETF funding total of \$371.5 million in fiscal 2014 (approximately 5% above the baseline estimate).

Foundation Program

The baseline includes \$2.8 billion for the State's foundation program, a \$36.6 million (1.3%) increase from the fiscal 2013 appropriation. Part of the increase is attributable to the rise in the per-pupil foundation amount from \$6,761 to \$6,829. Another portion of the increase is attributable to a 3,395.8 (0.4%) 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 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 2014. 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 2014, with funding reaching \$130.5 million.

Supplemental Grants

To mitigate the impact of a freeze in the per-pupil foundation amount in fiscal 2009 and 2010, Chapter 2 of the 2007 special session established supplemental grants that ensured at least a 1% annual increase in State funding for each local school system in each year of the freeze. Beginning in fiscal 2011, as approved in the 2007 special session and amended by the BRFA of 2009 (Chapter 487), 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.

The BRFA of 2011 (Chapter 397) limited decreases in direct education aid to 6.5% from fiscal 2011 to 2012, resulting in a \$779,300 grant to Allegany County and a \$640,600 grant to Garrett County for fiscal 2012. Chapter 1 of the First Special Session of 2012 limited decreases in direct education aid to 5.0% from fiscal 2012 to 2013, resulting in a fiscal 2013 grant of approximately \$1.2 million to Garrett County. No similar adjustment is assumed for the fiscal 2014 baseline.

Compensatory Aid

The compensatory aid program is expected to total \$1.2 billion in fiscal 2014, representing a \$32.2 million (2.8%) 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 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. Funding for the special education formula is expected to increase by \$3.9 million (1.5%), to a total of \$270.4 million in fiscal 2014. The increase is attributable to a projected increase in the enrollment of students with disabilities and the increase in the per-pupil foundation amount. An increase of \$2.5 million is anticipated for the nonpublic placement of special education students. This would bring the State's contribution to the program to \$116.4 million in fiscal 2014, a 2.2% increase.

Limited English Proficiency Grants

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 \$15.7 million (8.8%), to a total of \$193.1 million in fiscal 2014. This

increase is driven by anticipated LEP enrollment growth of 7.5% and the increase in the per-pupil foundation amount.

Guaranteed Tax Base Program

The baseline budget includes \$46.0 million in funding for the guaranteed tax base program, a \$1.8 million (4.1%) increase over the fiscal 2013 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 2014.

Student Transportation Funding

The baseline estimate for student transportation includes \$229.5 million to fund the transportation formula, an increase of \$1.5 million (0.6%) over the fiscal 2013 appropriation. In addition, \$23.4 million is included for the transportation of disabled students, representing a \$105,000 increase in funding. Changes in the student transportation formula are attributable to projected increases in full-time equivalent enrollment in 11 school systems. 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. Chapter 444 of 2012 increased fiscal 2013 funding for the Aging Schools Program by \$25.0 million above the \$6.1 million statutory mandate, for a total of \$31.1 million. The 2014 baseline budget assumes the \$6.1 million level of funding for the program and assumes funding in the form of GO bonds. Estimated lease repayments for the TIMS Program remain at the fiscal 2013 level of \$84,363 in fiscal 2014.

Teacher 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. Changes to the State Teachers' Pension System require local board employees to pay more toward retirement costs and reduce the benefits that local board employees hired after June 30, 2011, will receive. Because of these changes, State payments on behalf of local school boards were reduced by a total of \$74.4 million in fiscal 2012. 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.

Chapter 1 of the First Special Session of 2012 requires local school boards to share in the costs of teachers' retirement by phasing in school board payments of the annual normal cost over four years. Chapter 1 specifies the payment required from each school board for fiscal 2013 through 2016.

State retirement costs for public school teachers and other professional personnel will total an estimated \$853.0 million in fiscal 2014, representing a \$97.5 million increase (12.9%) from the prior fiscal year. This increase is attributed to an increase in the State contribution rate as well as an estimated \$68.1 million increase from fiscal 2013 to 2014 in the required reinvestment of pension reform savings from public schools. In addition to the State's share of teacher pension costs, local governments will contribute approximately \$186.5 million in fiscal 2014: \$173.2 million for the local share of pension contributions as well as \$13.3 million toward State Retirement Agency administrative costs.

County and Municipal Governments

Approximately 7.3% of State aid is allocated to county and municipal governments to finance general government and transportation, public safety, and recreation projects. County and municipal governments will receive \$509.1 million in fiscal 2014, an increase of \$53.1 million (11.7%) above the prior year. The major State aid programs assisting county and municipal governments include highway user revenues (HUR), disparity grants, teacher retirement supplemental 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 HURs, 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 share for fiscal 2014 and subsequent years is set at 9.6%. The local government share of the distribution of HURs is projected to total \$168.0 million in fiscal 2014, a \$5.0 million increase when compared to the fiscal 2013 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. State aid for elderly/handicapped transportation programs and paratransit grants remain constant in fiscal 2014 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

receive grants, assuming all counties impose a 2.54% local tax rate and assuming that the county received aid through this program in fiscal 2010. 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. Aid received by a county equals the lesser of the amount needed to raise the county's per-capita income tax revenues to 75.0% of the statewide average or the fiscal 2010 grant level.

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 2014. Funding for this program is projected to total \$121.4 million in fiscal 2014, which is the level of the statutory cap.

Teacher Retirement Supplemental Grants

Chapter 1 of the First Special Session of 2012 included provisions to require local jurisdictions to share a portion of the cost of teachers' retirement. To mitigate the impact on local government finances, the cost is phased-in over four years, and other actions were taken to partially offset the additional expense. One such action was the creation of Teacher Retirement Supplemental Grants, totaling \$27.7 million beginning in fiscal 2013. The grant amount does not change in future years and, thus, is funded at this level in the fiscal 2014 baseline.

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. Chapter 148 of 2012 maintained budgeted police formula aid for fiscal 2013 at the \$45.4 million level. Police aid in fiscal 2014 is projected to total \$67.5 million which reflects the statutorily mandated funding level.

Vehicle theft prevention grants are projected to total \$1.7 million and emergency 9-1-1 grants are projected to total \$14.4 million in fiscal 2014; in each case equal to the fiscal 2013 level. Other public safety grants totaling \$29.1 million (targeted crime grants, fire and rescue aid, State's Attorney's grant, etc.) are also level funded in the fiscal 2014 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 must be used for infrastructure, facilities, public safety, sanitation, development, and other public services improvements.

Eighty-two percent of this aid goes to the local jurisdictions with VLT 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 20 years beginning in fiscal 2012, after \$1 million annually is provided to Prince George's County to be used for public safety surrounding Rosecroft Raceway.

Chapter 1 of the Second Special Session of 2012 makes several changes to the State's VLT program, though many of these changes were contingent upon results of a November 2012 referendum question required by Chapter 1. As described earlier (Public Schools), the baseline estimate is based upon current law as of October 2012 (*i.e.*, prior to referendum results). In fiscal 2014, local impact grants are estimated to total \$34.9 million, an increase of 21%.

Program Open Space

Under POS, the State provides grants to counties and Baltimore City for land acquisition and the development of parks and recreation facilities. Generally, State transfer tax revenues fund POS and related programs. However, reduced transfer tax revenues and the diversion of a portion of POS funding toward the operation of State forests and parks have contributed to a significant decrease (of about 90%) in funding available for local POS efforts from fiscal 2007 to 2011. Further, the fiscal 2011 capital budget authorized and preauthorized the replacement of all transfer tax revenues diverted from local POS with GO debt over the course of fiscal 2011 through 2013. Chapter 444 of 2012 authorized \$13.6 million in bond funds over several years. Baseline fiscal 2014 funding for local POS increases by \$17.2 million to \$32.3 million (in special funds), which includes the minimum \$1.5 million funding level for the Baltimore City special POS grant.

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 2014, the Cade formula grant is to receive either 19.7% of funds per FTES that the selected public four-year institutions receive per FTES or \$1,839.47 per FTES, whichever is higher. In fiscal 2014, per-FTES funding is estimated to be \$1,961.61 using the 19.7% calculation, for a total of \$225.4 million. This represents an increase of \$26.3 million, or 13.2%. Baltimore City Community College is a State agency and receives funding through a separate funding formula.

The fiscal 2014 baseline also includes \$5.8 million for the English Speakers of Other Languages Program, and \$6.0 million for statewide and regional programs. In addition, small colleges are estimated to receive \$4.7 million in Small College and Mountain grants and reciprocity agreement funding. The baseline also includes \$60.3 million for benefits to

employees of community colleges, a \$6.0 million (11%) increase over the fiscal 2013 working appropriation.

Local Health Departments

The State provides funds to support the delivery of public health services. These services include child health, communicable disease prevention, maternal health, family planning, environmental health, and administration of the departments. Due to declining revenues, the fiscal 2010 appropriation for grants to local health departments was reduced from \$57.4 million to \$37.3 million by the Board of Public Works in August 2009. Chapter 484 of 2010 maintained fiscal 2011 and 2012 aid for local health departments at the \$37.3 million level. However, fiscal 2012 grants did increase by \$989,300 due to one-time employee bonuses. Fiscal 2013 grants reverted to the fiscal 2011 total of \$37.3 million level as a result of a \$1.9 million reduction. Due to inflation and population adjustments, fiscal 2014 aid increases by \$921,000, or 2.5%, for a total of \$38.2 million.

Libraries

The baseline estimates an increase of \$307,100 (0.9%) in the State library aid formula, with total funding in fiscal 2014 estimated at \$34.0 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 \$138,000 (0.9%), bringing total funding for this program to \$16.2 million in fiscal 2014. 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 \$20.1 million, representing a \$3.0 million (17.8%) increase. 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 Resources' (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 2011-2014 (\$ in Thousands)

	<u>2011 Actual</u>	<u>2012 Working</u>	<u>2013 Leg. Approp.</u>	<u>2014 Baseline</u>	<u>2013-2014 Increase</u>	<u>% Increase</u>
Expenditures						
SDAT Tax Credit Programs	\$79,718	\$82,878	\$81,961	\$86,153	\$4,192	5.1%
DHMH Medicaid Program	6,251,909	6,965,109	7,038,268	7,390,284	352,016	5.0%
DHR Social Services Foster Care Maintenance Payments	299,364	324,066	316,359	335,187	18,828	6.0%
DHR Family Investment Assistance Payments	1,210,308	1,397,316	1,243,024	1,262,312	19,288	1.6%
Total	\$7,841,299	\$8,769,369	\$8,679,612	\$9,073,936	\$394,325	4.5%
Funds						
General Fund	\$2,150,010	\$2,918,161	\$2,789,540	\$2,986,089	\$196,549	7.1%
Special Fund	611,328	927,654	1,020,327	927,222	93,105	-9.1%
Federal Fund	5,009,788	4,849,920	4,787,783	5,076,205	288,422	6.0%
Reimbursable Fund	70,173	73,634	81,962	84,421	2,459	3.0%
Total	\$7,841,299	\$8,769,369	\$8,679,612	\$9,073,936	\$394,325	4.5%
Personnel						
Regular Positions	25.0	26.0	25.0	25.0	0.0	0%
Full-time Equivalent Contractuals	1.0	1.0	3.0	3.0	0.0	0%

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

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 2014 baseline reflects a \$4.2 million increase in these tax credit entitlements as follows:

The Homeowners' Tax Credit Program will increase in fiscal 2014 by \$2,294,519 to \$62.3 million. This increase is due to an increasing number of eligible recipients as well as property tax increases in various counties and municipalities throughout the State.

Funding for the Renters' Tax Credit Program is expected to increase by \$535,520 to \$2.9 million. Most of this increase is because the average cost for rent is increasing throughout the State.

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 2014 appropriation for this program is expected to increase by \$1,062,689 to a total of \$19.8 million. This is mainly due to more commercial properties finishing construction in these zones, thus making them eligible under this credit.

The BRAC Revitalization and Incentives Zones Credit Program will also increase by \$300,000 to \$1,050,000 for fiscal 2014. This growth is tied to more applicable counties enrolling in the program as well as more properties being eligible now that they are completed.

Medicaid Enrollment and Expenditure Trends

Overview

Maryland's medical assistance programs (Medicaid, Maryland Children's Health Program (MCHP), Primary Adult Care (PAC), 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 fiscal 2014 Medicaid baseline estimate also includes the impact of the federal Patient Protection and Affordable Care Act (ACA) which allows the expansion of Medicaid to 138% of the federal poverty level effective January 1, 2014. Under the ACA, states availing themselves of that opportunity benefit from an enhanced match rate for certain new coverage groups.

Fiscal 2013 Outlook

The fiscal 2013 medical assistance programs' working appropriation of just over \$7.0 billion (just under \$2.4 billion in general funds) at this point appears to be sufficient to meet projected need. Further, the medical assistance programs appear to have adequate accrual from fiscal 2012 to cover bills received in fiscal 2013 for services rendered in fiscal 2012.

Expenditures for fiscal 2013 services are not expected to exceed the fiscal 2013 appropriation based on an anticipated gradual slowing of the increase in program enrollment, a small but continued increase in the use of managed care to serve program enrollees, the impact of cost containment actions in the fiscal 2013 budget, a continuing decline in inpatient expenditures, higher than anticipated pharmacy rebates, and a scheduled Managed Care Organization (MCO) rate reduction of 1.1% in calendar 2013. Costs per enrollee are anticipated to increase by less than 1.0% between fiscal 2012 and 2013.

Fiscal 2014 Forecast

In fiscal 2014, expenditures for the medical assistance programs are estimated to be just over \$7.4 billion, a 6.5% increase over the fiscal 2013 estimate. This estimate is based on a variety of factors including continued moderation of enrollment growth of the existing Medicaid/MCHP Program (2.38%), continued constraints on medical inflation/utilization including the ongoing effects of cost containment such as MCO rate reductions in the first six months of the fiscal year, the assumption of only modest rate increases in calendar 2014, a modest assumption of continued growth in the percentage of Medicaid enrollees served in managed care, and costs associated with the anticipated expansion of Medicaid under the ACA.

While the U.S. Supreme Court upheld the constitutionality of most of the ACA, it did find that the federal government could not require the participation of states in Medicaid expansion to 138.0% of the federal poverty level (FPL). While a small number of states have initially indicated that they will not be participating in the expansion of Medicaid (in spite of the fact that in the initial years, all costs will be borne by the federal government), Maryland has indicated that it will be expanding coverage and also that it will be offering the standard Medicaid benefit package to this population. The Department of Legislative Services (DLS) anticipates that in fiscal 2014, the Medicaid expansion will result in the addition of just over 135,000 new enrollees (including enrollment due to woodwork, *i.e.*, enrollment of individuals who are already eligible but for whatever reason remain not enrolled), over half of which are existing PAC enrollees who will now be eligible for full Medicaid benefits. This equates to a 16.7% increase in enrollees in the full Medicaid/MCHP program. However, the medical costs of most of these new enrollees (childless adults and all adult enrollees between 116.0 and 138.0% of the FPL) will be reimbursed at 100.0% of the federal Medical Assistance Percentage. In addition, the State will no longer be required to support the PAC Program. Taken together, DLS estimates that this results in increased expenditures in the second half of fiscal 2014 of \$133 million. This increase is made up of a general fund savings of \$32 million and an increase in federal fund expenditures of \$165 million.

As a result of all these changes, general fund need is expected to grow by \$224 million (9.4%). It should be noted that \$95 million of this general fund reflects the need to replace fiscal 2013 special funds from the Budget Restoration Fund in fiscal 2014. Nonetheless, special fund support in fiscal 2014 is expected to continue at a high level (just under \$900 million) primarily derived from a variety of provider assessments (on MCOs, hospitals, and nursing homes).

Enrollment and Service Year Expenditures*
Fiscal 2012-2014

	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Estimate</u>	<u>2014</u> <u>Estimate</u>	<u>2013-2014</u> <u>% Change</u>
Enrollment by Category				
Medicaid	723,004	736,570	746,264	1.32%
MCHP	103,011	109,506	112,157	2.42%
Medicaid Expansion to Parents Expansion Under the ACA (Beginning January 1, 2014, Including Woodwork Effect)	84,908	102,188	112,407 135,233	10.00% n/a
Total	912,935	950,277	1,108,075	16.61%
Cost Per Enrollee	\$7,047	\$7,118	\$6,448	-8.85%
Cost Per Enrollee Excluding ACA Expansion		7,118	7,254	1.90%
Total Funds (\$ in Millions)	\$6,433	\$6,764	\$7,189	6.37%

ACA: Patient Protection and Affordable Care Act

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 and Kidney Disease programs are excluded from the chart and explains any difference between expenditures cited in the main body of the text versus the chart. Fiscal 2014 average cost per enrollee is artificially lowered by the growth in enrollees in the second half of the fiscal year due to the ACA. For purposes of comparison, data with and without that expansion are shown.

Source: Department of Legislative Services

Department of Human Resources

DHR oversees two areas of entitlement spending: foster care and subsidized adoption/guardianship payments; and cash assistance for needy children and their parents or relative caretakers.

Foster Care and Subsidized Adoption/Guardianship Caseloads and Expenditures

The State's foster care and subsidized adoption/guardianship programs provide temporary and permanent homes for children in need of out-of-home placements due to abuse or neglect. Foster care placements – such as family homes, group homes, and institutions – offer temporary out-of-home care until implementation 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 goal of subsidized guardianships is to encourage relative caregivers to become legal guardians of children who have been placed in their home by a local department of social services by removing financial barriers.

Anticipated Deficiencies

To help address a budget shortfall caused primarily by underattainment of federal Title IV-E foster care funding, DHR deferred payment of \$24.8 million in foster care maintenance bills in fiscal 2012. A general fund deficiency of this amount is anticipated for fiscal 2013. In order to show the true changes between fiscal years, this amount has been added to the fiscal 2012 numbers discussed below. In addition, funding for foster care payments in the fiscal 2013 budget is \$16.2 million less than the projected need. This shortfall is largely offset by increased special fund and medical assistance federal fund attainment, leaving a projected shortfall of just over \$855,000. A general fund deficiency of this amount is included in the baseline calculations.

The following table shows the caseload and expenditure trends for the foster care and subsidized adoption/guardianship programs.

The slow decline in the foster care caseload experienced over the past few years is expected to continue into fiscal 2014 as DHR continues to focus efforts on reducing the number of children entering into care and expeditiously moving children in care to permanent homes. The average monthly foster care caseload is projected to decline by 1.4% per year between fiscal 2012 and 2014. This focus on permanency is the primary factor in the increasing subsidized adoption/guardianship caseload which is expected to grow at a rate of 2.5% per year between fiscal 2012 and 2014. The combined caseload increases at a rate of 1.1% per year during this period. The subsidized adoption/guardianship caseload has been larger than the foster care caseload since fiscal 2006.

The monthly cost per case for foster care is expected to increase by 1.4% per year between fiscal 2012 and 2014, reflecting a 1.0% provider rate increase in fiscal 2013 and an estimated provider rate increase of 2.0% for fiscal 2014. The monthly cost per case for subsidized adoptions/guardianships is expected to remain constant during this period. The combined caseload average cost per case increases 3.8% per year. Total expenditures for the combined caseload are expected to increase by 0.6% per year during this period.

**Foster Care and Subsidized Adoption/Guardianship
Caseloads and Expenditures
Fiscal 2011-2014**

	<u>2011</u>	<u>2012</u>	<u>2013 DLS Estimate</u>	<u>2014 DLS Estimate</u>	<u>2012-2014 Avg. Annual % Change</u>
Caseload					
Foster Care	5,797	5,714	5,634	5,555	-1.4%
Subsidized Adoption/Guardianship	8,863	10,199	10,505	10,715	2.5%
Total Combined	14,660	15,913	16,139	16,270	1.1%
Expenditures					
Monthly Cost Per Case					
Foster Care	\$2,878	\$3,291	\$3,321	\$3,383	1.4%
Subsidized Adoption/Guardianship	714	664	664	664	0.0%
Combined Average Cost	\$1,570	\$1,477	\$1,591	\$1,592	3.8%
Total Cost (\$ in Millions)	\$299.4	\$331.2	\$332.5	\$335.2	0.6%

DLS: Department of Legislative Services

Note: The total cost for fiscal 2012 includes \$24.8 million of incurred expenses for which the Department of Human Resources deferred payment until fiscal 2013. This deferred amount is also included in the cost per case calculations for foster care in fiscal 2012.

Source: Department of Human Resources; Department of Legislative Services

Temporary Cash Assistance Caseloads 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 several years of declines in the average monthly caseload prior to the 2008 recession, the TCA Program experienced significant growth in the caseload with increases of 13.5 and 15.7% in fiscal 2009 and 2010, respectively. Growth in the average monthly caseload continued through fiscal 2012 but at a declining rate of growth (7.1% in fiscal 2011 and 0.3% in fiscal 2012). The average monthly caseload for fiscal 2012 was 72,413 recipients.

Seven months in fiscal 2012 had an average monthly caseload lower than the previous month, and the first two months of fiscal 2013 realized bigger declines, indicating a likely return to steady caseload decline, assuming the economic recovery continues. Based on this trend, DLS is projecting an average monthly caseload decline of 1.2% through fiscal 2014. If this occurs, the fiscal 2013 average monthly caseload will fall to 62,759 recipients and will further decline to 54,112 average monthly recipients in fiscal 2014. The next table shows the average monthly enrollment, monthly grant amount, and total program funding requirements for fiscal 2012 through 2014.

TCA Enrollment and Funding Trends
Fiscal 2012-2014

	<u>2012</u> <u>Actual</u>	<u>2013</u> <u>Approp.</u>	<u>2013</u> <u>Estimate</u>	<u>2014</u> <u>Estimate</u>	<u>2013-2014</u> <u>% Change</u>
Average Monthly Enrollment	72,413	71,243	62,759	54,112	-13.8%
Average Monthly Grant	\$174.45	\$174.33	\$174.45	\$175.76	0.7%
General Fund (\$ in Millions)	25.0	39.0	21.3	4.1	-80.9%
Total Funds (\$ in Millions)	\$151.1	\$149.0	\$131.4	\$114.1	-13.1%
Fiscal 2013 Estimated Surplus (\$ in Millions)			\$17.7		

TCA: Temporary Cash Assistance

Source: Department of Human Resources; Department of Legislative Services

The fiscal 2014 average monthly grant amount includes a 1% increase to ensure that the TCA benefit, in combination with the Supplemental Nutrition Assistance Program benefit, equals at least 61% of the Maryland Minimum Living Level as required by statute.

DLS is projecting a surplus of \$17.7 million in TCA funding in fiscal 2013 since the budget assumes a much slower caseload decline than has been experienced for the past six months. Based on this assumption, an anticipated deficiency in Child Welfare Services is reduced by this amount (see the discussion for DHR).

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 (Medicaid) 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.

Expenditures, Funds, and Positions for the Department of Health and Mental Hygiene Fiscal 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$49,537	\$46,299	\$50,700	\$49,332	-\$1,369	-2.7%
Office of Health Care Quality	15,517	16,930	17,374	17,911	537	3.1%
Health Occupation Boards	26,230	28,782	30,171	31,076	905	3.0%
Public Health Administration	61,322	58,966	55,079	63,774	8,694	15.8%
Prevention and Health Promotion Administration	312,541	352,040	353,329	368,679	15,350	4.3%
Chronic Disease Services	44,961	46,695	46,398	49,567	3,169	6.8%
Alcohol and Drug Abuse Administration	141,105	150,325	158,488	158,725	237	0.2%
Mental Hygiene Administration	1,002,680	1,091,151	1,061,609	1,111,953	50,344	4.7%
Developmental Disabilities Administration	788,746	832,779	889,422	926,790	37,369	4.2%
Medical Care Programs Administration	67,487	101,796	102,591	135,814	33,224	32.4%
Health Regulatory Commissions	147,254	166,256	164,952	175,421	10,468	6.4%
Total	\$2,657,381	\$2,892,019	\$2,930,113	\$3,089,041	\$158,928	5.4%
Funds						
General Fund	\$1,384,775	\$1,444,672	\$1,463,386	\$1,551,952	\$88,566	6.1%
Special Fund	291,669	347,631	350,350	360,491	10,141	2.9%
Federal Fund	959,819	1,076,312	1,093,868	1,153,789	59,920	5.5%
Reimbursable Fund	21,119	23,404	22,508	22,809	301	1.3%
Total	\$2,657,381	\$2,892,019	\$2,930,113	\$3,089,041	\$158,928	5.4%
Personnel						
Regular Positions	6,388.0	6,350.0	6,446.0	6,449.0	4.0	0.1%
Full-time Equivalent Contractuals	319.0	370.0	396.0	396.0	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 baseline changes in the DHMH Administration budgets are all reductions:

- a \$118,000 decrease in funding required due to revised master equipment lease requirements;
- a \$166,000 reduction based on estimates of utilization of the Annapolis Data Center; and
- the ending of \$250,000 in funding for a major information technology project in the federal Women's, Infants, and Children (WIC) Program as that project is complete and has moved into the operations and maintenance phase of the project.

Health Occupation Boards

There is one adjustment for the Health Occupations Boards that affects the fiscal 2014 baseline budget, an increase of \$67,812 in special funds to reflect the transfer of the State Board of Environmental Sanitarians from the Maryland Department of the Environment to the Department of Health and Mental Hygiene, per Chapter 667 of 2012.

Public Health Administration

The following changes were made to the baseline budget of the Public Health Administration:

- a \$6.2 million increase in general funds to reflect a partial year capital lease payment to the Maryland Economic Development Corporation which serves as debt service for the new Public Health Laboratory facility; and
- a \$234,309 increase in general funds for three additional positions in the Division of Drug Control to implement Chapter 267 of 2012, which requires increased inspections of health care practitioners that personally prepare and dispense prescription drugs and devices.

Health Systems and Infrastructure Administration

There is one adjustment for the Health Systems and Infrastructure Administration that affects the fiscal 2014 baseline budget, specifically a rebuild of expenses associated with the Core Public Health formula which increases the budget by \$0.9 million in general funds. This reflects a 2.5% increase in funding for local health departments, per Chapter 484 of 2010.

Prevention and Health Promotion Administration

There is one baseline adjustment for the Prevention and Health Promotion Administration that affects the fiscal 2014 baseline budget, namely an increase of \$11.2 million in special funds for Statewide Academic Health Centers and Tobacco Use Prevention and Cessation.

Mental Hygiene Administration

The Mental Hygiene Administration's (MHA) fiscal 2014 baseline budget includes several significant items:

- The baseline includes general fund deficiencies of almost \$3.2 million in the community fee-for-service mental health services budget to cover unprovided for payables for fiscal 2012.
- Utilization (1.0%) and enrollment (2.38%) growth in the fee-for-service community mental health services system, combined with estimated rate increases of 2.38% for non-rate-regulated providers (as provided for under Chapters 497 and 498 of 2010) and between 1.0 and 3.0% for rate-regulated providers, adds just over \$27.5 million (total funds) to the baseline.
- The assumption of a 2.38% provider adjustment on MHA grants and contracts (in line with that provided for fee-for-service expenditures) adds almost \$1.25 million to the baseline.
- Other major changes implement funds swaps made in the Budget Reconciliation and Financing Act of 2012, adding just over \$6.2 million in special funds into fiscal 2013 made available from Care First premium tax exemption revenues and adding \$6.5 million in general funds in fiscal 2014 to replace a like amount of special funds from the Budget Restoration Fund in fiscal 2013.

Developmental Disabilities Administration

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

- The baseline includes deficiencies of \$7.9 million (total funds) reported as unprovided for payables for fiscal 2012 in the Community Services Program. Of this, just over \$5.0 million is a general fund deficiency.
- A reduction of \$8.6 million in special funds to reflect the removal of one-time Budget Restoration Funds. This reduction is offset by an \$8.6 million increase in general funds.
- Annualization of community services provided for first-time clients in fiscal 2013 that will be ongoing in fiscal 2014 account for an increase of nearly \$15.0 million in total funds.
- Expenses associated with community service contracts increase by \$20.2 million (total funds) to account for a 2.42% 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 2011-2014 (\$ in Thousands)

	<u>2011 Actual</u>	<u>2012 Working</u>	<u>2013 Leg. Approp.</u>	<u>2014 Baseline</u>	<u>2013-2014 Increase</u>	<u>% Increase</u>
Expenditures						
Administration	\$181,631	\$179,647	\$179,896	\$192,920	\$13,024	7.2%
Social Services	259,354	280,004	280,989	295,747	14,758	5.3%
Child Support Enforcement	90,784	85,525	87,543	91,190	3,647	4.2%
Family Investment	209,609	213,764	214,578	223,113	8,535	4.0%
Office of Home Energy Programs	145,267	143,214	145,573	145,638	65	0%
Total	\$886,645	\$902,154	\$908,579	\$948,608	\$40,028	4.4%
Funds						
General Fund	\$295,522	\$276,473	\$275,208	\$344,802	\$69,595	25.3%
Special Fund	87,495	78,007	81,886	77,896	-3,990	-4.9%
Federal Fund	503,252	547,299	551,486	525,910	-25,576	-4.6%
Reimbursable Fund	375	375	0	0	0	0%
Total	\$886,645	\$902,154	\$908,579	\$948,608	\$40,028	4.4%
Personnel						
Regular Positions	6,677.0	6,545.0	6,539.0	6,539.0	0.0	0%
Full-time Equivalent Contractuals	102.0	73.0	73.0	73.0	0.0	0%

Administration

The fiscal 2014 baseline for DHR Administration includes anticipated deficiency appropriations in two programs. In the fiscal 2012 closing documents, DHR recorded an unprovided payable of \$3.3 million (\$2.4 million in general funds and \$0.9 million in federal funds) in the Maryland Legal Services Program for legal representation for Children in Need of Assistance and Termination of Parental Rights cases. The fiscal 2014 baseline includes a one-time fiscal 2013 deficiency appropriation to fund that payable. A second anticipated

deficiency adjusts the fiscal 2013 fund split to recognize lower than anticipated Title IV-E attainment and level fund the program compared to fiscal 2012 (an increase of \$4.2 million in general funds and decrease of \$631,360 in federal funds), which carries forward into fiscal 2013.

An additional deficiency appropriation in the Office of Technology for Human Services provides \$4.9 million total funds (\$2.0 million in general funds and \$2.9 million in federal funds) to support the contracts for the Enterprise Content Management and Business Process Management System, which were not funded in the fiscal 2013 budget. Another adjustment reduces the funding of the contracts to \$4.3 million total funds (\$1.7 million in general funds and \$2.5 million in federal funds), the level required in fiscal 2014.

Other adjustments to the fiscal 2014 baseline:

- increase the federal fund portion of the Client Automated Resource and Eligibility System Health Care Reform-related Major Information Technology Development project to \$2.0 million in federal fiscal 2014; and
- provides \$100,000 (\$40,000 in general funds, and \$60,000 in federal funds) one-time funding in the information technology maintenance contract to modify the Maryland Children's Electronic Social Services Information Exchange system to implement Chapter 397 of 2012.

Social Services Administration

The fiscal 2014 baseline for DHR Child Welfare Services includes one anticipated deficiency appropriation to address \$22.8 million in accrued expenditures that DHR reported in the fiscal 2012 closeout. The accruals result primarily from underattainment of federal IV-E Foster Care funding. Anticipated savings of \$17.7 million in Assistance Payments due to a declining Temporary Cash Assistance caseload partially offset the accrued expenditures and reduce the deficiency amount to \$5.2 million. An adjustment is made to the fiscal 2014 baseline to reduce federal funds by \$22.8 million and increase general funds by an equal amount to recognize lower IV-E attainment expectations going forward. Finally, \$50,000 is added in fiscal 2014 to reflect enactment of Chapter 397 establishing an Alternative Response system for responding to reports of child abuse and neglect.

Child Support Enforcement Administration

The fiscal 2014 baseline for the Child Support Enforcement Administration is adjusted to:

- provide a one-time anticipated deficiency appropriation to account for an overstatement of special fund revenue from the Child Support Reinvestment Fund and forward funding

of this fund in fiscal 2012, which results in a decrease of the special fund appropriation by \$7.1 million and increases the general and federal fund appropriation by \$2.4 million and \$4.7 million, respectively;

- increase special funds by \$5.1 million and decrease general funds (\$1.9 million) and federal funds (\$3.2 million) in fiscal 2014 to reflect the expected level of Child Support Reinvestment funds; the adjustment also ensures the correct federal fund participation in the program; and
- remove \$49,118 (\$16,700 in general funds and \$32,418 in federal funds) representing start-up costs from the transition of legal services positions from the Baltimore City State's Attorney's Office to State positions in fiscal 2013.

Family Investment Administration

The fiscal 2014 baseline for DHR Local Family Investment includes one anticipated deficiency appropriation of \$7.3 million to address accrued expenditures of that amount reported by DHR in the fiscal 2012 closeout. The accruals are due to underattainment of federal funds. An adjustment is also made to fiscal 2014 to reduce federal funds by \$7.3 million and increase general funds by an equal amount to reflect lower federal fund attainment expectations going forward.

Office of Home Energy Programs

The fiscal 2014 baseline for the Office of Home Energy Programs (OHEP) includes an anticipated deficiency appropriation for fiscal 2013 to adjust the fund splits for the program to reflect revised revenue estimates based on:

- an assumption that Maryland's federal Low-income Home Energy Assistance Program (LIHEAP) will be level funded in fiscal 2013 and that the OHEP will use fiscal 2012 carryover funds available to the program;
- the Electric Universal Service Program surcharge is collected only at the level allowed by law;
- the \$2.0 million transfer from the administrative expense account of the Strategic Energy Investment Fund (SEIF) occurs as outlined in the Budget Reconciliation and Financing Act of 2012; and
- the SEIF available in fiscal 2013 is modestly lower than projected in the fiscal 2013 budget.

As a result of these assumptions, the fiscal 2013 deficiency appropriation provides \$9.0 million in general funds to the OHEP, while reducing federal funds (\$8.8 million) and special funds (\$0.2 million).

The program is level funded in the fiscal 2014 baseline but an adjustment to the fund split removes the effects of the fiscal 2012 LIHEAP carryover, removes the SEIF transfer, and revises downward the estimated SEIF available. As a result, the adjustment increases general funds by \$12.1 million while reducing federal funds by \$9.7 million and special funds by \$2.4 million.

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 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Department of Juvenile Services	\$272,415	\$283,404	\$274,031	\$289,801	\$15,770	5.8%
Total	\$272,415	\$283,404	\$274,031	\$289,801	\$15,770	5.8%
Funds						
General Fund	\$257,514	\$269,191	\$262,963	\$280,347	\$17,384	6.6%
Special Fund	404	3,581	2,669	1,821	-848	-31.8%
Federal Fund	14,158	10,624	8,330	7,561	-769	-9.2%
Reimbursable Fund	339	8	69	73	3	4.9%
Total	\$272,415	\$283,404	\$274,031	\$289,801	\$15,770	5.8%
Personnel						
Regular Positions	2,219.0	2,140.0	2,133.0	2,081.0	-52.0	-2.4%
Full-time Equivalent Contractuals	86.0	108.0	107.0	107.0	0.0	0%

Projected Deficiencies

The fiscal 2014 baseline budget for DJS includes nearly \$12.2 million in anticipated general fund deficiency appropriations for fiscal 2013.

Residential and Non-residential Per Diems

The fiscal 2014 baseline budget assumes a fiscal 2013 general fund shortfall of \$9.0 million for per-diem payments to residential providers and \$650,000 for non-residential programs and services. The department has seen an increase in its out-of-home committed population, particularly for youth placed out-of-state, as part of an effort to reduce the number of youth in pending placement status. The fiscal 2013 appropriation for residential per diems is approximately \$8.8 million short of actual fiscal 2012 expenditures. This deficiency funding is an ongoing increase in fiscal 2014, in addition to assuming a 2% rate increase for residential providers.

Employee Staffing Needs

An additional general fund deficiency appropriation of \$2.5 million is anticipated for fiscal 2013 to address ongoing employee staffing shortfalls. This increased level of funding is assumed to be ongoing for fiscal 2014. The amount of the assumed deficiency is largely based on fiscal 2012 actual expenditures. The fiscal 2013 appropriation for employee overtime is approximately \$1.2 million less than the level of funding required for fiscal 2012. In addition, the department's vacancy rate for the first quarter of fiscal 2013 has averaged near 10%.

Other Changes

Other changes incorporated into the fiscal 2014 baseline include:

- adjustments to reflect the annualization of education programs transferred from DJS to the Maryland State Department of Education during fiscal 2013, as well as an additional \$2.8 million in fiscal 2014 for the planned transfer of four additional facilities on July 1, 2013;
- a \$521,000 general fund reduction for alterations in the department's Master Lease Equipment Purchase Program; and
- a \$395,000 federal fund reduction to reflect the end of a federal grant supporting the Continuum of Opportunity Reentry Program, a Baltimore City pilot initiative targeting youth aged 14 years and older with comprehensive reentry services as they transition to the community from out-of-home placement.

Department of Public Safety and Correctional Services

The Department of Public Safety and Correctional Services (DPSCS) is a unit of State government whose primary focus is the supervision and management of Maryland's criminal population. Three agencies focus on those criminals sentenced to terms of confinement by the courts: the Division of Correction, the Patuxent Institution, and the Division of Pretrial Detention and Services (DPDS). Additionally, DPDS also manages those awaiting trial in Baltimore City. The Division of Parole and Probation focuses 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 Capital Programs section.

Expenditures, Funds, and Positions for the Department of Public Safety and Correctional Services Fiscal 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Office of the Secretary	\$126,816	\$127,707	\$136,352	\$141,360	\$5,008	3.7%
Division of Correction	797,156	812,380	820,627	891,390	70,763	8.6%
Maryland Parole Commission	4,490	4,876	5,128	5,495	368	7.2%
Division of Parole and Probation	99,736	104,353	103,648	111,019	7,371	7.1%
Patuxent Institution	47,030	47,080	47,543	50,008	2,465	5.2%
Inmate Grievance Office	795	991	887	924	37	4.1%
Police and Correctional Training Commissions	8,797	9,271	8,911	9,463	552	6.2%
Criminal Injuries Compensation Board	6,073	6,244	5,759	6,222	463	8.0%
Maryland Commission on Correctional Standards	463	561	536	593	57	10.7%
Division of Pretrial Detention and Services	144,106	148,476	145,099	152,947	7,848	5.4%
Total	\$1,235,462	\$1,261,938	\$1,274,489	\$1,369,421	\$94,932	7.5%
Funds						
General Fund	\$1,003,798	\$1,082,669	\$1,088,206	\$1,171,464	\$83,258	7.7%
Special Fund	139,318	142,120	150,403	160,727	10,324	6.9%
Federal Fund	81,471	29,085	28,504	29,323	819	2.9%
Reimbursable Fund	10,875	8,063	7,377	7,908	531	7.2%
Total	\$1,235,462	\$1,261,938	\$1,274,489	\$1,369,421	\$94,932	7.5%
Personnel						
Regular Positions	11,223.0	11,053.0	11,050.0	11,167.0	117.0	1.1%
Full-time Equivalent Contractuals	270.0	345.0	404.0	404.0	0.0	0%

Projected Deficiencies

The DPSCS baseline for fiscal 2014 includes \$16.5 million in anticipated general fund deficiency appropriations for fiscal 2013, with slightly more than \$15.0 million anticipated to be ongoing spending for fiscal 2014. Approximately \$1.5 million is for one-time deficiencies in the Office of the Secretary, including \$50,000 in general funds to support implementation of new legislation, Chapter 564 of 2012, regarding the Earned Compliance Credit Act and \$1.4 million to purchase equipment for a new pilot program at the Metropolitan Transition Center (MTC) to manage and restrict cell phone access within the facility.

Custodial Agency Operating Expenses

The fiscal 2014 baseline includes \$15.0 million in general fund deficiency appropriations for custodial agency operating expenses. Employee overtime makes up a majority of the deficiency, totaling \$9.0 million. The fiscal 2013 appropriation for overtime was 20% below fiscal 2012 actual data. The fiscal 2014 baseline attributes \$4.7 million of the anticipated deficiencies to ongoing operating costs, including food, supplies, materials, and motor vehicle expenses. A \$700,000 deficiency is anticipated to support inmate wage payments, as the department has made significant efforts to increase inmate employment as a means of improving parole-eligibility and successful community reentry. Finally, a \$500,000 deficiency is anticipated to fund medical expenses for inmates at local correctional facilities based on prior year actual expenditures. Maryland statute requires the department to cover all medical costs in excess of \$25,000 for inmates held in local correctional facilities.

Office of the Secretary

The increase in the fiscal 2014 baseline budget for the Office of the Secretary includes the following significant adjustments:

- a \$2.1 million general fund increase to restore the appropriation for Public Safety Death Benefit awards due to the anticipated exhaustion of the previously accrued fund balance;
- a \$1.0 million general fund appropriation for alterations in the department's Master Equipment Lease Purchase program;
- a \$200,000 increase for the annual maintenance associated with the managed cell phone access pilot program at MTC; and
- a \$180,000 general fund increase for annualization of the Offender Case Management System; the Information Technology and Communications Division received \$470,000 in fiscal 2013, and the annual cost after full implementation is \$650,000.

Division of Correction

The majority of the increase in fiscal 2014 is the new Dorsey Run Correctional Facility. The department anticipates that the first of two 560-bed compounds at Dorsey Run will be operational within the first three months of the fiscal year and, therefore, requires \$8.4 million in general funds and an additional 117 positions in fiscal 2014. Each compound consists of an administrative building plus two buildings housing 280 beds apiece. Once complete, the entire facility will provide a total of 1,120 new minimum security beds.

Maryland Correctional Enterprises

The fiscal 2014 baseline reflects a \$6.0 million increase in supply and material purchases for Maryland Correctional Enterprises based on an increase in work orders at the end of fiscal 2012 and 2013 projections.

Criminal Injuries Compensation Board

A baseline adjustment for fiscal 2014 increases funding available for financial assistance to victims of crime by \$343,000. The special and federal fund distributions have been reallocated, resulting in more special funds and less federal funds being apportioned to victims of crime.

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 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 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
The Secretary's Office	\$70,651	\$75,667	\$79,292	\$81,496	\$2,204	2.8%
Washington Metropolitan Area Transit Authority	228,594	256,742	262,688	287,011	24,323	9.3%
State Highway Administration	252,180	209,804	214,377	250,506	36,129	16.9%
Maryland Port Administration	44,454	44,362	46,530	47,795	1,266	2.7%
Motor Vehicle Administration	157,344	163,654	170,326	179,789	9,463	5.6%
Maryland Transit Administration	621,917	651,405	657,895	708,342	50,447	7.7%
Maryland Aviation Administration	170,765	174,128	176,243	186,411	10,168	5.8%
Total	\$1,545,905	\$1,575,762	\$1,607,351	\$1,741,351	\$134,000	8.3%
Funds						
Special Fund	\$1,455,172	\$1,488,101	\$1,521,989	\$1,655,140	\$133,151	8.8%
Federal Fund	90,733	87,661	85,361	86,211	849	1.0%
Total	\$1,545,905	\$1,575,762	\$1,607,351	\$1,741,351	\$134,000	8.3%
Personnel						
Regular Positions	7,056.0	7,004.0	6,996.0	6,996.0	0.0	0%
Full-time Equivalent Contractuals	79.0	116.0	110.0	110.0	0.0	0%

Secretary's Office

The fiscal 2014 baseline budget includes a \$1.4 million, or 5%, increase in information technology related contracts in the Office of Transportation Technology Services.

Washington Metropolitan Area Transit Authority

The operating grant subsidy for the Washington Metropolitan Area Transit Authority increases approximately \$24.3 million, or 9.3%, in fiscal 2014. 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. The increase is based upon the department's assumed cost in its draft financial forecast.

State Highway Administration

The State Highway Administration has budgeted \$41 million for winter maintenance activities; however, five-year historical average expenditures have been closer to \$63 million. The fiscal 2014 baseline includes a \$22 million deficiency for winter maintenance expenditures to reflect actual spending. The fiscal 2014 budget also includes an increase of \$10 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 2014 baseline budget increases \$19,375 to reflect the increase in debt service costs associated with the M-REAL facility.

Motor Vehicle Administration

The fiscal 2014 baseline budget includes a \$2.6 million increase for the cost of the central issuance of driver's licenses coming into service. There is also a \$400,000 increase for credit card fees due to more transactions being performed with credit cards. Finally, there is a \$300,000 increase in postage due to sending out repeat Vehicle Emissions Inspection Program notices to residents.

Maryland Transit Administration

The fiscal 2014 baseline budget includes the following adjustments:

- A fiscal 2012 budget amendment increased spending on paratransit services by \$15.6 million due to contract increases and ridership growth. This ongoing spending was added to the baseline, and fiscal 2014 ridership and contract growth are expected to add an additional \$3.3 million to the budget.

- Contract commuter bus costs will increase by \$7.8 million due to an accounting change in how revenue is collected by the contractor. Previously, the contractor collected fare revenue and then billed the department for the difference. Now the contractor will bill the department for the entire cost.
- A 5% increase in the Maryland Area Regional Commuter contract costs which adds \$5.4 million to the fiscal 2014 budget.
- A fiscal 2013 budget amendment added \$5.0 million to the grant provided to Montgomery County for local bus service. The fiscal 2014 budget assumes this will be an ongoing increase in the grant amount.

Maryland Aviation Administration

The fiscal 2014 baseline budget includes \$1.0 million increases for janitorial services due to passenger growth and for heating, ventilation, and air conditioning maintenance. There is also a \$5.2 million increase in debt service associated with non-traditional debt issuances.

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 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Morgan State University	\$195,464,703	\$215,817,637	\$222,736,414	\$227,292,152	\$4,555,738	2.0%
St. Mary's College of Maryland	62,966,663	70,212,650	74,112,388	75,808,235	1,695,847	2.3%
University of Maryland (UM), Baltimore	986,546,683	1,003,426,464	1,018,551,689	1,047,741,393	29,189,704	2.9%
UM, College Park	1,594,081,787	1,687,959,086	1,731,044,948	1,797,654,893	66,609,945	3.8%
Bowie State University	98,854,259	105,014,353	104,211,619	106,655,762	2,444,143	2.3%
Towson University	387,669,120	408,746,818	419,968,937	429,701,723	9,732,786	2.3%
University of Maryland Eastern Shore	122,091,634	124,599,334	125,350,094	130,241,923	4,891,829	3.9%
Frostburg State University	100,515,250	102,360,000	103,631,565	106,848,209	3,216,644	3.1%
Coppin State University	89,273,335	89,786,373	90,700,322	92,129,234	1,428,912	1.6%
University of Baltimore	117,486,875	124,676,922	130,954,274	134,425,219	3,470,945	2.7%
Salisbury University	143,716,478	157,674,578	161,021,592	167,458,567	6,436,975	4.0%
University of Maryland University College	375,400,585	399,826,545	403,714,210	417,420,875	13,706,665	3.4%
UM Baltimore County	355,177,788	354,860,057	362,926,672	376,178,352	13,251,680	3.7%
UM Center for Environmental Science	42,320,475	45,356,658	46,585,180	48,874,229	2,289,049	4.9%
University System of Maryland Office	27,005,548	27,998,867	27,997,985	28,705,335	707,350	2.5%
Baltimore City Community College	94,739,705	93,883,724	106,350,334	106,782,282	431,948	0.4%
Total	\$4,793,310,888	\$5,012,200,066	\$5,129,858,223	\$5,293,918,385	\$164,060,162	3.2%
Funds						
General Fund	\$1,145,641,959	\$1,133,858,248	\$1,105,321,158	\$1,215,125,482	\$109,804,324	9.9%
Special Fund	49,283,022	65,681,647	95,408,778	61,956,777	-33,452,001	-35.1%
Other Unrestricted	2,343,572,342	2,527,878,561	2,600,893,649	2,646,007,262	45,113,613	1.7%
Restricted	1,254,813,565	1,284,781,610	1,328,234,638	1,370,828,864	42,594,226	3.2%
Total	\$4,793,310,888	\$5,012,200,066	\$5,129,858,223	\$5,293,918,385	\$164,060,162	3.2%
Personnel						
Regular Positions	24,222.2	24,730.4	24,727.4	24,970.3	242.9	1.0%
Full-time Equivalent Contractuals	6,356.4	6,246.8	6,285.7	6,285.7	0.0	0.0%

General Fund Changes

- The baseline budget assumes a \$7.4 million overattainment of HEIF revenues in fiscal 2013 which is carried forward to fiscal 2014. This results in a corresponding decrease in general funds in fiscal 2014 to be offset by the use of HEIF revenues.
- The baseline budget provides the State funding portion of USM's mandatory costs. In fiscal 2014, the State funding portion of mandatory costs is estimated to increase \$68.1 million, or 6.3%, over fiscal 2013. 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 \$3.2 million, or 4.3%, over fiscal 2013. This includes increases for personnel, enrollment growth, and other operating costs.
- The fiscal 2013 cost-of-living adjustment (COLA) was annualized, and a 3.0% half-year COLA was assumed for USM and MSU totaling \$32.1 million. Of this amount, \$20.7 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.
- In fiscal 2014, a quarter-year salary increment totaling \$12.8 million was assumed for USM and MSU, of which \$8.3 million was presumed to be State funds, and the remaining portion was comprised of other current unrestricted and restricted funds.
- Resident undergraduate enrollment growth accounts for \$8.2 million of the total increase in mandatory costs, of which \$7.0 million and \$1.2 million are attributed to USM and MSU, respectively. The cost of enrollment growth was calculated by multiplying the projected fiscal 2013 enrollment by the fiscal 2013 to 2014 growth rate projected by the Maryland Higher Education Commission. The estimated fiscal 2014 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 1.5%, or \$0.3 million, and tuition and fee revenues 2.3%, or \$0.4 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 1.9% in fiscal 2014. SMCM was authorized to receive the HEIF beginning in fiscal 2013, and the use of the HEIFA continues in the fiscal 2014 baseline.
- 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 2014,

BCCC is to receive either 61.0% of funds per full-time equivalent student (FTES) that the selected public four-year institutions receive per FTES or \$5,695.60 per FTES, whichever is higher. In fiscal 2014, per-FTES funding is estimated to be \$6,074.04 using the 61.0% calculation, for a total of \$43.5 million. This represents an increase of \$3.8 million compared to fiscal 2013, or 9.7%. BCCC also receives funding through the English for Speakers of Other Languages Program, estimated to be \$0.9 million in fiscal 2014.

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 tuition, a 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 net of revenue toward institutional aid will increase 2.8%, or \$40.2 million.
- For MSU, undergraduate tuition and fee revenues are estimated to increase \$3.0 million, or 5.4%, in fiscal 2014, to align tuition revenues with actual enrollment in fiscal 2013 plus the assumption that undergraduate resident tuition will increase 5.0% (net of revenue toward institutional aid), 3.0% for nonresident tuition, and a 3.0% increase in fees.
- Of the \$40.2 million in USM undergraduate tuition and fee revenues, \$11.6 million is attributable to new enrollments, which was based on each institution's projected enrollment growth and the projected fiscal 2014 resident and nonresident tuition and fee rate. For MSU, \$1.3 million of the \$3.0 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 \$11.6 million and \$0.3 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 \$30.3 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 2014 baseline budget is primarily driven by the following adjustments:

- a projected decrease of \$1,069,379 in special funds from the Land Records Improvement Fund to reflect the decrease in costs of the major information technology development projects; and
- consistent with Joint Resolution 5 of 2012, judicial salaries increase by 3% for all judges starting in fiscal 2014. Also, consistent with Chapter 485 of 2012, judicial pension contributions increased from 6 to 8%. These changes have been calculated into the baseline with a total increase of \$1,750,240 in general funds. Furthermore, the salaries of the Public Defender, State Prosecutor, and Workers Compensation Commissioners are tied to the judicial salary schedule, and the appropriate adjustments have been made within those baseline projections.

C80B Office of the Public Defender

The Office of the Public Defender (OPD) provides indigent defendants with legal representation in criminal cases throughout the State. OPD operates 12 district offices throughout the State as well as five divisions and two specialized units. The fiscal 2014 baseline budget includes a fiscal 2013 deficiency of \$1,098,367 in general funds for case-related expenses which will carry forward for fiscal 2104. This is due to an ongoing and increased need for panel attorneys and other case-related fees.

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 2014 baseline budget includes an increase of \$692,000 in special funds from the Mortgage Loan Servicing Practices Settlement

Fund to provide OAG with eight new contractual hires for the purposes of mortgage and foreclosure prevention and enforcement.

C90G00 Public Service Commission

The Public Service Commission (PSC) regulates gas, electric, telephone, water, sewage disposal, and certain for-hire passenger transportation companies doing business in Maryland. The following adjustments were made to the fiscal 2014 baseline budget:

- the special fund budget for consultant services was increased by \$220,476, to approximately \$1.2 million, to reflect the anticipated needs;
- federal funds available from the American Recovery and Reinvestment Act of 2009 (ARRA) were reduced by \$241,668 and three contractual full-time equivalents (FTE). The remaining ARRA funding and FTEs in the fiscal 2014 baseline represents the level that would be needed for the final three months of ARRA activities; and
- one contractual FTE and the related funding (\$29,600) were deleted because the activities of that position are now being completed by a regular position.

C91H00 Office of People's Counsel

The Office of People's Counsel represents the interests of residential users of gas, electricity, telephones, water, and sewer before the PSC, various federal agencies, and the courts. The fiscal 2014 baseline includes an anticipated deficiency appropriation for consultant services (\$154,088 in special funds), which brings the spending level in fiscal 2013 to the three-year average of actual expenditures (\$1 million). This level of spending is expected to continue into fiscal 2014.

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 2014 baseline budget assumes an increase of \$7,521 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 2014 baseline includes a \$95,620 increase in general funds for the transfer of one position from the Governor's Office of Community Initiatives to the Executive Department based on the need for an assistant chief of staff.

D12A02 Department of Disabilities

The Department of Disabilities is the principal State agency responsible for developing, maintaining, revising, and enforcing statewide disabilities policies and standards throughout the units of State government. A major recurring federal grant, the Medicaid Infrastructure Grant, aimed at increasing employment among individuals with disabilities, concluded in fiscal 2013. Totalling \$129,565 in that year, the baseline removes that funding for fiscal 2014.

D13A13 Maryland Energy Administration

The Maryland Energy Administration (MEA) is an independent unit of State government created, in part, to promote the conservation and efficient use of energy, and to evaluate and coordinate energy-related policies and activities among State and local agencies. The fiscal 2014 baseline is adjusted to:

- increase fiscal 2013 funding based on a fiscal 2013 budget amendment that allocates funds from a three-year federal grant to improve energy efficiency in State buildings (\$245,835) and one position created by the Board of Public Works to support the grant activity. This funding is assumed to continue into fiscal 2014;
- delete three contractual FTEs and related funding (\$226,480 in total funds, including \$216,980 in special funds and \$9,500 in federal funds) that were initially intended to support ARRA activities, but will not be required with the end of ARRA funding;
- remove ARRA funding remaining in the fiscal 2013 legislative appropriation (\$220,000), which is not available in fiscal 2014; and
- delete one-time funding for a legislatively mandated study of the expansion of EmPower Maryland to natural gas in fiscal 2013 (\$42,424).

A series of adjustments were made in the fiscal 2014 baseline to reflect estimates of the available funding from the Strategic Energy Investment Fund (SEIF) and the allocation of those funds between programs. The baseline assumes approximately five million allowances will be sold in each auction, approximately 61.3% of the allowances to be auctioned, at a reserve price of \$1.95, providing total SEIF revenue of \$39.1 million. This represents a decrease from the estimate of SEIF revenue in the fiscal 2013 budget. The revenue assumptions are based on the average of the three most recent auctions and an inflationary adjustment to the minimum reserve price. Adjustments in MEA in the energy efficiency and conservation programs and renewable and clean energy program initiatives decrease available SEIF by a net \$202,262 with an increase in the general energy efficiency program due to a change in allocation offset by decreases in other programs.

D15A05 Executive Department – Boards, Commissions, and Offices

The Boards, Commissions, and Offices unit of the Executive Department contains various entities created by executive order to provide planning and coordination for the Executive Branch functions or to investigate and make recommendations on problems affecting the administration of government or the welfare of the State. The unit includes Survey Commissions; the Office of Minority Affairs (OMA), the Governor's Office of Community Initiatives (GOCI); the State Ethics Commission; Health Care Alternative Dispute Resolution Office; the Governor's Office of Crime Control and Prevention (GOCCP); the State Commission on Criminal Sentencing Policy; the Governor's Grants Office; and the State Labor Relations Board. The Department of Legislative Services prepares a separate analysis for GOCCP; the others are discussed here. Major changes to the 2014 baseline budget are as follows:

- a \$95,620 decrease in GOCI general funds for the transfer of an assistant chief of staff to the Executive Department of the Governor;
- a fiscal 2013 general fund deficiency of \$76,876 for OMA to cover leave payouts;
- a fiscal 2013 general fund deficiency of \$40,000 in OMA due to a mandated one-time study of funds managed by the State Retirement and Pension System as required by Chapter 577 of 2012; and
- an increase authorized by the Board of Public Works of \$100,000 from the contingent fund in fiscal 2013 to be supported in fiscal 2014 by State general funds to assist the State Labor Relations Board with bargaining unit changes resulting from Chapter 582 of 2012. The increase includes \$37,902 to convert an assistant attorney general to full time, \$43,398 to hire a contractual executive assistant, \$15,000 for additional postage, and \$3,700 is for supplies and equipment.

D15A0516 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 fiscal 2014 budget:

- restored local law enforcement grants by replacing \$20,768,000 from the Budget Restoration Fund back to general funds as a result of Chapter 1 of the First Special Session of 2012;
- a general fund increase of \$22,088,918 to fully fund the State Aid for Police Protection Grant Program for a total of \$67,509,900; and
- a \$481,410 reduction in federal stimulus funding for criminal justice initiatives.

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 2014. Therefore, the baseline estimates no federal funds for HSMCC.

D18A18 Governor's Office for Children and Children's Cabinet Interagency Fund

In the Children's Cabinet Interagency Fund, an adjustment was made to replace half of the nonbudgeted funds assumed in the fiscal 2013 budget with general funds. This increases general funds by \$3.65 million.

D28A03 Maryland Stadium Authority

The Maryland Stadium Authority manages facilities for professional baseball and football teams and studies, constructs, and finances other projects such as convention centers. The baseline includes updated debt service payments for the Baltimore City Convention Center, the Ocean City Convention Center, the Montgomery County Conference Center and the Hippodrome Performing Arts Center. The payments, in general, reflect lower interest rates on reissued debt.

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 2014 baseline budget:

- The fiscal 2014 baseline decreases the appropriation for existing capital lease payments by \$0.3 million reflecting a slight decrease in payments for the Phase 2 purchase of the touchscreen voting system and the ePollbooks purchased by some counties for the 2008 presidential elections.
- Baseline adjustments totaling \$13.0 million were made to reflect the 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 this amount, \$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 Funds. The remaining \$7.5 million, primarily the county share of the costs, are included in the baseline for SBE and include: \$5.5 million in special funds for lease payments for the optical scan; ballot marking device and ballot on demand equipment; and costs for testing, certification, and related optical scan supplies; and \$1.9 million (equally split between general and special funds) for additional ballot printing, supplies, maintenance, vendor support and software licenses.

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 2014 baseline assumes an increase of \$0.2 million in general funds and one position in Museum Services to reflect staffing needed to operate the Jefferson Patterson Park and Museum's Patterson Center renovation 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 2014 baseline budget are as follows:

- an increase of \$38,000 in operating costs associated with completion of alterations and additions to the Dundalk Readiness Center. The baseline allocates these costs on a 50% federal/50% State general fund cost-share basis; and

- a fund swap of \$200,000 from general funds to special funds available through traffic conviction surcharges for the Maryland State Firemen's Association as a result of Chapter 1 of the First Special Session of 2012.

D55P00 Department of Veterans Affairs

The Department of Veterans Affairs provides a variety of administrative, outreach, and support services to the State's veterans, their families, dependents, and survivors. The department also manages five veterans' cemeteries, and manages the Charlotte Hall Veterans Home (CHVH) in St. Mary's County. The CHVH contracts with a medical services provider for care administered within the home, and the contract includes a management fee that declines as the home's population increases. The fiscal 2013 budget overestimated the average monthly population, however, and the baseline estimate includes a deficiency appropriation of \$520,000 to cover higher than budgeted management contract fees.

D78Y01 Maryland Health Benefit Exchange

One baseline adjustment was made to the budget of the Health Benefit Exchange: specifically the addition of 33 new positions and associated expenses in fiscal 2013 with these costs annualized in fiscal 2014. These positions were recently created by the Board of Public Works and are needed to staff-up the exchange ahead of the January 1, 2014 deadline, to formally begin exchange operations. Expenses associated with these positions are covered for the next several years by federal grants until a financing mechanism for the exchange is developed as required under State law.

D79Z02 Maryland Health Insurance Plan

The Maryland Health Insurance Plan (MHIP) administers the State's health insurance policy of last resort and the Senior Prescription Drug Assistance Program (SPDAP), which provides coverage for seniors on Medicare. As a result of the federal government's healthcare overhaul, MHIP will be absorbed into the new Health Benefit Exchange starting January 1, 2014, though the SPDAP will continue to provide coverage. To account for the absorption of MHIP into the Health Benefit Exchange in fiscal 2014, the baseline estimates costs for the second half of the fiscal year to be only final benefit payments and for three employees to remain to perform financial audits and close the agency's books.

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 2014 baseline budget are as follows:

- a fiscal 2013 general fund deficiency of \$175,000 to complete the 2009 and 2010 Statistics of Income reports;
- a fiscal 2013 general fund deficiency of \$200,000 for postage associated with the Motor Vehicle Administration (MVA) initiative, which prohibits MVA from transferring or renewing a vehicle registration or driver's license if an individual has not paid, or made arrangements to pay, undisputed tax obligations;
- a fiscal 2013 general fund deficiency of \$102,000 to the Compliance Division for four additional contractual FTEs to assist with the agency's MVA-related initiative; and
- an increase of \$102,000 in general funds to comply with legislation enacted during the 2012 session. Chapters 478 and 544 of 2012 require tax form changes and related computer expenses associated with modifications to the State income tax.

E50C State Department of Assessments and Taxation

The State Department of Assessments and Taxation 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 increase of \$16,777,563 in general funds with a concurrent decrease of that amount in special funds. This is due to the local reimbursement for Real Property Valuation, the Office of Information Technology, and Business Property Valuation expenses dropping from 90 to 50% for fiscal 2014.

E75D State Lottery and Gaming Control Agency

The State Lottery and Gaming Control Agency is responsible for administering and operating lottery games that generate revenue for the State. It is also responsible for administering the State's system of video lottery terminals (VLT). The baseline reflects increases in spending for the operations of four VLT facilities. Chapter 1 of the Second Special Session of 2012 allowed VLT operators to retain their share of revenue thereby negating the need to budget that component of revenues. Accordingly, the baseline reflects this technical change.

F10A 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 Statewide Expenses program that have been subsequently transferred to the departments to whom the funds were ultimately destined. These reductions, which are the most significant made in the DBM budget, are:

- \$46.9 million, \$33.8 million of which are special funds supported by the Budget Restoration Fund, in State employees' general salary increase;
- \$1.9 million attributable to a special, one-time teacher retirement contribution appropriation. All these funds are supported by the general fund; and
- \$389,000 for the Annual Salary Review, of which \$202,000 is general funds.

Statewide expenses also recognize an additional \$280,000 in State funds to support a projected increase in the costs of the State Retirement Agency administering the pension system. This includes \$190,000 in general funds.

Adjustments are also made to the administrative agencies in the DBM budget. These adjustments include:

- Deleting \$400,000 supporting an incentive program in the Central Collection Unit. The funds are deleted because the legislation enacting the program failed;
- Reducing personnel expenditures approximately \$43,000 to implement spending reductions required by eliminating \$6.0 million and 100 positions Statewide;
- Adding about \$24,000 and 0.5 regular positions to implement Chapter 581 of 2012, which expanded collective bargaining rights; and
- Adding approximately \$2,000 to reflect additional Annapolis Data Center costs.

F50 Department of Information Technology

The Department of Information Technology (DoIT) provides information technology (IT) leadership to manage State IT resources. DoIT's fiscal 2014 baseline budget adjustments relate

to major IT projects funded by the Major Information Technology Development Project Fund (MITDPF), major IT projects managed by DoIT for DBM, and adjustments reflecting DoIT operations. No deficiency adjustments are made. The MITDPF adjustments are:

- rebuilding the cost of currently approved projects by adding \$0.6 million in general funds to reflect cash flow changes in statewide major IT projects;
- rebuilding the funding for the purchase of Public Safety Communications System equipment. DoIT advises that costs are expected to decline to \$9.9 million, compared to \$13.4 million 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 SBE.

DoIT is also managing two IT projects for DBM. The baseline adjusts the cash flow of these projects. DoIT advises that the cost estimates did not change between January and October 2012. The adjustments made are:

- reduce special funds for the Central Collection Unit project by \$2.1 million (from \$6.2 million in fiscal 2013 to \$4.1 million in fiscal 2014); and
- reduce the reimbursable funds appropriated for the Statewide Personnel System project to \$20.0 million. Fiscal 2013 appropriations totaled \$29.3 million. Approximately 88% of the appropriation is supported by general funds. Consequently, the baseline assumes that approximately \$17.6 million of the baseline appropriation is supported by general funds.

To support the Public Safety Communications System, 2 regular positions and \$1.1 million is added to fiscal 2014. The funds support salaries and contracts to manage construction and maintain the system.

Finally, adjustments are made to the administrative units of DoIT. Telecommunications leases are reduced by approximately \$399,000. The department's share of the new Annapolis Data Center mainframe computer is projected to increase general fund expenditures by approximately \$114,000. Salaries are reduced by \$25,000 to reflect a general reduction in State positions.

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 2014 baseline budget include:

- an increase of \$2.0 million in general funds to begin restoring critical maintenance funding levels to the historical average of \$7.0 million;
- an increase of \$1.1 million in general funds, offset by a decrease of \$2.2 million in reimbursable funds, for the State's assumption of operating expenses associated with the St. Mary's County Multiservice Center;
- an increase of \$606,859 for fiscal 2013 general fund deficiencies for overtime, natural gas and utilities, and janitorial services that continues into fiscal 2014 as well;
- a fund swap of \$414,489 in general funds, replacing the same amount of special funds previously available from the SEIF, for personnel expenditures in the department's Energy Conservation Office;
- a \$400,000 increase in general funds to begin a phased replacement and maintenance of security systems at various locations, starting with the Annapolis complex;
- a decrease of \$54,285 in the Facilities Operations and Maintenance Program for costs associated with Naval Academy parking and the Annapolis Bus Shuttle;
- an increase of \$25,000 in general funds for implementation of Chapter 538 of 2012, which expands the definition of small business under the Small Business Reserve Program and requires the department to evaluate the program by October 2013; and
- a \$14,750 reduction in the debt service payment for the Calvert Street Garage.

K00A Department of Natural Resources

The Department of Natural Resources manages the protection, enhancement, and use of the State's natural resources. The fiscal 2014 baseline assumes the following adjustments:

- an increase of \$7.4 million in special funds in Watershed Services for a total of \$32.4 million to reflect funding of the Chesapeake and Atlantic Coastal Bays 2010 Trust Fund based on estimated revenues and a Budget Reconciliation and Financing Act (BRFA) of 2011 (Chapter 397 of 2011) provision transferring \$11.5 million of the revenues to the general fund;

- an increase of \$2.9 million in general funds to reflect the backfilling of Maryland Park Service special funds that are now required to be paid as payment in lieu of taxes to counties due to the end of the provision in the BRFA of 2011 and a projected approximately \$1.2 million special fund shortfall;
- a decrease of \$2.2 million in federal funds to reflect a reduction in the Maryland Emergency Management Agency pass-through funding from the federal government for homeland security purposes in the Natural Resources Police;
- an increase of \$1.2 million in general funds to reflect the backfilling of Program Open Space (POS) administrative expense special funds that are now required to be used for pay-as-you-go purposes due to the end of the provision in the BRFA of 2011;
- an increase of \$1.1 million in special funds relative to the fiscal 2013 legislative appropriation to reflect that Chapter 603 of 2012 creates the Calvert County Youth Recreational Opportunities Fund for increasing youth recreational opportunities in Calvert County;
- a decrease of \$1.0 million in federal funds in Fisheries Service to reflect a projected decrease in the National Oceanic and Atmospheric Administration's federal crab fishery disaster designation funding;
- an increase of \$0.3 million in special funds, four positions, and two contractual FTEs in the Maryland Park Service to reflect operating expenses associated with the Harriet Tubman Underground Railroad State Park – Visitor Center and Site Improvements capital project;
- a decrease of \$0.3 million in special funds in Information Technology Service for the Maryland Outdoor Customer Service Delivery System information technology project;
- a decrease of \$0.3 million in combined general and special funds in Fisheries Service to reflect Chapter 435 of 2012, which eliminated the need to buy fish tags; and
- a decrease of \$0.1 million in general funds in Information Technology Service to reflect funding transferred to the Department of Information Technology to manage web design services and contracts as part of Section 19 of the fiscal 2013 budget bill.

L00A Maryland Department of Agriculture

The Maryland Department of Agriculture administers and promotes agricultural activities throughout the State. The fiscal 2014 baseline includes the following adjustments:

- an increase of \$0.3 million in special funds in resource conservation grants to reflect the assumption that funding will be provided for the Animal Waste Technology Fund created by Chapter 429 of 2012;
- an increase of \$0.3 million in special funds to reflect ongoing revenues and assumed expenditures for vehicles and operations in the Weights and Measures Program associated with Chapter 22 of 2012; and
- a decrease of \$0.1 million in general funds in Executive Direction to reflect funding transferred to DoIT to manage web design services and contracts as part of Section 19 of the fiscal 2013 budget bill.

P00 Department of Labor, Licensing, and Regulation

The Department of Labor, Licensing, and Regulation is responsible for administering programs related to business regulation, worker safety, occupational and professional licensing, workforce development, and unemployment insurance. The baseline assumes an increase in special funds for mortgage fraud investigations from the Mortgage Loan Servicing Practices Settlement Fund. The baseline also assumes increases in the funds related to the State's VLT program. Specifically, special funds are increased for local impact aid, horse racing purse enhancements, and horse racetrack redevelopment. Additionally, the baseline assumes that local impact aid from horse racing fees will resume in fiscal 2014 per statutory requirements.

R00A01 Maryland State Department of Education Headquarters

The Maryland State Department of Education (MSDE) coordinates the State's K-12 education policies. The fiscal 2014 baseline budget includes:

- an \$18.0 million general fund deficiency for student assessment costs. A similar deficiency was provided in fiscal 2012 but fiscal 2013 funding levels were not increased at a commensurate level. It is assumed this amount will carry forward into the fiscal 2014 budget;
- adjustments to reflect the annualization of education programs transferred from the Department of Juvenile Services to MSDE during fiscal 2013, as well as another

\$2.1 million in fiscal 2014 for the planned transfer of four additional facilities on July 1, 2013;

- a decrease of \$9.2 million in federal funds for major IT projects due to the completion of several funded projects required under the Race to the Top (RTTT) initiative. This includes the Item Bank System (-\$2.9 million), the Student Growth and Educator Evaluation systems (-\$2.5 million), Accessing and Using State Data Dashboard (-\$1.0 million), and the Educator Information System Expansion (-\$0.8 million). There was also a reduction of -\$1.0 million based on cash flow for the Education Data Warehouse system and -\$0.9 million for the Maryland Accountability and Reporting System; and
- an increase of \$2.2 million in general funds related to legislation enacted at the 2012 session. Most of this is due to Chapters 476 and 477 for education core content areas. Small adjustments were made due to Chapter 706 (Lacrosse Opportunities), Chapters 287 and 288 (Online Courses), and Chapters 290 and 291 (Advisory Council for Virtual Learning).

R00A03 Funding for Educational Organizations

An adjustment is made to reflect the formula funding increase for the Maryland School for the Blind. The formula is based on a combination of the percentage increase in State funding through the Foundation Program and projected enrollment.

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 2014 baseline budget to increase Master Equipment Lease-purchase payments by \$134,772.

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 2014 baseline budget include the following:

- an increase of \$3.7 million in general funds for the Sellinger Program for private institutions to reflect funding at 9.4% of the current year appropriation to select public four-year institutions on a per-student basis; and

- an increase of \$153,319 related to startup and administrative costs for a new online education fee collection program.

Scholarship programs were adjusted upward 5% to reflect an assumed 5% tuition increase for undergraduates at USM institutions. The largest program, Educational Excellence Awards, increases by \$3,819,809 to a total of \$80.2 million in general funds. Additional scholarship adjustments to the fiscal 2014 baseline budget include the following:

- a swap of 2012 Budget Restoration Fund special funds for general funds in the Senatorial and Delegate Scholarship programs;
- a decrease of \$1,002,000 in general funds to the Distinguished Scholar Program to reflect its phasing out by fiscal 2016;
- an increase of \$378,004 in general funds to create the new Nancy Grasmick Teacher Scholar Program within the Janet L. Hoffman Loan Assistance Repayment Program; and
- an increase of \$62,739 in general funds in Workforce Shortage Student Assistance Grants due to the 5% increase in tuition.

R99E01 Maryland School for the Deaf

An adjustment is made to reflect the formula funding increase for the Maryland School for the Deaf. The formula is based on a combination of the percentage increase in State funding through the Foundation Program and projected enrollment.

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 2014 baseline budget includes the following adjustments:

- supplementary funding for grants for housing counseling and legal assistance from the Mortgage Loan Servicing Practices Settlement Fund, including \$6.5 million in fiscal 2013, and \$5.0 million in 2014;
- a federal fund deficiency of \$3.5 million in fiscal 2013, and additional funding of \$8.0 million in fiscal 2014 for Section 8 contract administration;

- a decrease of \$1.1 million in special funds for weatherization and retrofitting for low-income households as part of EmPOWER Maryland, which provides DHCD a total of \$70.8 million over three years from Maryland's electric utility companies;
- removal of \$75,000 in special funds due to completion of the IT project to procure a State Asset Servicing System; and
- an increase of \$50,386 in special and federal funds for rent paid to the Department of General Services.

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 2014 baseline assumes a fiscal 2013 deficiency of \$5.5 million in special funds for the department's InvestMaryland Program. This is due to higher than expected proceeds from the tax credit auction designed to fund the program. The program's fiscal 2014 baseline budget was also adjusted upward. Further, the baseline assumes the removal of a one-time \$4.5 million appropriation to the Maryland Economic Development Assistance and Authority Fund. The baseline for the State Arts Council and the Maryland Tourism Board reflect mandated levels of spending that were curtailed during cost containment efforts. Finally, the fiscal 2014 baseline accounts for legislative changes that permanently fund the Preservation of Cultural Arts Program and that establish a tax credit program for security clearance expenses.

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 2014 baseline includes the following adjustments:

- a decrease of \$0.8 million in federal funds in major IT development projects to reflect completion of the Water Supply Program Tracking System;
- a decrease of \$0.2 million in special funds to reflect a modified Bay Restoration Fund debt service schedule;
- an increase of \$0.1 million in special funds in the Waste Management Administration to reflect Chapter 400 of 2012; and
- a decrease of \$0.1 million in special funds in Air and Radiation Management Administration to reflect adjusted Strategic Energy Investment Fund appropriation.

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 2014 baseline budget include the following:

- an increase of \$160,000 in operating costs due to the completion of the Hagerstown Barrack and Garage;
- a reduction of \$1,010,135 in general funds due to the completion of the Computer Aided Dispatch/Records Management System development;
- an increase of \$800,000 for the overhaul of two helicopter engines. The baseline allocates these costs on a 80% special/20% State general fund cost-share basis;
- an increase of \$834,568 of special funds to annualize the costs of 32 new State troopers to act as second medical providers for the Aviation Command's new helicopter fleet;
- a reduction of \$925,251 in special funds due to the abolishment of 15 trooper positions associated with the terminated Resident Trooper Program at Westminster; and
- an increase of \$550,000 in federal funding based on anticipated Federal Emergency Management Agency Port Security Grant funding.

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 2012 ended with an unappropriated general fund balance totaling \$431.3 million. This total was adjusted to reflect \$10.0 million that remains in the general fund, \$50.0 million that is required to be appropriated in the DPA to reimburse the Local Reserve Account, and \$50.0 million that is required to be appropriated in the DPA to reimburse Program Open Space. The remaining \$321.3 million is appropriated into the Rainy Day Fund.

With respect to the DPA, two adjustments are made. In fiscal 2011, \$350 million was transferred from the Local Reserve Account to the Education Trust Fund. At the time, State law required that \$50.0 million be transferred back to the account annually from fiscal 2014 to 2020. This represents the first repayment. Another \$50 million appropriation is made to reimburse POS 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, Funds, and Positions for Other State Agencies
Fiscal 2011-2014
(\$ in Thousands)

		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	
Expenditures		Actual	Working	Leg. Approp.	Baseline	\$ Increase	% Increase
B75	General Assembly	\$75,011,664	\$76,937,235	\$78,318,626	\$82,860,875	\$4,542,249	5.8%
C00A00	Judiciary	411,744,245	430,998,234	447,108,162	454,255,052	7,146,890	1.6%
C80B00	Office of the Public Defender	84,733,347	88,263,173	90,595,370	97,900,653	7,305,283	8.1%
C81C	Office of the Attorney General	24,752,369	25,170,030	25,110,165	27,055,355	1,945,190	7.7%
C82D00	Office of the State Prosecutor	1,198,763	1,262,921	1,247,115	1,336,580	89,465	7.2%
C85E00	Maryland Tax Court	561,673	639,533	573,923	602,083	28,160	4.9%
C90G00	Public Service Commission	16,895,323	19,172,404	16,493,579	16,910,808	417,229	2.5%
C91H00	Office of People's Counsel	3,062,272	3,431,281	3,162,242	3,432,571	270,329	8.5%
C94I00	Subsequent Injury Fund	1,962,425	1,982,078	2,089,983	2,183,529	93,546	4.5%
C96J00	Uninsured Employers' Fund	1,044,257	1,137,049	1,168,772	1,263,861	95,089	8.1%
C98F00	Worker's Compensation Commission	13,429,277	13,963,984	13,878,789	14,405,084	526,295	3.8%
D05E01	Board of Public Works	6,955,142	7,533,114	7,510,530	7,574,964	64,434	0.9%
D10A01	Executive Department – Governor	9,531,573	10,409,081	10,940,608	11,403,813	463,205	4.2%
D11A0401	Office of the Deaf and Hard of Hearing	308,069	322,966	328,357	343,714	15,357	4.7%
D12A02	Department of Disabilities	5,076,944	5,137,011	4,528,936	4,493,127	-35,809	-0.8%
D13A13	Maryland Energy Administration	56,621,295	25,913,404	19,889,793	19,526,559	-363,234	-1.8%
D15A05	Executive Dept. – Boards, Commissions, and Offices	10,986,263	11,446,223	11,658,214	11,847,270	189,056	1.6%
D15A0516	Governor's Office of Crime Control and Prevention	100,517,862	106,668,169	97,275,059	119,172,239	21,897,180	22.5%
D16A06	Secretary of State	2,201,458	2,268,232	2,247,768	2,348,250	100,482	4.5%
D17B0151	Historic St. Mary's City Commission	3,001,132	2,818,500	3,014,238	3,089,399	75,161	2.5%
D18A18	Governor's Office for Children	22,680,616	28,307,644	19,097,013	22,827,048	3,730,035	19.5%
D25E03	Interagency Committee on School Construction	1,447,136	1,593,930	1,622,161	1,635,606	13,445	0.8%
D26A07	Department of Aging	53,811,275	53,818,750	48,116,878	48,503,418	386,540	0.8%
D27L00	Maryland Commission on Human Relations	3,185,775	3,147,132	3,093,157	3,246,004	152,847	4.9%

		<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2013-2014</u>	
		<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>\$ Increase</u>	<u>% Increase</u>
D28A03	Maryland Stadium Authority	37,439,512	37,054,840	34,532,072	34,184,204	-347,868	-1.0%
D38I01	State Board of Elections	27,967,995	22,873,502	17,053,866	24,751,600	7,697,734	45.1%
D39S00	Maryland State Board of Contract Appeals	596,935	624,343	628,466	680,519	52,053	8.3%
D40W01	Department of Planning	17,928,434	16,793,423	17,160,044	17,732,492	572,448	3.3%
D50H01	Military Department	158,448,795	75,203,700	75,610,360	77,355,354	1,744,994	2.3%
D53T00	MD Institute Emergency Medical Services Systems	12,672,798	12,631,745	12,442,753	12,908,653	465,900	3.7%
D55P00	Department of Veterans Affairs	21,761,866	21,895,639	22,067,272	22,841,765	774,493	3.5%
D60A10	State Archives	8,594,172	8,951,693	9,224,287	9,467,398	243,111	2.6%
D78Y01	Maryland Health Benefit Exchange	0	1,673,512	26,527,918	29,899,998	3,372,080	12.7%
D79Z02	Maryland Health Insurance Plan	118,165,117	166,217,445	203,620,548	136,595,870	-67,024,678	-32.9%
D80Z01	Maryland Insurance Administration	25,659,732	29,498,728	28,650,917	30,565,205	1,914,288	6.7%
D90U00	Canal Place Preservation and Development Authority	535,748	557,873	542,582	554,872	12,290	2.3%
D99A11	Office of Administrative Hearings	653,488	816,017	829,455	874,579	45,124	5.4%
E00A	Comptroller of the Treasury	88,767,565	96,113,233	96,278,942	100,986,754	4,707,812	4.9%
E20B	State Treasurer	5,717,112	7,521,172	7,719,842	7,915,052	195,210	2.5%
E50C	Department of Assessments and Taxation	44,734,358	44,707,214	46,627,098	49,226,381	2,599,283	5.6%
E75D	State Lottery and Gaming Control Agency	100,471,787	222,643,220	312,053,203	150,386,838	-161,666,365	-51.8%
E80E	Property Tax Assessment Appeals Boards	945,169	967,551	978,896	1,097,337	118,441	12.1%
F10A	Department of Budget and Management – Secretary	18,726,539	19,258,211	21,174,534	20,965,716	-208,818	-1.0%
F10A02	Department of Budget and Management – Personnel	5,756,924	26,024,616	53,759,440	6,603,902	-47,155,538	-87.7%
F50	Department of Information Technology	35,958,132	36,999,206	57,160,145	58,322,323	1,162,178	2.0%
G20J01	State Retirement Agency	31,321,582	27,768,083	3,446,550	3,588,960	142,410	4.1%
G50L00	Maryland Supplemental Retirement Plans	1,525,132	1,510,175	1,495,732	1,535,077	39,345	2.6%
H00	Department of General Services	57,138,681	58,729,651	58,860,689	65,265,671	6,404,982	10.9%
K00A	Department of Natural Resources	180,817,055	194,084,260	201,772,558	210,418,028	8,645,470	4.3%
L00A	Department of Agriculture	65,539,401	73,171,572	55,746,010	57,414,070	1,668,060	3.0%
P00	DLLR Workforce Development	192,701,718	206,400,631	193,847,924	198,452,050	4,604,126	2.4%
P00C	DLLR Business Regulation	52,370,996	97,958,608	117,061,169	130,216,506	13,155,337	11.2%
R00A01	MSDE Headquarters	229,777,999	286,903,162	268,462,375	293,329,590	24,867,215	9.3%
R00A03	MSDE Funding for Educational Organizations	26,939,866	27,025,681	27,230,860	27,283,153	52,293	0.2%

		<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u>	
						<u>\$ Increase</u>	<u>% Increase</u>
R00A99	MSDE Early Childhood Development	37,419,667	39,953,723	49,484,391	50,892,455	1,408,064	2.8%
R15P00	Maryland Public Broadcasting Commission	23,859,037	27,750,861	23,951,857	24,794,903	843,046	3.5%
R62I0001	Maryland Higher Education Commission	68,281,309	74,701,144	69,083,527	72,957,959	3,874,432	5.6%
R62I0010	MHEC Scholarship Programs	103,189,540	103,280,172	102,650,037	112,295,613	9,645,576	9.4%
R99E	Maryland School for the Deaf	27,836,147	27,990,014	28,370,062	28,757,728	387,666	1.4%
S00A	Department of Housing and Community Development	262,373,071	325,946,493	293,339,695	311,185,861	17,846,166	6.1%
S50B	Maryland African American Museum Corporation	2,000,000	2,450,000	2,000,000	2,000,000	0	0.0%
T00	Department of Business and Economic Development	84,698,424	103,871,037	117,196,624	122,637,065	5,440,441	4.6%
T50T01	Maryland Technology Development Corporation	13,858,192	15,673,192	18,573,192	18,573,192	0	0.0%
U00A	Department of the Environment	114,640,256	121,763,363	127,790,761	131,733,671	3,942,910	3.1%
W10A00	Department of State Police	268,754,299	282,649,973	284,673,148	309,322,470	24,649,322	8.7%
Y01A	State Reserve Fund	15,000,000	15,000,000	27,757,774	421,256,263	393,498,489	1417.6%
	Total	\$3,502,264,705	\$3,885,950,756	\$4,026,507,013	\$4,346,044,958	\$319,537,945	7.9%
	Funds	\$1,673,307,205	\$1,754,206,137	\$1,752,010,364	\$2,355,212,286	\$603,201,922	34.4%
	General Fund	883,380,279	1,176,636,094	1,378,474,416	1,080,191,568	-298,282,848	-21.6%
	Special Fund	945,577,221	955,108,525	896,022,233	910,641,104	14,618,871	1.6%
	Federal Fund	\$3,502,264,705	\$3,885,950,756	\$4,026,507,013	\$4,346,044,958	\$319,537,945	7.9%
	Personnel						
	Regular Positions	20,600.8	20,488.4	20,537.3	20,620.8	83.5	0.4%
	Full-time Equivalent Contractuals	1,844.8	1,928.9	2,024.9	2,027.9	3.0	0.1%

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 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. pprop.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
MDOT Debt Service	\$155,727	\$184,671	\$191,915	\$216,000	\$24,085	12.6%
Public Debt	834,833	882,700	922,469	988,295	65,826	7.1%
Total	\$990,560	\$1,067,372	\$1,114,384	\$1,204,295	\$89,911	8.1%
Funds						
General Fund	\$0	\$0	\$0	\$160,000	\$160,000	0%
Special Fund	981,358	1,055,874	1,102,429	1,031,895	-70,534	-6.4%
Federal Fund	9,202	11,498	11,955	12,400	445	3.7%
Total	\$990,560	\$1,067,372	\$1,114,384	\$1,204,295	\$89,911	8.1%

MDOT: Maryland Department of Transportation

Public Debt

The fiscal 2014 baseline budget for GO bond debt service costs reflects steady increases in debt issuance, from \$675 million in fiscal 2007 to approximately \$1 billion annually since fiscal 2010. Reflecting these changes, debt service costs were increased by \$66 million in fiscal 2014.

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. Federal reimbursements are expected to increase by \$0.4 million in fiscal 2014.

The largest revenue source for the ABF is State property taxes. The current rate is \$0.112 per \$100 of assessable base. In recent years, debt service costs have increased at a higher rate than State property tax revenues. Fiscal 2014 State property tax receipts are projected to be \$726.1 million compared to debt service costs that total \$975.9 million (after adjusting for federal funds and savings from bond refunding). Since the baseline budget assumes that tax rates remain constant, a shortfall in the ABF would require a general fund appropriation. Because other revenues, such as bond sale premiums are also deposited into the ABF, the full shortfall in State property taxes does not need to be appropriated. The current estimate is that the fiscal 2014 budget will require \$160.0 million in general fund revenues. This estimate could change substantially because it is sensitive to bond sale premiums and revenue projections, which have been volatile in recent years.

Maryland Department of Transportation Bonds

MDOT's fiscal 2014 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 fiscal 2012. Combined, these factors increase debt service costs by \$24.1 million in the fiscal 2014 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 rather than transferred to the general fund and replaced with GO bond funds as has been the case in each of the past four budgets.

Expenditures, Funds, and Positions for PAYGO Capital Programs Fiscal 2011-2014 (\$ in Thousands)

	<u>2011</u> <u>Actual</u>	<u>2012</u> <u>Working</u>	<u>2013</u> <u>Leg. Approp.</u>	<u>2014</u> <u>Baseline</u>	<u>2013-2014</u> <u>Increase</u>	<u>% Increase</u>
Expenditures						
Board of Public Works	\$0	\$47,500	\$0	\$0	\$0	0%
Maryland Energy Administration	7,240	6,562	4,250	3,950	-300	-7.1%
Department of Planning	10,070	9,100	7,120	7,100	-20	-0.3%
Military Department	0	28,073	18,723	1,999	-16,724	-89.3%
Maryland Institute for Emergency Medical Services Systems	0	0	0	4,046	4,046	0%
Department of Veterans Affairs	3,873	0	700	5,742	5,042	720.3%
Department of Information Technology	9,512	43,763	51,678	9,630	-42,048	-81.4%
MDOT – Secretary's Office	36,583	74,173	68,844	57,605	-11,239	-16.3%
Washington Metropolitan Area Transit Authority	112,257	129,956	145,956	152,056	6,100	4.2%
MDOT – State Highway Administration	639,954	833,086	858,383	817,175	-41,209	-4.8%
MDOT – Maryland Port Administration	57,033	71,746	100,632	142,198	41,566	41.3%
MDOT – Motor Vehicle Administration	17,222	17,337	24,159	23,325	-834	-3.5%

	2011	2012	2013	2014	2013-2014	
	<u>Actual</u>	<u>Working</u>	<u>Leg. Approp.</u>	<u>Baseline</u>	<u>Increase</u>	<u>% Increase</u>
MDOT – Maryland Transit Administration	324,771	396,636	446,283	523,811	77,528	17.4%
MDOT – Maryland Aviation Administration	43,802	57,972	71,394	78,252	6,859	9.6%
Department of Natural Resources	8,231	6,410	7,835	90,677	82,842	1057.3%
Department of Agriculture	10,032	5,438	9,592	35,294	25,702	268.0%
Department of Public Safety and Correctional Services	10,000	2,100	7,900	0	-7,900	-100.0%
Department of Housing and Community Development	57,366	48,825	50,575	44,425	-6,150	-12.2%
Department of the Environment	138,358	163,000	362,700	255,300	-107,400	-29.6%
Total	\$1,486,304	\$1,941,677	\$2,236,724	\$2,252,585	\$15,861	0.7%
Funds						
General Fund	\$10,800	\$56,500	\$700	\$7,300	\$6,600	942.9%
Special Fund	755,449	977,519	1,287,963	1,429,958	141,995	11.0%
Federal Fund	709,657	895,764	937,915	805,656	-132,259	-14.1%
Reimbursable Fund	10,398	11,894	10,147	9,672	-475	-4.7%
Total	\$1,486,304	\$1,941,677	\$2,236,724	\$2,252,585	\$15,861	0.7%
Personnel						
Regular Positions	1,794.0	1,742.0	1,734.0	1,734.0	0.0	0%
Full-time Equivalent Contractuals	6.0	23.0	22.0	22.0	0.0	0%

MDOT: Maryland Department of Transportation

PAYGO: pay-as-you-go

Maryland Energy Administration

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

The fiscal 2014 baseline for the JELLP is level funded with fiscal 2013 to reflect recent loan activity. The fiscal 2014 baseline for the SALP is decreased compared to fiscal 2013 to reflect the availability of loan fund balance and estimated loan repayments.

Maryland Department of Planning

The fiscal 2014 baseline estimate for the Maryland Department of Planning includes the following:

- \$7.0 million in general funds for the Sustainable Communities Tax Credit Program, which is level with the fiscal 2013 legislative appropriation of \$7.0 million in special funds from the Budget Restoration Fund created by Chapter 1 of the First Special Session of 2012; and
- \$100,000 in special funds for the Maryland Historical Trust Revolving Loan Fund, which is consistent with the 2012 *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 \$18.7 million in federal funds appropriated in the fiscal 2013 budget for the construction of the Dundalk Readiness Center and the Gunpowder Military Reservation Firing Range. The baseline includes \$2.0 million in federal funds for the Hagerstown Readiness Center which is anticipated to be funded entirely with federal funds.

Maryland Institute for Emergency Medical Services Systems

The fiscal 2014 baseline includes \$4.1 million in special funds for the Maryland Institute for Emergency Medical Services Systems (MIEMSS) to fund renovations and systems replacement of the MIEMSS Communication System Center. Estimated to cost \$12.0 million to complete, the project funding plan requested by MIEMSS provides for a phased three-year approach beginning in fiscal 2013. The fiscal 2013 legislative appropriation does not reflect the initial \$1.1 million of project funding, but it was recently appropriated through an approved special fund fiscal 2013 budget amendment. Funding is available through the Maryland Emergency Medical System Operations Fund (MEMSOF). The fund's source of revenue is an annual \$11 surcharge on motor vehicle registrations for certain classes of vehicles, as specified in State law. Although sufficient funds are currently available to support the initial \$1.1 million appropriation from MEMSOF, it is projected to reduce the closing MEMSOF fund balance to \$1.7 million in fiscal 2013. Current estimates project a negative closing balance in fiscal 2014 absent a significant change in the use and distribution of MEMSOF funds in fiscal 2014 or the State providing an additional source of annual revenues to the fund in the upcoming legislative session. Any proposed use of MEMSOF in support of the MIEMSS Communication System Center project in fiscal 2014 will have to be considered in light of the larger issue of the fund's long-term sustainability.

Maryland Department of Veterans Affairs

The baseline removes \$0.8 million of general funds and includes \$5.6 million of federal funds for the Department of Veterans Affairs (DVA) Crownsville Veterans Cemetery Expansion and Burial Capacity Phase III project. The fiscal 2013 general fund appropriation supports the design phase of the Crownsville project and is reimbursed by DVA in the federal construction authorization.

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 approximately 1,300 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, local funds, and in-kind contributions. All federal funds must be expended by August 31, 2013.

The fiscal 2014 baseline includes the final \$9.6 million in federal funds which represents a \$42.0 million decrease from the fiscal 2013 legislative appropriation. This estimate is based on DoIT's July 2012 estimate, which assumes that much of the projects work is expected to be completed in fiscal 2014.

Maryland Department of Transportation

Based in part on an improving revenue picture and cash flow changes in projects, baseline adjustments increase the department's capital budget by \$78.1 million, including \$144.4 million in special funds and a decrease of \$66.3 million in federal funds. The baseline includes increased spending for the Maryland Transit Administration and the Maryland Port Administration in fiscal 2014 due to revised estimates of project cash flow requirements.

Maryland Department of Natural Resources

The fiscal 2014 baseline for the Department of Natural Resources' (DNR) Program Open Space (POS) includes \$71.7 million in special funds and \$3.0 million in federal funds reflecting a \$68.0 million increase over the fiscal 2013 legislative appropriation. The baseline assumes that transfer tax revenues used to fund POS will be distributed in accordance with the statutory formula and not transferred to the general fund through budget reconciliation and financing legislation to provide operating budget relief as was the case in fiscal 2013. While the Budget Reconciliation and Financing Act of 2011 (Chapter 397) allows for \$1.2 million in transfer tax

funding to be used in the operating budget for administrative expenses in fiscal 2013, this provision is not included for fiscal 2014. The statutory formula allocation accounts for the substantial increase reflected in the baseline, which is supplemented by a \$2.8 million overattainment in fiscal 2012 that impacts the fiscal 2014 estimate. In addition, the baseline includes \$3.0 million in federal funds, which is level with the fiscal 2012 legislative appropriation.

A preauthorization of \$32.9 million in GO bond funds comprised of \$15.1 million for POS State and \$17.9 million for POS Local is programmed for fiscal 2014 in order to replace fiscal 2013 State transfer tax funding directed to the general fund as part of actions to balance the operating budget.

The baseline includes \$15.1 million in special funds for the Rural Legacy Program, which provides funds for the acquisition of conservation easements. As is the case with POS, the baseline assumes the statutory distribution of transfer tax revenues to the Rural Legacy Program in fiscal 2014, 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 2014, the baseline includes \$20.1 million, an increase of \$14.5 million relative to the fiscal 2013 legislative appropriation, all funds included. A preauthorization of \$9.5 million in GO bond funds is programmed for fiscal 2014 in order to replace fiscal 2013 State transfer tax funding directed to the general fund as part of actions to balance the operating budget.

No funding is assumed for the Ocean City Beach Maintenance Program in the fiscal 2014 baseline because the Ocean City Beach Maintenance Fund balance will be at or above the \$15.0 million cap. Interest on local funding will continue to accrue to the benefit of Worcester County and Ocean City and be credited toward their next contribution.

The fiscal 2014 baseline includes a slight reduction in the amount of special funds and the same amount of federal fund revenue for the Waterway Improvement Program (WIP) relative to the amount of funding in the fiscal 2013 legislative appropriation. 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 2014 baseline is \$0.8 million, which reflects a substantial downward revenue adjustment from the \$3.6 million projected for fiscal 2014 in the 2012 CIP. The decline is due to a reduction in estimated special fund revenues as part of the ongoing lack of demand for boat sales and subsequently the reduced vessel excise tax revenue available to fund the WIP.

Maryland Department of Agriculture

The 2014 baseline for the Maryland Agricultural Land Preservation Program (MALPP) consists of \$32.6 million in special funds. No federal funds are assumed due to ongoing concerns about federal Farm and Ranchland Protection Program restrictions. The special fund baseline estimate is comprised of funding from the State transfer tax statutory distribution (\$23.8 million), the counties (\$8.5 million), and agricultural transfer tax and miscellaneous fees (\$300,000). Overall, the baseline reflects an aggregate special fund decrease of \$1.2 million relative to the 2012 CIP. A preauthorization of \$12.7 million in GO bond funds is programmed for fiscal 2014 in order to replace fiscal 2013 State transfer tax funding directed to the general fund as part of actions to balance the operating budget.

The baseline for the Cigarette Restitution Fund-supported Tobacco Transition Program is level funded with the fiscal 2013 appropriation. Overall, the baseline reflects a decrease in the tobacco buyout special fund appropriation but a commensurate increase in the special funded agricultural land preservation component. The Tobacco Transition Program's fiscal 2014 PAYGO baseline is consistent with the funding level reflected in the 2012 CIP. The Tobacco Transition Program provides funds for the voluntary tobacco buyout program and agricultural land preservation efforts.

Maryland Department of Public Safety and Correctional Services

The baseline budget removes \$7.9 million in federal PAYGO funding to reflect the fiscal 2013 receipt of 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 fiscal 2014 baseline includes changes in various PAYGO capital grant and loan programs based on the agency's estimates of revenues, encumbrances, fund balances, and the 2012 CIP. Overall, the fiscal 2014 baseline assumes that DHCD's PAYGO programs will decrease \$6.2 million compared to fiscal 2013 legislative appropriation.

The decrease results from the removal of \$5.2 million in 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. The EECBG funds were available in fiscal 2011 through 2013 only.

In recent fiscal years, GO bonds have substituted for general funds and provided the source of replacement funds for revenue and fund balance transfers in support of the annual operating budget, and its continued use is anticipated in the current CIP and in the Department of Legislative Services baseline budget as follows:

- ***Rental Housing Programs:*** The fiscal 2014 baseline reflects a decrease of \$0.4 million in PAYGO funds overall. Decreases to fiscal 2014 funding include a \$1.0 million decline in federal EECBG funds and the removal of a one-time supplementary fiscal 2013 funding of \$850,000 in special funds for rental housing units for nonelderly disabled households. These decreases are offset by a \$1.5 million increase in special funds from EmPower Maryland. EmPower is funded by utility companies serving Maryland and regulated by the Public Service Commission. EmPower funds are used to provide low-interest loans to undertake certain energy efficiency improvements in multifamily rental housing units. DHCD will receive a total of \$70.6 million over three years in EmPower funds. The fiscal 2013 capital budget includes \$17.5 million of GO bond funds for the department's Rental Housing Works Program to provide gap financing to developers of affordable rental housing units. Although considered as a one-time budget initiative and not reflected in the current CIP beyond fiscal 2013, continued funding in fiscal 2014 is likely to be considered at or near the fiscal 2013 funding level.
- ***Homeownership Programs:*** The baseline assumes an overall decrease of \$1.9 million in total funding for this program. This is driven by a \$1.9 million reduction in federal EECBG funding due to the expiration of one-time funds. Additionally, an increase of \$400,000 in special funds due to an available fund balance reduces the need for GO bonds by the same amount.
- ***Special Loan Programs:*** The fiscal 2014 baseline increases funding for the special loan programs by \$300,000 in special funds due to additional funds being available from an available fund balance. As a result, the use of GO bonds could decrease by \$300,000 in order to level fund the program to the fiscal 2013 level, or the additional funds could increase overall funding for the program. Federal HOME funds remain unchanged.
- ***Neighborhood Business Development Program:*** The fiscal 2014 baseline assumes that the Neighborhood Business Development Program is level funded in fiscal 2014. However, the fiscal 2014 baseline assumes that special funds will decrease \$550,000 but will be replaced by GO bonds. Available special funds decline as a result of current economic conditions that have negatively impacted small businesses that participate in this program. Revenues for the program are down as the result of increased delinquencies, loan modifications, and other loss mitigation efforts.
- ***Community Development Block Grant Program:*** The fiscal 2014 baseline assumes that funding for this program decreases \$2.3 million due to the loss of one-time federal

EECBG funds. However, when excluding these one-time funds, the Community Development Block Grant Program is level funded in fiscal 2014.

- ***Maryland Base Realignment and Closure Preservation Loan:*** Funding for this program decreases by \$1.8 million in the fiscal 2014 baseline. The decrease is entirely in special funds and is due to an available fund balance.

Funding for the Community Legacy, Strategic Demolition and Smart Growth Impact Fund, Partnership Rental Housing, and Shelter and Transitional Housing Facilities Grant programs are expected to remain unchanged.

Maryland Department of the Environment

MDE's baseline assumes that Water Quality Revolving Loan Fund Program funding will be less than what is planned in the 2012 CIP. A projected \$28.2 million decrease in special funds in fiscal 2014 relative to the 2012 CIP reflects more realistic expenditure levels based on anticipated loan repayment amounts. The baseline assumes federal funds at \$34.2 million, which reflects a \$1.5 million decrease from the 2012 CIP due to a lower federal fiscal 2012 appropriation. The 20% match for federal funds is assumed to be \$6.8 million in GO bonds – the fund source used in the fiscal 2013 legislative appropriation and the source reflected in the 2012 CIP. The Water Quality Revolving Loan Fund Program provides low-interest loans to local governments and eligible private entities for water quality improvement projects such as upgrading wastewater treatment plants and capping closed landfills.

The Drinking Water Revolving Loan Fund Program baseline estimate of \$22.0 million reflects \$8.8 million in special funds and \$10.4 million in federal funds, which is a \$3.3 million decrease in special funds and a \$0.4 million increase in federal funds relative to the 2012 CIP. The total federal funding is \$14.2 million, which requires the 20% match, but only \$10.4 million is reflected in the PAYGO budget because the remainder of \$3.8 million is reflected in the operating budget as nonproject set aside funding. The 20% match of \$2.8 million for the federal funds is based on the \$13.9 million above and an additional \$233,000 in prior year adjustment funding and is expected to be made in GO bonds due to the constrained use of general funds to support the capital program. The Drinking Water Revolving Loan Fund Program provides low-interest loans to local governments and eligible private entities for drinking water projects such as the construction of water distribution mains, water storage facilities, and water treatment plant upgrades.

The baseline for the Hazardous Substance Cleanup Program assumes that the program will receive \$0.3 million in general funds, which is more than the fiscal 2013 legislative appropriation since no funding was budgeted. However, the fiscal 2014 baseline estimate is less than the \$1.0 million programmed in the 2012 CIP due to the need for only site assessment funding in fiscal 2014. 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.

Chapter 150 of 2012 roughly doubled the revenue from the Bay Restoration Fund fee on septic system users and public sewer/water users, although the fiscal 2013 legislative appropriation has been adjusted to reflect the exclusion of Garrett County, Ocean City, and a portion of Cecil County from the fee increase and the potential for an increased number of approved hardship waivers. The baseline estimate of \$15.0 million for the capital grant program associated with the Bay Restoration Fund fee on septic system users is \$2.0 million less than the 2012 CIP due to the revenue adjustments. The baseline estimate for the Enhanced Nutrient Removal Program funded by a fee on public sewer/water users is \$88.0 million in special funds, which is roughly equivalent to the \$87.6 million reflected in the 2012 CIP. No GO bond authorization is anticipated to be needed in fiscal 2014 due to sufficient revenues, which reflects an \$18.0 million decrease in needed GO bond authorization from what was programmed in the 2012 CIP. No new revenue bond authorization is anticipated in fiscal 2014 as the program has reached its initially planned \$530.0 million revenue bond authorization level.

Part 2

General Fund Revenue Projections

Fiscal 2013-2014

Introduction

In September 2012, 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 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 2012 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. Inflation-adjusted gross domestic product fell, peak to trough, 4.7%. Employment fell 6.4%, or 8.8 million jobs. The unemployment rate rose from 4.4% before the recession to 10.0%. Personal income fell 4.8% in 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 2009, growth has been slow and tentative. Since the trough, inflation-adjusted gross domestic product has increased 7.2% and finally exceeded the pre-recession peak in the fourth quarter of 2011, four years after the recession began. Since bottoming out in February 2010, employment has increased by 4.5 million jobs, or 2.8%, but remains 4.3 million jobs short of the pre-recession peak. Private sector jobs are up 5.0 million since the trough (3.8%), but government jobs are down 2.0%, or about 460,000 jobs. The unemployment rate has declined from its October 2009

peak of 10.0% but remains around 8.0%. Personal income has grown 3.2% in the first nine months of 2012, while growth in wages was up 3.4%. Consumer spending has rebounded, rising 3.8% in 2012 through September but that is slower than growth in 2011.

Most economists expect modest growth in the U.S. economy for the remainder of 2012. The biggest concern is the potential for significant fiscal austerity in 2013 that could send the economy back into a recession. Bush-era income tax cuts along with the payroll tax cut and provisions from the 2009 stimulus bill are all set to expire at the end of 2012. In addition, automatic spending cuts, known as sequestration, required by the Budget Control Act passed in summer 2011 as part of the deal to raise the debt ceiling, are scheduled to take effect in January 2013. The combination of tax increases and spending cuts would sharply and quickly reduce the federal budget deficit, a level of fiscal contraction that would push the economy into recession. Moody's Analytics, Inc. has estimated such a scenario would result in the U.S. economy contracting by 1.1% between the fourth quarter of 2012 and the second quarter of 2013. Employment would fall over the course of 2013 by 2.6 million jobs relative to a scenario where all tax cuts are extended and the spending reductions cancelled. The U.S. unemployment rate would rise back over 9.0%. It is likely that a deal will be struck to cancel or delay some or all of this fiscal contraction either in the lame duck session of Congress after the election or in the early part of 2013. The Moody's Analytics estimates are based on the fiscal austerity being permanent. If action is taken by early 2013, the impact on the economy will likely be minimal.

Current projections have the economy not fully recouping the jobs lost in the recession until late 2014. In other words, it estimated to take seven 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 6.0% 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 5.5%, or 144,700 jobs. Since February 2010 included two significant snowstorms, this drop in employment is somewhat overstated. The total decline as of January 2010 was 4.4%, or almost 115,500 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. Taking into account expected revisions, Maryland employment in 2011 rose by almost 1.1% (26,700 jobs), the first annual increase since 2007.

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

	Actual <u>2011</u>	Estimate <u>2012</u>	Estimate <u>2013</u>	Estimate <u>2014</u>
Real Gross Domestic Product				
Moody's Analytics	1.8%	2.3%	2.4%	4.2%
Global Insight	1.8%	2.2%	1.8%	2.8%
U.S. Payroll Employment				
Moody's Analytics	1.2%	1.4%	1.5%	2.4%
Global Insight	1.2%	1.4%	1.4%	1.6%
U.S. Unemployment Rate				
Moody's Analytics	9.0%	8.1%	7.9%	7.1%
Global Insight	9.0%	8.2%	8.0%	7.7%
U.S. Personal Income				
Moody's Analytics	5.1%	4.0%	4.9%	6.7%
Global Insight	5.1%	3.7%	4.1%	4.8%
Consumer Price Index				
Moody's Analytics	3.1%	2.1%	2.3%	2.8%
Global Insight	3.1%	2.0%	1.4%	1.8%
30-year Fixed Mortgage Rate				
Moody's Analytics	4.5%	3.8%	4.5%	5.7%
Global Insight	4.5%	3.7%	3.5%	4.4%

*Except unemployment and mortgage rates. The projections for Moody's Analytics and Global Insight are from their respective September 2012 forecasts.

Source: Moody's Analytics and IHS Global Insight

The unemployment rate in Maryland increased from 3.3% in February 2008 to 8.0% in December 2009, the highest level since February 1983. The impact of the shrinking labor market on income was significant. Recently, revised data shows that nominal personal income fell 2.2% in 2009, the first decline in the post-World War II period. Nominal wage and salary income fell 0.8% in 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.

Economic growth, since the recession ended, has been halting with several months of improvement, often in the fall and winter, followed by weakness in the spring and summer. This pattern held true again in 2012 with the unseasonably warm winter boosting economic growth in the first quarter. The unemployment rate started the year at 6.5% but rose throughout the spring and summer reaching 7.1% in August before dipping to 6.9% in September. Total personal

income grew around 3.8% in both the first and second quarters of 2012, but wage income growth slowed from 4.1% in the first quarter to just under 4.0% in the second. In 2012, employment is up 1.4% (almost 35,000 jobs) through September although there is reason to believe that the monthly employment data is overstating growth. Data from the more accurate Quarterly Census of Employment and Wages suggests that Maryland employment will be revised down somewhat in March at the next annual benchmark revision.

Vehicle sales in Maryland have increased 3.5% in the first nine months of 2012 with new car sales up 10.8% and used car sales up 0.1%. Sales tax gross receipts (a proxy for retail sales) grew modestly from late 2011 through the first half of 2012, but unexpectedly fell on a year-over-year basis in June. Growth picked up again in July and August. Existing home sales are up 3.1% for the first nine months of 2012. The median home price went up almost 2.0% on a year-over-year basis in February 2012, the first increase in four and a half years. Prices have continued to increase each month since February driven, in part, by a sharp decline in the inventory of homes for sale.

In September, BRE issued a revised economic forecast for Maryland, its first since December. BRE's new forecast is little changed from December. The only major change relates to the payroll tax cut. In December, BRE assumed the tax cut would expire at the end of 2011 which, at the time, was current law. The tax cut was extended through 2012, and the BRE's September forecast reflects the tax cut expiring at the end of 2012. Because payroll taxes are subtracted in the calculation of personal income, the tax cut raised personal income and its expiration will lower it. BRE, in both its December and September forecasts, included an estimate of the direct effect of federal sequestration budget cuts scheduled, under current law, to take place in 2013.

Maryland Economic Outlook Forecasted Year-over-year Percentage Change

Calendar <u>Year</u>	Employment		Personal Income	
	<u>Dec. 2011</u>	<u>Sep. 2012</u>	<u>Dec. 2011</u>	<u>Sep. 2012</u>
2009	-3.0%	-2.9%	-1.6%	-2.2%
2010	-0.4%	-0.2%	3.9%	3.5%
2011	1.1%	1.1%	5.4%	5.0%
2012Est.	0.9%	0.9%	2.9%	3.8%
2013Est.	0.9%	0.9%	3.5%	3.3%
2014Est.	1.5%	1.5%	4.5%	4.5%
2015Est.	1.8%	1.8%	5.3%	5.1%

Note: The figures for 2011 under the December 2011 columns are the Board of Revenue Estimate's 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 2012 in this case. Based on the revenue performance in fiscal 2012, relative to the estimate, as well as revised economic assumptions, the revenue estimate for the current fiscal year (fiscal 2013) is revised. Fiscal 2014 was then built off the newly revised estimate for the current fiscal year.

Fiscal 2012 Closeout

Fiscal 2012 general fund revenues were above the estimate by \$229.7 million. General fund revenues totaled \$14.3 billion in fiscal 2012, an increase of 5.3% over fiscal 2011. Both the sales tax and the highway user revenue were impacted in fiscal 2012 by legislative changes that distort the year-over-year growth rate. In the sales tax, the tax on alcohol beverages was increased from 6.0 to 9.0% and the distribution to the Transportation Trust Fund was eliminated. The share of highway user revenue going to the general fund was lowered in fiscal 2012 to 11.3% from 23.0% in fiscal 2011. Adjusted for these law changes, baseline general fund growth in fiscal 2012 was 4.6%.

The personal income tax accounted for about half of the overattainment, exceeding expectations by \$117.0 million, and growing 7.1% over fiscal 2011. The better than expected performance was driven by final payments with returns which exceeded the estimate by about 5.0% and refunds which were below estimate by about 6.0%. Fiscal 2012 was the second year in a row that refunds declined, the first time that has happened in at least the last 30 years.

Sales tax revenues exceeded the estimate by \$20.8 million and grew 10.5% although baseline growth was a weak 2.7%. General fund corporate income tax revenues grew 13.2% over fiscal 2011 and were above the estimate by \$66.0 million. Corporate gross receipts were up 9.2% while refunds fell 5.0%.

The lottery exceeded the estimate by \$33.6 million and grew 7.4% over fiscal 2011. Net sales were up 4.7% while prize payouts grew just 3.4%. Strong sales growth came from the MegaMillions game which had a record jackpot in March while Powerball sales were up significantly (43.6%) as the game moved to a \$2 ticket in January. Sales for the largest game, Instant tickets, were up 2.7%, the best performance since fiscal 2008. Pick 3 sales were down 2.4%, while Pick 4 sales increased 4.2%. The combined Keno and Racetrax games grew 5.0% over fiscal 2011.

Fiscal 2013 general fund revenues through September are up 9.1% from last year. This includes revenues that will be transferred to the Budget Restoration Fund as required by the Budget Reconciliation and Financing Act (BRFA) (Chapter 1 of the First Special Session of 2012). Changes in the distribution of corporate income revenues distort the year-to-year

Fiscal 2012 General Fund Revenues
(\$ in Millions)

<u>Source</u>	<u>Actual</u> <u>FY 2011</u>	----- Fiscal 2012 -----		<u>Difference</u>	<u>Percent</u> <u>Change</u> <u>2011-2012</u>
		<u>Estimate*</u>	<u>Actual</u>		
Personal Income	\$6,643.4	\$6,997.7	\$7,114.7	\$117.0	7.1%
Sales and Use Tax	3,656.0	4,018.5	4,039.3	20.8	10.5%
State Lottery	499.4	502.7	536.3	33.6	7.4%
Corporate Income Tax	571.3	580.5	646.5	66.0	13.2%
Business Franchise Taxes	210.2	209.2	207.2	-2.0	-1.4%
Insurance Premiums Tax	285.9	298.9	304.0	5.1	6.3%
Estate and Inheritance Taxes	216.0	200.4	196.9	-3.5	-8.9%
Tobacco Tax	407.6	407.5	411.4	3.9	0.9%
Alcohol Beverages Tax	30.4	30.5	31.0	0.5	1.9%
Motor Vehicle Fuel Tax	5.0	5.0	5.0	0.0	0.0%
District Courts	86.9	80.8	79.4	-1.4	-8.6%
Clerks of the Court	29.3	33.5	35.1	1.6	20.1%
Hospital Patient Recoveries	74.2	68.0	66.4	-1.6	-10.6%
Interest on Investments	58.4	30.0	17.9	-12.1	-69.3%
Miscellaneous	386.2	378.4	380.0	1.6	-1.6%
Subtotal	\$13,160.3	\$13,841.6	\$14,071.1	\$229.5	6.9%
Highway User Revenue	377.1	186.5	186.7	0.2	-50.5%
Total Revenues	\$13,537.4	\$14,028.2	\$14,257.8	\$229.7	5.3%

*From the Board of Revenue Estimates, March 2012, with adjustments for actions at the 2012 legislative session.

comparison. In fiscal 2013, the share of the corporate income tax going to the Transportation Trust Fund (TTF) drops to 9.5% (excluding the first 15.15% of net receipts) from 24.0% in fiscal 2012. Adjusting for that law change, general fund revenues are still up a strong 7.9%.

Personal income tax revenues grew 8.2%, but growth in withholding was just 2.0%. General fund lottery revenues are down 3.5% as net sales are up 2.8%, while prize payouts are up 4.9%. Sales are up strongly for the Pick 4, Racetrax, and Instant games, but Keno sales are down 10.3%, likely reflecting sales lost to competition from the Maryland Live casino which opened in June.

Fiscal 2013 Revised Estimate

In September, BRE raised its estimate for fiscal 2013 general fund revenues by \$180.6 million, but also lowered the expected growth rate over fiscal 2012 from 5.0 to 4.6%. The growth over fiscal 2012 was calculated before the transfer of \$276.5 million to the Budget Restoration Fund required by the BRFA of 2012. As mentioned, the share of the corporate income tax going to the TTF was lowered in fiscal 2013. General fund revenues in fiscal 2013 are projected to grow 3.7% over fiscal 2012 adjusted for that law change.

The largest revision was to the personal income tax which was increased by \$97.7 million. Growth over fiscal 2012 is expected to be 7.5%. The income tax in fiscal 2013 reflects a year and a half impact from the rate and exemption changes in the State and Local Revenue Financing Act (Chapter 2 of the First Special Session of 2012). The legislation increased the personal income tax rates and lowered exemptions for certain taxpayers.

The sales tax estimate for fiscal 2013 was hardly changed despite the overattainment in fiscal 2012 as the expected growth rate was lowered from 2.7 to 2.2%. General fund corporate income tax revenues were revised up by \$80.4 million, and growth over fiscal 2012 is projected to be 27.1%. Adjusted for the change in distribution of corporate tax receipts, baseline general fund corporate revenues are expected to grow 8.9%.

The estimate of general fund lottery revenues was revised up by \$22.4 million but growth is expected to be flat in fiscal 2012. Competition from video lottery casinos is projected to cut sales for the non-jackpot games by about 1.0%. In addition, agent commissions, which had been scheduled to increase from 5.0 to 5.5% in fiscal 2014, will instead go up in January 2013, a provision of the gaming bill (Chapter 1 of the Second Special Session of 2012).

The estimate for interest on investments was lowered from \$35 million to \$10 million as earnings significantly under-performed in fiscal 2012, and short-term interest rates remain close to zero and are expected to stay at that level throughout fiscal 2013.

Fiscal 2014 Revenue Projection

General fund revenue growth is expected to be 2.7% in fiscal 2014, reaching \$15.3 billion. The distribution of corporate income tax receipts changes again in fiscal 2014 rising to 19.5% from 9.5% in fiscal 2013. Adjusted for this law change, general fund revenues growth is projected to be 3.3% in fiscal 2014.

Personal income tax growth slows to 4.1% in fiscal 2014 reflecting, in part, the fact that fiscal 2013 includes a year and a half impact from the rate and exemption changes adopted at the First Special Session of 2012. Adjusted for that extra revenue in fiscal 2013, growth in fiscal 2014 would be about 5.1%.

General fund corporate income tax revenues decline 4.6% in fiscal 2014 reflecting the increase in the share going to the TTF. Adjusted for that change, baseline revenues are expected to grow 5.8% in fiscal 2014.

**Board of Revenue Estimates
General Fund Revenue Projections
(\$ in Millions)**

<u>Revenue Source</u>	<u>Actual FY 2012</u>	<u>Mar. Est. FY 2013</u>	<u>Sep. Est. FY 2013</u>	<u>Difference</u>	<u>% Change over FY 2012</u>	<u>Estimate FY 2014</u>	<u>% Change over FY 2013</u>
Personal Income Tax	\$7,114.7	\$7,552.9	\$7,650.6	\$97.7	7.5%	\$7,967.3	4.1%
Sales and Use Tax	4,039.3	4,125.7	4,127.7	2.0	2.2%	4,259.4	3.2%
State Lottery	536.3	514.1	536.4	22.4	0.0%	543.8	1.4%
Corporate Income Tax	646.5	741.3	821.8	80.4	27.1%	783.9	-4.6%
Business Franchise Taxes	207.2	208.9	208.9	0.0	0.8%	210.7	0.9%
Tax on Insurance Premiums	304.0	308.1	311.6	3.5	2.5%	319.3	2.5%
Estate and Inheritance Taxes	196.9	217.6	214.8	-2.8	9.1%	218.8	1.9%
Tobacco Tax	411.4	411.9	415.1	3.2	0.9%	414.1	-0.3%
Alcohol Beverages Tax	31.0	31.1	31.6	0.5	2.0%	32.2	2.0%
Motor Vehicle Fuel Tax	5.0	13.0	13.0	0.0	160.0%	5.0	-61.5%
District Courts	79.4	80.8	78.6	-2.2	-1.0%	79.0	0.5%
Clerks of the Court	35.1	34.3	37.9	3.6	7.8%	37.7	-0.5%
Hospital Patient Recoveries	66.4	68.0	70.0	2.0	5.4%	68.0	-2.8%
Interest on Investments	17.9	35.0	10.0	-25.0	-44.2%	15.0	50.0%
Miscellaneous	380.0	384.5	379.8	-4.7	0.0%	363.3	-4.4%
Subtotal	\$14,071.1	\$14,727.3	\$14,907.8	\$180.6	5.9%	\$15,317.5	2.7%
Highway User Revenue	186.7	0.0	0.0	0.0	-100.0%	0.0	0.0%
Total Revenues	\$14,257.8	\$14,727.3	\$14,907.8	\$180.6	4.6%	\$15,317.5	2.7%

Note: Estimates for fiscal 2013 through 2014 from the Board of Revenue Estimates (September 2012). The fiscal 2013 estimates from both March and September show general fund revenues before the transfer of \$276.5 million to the Budget Restoration Fund required by the Budget Reconciliation and Financing Act (Chapter 1 of the First Special Session of 2012).